

Briefing Paper

Comprehensive Spending Review 2007

October 2007

Introduction

The purpose of this briefing paper is to provide an outline of the 2007 Comprehensive Spending Review, associated announcements including the Pre-Budget Report and their effects on public services.

In introducing the 2007 Comprehensive Spending Review, Alistair Darling, Chancellor of the Exchequer stated that it would:

“Meet the aspirations of the British people.”

Earlier he had stated to the media that:

“Britain’s economy remains strong and well positioned to deal with increased global economic uncertainty... My first priority will always be maintaining economic stability and sound public finances. So, I will take no risks with the economy or make unfunded spending or tax commitments... But the tough economic decisions the government has taken means that the country is in a strong position to continue to invest in key priorities like health, education, security and transport. Today’s spending review will help to ensure that all these public services can meet the aspirations of the British people.”

Economy

The 2007 Comprehensive Spending Review is based on projections contained in the pre-budget report of slower growth in the economy with growth rates projected to fall to between 2% and 2.5% a year before recovering to between 2.5% and 3% in 2009. Some City analysts believe that this projection may prove optimistic. For example, HSBC and the Deutsche Bank are projecting growth of 1.8% and the Centre for Economics and Business Research is projecting growth of 1.4%. The previous Treasury projection in the spring 2007 budget was 2.5% to 3% a year. However, even the most pessimistic forecasters project a higher rate of growth than is anticipated for the United States economy.

The Treasury expects that consumer spending will reduce during 2008 to a three year low following a weakening of the housing market caused by increased interest rates (there have been five increases since August 2006) and uncertainty in world financial markets. Indeed, the Treasury is concerned that a further weakening in the United States economy could have the effect of reducing growth rates in the United Kingdom still further while any international credit squeeze would particularly affect the United Kingdom because of the relative size of the financial sector. Increased prices of energy and food threaten to increase inflation and consequently may lead to further increases in interest rates.

The pre-budget report states that:

“Disruption in financial markets has meant economic prospects have become more uncertain, and events need to unfold further before the impact on the economy can be rigorously quantified... (However) the United Kingdom economy has proved resilient to a number of shocks over the past decade, demonstrating the pay-off to the Government’s macroeconomic framework and promotion of open and flexible labour... The United Kingdom’s innovative financial sector was relatively quick to recover following periods of financial market disruption in 1998 and 2001.”

In the spring budget it was forecast that the government’s budget shortfall would be £4billion in 2007/08 while there would be a surplus of £3billion in 2008/09. At the same time it was predicted that government borrowing would reduce from £34billion in 2007/08 to £30billion in 2008/09 and then to £28billion, £26billion and £24billion during the following three years. In fact, government borrowing in August 2007 was £9.1billion compared to a £6.6billion target, set at the time of the March 2007 budget and £6.8billion borrowed during August 2006. Government borrowing will be £38billion this year although it is forecast to reduce to £23billion in 2012.

Tax receipts are £1.8billion a year lower than forecast. For example, in August 2007 receipts of Corporation Tax were £0.7billion compared to £1.3billion in August 2006. It is likely that recent problems in the financial sector will reduce tax receipts still further. This year is the latest of six during which actual government expenditure has exceeded the initial estimates. This year will also be the sixth out of the last seven during which actual government borrowing has exceeded the initial estimates. Government borrowing is projected to run at between 3% and 4% of Gross Domestic Product casting doubt on the ability of the government to remain within the fiscal rules introduced by Gordon Brown when he first became Chancellor in 1997.

Real increases in private disposable incomes after tax are projected to increase by less than 2% a year. The proportion of Gross Domestic Product taken in taxation is projected to increase to 37% - the highest level since the mid 1980s when Margaret Thatcher was Prime Minister. Reduced tax receipts and increased government borrowing will result in slower increases in public sector budgets.

It is interesting to note that during the period 2000 to 2004 economic growth in the United Kingdom averaged 2.75% a year. Of this, 2.25% was driven by increased consumer spending, 0.75% by increased public spending and only 0.25% by business investment. The effect of foreign trade was negative, causing an annual decline of 0.5% in the economy as increases in imports significantly exceeded increases in exports. Much of the increased consumer expenditure was financed by increased consumer credit. Some commentators have questioned the underlying strength of an economy that is so dependent on extending consumer credit and in which business investment and trade is so weak. Treasury forecasts for the future assume that trading performance will improve with import penetration reducing – an assumption that some find surprising in view of the recent trading performance of emerging economies such as China and India. Furthermore, the financial sector does not look as strong as it used to following the ‘run’ on the Northern Rock. If the economy does not perform as well as the Treasury forecasts this would have an adverse effect on tax receipts and therefore would undermine the government’s spending plans.

Public Expenditure

The Comprehensive Spending Review of 2007 provides for more modest increases in expenditure than previous Comprehensive Spending Reviews. Andrew Burnham MP, Chief Secretary to the Treasury, was quoted in 'Public Finance' as saying:

"This is a tighter spending round, and there are areas where pressures are growing... but overall, the story for me in this Comprehensive Spending Review is that the step change in public investment that was made over the past decade is being maintained and it is being taken forward further still. We are talking about a picture of growth in public spending over the next three years... We have made a paradigm shift in terms of how public services are funded... This Comprehensive Spending Review maintains that but builds on it as well, particularly in those areas deemed to most need the extra support."

The three year spending totals for 2008 to 2010 by department are as follows:

	£billion	Real Annual variation
Annual Managed Expenditure		
Social Security Benefits	456.4	
Tax Credits	56.3	
Other (including debt interest)	294.3	
Sub-Total	807.0	
Departmental Budgets		
Health	313.7	+3.9%
Children, Schools & Families	168.0	+3.1%
Communities & Local Government	112.2	+1.4%
Defence	106.4	+1.5%
Innovation, Universities & Skills	59.2	+2.2%
Transport	41.7	+2.1%
Home Office	30.0	+1.1%
Justice	29.0	-1.7%
Work & Pensions	21.8	-5.6%
International Development	20.5	+11.0%
Chancellor's Departments	14.1	-4.9%
Environment, Food & Rural Affairs	11.5	+1.4%
Business, Enterprise & Regulatory Reform	10.2	-2.6%
Cabinet Office	7.1	+7.2%
Culture, Media & Sport	6.8	+6.6%
Foreign & Commonwealth Office	5.1	-0.1%
Law Officers	2.1	-3.2%
Other	14.2	
Scotland, Wales & Northern Ireland	161.7	+1.8%
Total	1,942.3	+2.0%

Overall public expenditure is planned to increase from £345billion to £397billion during the period of this Comprehensive Spending Review. This represents average annual growth of 2% in real terms compared to 4% during the 2004 Comprehensive Spending Review.

Total expenditure is planned to grow as follows:

2008/09	£617.4billion
2009/10	£646.6billion
2010/11	£678.3billion

It will be noted that annual managed expenditure, including social security benefits and payments of interest on debt, constitutes 42% of total government expenditure. These budgets are notoriously difficult for government's to control and even small proportionate variations are significant in cash terms. For example, a 1% increase in annual managed expenditure would cost over £8billion – more than the entire budget of the Department of Culture, Media and Sport. This makes the public finances very vulnerable to variations in interest rates or increases in social security payments. With interest rates historically low and the proportion of the population that is elderly increasing both budgets are likely to grow in the long-term.

Among the departmental budgets, health is the largest and comprises 28% of total departmental expenditure.

Health

From 1997 to 2007 there have been substantial increases in expenditure on health averaging a real increase of 7.4% a year and totalling 90% over ten years. As a result, waiting lists have been reduced and the remuneration of doctors, nurses and other staff has increased, but concerns remain about whether the National Health Service always achieves value for money. It was recently reported by the Kings Fund that 43% of the additional funding had been used to increase remuneration of doctors, nurses and other staff, compared with only 7% that had been used to increase elective surgery and reduce waiting lists.

The 2007 Comprehensive Spending Review provides for an additional £20billion of funding for the National Health Service representing an annual real increase of about 4% compared to the 4.4% annual increase recommended by Sir Derek Wanless in his recent report as the minimum required to maintain services. This will increase the National Health Service budget from £92billion to £110billion. However, it is expected that future increases in doctors' remuneration and salaries and wages will not be as great as in the recent past and that greater efficiencies will be sought.

It is intended that the increased budgets will fund improved services, especially twenty new hospitals and a hundred new general practitioner practices with new family doctor services including weekend surgeries. This will fund the 'personalised' National Health Service that the government wishes to create including half of general practitioners to open on Saturday mornings or in the evenings, creation of 150 'polyclinics' where services including X-rays will be available and measures to tackle the MRSA 'super bug'.

However, there is no relief for Health Trusts that are failing to operate within their budgets and it is likely that at local level some Health Trusts will need to continue to find savings despite the increased budgets for the National Health Service as a whole.

The growth in spending on health is beginning to cause concern in some circles. For example, Anatole Kaletsky, an economic journalist with the Times wrote in October 2007 that:

“The National Health Service has become an incubus, sucking the life out of all other public services, which have to be starved of funds to meet its demands. National Health Service spending has risen from 6.6% to 8.2% of Gross Domestic Product in the past five years, accounting for two thirds of the increase in the share of public spending. From now on, the public sector will shrink quite markedly in relation to Gross Domestic Product but health spending will continue to grow – to 10% of Gross Domestic Product by the end of the 2008/11 planning period and well beyond that in the rest of the decade. The logical conclusion of such projections is that all non-medical public services, including education and law enforcement, will continue to deteriorate and tax burdens will eventually become unsustainable.”

Local Government Expenditure

The 2007 Comprehensive Spending Review provides for a real increase in funding for local government of 1% a year, with the Chancellor stating that annual increases in Council Tax would be capped at 5%. This has led to warnings from the Local Government Association that Council Tax would increase by 5% a year and that at the same time services would be ‘cut’ as Councils would struggle to find ways of funding increased needs. Much of the increase in funding is to provide additional support to private finance initiative projects leaving an effective ‘funding freeze’ for other services after the first year.

The plans for net aggregate external finance for local authorities (revenue support grant plus national non domestic rates) are shown below:

	2007/08	2008/09	2009/10	2010/11
Net Aggregate External Finance	£23,120m	£24,081m	£24,920m	£25,763m
Change		£961m	£839m	£843m
Change %		4.2%	3.5%	3.4%

However, these figures include provision for grant to support private finance initiative projects – of £563million in 2007/08, £677million in 2008/09, £853million in 2009/10 and £1,069million in 2010/11. The increase in general grant if the private finance initiative grant is excluded is shown below:

	2007/08	2008/09	2009/10	2010/11
Net Aggregate External Finance less Private finance initiative	£22,557 m	£23,404 m	£24,067 m	£24,694 m
Change	£847 m	£663 m	£627 m	
Change %	3.8%	2.8%	2.6%	

However, 'ring-fencing' has been removed from £5billion of specific grants and the funding switched to revenue support grant or area-based grants by 2010/11. The main transfers into formula grant will be:

- Access and Systems Capacity Grant
- Delayed Discharges Grant
- Children's Services Grant
- Part of the Waste Performance and Efficiency Grant.

In addition, in the recent consultation paper on formula grant distribution Communities & Local Government consulted on proposals to transfer a number of Police Grants into general grant.

Local authorities are expected to be able to develop services within this funding regime through a more rigorous pursuit of the efficiency agenda. The target for cashable efficiencies in local government was confirmed at £4.9billion (equivalent to a 9.3% gain over three years) and is to be measured through an indicator defined as 'the total net value of ongoing cash releasing value for money gains that have impacted since the start of the 2008/09 financial year'. Better procurement and business processes are expected to deliver most of the gains. There is a £150million fund for 'pump-priming' efficiencies which local authorities will be able to access and a proposal to establish a public/private shared services company that will offer support services including finance, human resources and procurement to local authorities. Details are contained in a paper released alongside the 2007 Comprehensive Spending Review – 'Value for Money in Local Government: Meeting the Challenges of the Comprehensive Spending Review 2007'.

Sir Simon Milton, Chairman of the Local Government Association, said:

"This is the worst settlement for local government in a decade... It is the bare minimum we had hoped for... It says local government, and its work on elderly care and the environment, is a lower priority than things like health and international development... Councils will continue to work hard for the people they serve but they face tough choices. The Chancellor's announcement will mean above-inflation rises in bills for council taxpayers and businesses, and there remains a black hole in funding for the care of the elderly."

Earlier the Local Government Association had published figures demonstrating that local government faces additional costs of £9.3billion over the next three years. This includes the cost of government initiatives – plans for extended school hours (£5.8billion) and additional recycling (£1.2billion) - and the increasing number of elderly people in the population increasing demand for social care (£2.3billion).

However, John Healey MP, the Minister for Local Government, said:

"This is a fair and affordable settlement for local government in a tight spending round. Councils will also receive further investment through area-based and specific funding which will be announced by the end of the year... We all face tough choices and local councils need to demonstrate leadership in showing they can govern efficiently, deliver value for money for their residents and use new powers and freedoms to deliver on local priorities."

Local Government Financing

In a separate white paper the government proposes the introduction of a Supplementary Business Rate that would be levied by local authorities on businesses with a rateable value in excess of £50,000 up to a maximum of 2p in the pound. This could raise up to £600million nationally and would be used to fund local development projects. However, there would be a need to consult with businesses and to hold a ballot if the supplementary business rate was to fund more than a third of the cost of the project. However, the Local Authority Business Growth Incentive scheme has seen its budget reduced from £1billion to £150million over three years.

The key principles which will apply to locally set Supplementary Business Rates are:

- Revenue raised from Supplementary Business Rates must be spent on economic development projects. These projects must be set out in advance and there will be a statutory requirement to consult with local businesses regarding spending plans
- A national upper limit of 2p will apply to local Supplementary Business Rates
- Properties with rateable values of less than £50,000 will be exempt from paying Supplementary Business Rate
- Where the revenues raised from a local Supplementary Business Rate make up more than a third of the total cost of an economic development project there will be the requirement for a 'double lock' ballot of affected businesses. A 'double lock' ballot requires both a majority of businesses by number and rateable value to agree to the supplement
- Only the highest tier local authority in an area will have the power to levy Supplementary Business Rates.

In London, therefore, the power to levy a Supplementary Business Rate will rest with the Greater London Authority not individual boroughs, meaning that the Supplementary Business Rate in London will be regional rather than local. The White Paper makes reference to the Cross rail project in London which, it is planned, will be part-financed by a 2p supplement on business rates levied by the Greater London Authority on business properties with rateable values exceeding £50,000. It is envisaged that the supplement will be introduced from April 2010, and will cease once the debt has been fully repaid.

London Councils is very concerned that London boroughs will not have access to the Supplementary Business Rate to enhance their place-shaping role unlike counties and metropolitan districts in the rest of the country.

The proposal did not get a good reception from business groups. For example, Edward Cooke of the British Retail Consortium was quoted in the Times as saying:

"Today's announcement is potentially disastrous. Retailers already contribute more than £4.5billion to the public purse each year through business rates alone. It is unreasonable to demand they pay even more to fund projects which should be paid for from existing revenue."

The government has published a consultation paper on possible reforms to the Local Authority Business Growth Incentive scheme. The consultation paper is an "issues" paper, and seeks views on the guiding principles, rationale and options for a reformed Local Authority Business Growth Incentive scheme.

The responses received will form the basis for a more formal technical consultation paper to be published in spring 2008, which will set out the Government's detailed proposals for the implementation of the new Local Authority Business Growth Incentive scheme. It is intended that the new scheme will take effect from 2009/10 with £50million of funding and £100million in the following year. There will therefore be no new Local Authority Business Growth Incentive funding available in 2008/09. The consultation will run for eight weeks with a deadline for responses of 12th December 2007.

As expected, the number of performance indicators has been reduced with Councils and their partners in Local Strategic Partnerships now able to select 35 local targets from a national set of 198 indicators as part of the Local Area Agreement process. However, there will be seventeen statutory indicators for children's services. There will be a reward grant around achieving Local Area Agreement outcomes. The level of funding available will be announced in November 2007.

Education

Education expenditure was already planned to increase from £77billion in 2007/08 to £90billion in 2010/11. It had already been announced in the spring budget that capital investment would rise from £6.4billion to £8.0billion in 2010/11 mainly to improve secondary schools. Education budgets are therefore rising by 2.5% a year in real terms. Spending per pupil will rise from £5,500 a year to £6,600 a year.

There is an additional £200million to refurbish primary schools. This will fund works on 75 primary schools in addition to the 400 already in the programme over three years. However, the resources that have been made available are not sufficient to meet the government's target of refurbishing half of England's primary schools; or the £45billion that is required to rebuild secondary schools over the next twenty years.

An additional £250million is expected to be divided between schools and children's social care with details being announced in December 2007. It is expected that the schools element will allow schools to provide more personalised tuition including catch-up classes for strugglers and extension lessons for the most able.

The Comprehensive Spending Review 2007 settlement also includes:

- £35million to improve access to childcare for families with disabled children, and £280million to help pay for short breaks for severely disabled children.
- £400million a year by 2010/11 for teacher-led one-on-one support for children falling behind in English and Maths
- £217million a year by 2010/11 to support access to two hours a week of free extended services for pupils in care or eligible for free school meals as well as two weeks of free part-time holiday provision
- Extensions of the weekly entitlement for free early year's education for three and four year olds from 12.5 to 15 hours by 2010, and to provide 3,500 'Sure Start' Children's Centres by 2010.

The Comprehensive Spending Review 2007 report also sets out the requirement for significant annual net cash-releasing savings across the full range of Department for Children, Schools & Families spending of £4.5billion by 2010/11.

The government has identified new performance targets for education. These include Public Service Agreement targets including increasing the number of school leavers with five 'good' GCSEs (including maths and English) from the current 46% to 53% by 2011. New targets also refer to improving emotional development and communication skills in the under-fives, reducing the attainment gap between children in different social groups and increasing personal safety especially by reducing bullying.

The increase in resources for higher and further education is lower than for schools making it difficult for them to achieve the objectives identified in the Leitch report on adult skills. For example, Leitch recommended that the proportion of adults achieving degrees should be increased from 29% to 40% to aid international competitiveness.

Since 1997 the proportion of Gross Domestic Product spent on education has increased from 4.5% to 5.6%. This proportion is now similar to the average of developed countries. The annual increase under the 2007 Comprehensive Spending Review is 2.4% compared with 5.6% under the 2004 Comprehensive Spending Review. This leaves little scope for tackling child poverty, despite this being highlighted by government ministers as a priority.

Social Services

The government has announced additional resources for social care and challenging targets for generating efficiencies in the allocation and administration of resources. While part of the overall local government settlement, the Department of Health has announced that adult social care budgets will increase by £2.6billion by 2010/11; direct funding from the Department of Health for social care for older people and support services for carers will increase by £190million to £1.5billion by 2010.

This represents a 2.3% annual increase in social care funding. However, over the next three years the elderly population will increase by 400,000 significantly increasing the demand for social services at home or in residential care. Eligibility criteria, already restricted, are likely to be restricted further.

The government has promised a green paper on social care to identify a means of providing affordable care and possibly to consider reforms to the benefits system. It has also promised new homes to assist independent living by the elderly and disabled as well as additional support for carers, but in the meantime no significant additional funding has been allocated.

Anne Williams, President of the Association of Directors of Adult Social Services was reported in the 'Local Government Chronicle' as saying:

"Local authorities will still be grappling with the increasing demand caused by demographics. The question is whether we can continue to develop new forms of services and deliver on the preventative agenda."

The Comprehensive Spending Review also includes:

- Provision for increased personalised budgets giving people who use services choice and control over their support
- Provision of advocacy and information services for people who use services in every local authority

- A focus on preventative services to support people to live independently
- Support for 3,000 people with learning disabilities to leave National Health Service accommodation and be supported to live independently

The government states that these reforms will target state resources effectively and enable people to have choice and control over the ways they live their lives. This settlement will require action on delivery of efficiencies and collaboration on services from the independent sector.

The Department for Communities and Local Government has not announced its allocation of funds for the Supporting People programme or proposals for the distribution of resources to local government. A separate announcement is expected in late October 2007. However, the government has already stated that it wishes to reform the Supporting People allocation formula and streamline Supporting People and social care contracts to reduce costs.

Local authorities had advocated a reallocation of resources from the National Health Service budget for acute services for elderly people towards local authority adult social care funds to support a preventative agenda. Such a reallocation has not occurred.

Transport

The 2007 Comprehensive Spending Review provides an additional £1.9billion by 2011 that will increase the transport budget to £14.5billion representing a doubling of investment. The Department for Transport programme budget will grow by 2.2% above inflation until 2018/19, a slower rate of growth than over the past decade. This is intended to fund the cross rail service; road widening – especially the M1, M6 and M25; provide £15billion of Government funding in the rail network over five years and continue investment in local and regional transport.

The government has announced a £16billion funding settlement for Cross rail. The government will contribute around a third of the construction cost (£5 billion). Cross rail fare payers will contribute another third with the final third being met by London businesses through a variety of mechanisms including direct contributions from some of the project's key beneficiaries, supplementary business rates and contributions from property developers, particularly those who develop in the vicinity of Cross rail stations. Responsibility for the project has now been passed to Transport for London, who will be taking this work forward. The Cross rail Hybrid Bill is proceeding through Parliament and is likely to receive Royal Assent in summer 2008. Full construction is expected to be underway during 2010, with services commencing in 2017.

The specific grant for the concessionary bus scheme will increase from £212million at present to £223million in 2010/11. Increased funding is also anticipated for the Transport Innovation Fund that supports road pricing schemes. However, there are no proposals to introduce road pricing.

Housing

Emboldened by recent government statements on housing, the National Housing Federation, Shelter, Local Government Association, Chartered Institute of Housing and National Federation of Arms Length Management Organisations put a joint submission to government on the comprehensive spending review. This requested the following funding for social housing over the three year period:

- National Affordable Housing Programme - £11.6billion
- Supporting People - £5.7billion
- Decent Homes (Arms Length Management Organisations) - £3.2billion
- Housing Market Renewal Pathfinders - £1.2billion
- Disabled Facilities Grants - £513million
- Homelessness - £290million
- Gypsies and Travellers - £150million
- Local Authority Strategic Housing - £120million
- Family Intervention - £120million
- Neighbourhood Wardens - £19million
- Regional Strategic Housing - £13million

The Housing Green Paper of July 2007 included an announcement that the government would increase the National Affordable Housing Programme budget by £3billion to £8billion to fund an increased building programme of affordable homes. The Comprehensive Spending Review of 2007 provides for more than £4billion to be spent on renovating social housing over the next three years and promises a new enterprise and renewal fund to support regeneration of deprived areas. However, the announcements fell short of the aspirations of the social housing sector.

Announcements were also made on housing supply, home ownership, decent homes and housing benefit. The Comprehensive Spending Review announced in particular:

- At least 240,000 additional homes (in all tenures) per year by 2016, delivering two million new homes by 2016 and three million by 2020
- Government will measure trends in affordability by looking at house prices against earnings. The Public Service Agreement document links this to the Barker Review which argued that an increase in housing supply would improve affordability
- Government will assist 120,000 households to enter home ownership by 2010/11, through shared equity, shared ownership and other low cost home ownership policies.

For affordable housing supply the Comprehensive Spending Review announced:

- £8billion total spend on new affordable housing over the next three years. This is £3billion more than in the 2004 Spending Review. Even with this additional supply, it will take a significant amount of time to clear social housing waiting lists. Currently 1.6million people are on these lists; newly arising need for social housing is 40,000 a year so the backlog will be cleared at a rate of approximately 10,000 per annum.

- Of the £8.0billion, £6.5billion is for investment in social housing over the next three years, with a 50% increase in construction of new social rented houses – delivering 45,000 units of social housing per year by 2010/11. Housing Associations are expected to develop at reduced grant rates and to make up the difference through contributing £730million a year more by 2010/11 through making more use of balances but principally by borrowing more from the private sector. The remaining £1.5billion is for low-cost home ownership schemes.
- In London, the draft Mayor's Housing Strategy provisionally showed £2.1billion for affordable homes in the 2008/11 programme (estimated at 26% of the national total)

The Comprehensive Spending Review provides £4billion over three years 'to help people living in poor quality housing make renovations to their homes'. This covers funding for the decent homes standard (including through arms length management organisations) and funding for stock transfers. However, this may not be enough to fund all the existing commitments of 'Communities & Local Government' and the bids that have been put forward for new arms length management organisations and stock transfers. It is likely, therefore, that 'Communities & Local Government' will either have to reject some of the bids, scale them down, or slip the investment beyond the current 2010 deadline for achieving decent homes.

There is no additional funding for private sector renewal and loan schemes set up to help private landlords and owner-occupiers to refurbish their homes will have to rely less on public sector funding.

Communities & Local Government have issued a paper that proposes allowing Local Authorities to build new housing outside the housing revenue account during the 2008/11 period. The paper says:

"Ministers may wish to allow some authorities to become self-financing over the Comprehensive Spending Review 2007 period."

Yvette Cooper MP, Minister of Housing, has also stated that the government is considering putting legislation in the Queen's speech to allow local authorities to come out of the housing revenue account. She told the Communities & Local Government Select Committee that:

"We are looking at whether or not we can change the way the housing revenue account works more generally, so that it is easier for councils to build without having to go through (arms length management organisations) or special venture vehicles... We are looking at whether there is a legislative change to be made... We are looking at that legislation being announced in the Queen's speech... I think it is very attractive that local authorities should be able to take their own decisions... The down side and complexity of all of this is the nature of the housing revenue account's distribution element."

The amount of child maintenance that parents on benefit can keep before it affects the level of benefits they receive will be raised. There will be a full maintenance disregard for Housing Benefit and Child Tax Benefit from October 2008.

Proposals to help lenders to provide more fixed rate mortgages for ten years will be announced in the 2008 budget.

Planning and Regeneration

The Comprehensive Spending Review 2007 announced the following for planning:

- £500million over the Comprehensive Spending Review 2007 period for the new Housing and Planning Delivery Grant to incentivise local authorities to improve housing supply and planning for housing and ensure that by 2011 Local Planning Authorities have the necessary development plan documents in place to support housing delivery
- Ten eco-towns to be built across the United Kingdom (double the number announced in the Housing Green Paper)
- Communities & Local Government will provide £1.7billion of funding for infrastructure in Growth Areas, Growth Points and Eco-towns over the Comprehensive Spending Review 2007 period including £300million for the Community Infrastructure Fund and a more systematic approach to planning and delivering housing-related infrastructure, involving key infrastructure providers at an early stage

The proposed Planning Gain Supplement has been abandoned, but the Chancellor announced plans to legislate to allow local authorities to charge developers a locally agreed tariff to support the development of infrastructure.

The government has allocated £2billion over the next three years to neighbourhood and local renewal. This includes a new enterprise and renewal fund that replaces the Neighbourhood Renewal Fund. It also includes the New Deal for Communities programme and a new programme to support communities during estate transformation. Funding allocations for each of these programmes have not yet been announced but it appears that funding for neighbourhood renewal will be reduced and will be focused on fewer areas.

A document, apparently issued 'accidentally' by 'Communities & Local Government' suggested that four of the nine housing market renewal pathfinders would see 'significant' grant reductions during 2008/11 and no funding after that; while the other five pathfinders would receive a cash annual settlement at 2007/08 levels. 'Communities & Local Government' subsequently withdrew the document and stated that an announcement of funding levels for the market renewal pathfinders would be made later.

The new enterprise and renewal fund will focus on tackling worklessness, improving skills and promoting enterprise. It will target resources more intensively on the most deprived areas, possibly using the new Index of Multiple Deprivation 2007 (due out at the end of the year). A reward element will be part of the fund. Allocations between authorities will be announced later in the year.

The government has announced 17 new high level business support products as part of its Business Support Simplification Programme. The government announced the launch of a single, integrated business support brokerage service (Business Link and Train to Gain) in April 2009. Skills brokerage will now be a major element of this.

Funding for Regional Development Agencies is reduced from £2,220million in 2008/09 to £2,191million in 2009/10 and £2,140 million in 2010/11.

Environmental Services

The 2007 Comprehensive Spending Review provides for an increase in the private finance initiative credits available for waste management schemes from the current £280million a year to £700million in 2010/11 totalling £2billion over three years. Resourcing for flood and coastal defence schemes will also increase by £200million a year to £800million in 2010/11 but no details are available of how this increase will be stepped for 2008/09 and 2009/10.

Many Councils, especially in urban areas called for a real increase in funding to meet the rising cost of waste management which (in London) has risen by 10% a year on average over the past five years. However, real terms increases in local authority funding for services is limited to 1% a year in real terms over the Comprehensive Spending Review 2007 period.

In its March 2007 Budget Statement, Government announced that landfill tax will increase by £8 per tonne each year from 2008/09 until at least 2011/12 (from £3 per tonne per annum). The lower rate applying to inactive waste will also increase from £2 to £2.50 per tonne from 1st April 2008. This increase will impact on waste disposal authorities, and through them, waste collection authorities. Waste authorities pay these charges directly but do not receive a refund of the element of this expenditure that comes back to the local authority as part of its Revenue Support Grant.

Leisure Services

The Department for Culture, Media and Sport will receive an increase of 6.6% growth per annum for the next three years. This is relatively high, but includes funding for the London Olympic and Paralympics Games. Funding for arts, museums and galleries will be maintained in real terms. This includes contributing to the Cultural Olympiad and improving the school sports offer.

Home Office Services

The 2007 Comprehensive Spending Review provides funds for more than 1,000 extra Special Branch officers and more money for intelligence and police. There is a new single budget for the police, intelligence and security services that deal with terrorism to rise by £1billion a year to £3.5billion after three years.

Defence

The 2007 Comprehensive Spending Review provides an additional £7.7billion by 2011 taking total expenditure to £37billion in 2010/11 representing a real annual increase of 1.5% as announced in July 2007. This includes an additional £4billion for two new aircraft carriers, £1billion to replace the Trident nuclear submarines and £400million to fund overseas operations.

Efficiency Agenda

Government departments are expected to save a further £30billion in three years in addition to the £20billion of savings that have already been achieved. The objective of limiting public sector pay increases to 2% a year during next three years was confirmed. This is likely to lead to a loss of employment in the public sector and increased industrial unrest. However, without these efficiency gains it is difficult to see how the government could achieve its targets within its budgets.

Andrew Burnham MP, Chief Secretary to the Treasury, was quoted in 'Public Finance' as saying:

"I make no apologies for saying there is a very real edge to the efficiencies agenda and that will continue. Indeed, it will be accelerated in many ways in this Comprehensive Spending Review. People may not find that reassuring, but that is a fact of this spending review... The targets are incredibly important, because if people take them seriously rather than paying lip service to them, the levels of growth that they have become accustomed to can be sustained. The savings will be cashable and they will be able to redeploy them on new and emerging priorities... An incredible amount of progress has been made on this agenda since Sir Peter Gershon's report. That was a real moment of change within government, and difficult, challenging decisions have been made to release those resources."

Neil Bentley, Director of Public Services at the Confederation of British Industry, was quoted in 'Public Finance' as giving public services managers some helpful advice as follows:

"It is good to keep a tight rein on public sector spending and the settlement should be seen as an opportunity rather than a threat... There is no need for cuts to services. What you have to do is see how you can do things more differently and more efficiently. The private sector has to do this, so the public sector needs to step up to the mark as well."

However, a recent report by the New Economics Foundation has found that the efficiency agenda is undermining the role of local authorities as guardians of community well being and damaging local services. The report advocated the development of a 'public benefit' model that would take a broader view of value for money.

Comment

The 2007 Comprehensive Spending Review was described as one of 'spin, theft and hidden tax rises' by the Conservative Party. They also accused the government of 'surrendering in the battle of ideas' after they adopted five Conservative policies including action on inheritance tax, action on non domiciled residents, and simplifying National Insurance and PAYE.

George Osborne, the Shadow Chancellor, said the Comprehensive Spending Review was a 'cynical stunt' from a 'desperate and weak Prime Minister'. He said:

"I don't know why he even bothered to turn up. He should have called that election and let us deliver the Budget. From this day on, let there be no doubt about who is winning the battle of ideas."

Vincent Cable MP, the Treasury spokesman for the Liberal Democrats said that ten years of economic neglect had led to a 'tight' spending round. He said:

"For too long the Prime Minister callously disregarded the mounting problem of personal debt, fuelled by irresponsible lending... With a crushing spending squeeze on local government it seems inevitable that council tax will rise by as much as 5% each year. This will mean that Council Tax will have more than doubled since Labour came to power."

Karen Day, Editor of the Local Government Chronicle, said:

"This comprehensive spending review was clearly the most politically motivated to date and shows just where the government thinks the vote winners are – and they are not in local government. Health and education both benefited from a surprise additional £2 billion while housing's windfall was announced in the summer."

Conclusions

The 2007 Comprehensive Spending Review has been prepared in the context of lower economic growth and lower increases in government revenues than has been the case in other recent Comprehensive Spending Reviews. Consequently, planned increases in public expenditure are lower than has been the case in recent years. In some cases planned increases in expenditure are not considered to be sufficient to meet projected increases in need.

The National Health Service has received the largest increase in resources. There have also been relatively large increases for Education; Culture, Media & Sport; International Development; and the Cabinet Office. 'Communities & Local Government' that principally sponsors local government and housing has received a lower than average increase in resources with most of the increased resources targeted at new affordable housing.

The government has also increased its emphasis on value for money with increased efficiency targets being set for government departments, local authorities, housing associations and other public bodies.

The main plans are set out in the report: Meeting the aspirations of the British People: 2007 Pre-Budget Report and Comprehensive Spending Review (Cm 7227). A number of other reports and documents were produced alongside the Comprehensive Spending Review announcement. All these documents are available at:

www.hm-treasury.gov.uk/pbr_csr/pbr_csr07_index.cfm

Adrian Waite
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