

## **Briefing Paper**

# **Government Announces £6.25Billion Spending Cuts, With More to Come**

**June 2010**

### **Introduction**

The savings that the government announced in early June 2010 are considered to be 'nothing' compared with what will come in the autumn. Then, each secretary of state will begin outlining significant savings over the three years starting next April as part of the Comprehensive Spending Review of 2010.

Those figures are expected to dwarf this recent announcement, foreshadowing thousands of job losses and cuts in services.

But the government considers that a start has to be made somewhere, and Chancellor George Osborne MP has taken the first steps in rectifying what he called the "worst economic inheritance" any government has been given in the history of the United Kingdom.

The sum of £6billion was pivotal to the election campaign although former Labour Prime Minister and Chancellor Gordon Brown MP warned that taking that much out of the economy would put the financial recovery of the United Kingdom in jeopardy.

However, the new Chancellor George Osborne MP insists that the real threat would be in failing to act swiftly now.

### **General Overview**

The coalition government has outlined more than £6billion of immediate spending cuts in an attempt to stop 'wasteful' government spending and recover the country's finances after stepping into what George Osborne has called the "worst economic inheritance" any government has been given in the history of the United Kingdom.

Most of the cuts are being set in place to reduce Britain's £156billion fiscal deficit, which is now the highest within the European Union and leaves the United Kingdom with severe financial problems.

George Osborne MP, the new Conservative Chancellor of the Exchequer and his Liberal Democrat deputy, David Laws MP (now replaced by another Liberal-Democrat, Danny Alexander MP), declared that there was an urgent need to act as they outlined plans to scrap child trust funds and freeze civil service recruitment.

The Conservatives and Liberal Democrats have clashed over the issue of spending cuts in the past, no more so than during the general election campaign with most of the differences coming over the idea of imposing £6billion of spending cuts this year from Whitehall 'efficiency' savings. These differences now seem to have been overcome.

The Liberal-Democrats, who warned during the election campaign that the cuts would "undermine the much-needed recovery", are now on board with the cuts and believe that the debt crisis in the Eurozone shows the need for rapid action.

David Laws MP, the chief secretary to the Treasury at the time of the announcement, (whose first act in office was to scrap his chauffeur-driven Jaguar) said:

*"We cannot afford to continue to increase public debt at the rate of £3billion each week. Our huge public debts threaten financial stability and if left unchecked would derail the economic recovery.*

*"Public borrowing is only taxation deferred, and it would be deeply irresponsible to continue to accumulate vast debts which would have to be paid off by our children and our grandchildren for decades to come."*

The proposed plans to cut public spending will lead to £6.243billion worth of cuts this year alone (2010/11).

However, £500million of that will be reinvested in apprenticeships, further education and social housing.

This means that the government intend on using around £5.7billion to pay down the fiscal deficit this year and giving Britain a sounder financial footing heading into 2011.

The Chancellor George Osborne said:

*"We have conducted the fastest and most collegiate spending review in recent history. That is what this new government is all about.*

*"Rolling up our sleeves, getting on with the job, working together in the national interest, delivering on our promises, getting a grip.*

*"There were many who said it couldn't be done. That we alone in Europe were concerned about debt. That only cuts to frontline services were feasible because all the efficiencies possible had already been found.*

*"We have comprehensively demolished all of these arguments. I am not claiming that it has been easy. We have worked incredibly hard over the past week."*

The new coalition government softened the blow by announcing that some areas had been protected in spite of the proposed cuts.

Osborne had said that any savings identified in the NHS, defence and overseas aid budgets would be reinvested in those departments.

That list was expanded later to include schools, Sure Start centre's for young children and education spending on 16 to 19 year-olds.

Labour has immediately dismissed the plans which they say sound similar to £15billion of efficiency savings due to be introduced this year anyway.

Alistair Darling MP, the Shadow Chancellor, said:

*"The Liberal Democrat-Conservative coalition has got to come clean on the details of what these cuts mean.*

*"Today they dodged the House of Commons, because they didn't want to have to explain the real impact on firms and families.*

*"Today, George Osborne wouldn't say how many jobs this package would cost.*

*"But it is already clear that these cuts will seriously affect support for business, mean less jobs for young people, and hit student places for this September."*

### **Main Areas of Cuts**

The main areas of budget reductions are:

- Scrapping government contributions to the Child Trust Fund, saving £320million this year and £520million in the coming year.

Contributions at birth will be reduced from £250 to £50 for better off families and from £500 to £100 for lower income families. Contributions at the age of seven will be stopped completely this coming August.

From next January, all contributions at birth will be stopped.

- A civil service recruitment freeze will apply across all government departments and agencies.

There will be one or two exceptions. These exceptions come in the form of the graduate fast stream which is already underway.

- Civil service pay remits for this year will have to be approved by the Chief Secretary to the Treasury.

Any central government pay package above the prime minister's salary will have to be approved by the Chief Secretary to the Treasury.

David Cameron MP's voluntary pay cut means the threshold will be reduced from £150,000 to £142,500.

- Ministers will be banned from having a dedicated chauffeur-driven car.

The only exceptions will be on security grounds.

David Laws MP said:

*"Ministers will be expected to walk or take public transport where possible, or use a pooled car. The pooling of cars will allow big savings to be made."*

- Full first-class travel, which cost £45million in 2008/09, "should be avoided by public servants wherever possible". However, no definite sanctions against this have been put forward.
- Quangos will have their budgets cut by £600million in the months ahead.
- Efficiency savings that have been identified on behalf of the Conservatives by Sir Peter Gershon and Dr Martin Read, will lead to cuts of £1.15billion in discretionary areas like consultancy and travel costs.

This will include £95million through savings in IT spending; and £1.7billion from delaying and stopping contracts and projects with the seventy major suppliers to government.

- £1.165billion savings from local government authorities which will be achieved by reducing grants to local authorities and their arms length organisations.

The government says it will give local authorities greater flexibility over their budgets by removing restrictions on £1.7billion on grants in the 2010/11 financial year.

This approach will have the effect of giving local authorities the task of deciding where the budget reductions will fall. There will be a net increase in their Revenue Support Grants but a reduction in their specific grants leading to a net reduction in funding in total. Government will argue that specific grants have been mainstreamed into Revenue Support Grant and that funding is still available for services. Local authorities will have to decide whether to continue to provide funding. Users of services where funding is reduced wont necessarily be able to identify whether this results from the decisions of national government or the local authority.

- The Treasury issued a list of cuts to the budgets of fifteen different Whitehall departments plus the devolved administrations in Scotland, Wales and Northern Ireland.

The biggest casualty is the business department, which faces cuts of £836million, though the net figure is £636million because it will receive £200million of the £500million for job training. It could be argued that as the present recession and the unparalleled deficit in the public finances has resulted from failures in the private sector (especially the banks and financial institutions) it is appropriate that support to business should be reduced.

### **Key Questions**

Key Questions include:

- If £700million comes from business, will programmes will be cut?

The Chancellor said he is not going to give full details. But the business department is one of the biggest spending departments in Whitehall. Each department is taking a proportional share of the cuts.

- Will the programmes being cut deliver no benefits?

George Osborne MP says he has identified programmes that deliver very low benefits. It's not his money; it's the taxpayers'.

- Will taking money out of the economy cause a double-dip recession?

The Chancellor says he has taken advice from the Treasury and the Bank of England on this issue.

The scale of the deficit is the biggest problem facing Britain, he says. Cutting spending will restore confidence in the British economy and inevitably repair the deficit.

Also, George Osborne MP said that cutting inheritance tax will not be a priority for this parliament.

- How different will this administration be in the treasury in comparison to the New Labour administration of the last thirteen years?

George Osborne MP says he wants to create a society less dependent on debt.

But he is "profoundly optimistic" about Britain's prospects. Countries like China will become consumers of British goods in his opinion.

George Osborne MP wants Britain to be able to exploit these opportunities. He wants "a shift in power to individuals and communities".

- Will there have to be significant changes in the way that public services are delivered to enable public authorities to continue to meet statutory obligations and increasing needs in the light of reduced funding?

The answer to this question is certainly 'Yes'.

## **Conclusions**

The results of these significant spending cuts will be seen in the coming months, and it will be under much scrutiny whether they have succeeded in their aims.

The new Communities Secretary Eric Pickles MP commented on the announced cuts in support of them saying:

*"The spending decisions we have outlined today show our determination to help tackle the immense public deficit the new Government has inherited, whilst shielding council services like rubbish collections and social care.*

*"There will be no reduction to the £29 billion general grant that local government receives every year meaning that they have the flexibility they need to protect the frontline.*

*"But this is also an opportunity to devolve real power to councils. By removing ring-fencing and red tape and freeing up resources councils will be free to focus on delivering essential services.*

*"Councils have already made big efficiency savings in recent years. Central government needs to follow that example. We are putting tough controls on Whitehall spending.*

*"A radical scaling back of the scope and interference of quangos and putting power with councils and communities will deliver significant savings, ensure services are meeting the needs of the people that use them and cut out waste."*

An 'ally' of Vincent Cable MP has said that:

*"Vince is very clear about the need to act rapidly, particularly with the euro-zone debt crisis.*

*"He's absolutely signed up and is leading the way. He has always been something of a deficit hawk."*

The new Business Secretary Dr Vincent Cable MP will take his axe to the spending of regional development agencies in the South firstly, where the economy is recovering fastest.

He has also been examining how to row back on as much as possible of Lord Mandelson's £750million spending programme that was introduced during the last few months of the former Labour government. He has stressed that he has never been much of a fan of his predecessor's policy of picking winners.

In any case it will take time to assess whether the cuts have the intended effect; the question does remain however, if taking money from the economy does result in a double-dip recession, how does the Liberal Democrat-Conservative Coalition proceed next?

**Adam M. Waite**  
**June 2010**

## **AWICS Regional Seminars**

The government's deficit reduction plan will have a profound effect on the management and finance of public services; making it even more important than ever that Board members, elected Councillors, Service Managers and Finance Managers in public services are fully empowered to carry out their responsibilities.

'AWICS' is responding to the challenge by providing regional seminars that are designed to empower people during the recession and the coming years of budgetary restraint. They include:

- All You Want to Know about Local Authority Finance
- All You Want to Know about Local Authority Housing Finance
- All You Want to Know about Housing Association Finance
- All You Want to Know about Budgets and Financial Management
- Developments in Local Authority Housing Finance

Most of our seminars have separate English, Scottish and Welsh versions available.

Details can be found on our website at: <http://www.awics.co.uk/RegionalSeminars/Overview/>

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We are committed to good quality public services. That is why I decided to enter local government service in 1981. That is why I founded 'AWICS' to provide management consultancy to provide support to those who provide public services

Our mission statement is 'Independence, Integrity, Value'. We therefore provide consultancy and training from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

And we publish the popular free e-newsletters for public and housing services – the 'Public Services News' and 'AWICS Housing News'. We are big enough to make a difference – but are small enough to care!