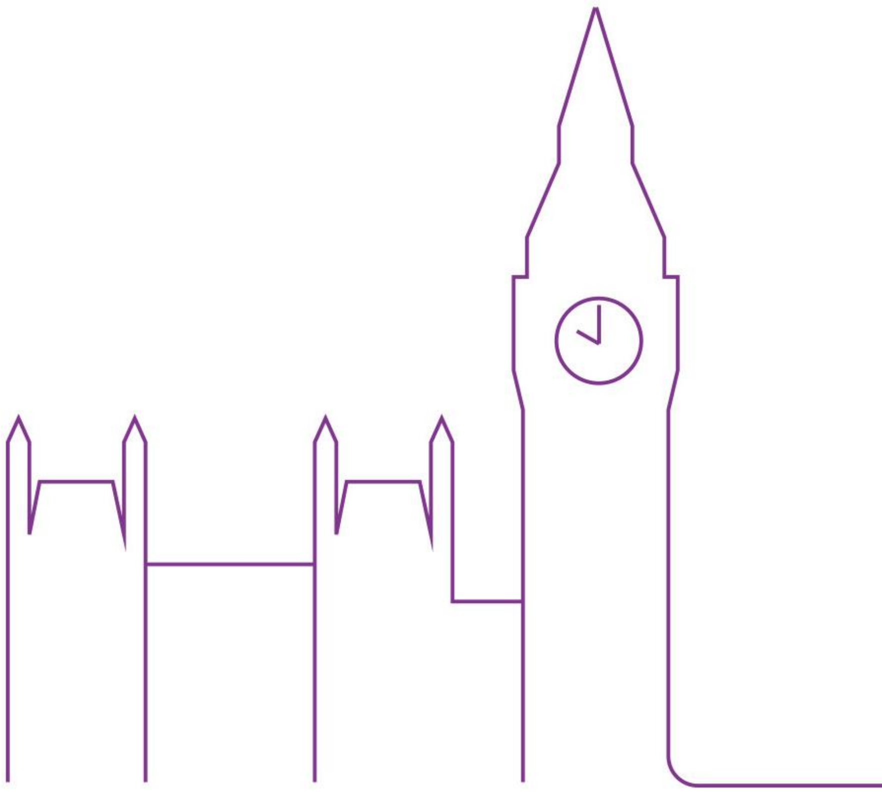
Comprehensive Spending Review & Autumn Statement

Speculation & Analysis

The Whitehouse Consultancy

November 2015



Issues-led communications

About Whitehouse

The Whitehouse Consultancy is a specialist issues-led communications agency, with a team of more than 20 consultants. We have decades of experience in political communications, stakeholder engagement, media relations, crisis management, research and intelligence gathering. We run high profile national campaigns that influence public opinion, shape policy and build support amongst key opinion formers and decision makers.

For further information on our services, please do get in touch with Helen Munro at helen.munro@whitehouseconsulting.co.uk or via 020 7014 3204.

Introduction

This briefing has been prepared by Whitehouse to provide an overview and analysis of the speculation regarding the Autumn Statement and Spending Review. Both of these are due to be presented to Parliament on Wednesday 25th November by Chancellor George Osborne.

Overview

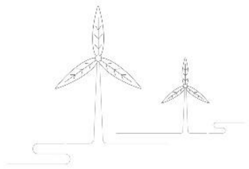
The Autumn Statement is the government's second annual update on its taxation and spending plans. The Spending Review provides a five-year view of the government's spending plans, setting the budgets for all the government departments. This will be the first time that both have been set out in one speech since 2007.

The Spending Review – the first delivered by Osborne as part of a majority Conservative government – will focus on delivering the Conservative Party's economic agenda: to ensure that the country will once again "run a budget surplus", a commitment he firmly made in his speech at this year's Conservative Party Conference.

Early speculation on the Spending Review suggests a theme of "more with less" - making departments use taxpayers' money more efficiently. This analysis is based on 'departmental settlements' – the amount the government will allocate to each department and the cuts that departments will have to make to their budgets – amounting to average cuts in day-to-day spending of 21% by 2020. Some departments are likely to fare worse than others, with the Institute for Fiscal Studies (IFS) predicting that these will be the "deepest cuts" to state spending in Britain's history. The IFS has calculated that departments without ring-fencing will face cuts of 27% - higher than the average.

The speculation will now be broken down by sector:

- Energy and Environment
- Health and Social Care
- Welfare
- Education



Energy and Environment

The Department of Energy and Climate Change (DECC) and Department for Environment, Food and Rural Affairs (Defra) will face significant cutbacks to their budgets in the Spending Review.

Department for Energy & Climate Change (DECC)

Spared the worst of the cuts under coalition, DECC's budget has actually increased by nearly 15% since 2010. However the department – small in stature but big in responsibilities – is anticipated to be among the bigger causalities in the Spending Review. The expected annual savings requirement of 21% is less than first feared, but given that large portions of the departmental budget are already ring-fenced, DECC may find flagship programmes such as carbon capture and storage (CCS) are compromised.

Where will the cuts come from?

Analysis from the Carbon Brief found that 65% of the departmental expenditure limit in 2013/14 was devoted to managing the UK's nuclear legacy – effectively removing two-thirds from the firing line. Therefore responsibility for savings will predominately fall on day-to-day resources. Jobs losses are already confirmed. DECC Permanent Secretary Stephen Lovegrove recently admitted to implementing a voluntary redundancy scheme which will enable the department to cut 200 jobs, bringing its workforce down to around 1,300. Further staff are expected to be seconded to the new National Infrastructure Commission (NIC) which will be controlled by HM Treasury. For DECC it has been estimated this could leave as little as £40m for resources by 2018-19, compared to £402m in 2014-15.

Another vulnerable area is green energy subsidies, such as the renewable heat incentive. These could be cut further or scrapped altogether, in spite of the existing cuts to renewable energy subsidies announced earlier this year. A replacement for the Green Deal Finance Company is a possibility, but a desired rethink to the Feed in Tariff reforms remains uncertain, despite fierce public backlash against the proposed cuts.

The full extent of the changes ahead may not be revealed until after the 2015 Paris Climate Change Conference (COP21). Energy Secretary Amber Rudd has been warned by other MPs in recent weeks of the hypocrisy of pushing for an international climate agreement while cutting key renewable subsidies at home. Damaging cuts announced on 25th November could harm the UK's negotiating position when the conference begins on 30th November, and the Chancellor may keep this in mind when making his speech.

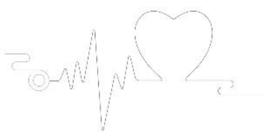
Department for Environment, Food & Rural Affairs (DEFRA)

It was reported last week that DEFRA was one of four departments to have reached agreement with the Treasury over cuts that average out at 30% over four years – in some ways a victory given speculation that DEFRA could have faced closure.

Where will the cuts come from?

Because Defra is made up of 34 arms-length bodies such as the Environment Agency (EA), its efficiencies could come from merging back office functions such as HR and IT services. However it is expected Defra will have to make further redundancies – after already cutting nearly 2,500 staff between 2012 and 2015 – and devolve policy to the local level in a bid to save money, for example by allowing landowners to carry out water maintenance without having to go through the EA. Research projects may also be axed or funded through other sources, and more charges may be incurred for licences and regulatory services such as environmental protection licences.

Some have expressed concern that the proposals will severely limit DEFRA's capabilities. Stephen Trotter, director for England of the Wildlife Trusts, said that the proposals will create "real question marks over whether the government can continue to deliver its most basic functions and responsibilities for the natural environment". The recent wet weather will provide a timely reminder of the role of DEFRA in flood prevention, and we anticipate that this area will continue to receive additional capital investment. Nonetheless, DEFRA will certainly feel the effect of the Spending Review.



Heath and Social Care

Although the Department of Health's budget will continue to be ring-fenced from cuts and is set to increase in real terms over the next four years, movements are already underway to within the Treasury to redefine the ringfence to only apply to NHS England's commissioning budget.

Department of Health

The Chancellor has already pledged in the Summer Budget to invest an extra £8bn in the NHS by 2020, in hand with the requirement for the NHS to make £22bn of efficiency savings to address the £30bn resource gap identified in the Five Year Forward View.

Osborne has since been under pressure to ensure that the £8bn is frontloaded, either entirely or in part, by numerous figures in the health sector. NHS England chief executive Simon Stevens has called for the

Chancellor to bring forward the £8bn to 2016/17 and 2017/18 – a call intensified following NHS regulator Monitor publishing statistics showing a deficit amongst NHS trusts of £1.6bn. Stevens has clashed with Osborne, having demanded £4bn only to be told that £2bn is available, with rumours circulating of an intervention by Prime Minister David Cameron on the issue. Additional pressure has been applied by influential think-tanks like the King's Fund, as well as warnings by NHS financial officers that the NHS will not be able to deliver the same quality of care without frontloaded funds. Discussions between Stevens and Osborne are still underway.

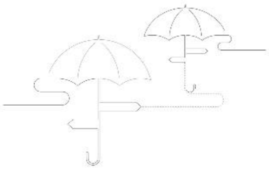
The objective of protecting the NHS' budget may also be undermined by cuts to other areas within the Department of Health and to other Departments whose remit touches on the health sphere. Of greatest concern is the potential impact of the agreed 30% cut to the Department for Communities and Local Government (DCLG).

Where will the cuts come from?

The Treasury's movements to redefine the ringfence to only apply to NHS England's commissioning budget could result in funding reductions for the Department of Health's arm's length bodies, such as Health Education England and Public Health England. It has already been rumoured that the Care Quality Commission, which monitors the quality of NHS services, is in line for a potential 40% cut.

Following on from the Government's recently announced reduction in local authority public health grants by 6.2% - worth £200m overall - there is concern that the DCLG could impose the agreed cuts on core council funding, resulting in local authorities in England and Wales facing a further £16.5bn in funding reductions. Against the backdrop of five years of sustained cuts to local government budgets in which councils have strived to protect Children's and Adult's services, the major worry is that social care budgets will now have to be reduced. This fear could be addressed by the Chancellor on Wednesday: there is further speculation that the Chancellor could allow local authorities to raise council tax by up to 2% in their areas if they are facing a social care funding crisis and to spend the funds raised purely on plugging the social care funding gap. Again, this proposed "social care precept" may prove inadequate for those councils that have a low council tax base and for whom implementing the 2% rise in council tax would still fail to go far enough in closing the sizeable hole in social care funding that currently exists.

Frontloading funding of £4bn or more would prove to be a significant endorsement of the Five Year Forward View; an admission that the NHS is in serious financial trouble; and an indication of the power and influence of Simon Stevens over the Government. However, any attempts to redefine the ringfence could lead to significant political opposition. Whitehouse understands that the precise details of any agreement with the Department of Health will not be finalised until after the Spending Review – as late as January/February.



Welfare

The Department for Work and Pensions (DWP) has negotiated spending cuts on two fronts: its resource departmental expenditure limit, and its much larger annually managed expenditure budget, which encompasses cuts to welfare spending.

Department for Work and Pensions

DWP seems to have agreed to a 24% cut to its day-to-day budget, being one of the first departments to reach a settlement with the Treasury. Disagreements have focused on cuts to welfare spending, which the Treasury wants to reduce by £12bn by 2018-19.

Where will the cuts come from?

Despite around half of welfare spending being allocated to pensions, the basic state pension will actually increase by 2.9% from April 2016, reflecting the three main political parties' commitment to protect pensions under a "triple lock" before the election. The Summer Budget outlined how other welfare spending will be reduced over the next few years, by capping household benefits, limiting child tax credits and Universal Credit to the first two children for claimants after April 2017, and reducing the amount someone can earn before their working tax credits start to decrease. Although cuts to tax credits could have saved £5.37bn a year by 2019, the defeat recently inflicted on the plans by the House of Lords has forced the Treasury to explore how else they will save £4bn from welfare spending.

The Chancellor considered cutting spending on universal credit by more than £1bn a year to find this saving, by raising the taper rate that applies to the benefit from 65% to 75%. As this would cause those working on the benefit to lose an extra 10p for every £1 they earn above a certain threshold – thereby greatly reducing their incentive to work – the Work and Pensions Secretary Iain Duncan Smith threatened to resign over the issue. Reports suggest this has worked, and cuts to housing benefit seem to now be under consideration instead. This could involve making all housing benefit claimants pay the first 10% of their rent themselves, which would affect 4.8m households and save approximately £2.4bn a year.

The defeat on child tax credits has forced the Chancellor to seek reductions in welfare spending elsewhere. The £12bn presented in the Summer Budget was considered ambitious by some, given that substantial savings had already been achieved in unemployment benefit spending, partly due to an improving economy. This means that attention will now shift to the hardest-to-help groups of the unemployed, such as people with health problems, disabilities and substance abuse issues. However, it is still unclear when savings in this field will be felt, as it is widely agreed that extra funding for specialist employment support will still be needed for these groups.

Even if the rumours surrounding reductions to housing benefit materialise, savings will still be below those originally planned under the tax credit proposals if further reductions to welfare spending are not slipped in to the Spending Review's announcements. This would mean that surplus targets for the end of this Parliament might have to be revised.

Education

Higher education, further education, research funding and grants for business could all be in the firing line in this Spending Review.

Department for Education

Although the Schools budget (covering 4-16 year olds) is to be protected in cash per-pupil basis, this will not take into account inflation and items like the increase in national insurance contributions to teachers pensions. As a result, it has been projected that per-pupil funding will fall by about 8 per cent real terms from 2015-2020, the first time schools funding has fallen since the 1990s. However, individual popular initiatives – notably free school meals for infants – are almost certain to survive. The Chancellor is also expected to announce a fair funding formula for schools.

Where will the cuts come from?

The Early Years and Further Education budget within the Department for Education are not protected and expected to be cut severally, with colleges in particular expected to see significant funding reductions. The fact that the responsibility for funding Further Education is split between the Department for Education and Department for Business, Innovation and Skills (BIS) means that cuts to BIS will also hit FE. Most notably, colleges are likely to be hit hard, with the Labour Party highlighting that up to four in ten FE and sixth-form colleges in England could close if the government presses ahead with savings.

Business Innovation and Skills

In Higher Education, serious cuts to the BIS budget will likely see funding for disadvantaged and disabled university students significantly reduced (if not eliminated), and cuts to research budgets may also manifest themselves. While the Business Secretary Sajid Javid was reported to be keen to slash his department's budget – particularly by merging the seven scientific research councils the department oversees into one – the Chancellor seems equally determined to protect research budgets. Some members of the Cabinet may have wanted to abolish BIS altogether, but Osborne will be unwilling to pursue something so potentially damaging for his Northern Powerhouse strategy.

Moving forward

Whitehouse will provide bespoke briefings for its clients on the day, outlining developments which are relevant to them and how this will impact on their operations. Whitehouse will also produce sector specific infographics, containing an easy to digest summary of key announcements made by the Government in each area. Prior to the event, Whitehouse will keep its clients updated of any key rumours and plan appropriately.

If you are interested in utilising our services, please do not hesitate to get in touch with Helen Munro at helen.munro@whitehouseconsulting.co.uk or via 020 7014 3204.