



BRIEFING

# Reviewing the Spending Review

A sectoral analysis

Edited by Tony Dolphin

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## About the editor

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## Introduction

The dust has settled on the Coalition's announcement of its Comprehensive Spending Review and, as the headlines fade, the ramifications of the government's cuts for different streams of public sector activity and expenditure are becoming clearer.

Compiled by various sector experts within ippr, this briefing lays out in summary form some of the key measures and policy implications of the Coalition's landmark announcement.

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## Criminal justice

The criminal justice system is taking a big hit in the Comprehensive Spending Review (CSR), with the prisons, police and probation all facing major cuts.

### Headlines

- The Home Office budget will be cut by 23% in real terms by 2014–15.
- The police will see their funding from central government fall by 20% in real terms by 2014–15 and non-police spend will fall by 30%.
- The Ministry of Justice is facing a cut of 23% in real terms, which will involve major staff reductions throughout the offender management system.

### Details

- The police budget will fall by 20%. The government claims this is just 14% because they assume that police authorities will raise their element of the council tax to make up some of the shortfall.
- These cuts will mean a reduction in police officer numbers overall, given that staff costs make up 80% of the police budget.
- They will require major workforce reforms such as changes to shift patterns, cuts in the middle management tier, greater use of civilians in roles currently performed by constables, and changes to pay and pensions. There will need to be much greater collaboration between police forces in areas like procurement and back-office functions.
- Ministry of Justice cuts will depend on penal reform, including a reduction in the use of short-term prison sentences, the diversion of offenders with mental health problems away from the criminal justice system and a reduction in re-offending. This will reduce the numbers flowing through the prison system, allowing for reductions in staff and prison closures. There will be a green paper on sentencing and rehabilitation before the end of the year.
- Also, 157 courts will close and the government expects to make big cuts in the legal aid budget.

### Policy implications

- The police cuts are devolved down to police authorities and chief constables who will have to decide what to do with a smaller budget. In return, police targets have been scrapped. The task of setting the medium- and long-term priorities for each force will eventually fall to new directly elected Police and Crime Commissioners.
- There will be pressure to protect politically sensitive areas like neighbourhood policing which means that less visible areas such as public protection work and specialist investigations units will suffer.
- There may be a slimming-down of neighbourhood policing, such as a reduction in the numbers of PCSOs or combining teams to cover more than just one council ward.

- Ministry of Justice savings will require changes to the sentencing guidelines to stop the courts sending people to prison for very short periods. This will not be straightforward: there will be public and media resistance to sending fewer people to prison, there will need to be an infrastructure in place to meet a growing demand for community sentences, and there is a danger that because sentencers have been told they should not use three-month prison sentences, they will resort to using six-month prison sentences instead.
- The package will also require upfront investment in reducing re-offending on the understanding that, over time, this investment will deliver savings. The government proposes to deliver this through a payment-by-results system, by which private and third sector providers will be commissioned to reduce recidivism over time. The government is currently exploring how this can be financed, including bringing in private investors through instruments like Social Impact Bonds, whereby the government pays back investors if a project is successful.
- In order to cash big savings the fall in the prison population will have to reach a level that will allow the government to start closing some prisons and selling the sites.

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## Culture, Media and Sport

The Department of Culture, Media and Sport (DCMS) is being cut by 25%: a 24% reduction in resource spending, from £1.4bn to £1.1bn, and a 32% reduction in the DCMS capital budget, from £0.2bn to £0.1bn, between 2011–12 and 2014–15.

### Winners

- Capital projects already underway will be completed, and £530m will be invested over the CSR period to expand the UK's superfast broadband network.
- Spending on the Olympics – including funds for top competing athletes – has been protected.
- Free entry to museums and galleries has been protected. Museums, galleries, the British Library, the British Film Institute, whole-sport plans and Elite Athlete Funding will be cut by a relatively small 15%.
- Despite cuts of 33% to Sport England (community sport) and 28% to UK Sport (elite athletes), damage will be offset by merging the two bodies and refocusing the National Lottery fund on sport, the arts and heritage from 2012.

### Losers

- Measures to protect 'frontline' grant-dependent organisations mean deep cuts of around 50% to the administrative costs of DCMS and various quangos.
- The UK Film Council, the Museum, Libraries and Archives Council and the Commission for Architecture and the Built Environment have been abolished.
- The Arts Council of England budget will be cut in real terms by around 30% – or £350m – over the next four years, in the context of a 20% reduction last year.
- The Arts Council was asked to pass on no more than 15% of cuts overall to grant-dependent organisations, which it has decided to apply equally across the bodies it funds.
- The big losers here are business development and arts for young people, with ACE budgets halved for Arts and Business and Creativity, Culture and Education. The budget for 'strategic' projects, such as festivals and national touring schemes, is also being slashed by 64%.
- The BBC's budget has been reduced by 16%. Around £340m from the TV licence fee – frozen until 2016–17 – will now fund the BBC World Service, BBC Monitoring, and S4C, as well as helping to meet the cost of rolling out broadband internet access to rural areas.

- Other big cuts include the Design Museum, by 65%; Visit Britain – responsible for promoting Britain as a tourist destination – by 34%; and English Heritage – the largest source of non-lottery grant funding for heritage assets – by 32%.

## Policy implications

### How can broad access to culture and sport be maintained?

- Despite continued free access to museums and galleries, the cost of theatre tickets is likely to rise, and many educational and community outreach programmes will be cut. In addition, cuts elsewhere, particularly to local authorities, will hit public access to the arts. Local government spending on cultural services, including sport, is currently approximately £2.5bn annually, equivalent to cultural spending by central government and the National Lottery combined. How to ensure the Olympic Games leaves a sports legacy will also be an ongoing issue in the run-up to 2012 and beyond.

### Promoting private investment

- The government hopes that private philanthropy will fill the gap in public spending on sport, the arts and heritage – in particular, it hopes to attract private investment to promote cultural exchange with the BRIC countries – and has pledged continued support for creative industries, in part through increased private investment. However, critics say the ability to attract private funds has been diminished by cuts to bodies that provide capacity-building for arts bodies and promote creative industries. How to attract private funds to the arts and mitigate the impact of the cuts on creative industries will be important policy priorities.

### The future of media

- Although the BBC has earned a brief respite with no license fee negotiations for another six years, the incumbent government is hostile and the future of public service broadcasting and media plurality and ownership will continue to be hot issues. Also watch out for the impact of reforms to Ofcom, which will transfer some of its responsibilities (for example, to regularly review media ownership rules) to the discretion of the Secretary of State.

### Public rights, protection and space

- Many of the quangos that have been abolished or cut deeply are those that regulate, advise on or protect the UK's built environment and heritage, and those that promote public access to the arts. How can the government maintain the quality of decisions for art, architecture, sport and heritage taken in the public interest?

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## Education

### Headlines

- The schools budget will increase by £3.6bn over the Spending Review period (to 2014–15). This figure includes £2.5bn allocated for the pupil premium.
- This represents an increase of 0.1% per year in real terms over the next four years.
- There will be a 60% reduction in capital expenditure for schools over the next four years, due to the abolition of the Building Schools for the Future programme.
- The government is putting some extra money into early years, including funding 15 hours per week of early years' education and care to all disadvantaged two-year-olds from 2012–13.

### Details

- The headline figure of a small increase in schools revenue spending is only achievable by factoring in the £2.5bn pupil premium. Discounting the pupil premium, the schools budget will be cut by 3.4% in real terms over the next four years.

- The impact of the CSR will therefore be uneven – schools in deprived areas will see their funding hold steady (as they receive the premium), while those in more affluent areas will face cuts of around 3% over four years (as they do not receive the premium). The IFS estimate that 87% of secondary pupils and 60% of primary pupils are in schools that will see real funding cuts.
- While the schools budget will see a 0.1% increase in funding per year, demographic pressures means there will also be a 0.7% increase in the number of pupils each year. Total spending per pupil will therefore be cut in real terms by 0.6% per year. Class sizes may need to rise to absorb this cost.
- Teachers face a two-year pay-freeze which will free up £1.1bn for schools budgets.
- £1bn savings from the schools budget will be achieved through ‘procurement and back-office efficiencies’. It is unclear how this will affect the front line.
- Leaked Treasury documents estimate around 40,000 teaching jobs could be lost.
- The way money is distributed to schools will change. There will be an end to ringfenced grants – the money will be sent straight to schools without strings attached. Per-pupil funding will increase as a result, but overall spending on schools won’t, as money is simply being handed to schools in a different way.
- It is important to remember that additional spending cuts were announced earlier in the year, such as the cut of £311m from Department for Education area-based grants to local authorities (which is spent on education support).
- The majority of the Department for Education’s savings will come from areas other than schools, such as early years, 16–19s and administration. The non-schools budget will be reduced by 12% over four years.
- The government has accepted the argument that the earliest years of a child’s life are vital for determining their later life chances. It is therefore investing more money to guarantee 15 hours per week education and care for the most disadvantaged children.
- There will be pressure on Sure Start, with its funding only maintained in cash terms, and with the government wanting to re-focus children’s centres to help the most disadvantaged children in particular. Money will be re-channelled through ‘community budgets’ aimed at interventions with the most challenging families, which it is hoped will save money in the longer term.
- In terms of further education there will be cuts, with the government saying it will reduce unit costs for 16–19s and cut the Educational Maintenance Allowance by drawing back on eligibility. The government has committed itself to the previous government’s target of raising the participation age to 18 by 2015.

### **Policy implications**

- The immediate challenge will be to decide how the schools settlement will be divided across different phases of the system and between different local authorities. Primary schools face the greatest increase in pupil numbers so should be better protected.
- The government will have to find a way to ensure the money given to schools as a pupil premium is actually being spent on what it is intended for – supporting disadvantaged pupils – and is not simply absorbed into a school’s wider budget. The lack of ringfencing will make this difficult.
- The biggest implications for policy are at the sub-national level. New systems and accountability structures will have to be put in place to reflect that head teachers will have more control over budgets and local authorities will have a different role in distributing funds between schools.
- A schools white paper and special education needs and disability green paper are due to be published in the next three months.
- There is more early-years funding for the most disadvantaged children. However, turning Sure Start into a service only for the disadvantaged runs against research evidence showing that the poorest children do best in settings where they can mix with children from different backgrounds.
- Reduction of unit costs for 16–19s implies cuts in the numbers of courses, teachers and colleges.

## Energy and climate change

### Headlines

The total 2009–10 Department of Energy and Climate Change (DECC) budget was £3.1bn. Initially, this will decrease slightly but will then rise after 2012, and by 2014–15 will be at £3.7bn, an increase of over 19% in nominal terms, or 8% in real terms.

This increase is entirely due to higher capital spend (up from £1.7bn in 2010–11 to £2.7bn by 2014–15). Non-capital spend will be cut by 17% in nominal terms, or 25% in real terms.

	Previous government		CSR plans				
	'09–'10 (est)	'10–'11 plan at Mar '10	'10–'11	'11–'12	'12–'13	'13–'14	'14–'15
	<i>£ billion</i>		<i>£ billion</i>				
Resource DEL	1.23	1.2	1.2	1.5	1.4	1.3	1.0
Capital DEL	1.81	1.9	1.7	1.5	2.0	2.2	2.7
<b>Total</b>	<b>3.04</b>	<b>3.1</b>	<b>2.9</b>	<b>3.0</b>	<b>3.4</b>	<b>3.5</b>	<b>3.7</b>

Sources: CSR and DECC (2010) Resource Accounts 2009–10

### Details

The CSR retains several aspects of the plans of the previous government:

- The first carbon capture and storage (CCS) demonstration project, with a commitment to spend up to £1bn. The Coalition government has stated that it is committed to a further three projects, but a decision on a CCS Levy to fund these has been delayed until spring 2011, following reform of the Climate Change Levy.
- The Green Investment Bank proposed in Labour's last budget, with a conditional proposal to capitalise the bank at £1bn, plus 'additional significant proceeds from asset sales'.
- The Renewable Heat Incentive (RHI), aimed at stimulating the growth of micro-renewable heat technologies, at £860m (a reduction from the plans of the previous government). There will also be changes to the feed-in tariff for micro-renewable electricity, with the rate for solar PV to be reduced from 2012.
- Capital funding for the Nuclear Decommissioning Agency, which will increase over the CSR period.
- £2.9bn international climate finance for low carbon growth and adaptation in developing countries.

Two other important changes:

- The Warm Front fuel poverty scheme will be cut from around £370m per annum to £110m in 2010–11 and £100m in 2012–13.
- Revenue raised from the Carbon Reduction Commitment, a cap-and-trade scheme for medium-sized commercial companies and public sector organisations, will be taken by the Treasury rather than recycled within the scheme. This scheme is already unpopular and will be made more so by these changes.

### Policy implications

The climate issue is at the heart of the Coalition, and DECC has been relatively protected. Key projects – such as CCS, micro-renewable support mechanisms, the Green Investment Bank – have been saved, although questions about the overall level of support remain, as do questions about delivery bodies like the Energy Saving Trust and the Carbon Trust, which are still under review.

In most cases, delivery of energy policy is financed through higher energy bills rather than through public spending. While some of the increases work through levies that are counted as public expenditure, others – such as the Renewables Obligation and the Carbon Emissions Reduction Target (CERT) insulation programme – do not. At the same time, the Coalition is planning to deliver

household energy efficiency largely through loans, financed by the private sector. An Energy Bill to facilitate this will go through Parliament next year. Thus overall, much energy policy is protected from public spending cuts (although not necessarily from the wider issue of public acceptability).

However, there are three areas where this is not the case.

#### **Public support for innovation in low carbon energy**

CCS is the largest item, and as noted, a decision on the CCS levy will come in 2011. There were cuts of £34m in support for other technologies in emergency budget in June, but the CSR does allow for £200m in support for manufacturing and port infrastructure to facilitate offshore wind development. A key policy issue is whether the framework for support is right, and at the right level, given the central importance of 'green growth' to the future of the economy.

#### **Fuel poverty**

As noted, the dedicated Warm Front programme will be cut by more than two-thirds, and the introduction of mandatory social tariffs from energy companies are only a palliative solution. Changes to benefits elsewhere in the CSR, and potentially higher unemployment, along with the likelihood of higher energy prices in the next few years, imply that fuel poverty is likely to rise (it has already doubled since the early 2000s). The Coalition government's plans for tackling fuel poverty remain vague, and there may be moves to change the definition and remove the legal targets established by the last government.

#### **International climate finance**

This is to be funded jointly from DECC, DEFRA and DFID budgets. However, given the relative positions of these departments, most will probably come from DFID, and therefore make up a significant portion of that department's spend. It is unclear whether this £2.9bn will be additional to or part of official aid. Developing countries have been strongly opposed to developed countries meeting climate finance commitments out of the aid budget.

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## Health

### **Headlines**

- NHS budgets ringfenced
- NHS budget rising from £101.8bn in 2010–11 to £114.4bn in 2014
- 0.4% real terms increase over the course of the CSR period.

### **Details**

Specific aspects of the NHS spending settlement include:

- 17% decrease in capital spending
- 33% decrease in the administrative budget.
- 1.3% increase in the resource budget

The CSR included commitments to a number of initiatives, including:

- A £200m cancer drug fund
- Expanded access to therapies
- Growth of NHS research budgets
- 'Priority hospital schemes'.

However, a number of initiatives announced by the last government have been dropped:

- Extending free prescriptions to those with long-term conditions

- One-to-one nursing care for cancer patients
- One week wait for cancer diagnostics.

The headline 0.4% figure is for the whole period of the spending settlement and equates to an annual real terms increase of approximately 0.1%. The increase enables the Coalition to just meet its commitment of a real terms increase in the NHS budget. Given the scale of cuts to other departmental budgets, it is widely perceived that the NHS has survived relatively unscathed. As the NHS Confederation has noted the spending settlement was 'as good as the NHS could have hoped for in the circumstances'.

However, the numbers only provide a partial picture. As has been widely noted, factors such as demographic pressures associated with an ageing population, rising drug costs, health inflation and potential reorganisation will place significant pressures on local NHS budgets. Over recent years, the NHS has been reliant upon annual budget increases of approximately 4% per annum, increases which have gone some way to masking the impact of such factors. As a consequence, the Royal College of Nursing has concluded that this 'will still feel like a cut'; the NHS Confederation similarly warns: 'Even with this settlement, the NHS faces a potent cocktail of pressures and we will have to work very hard to ensure the impact on services is minimised.'

The Coalition government's commitment to ringfencing the NHS budget has led many to overlook the degree to which the government's latest efficiency drive will impact upon the NHS. NHS Trusts will be required to find up to £20bn in efficiency savings over the course of the next three financial years. Change on this scale will inevitably change the way that services are commissioned, configured and delivered in localities across the UK. NHS Trusts through England and Wales are already in the process of identifying substantial efficiency savings.

The CSR also signals new challenges for the NHS, both in terms of its budgets and its relationships with other parts of the public service delivery chain. The NHS must find a £1bn contribution to the social care budget, as part of the process to foster the greater integration of health and social care budgets.

It has also been noted, although not officially acknowledged, that NHS Trusts will no longer be able to retain annual under-spends and roll these forward into the next financial year. All under-spends must now be returned to the Department of Health at the end of each financial year. This is likely to add further to local pressures.

## Policy implications

The Coalition government's commitment to ringfencing the NHS budget has clearly enabled the NHS to avoid the type of impact seen in sectors such as local government, education and policing. However, over the course of next three years the NHS will have to face a number of key challenges. A number of these relate directly to the potential impact of the spending settlement, while others owe more to the wider financial requirements being placed on the NHS and the government's proposals for major health service reforms.

The ability of the NHS to control and manage the impact of demographic factors, health inflation, drug costs and increasing demands in key areas of service provision will be vital to its ability to live within the confines of the spending settlement. Allied to this will be the requirement for NHS to identify and deliver record levels of efficiency savings. These combined pressures are likely to lead to major changes to the way in which NHS services are commissioned, developed and delivered, as well as unprecedented changes to the NHS workforce. In essence, the NHS will be required to deliver the same level of service for less money and with reduced staff numbers.

A further crucial challenge will be the implementation of the Coalition government's plans for NHS reform. The recently published white paper has set out a vision which includes major changes to the structure and shape of the NHS. The shift away from Strategic Health Authorities and Primary Care Trusts to general practice consortia will significantly change the way that NHS services are configured and developed. This will provide opportunities in terms of rethinking how the UK delivers health services, but also a number of clear challenges in terms of the scale of organisational change that will be required.

In addition, the NHS will face a series of additional challenges, most notably the integration of health and social care and the changing nature of its relationships with local government.

## Housing

### Headlines

Capital expenditure on housing is being cut heavily:

- The Department for Communities and Local Government (CLG) communities capital budget is set to shrink by 74% in cumulative terms over the next four years.
- This includes a cut to the capital grant for new affordable house-building by 50% to £4.5bn over the CSR period.

Housing benefit is being capped and cut:

- The housing benefit available to an individual household will be capped (perhaps, at around £400 per week for a four-bedroom home).
- There will be a 10% cut in housing benefit for people who have been on Job Seekers Allowance for more than a year.
- The age threshold for the shared room rate is to increase from 25 to 35 years.
- Housing benefit entitlements will be calculated with reference to the pool of local rents below the 30th centile.

Notwithstanding cuts to capital expenditure, the government hopes to see 150,000 new homes built over the next four years, funded in part by the proceeds of changes to rent and tenure:

- Housing Associations will be able to charge new tenants 'affordable rent' at up to 80% of the market rate.
- New social tenants are no longer to benefit from secure tenure for life, but rather 'flexible tenure', based on regular means-testing.

### Details

Other measures the government will introduce to incentivise house-building include:

- A New Homes Bonus scheme, setting aside £900m to match the Council Tax on every new home for each of the following six years.
- Housing Revenue Account reform, through which the annual centralised subsidy system is to be replaced with a locally-run system (details yet to be confirmed).
- The expected Decentralisation and Localism Bill, which will give local authorities more freedom in planning and housing (but it will not require them to build, while regional spatial strategies and house-building targets have been abolished).
- The government will continue investment in the Decent Homes programme: £2bn in capital funding is to be made available to help complete this programme.

### Policy implications

#### Rent and tenure

- It is yet to be confirmed who will be classified as a 'new' tenant, for instance whether this category will include people transferring within the social rented sector.
- Questions remain as to whether means-testing tenure in social housing will act as a disincentive for tenants to find work, when already only 31% of households in social housing have at least one person in work.
- The new tenants whom Housing Associations will be able to charge rent at up to 80% of the market rate will, by definition, be people in high need. They will on average, for a three-bedroom property in England, be asked to pay £164.44 more per household per week. This stands to exacerbate levels of poverty and debt among already deprived tenants.

### Housing benefit

- It is yet to be seen whether private sector landlords will reduce the rents they charge to reflect the imposition of a cap on housing benefits. If not, we are likely to see large-scale evictions of disadvantaged families from private rented property in inner city areas. As well as causing acute political problems, this will ask pressing questions of policy, in terms of the infrastructure and opportunities available in the places to which such people are forced to move. (Inner London boroughs are already block-booking rooms in bed-and-breakfast properties in places like Hastings.)
- Paying for the building of new homes by drastically increasing social rents is likely to add significantly to the already steep rise in the country's housing benefit bill – currently rising by an extra £1bn per annum – despite attempts to bring it down through caps and cuts.

### Housing supply

- The most important housing policy question is how to finance new affordable house-building at the scale required. The answers suggested in the CSR are based on some very bold assumptions.

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## Local government and regeneration

### Headlines

CLG was the biggest loser in the CSR, especially the communities side of the CLG's work. If transfers to local government are excluded, there was a:

- 51% real terms cut to departmental programme and administrative budgets
- 74% real terms cut to departmental capital budgets.

The cuts to the local government budget were less deep, but still challenging:

- The transfer from CLG to local government is cut by 27% in real terms.
- If OBR forecasts for council tax receipts are factored in, the cut to local government budgets is projected to be 14%.
- An additional £1bn for social care is to come from the NHS budget.

### Details

#### Local government

- Local governments will have increased flexibility over spending: ringfencing on all revenue grants are removed except for simplified school grants and a new public health grant.
- Interest rates on Public Works Loan Board loans are increased to 1% above UK government gilts, which is expected to reduce self-financed capital spend by 17% over four years.
- Council Tax Benefit is to be reduced by 10% and localised from 2013–14.
- £6.5bn is provided for Supporting People over the period but is no longer ringfenced.
- 'Community budgets', bringing together local public services for families with complex needs, will be piloted in 16 areas from April 2011, ahead of possible roll-out in 2013–14.

#### Regeneration

- Housing Market Renewal Pathfinders, Working Neighbourhood Fund, and Housing Growth Area Funding were all abolished or not renewed.
- Tax Increment Financing is to be brought in for local government, and the Regional Growth Fund has been increased to £1.4bn over three years.
- The Homes and Communities Agency (HCA) is to become a smaller 'investment and enabling agency' working more closely with local government.

## Policy implications

### Local government at the centre

It is not yet clear how central local government is to central government's localism plans, and plans for consortia of GPs and elected police commissioners risk fragmenting power and decision-making. The Localism Bill could put local government in the driving seat of all local public services through 'community budgets' – but Whitehall is organised along hierarchical departmental lines, not territorial ones for England, so how will this work in practice?

### Moving beyond the freedom to make cuts

Local government has been given greater flexibility over spending decisions, but so far lacks the ability to raise significant revenue. Assigned or devolved taxes, incentives and further mechanisms for capital finance need to be explored in the Localism Bill.

### Yet more efficiency?

Local government has been working towards stringent efficiency targets for years. Achieving efficiencies will now require much more radical service reforms if quality local public services are going to continue to be delivered.

### Driving local economic growth

A white paper on Sub-National Economic Growth is imminent: it must set out a bold vision for Local Enterprise Partnerships (LEPs). All of Whitehall must sign up to this agenda and so enable LEPs to draw down a range of powers from economic development and housing to welfare-to-work and adult skills. To really be powerful, LEPs should over time be able to assume a legal personality, to enable finance to be raised for investment and to take on assets.

LEPs will be able to bid to the Regional Growth Fund, but the fund is in danger of becoming all things to all people, with the government earmarking it for economic growth, housing-led regeneration and infrastructure investment. The key question concerns the criteria for funding. If it continues to be maximum economic return, investment will continue to favour more economically buoyant areas.

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## Social care

### Headline

- An extra £2bn for social care by 2014–15.

### Details

- £1bn of the funding for social care will come from the NHS budget (which is ringfenced), recognising the need for greater integration between health and social care. The other £1bn will be merged into the local government formula grant as a way to 'reduce administrative burdens and increase flexibility for local authorities'. This money is not ringfenced.
- Key themes in the CSR related to social care:
  - encouraging better integration between health and social care is presented as a priority
  - greater emphasis on personal budgets is presented as a key method of driving towards greater reform and efficiency, as well as improving outcomes
  - social care was referred to as an example of how central government would localise power and funding to local authorities, and shift more power to service users
  - that a diverse range of suppliers – as appropriate – will be continue to be involved in the delivery of social care
  - the government recognises that the Dilnot Commission on the funding of long-term care will address the important questions of funding a fair and sustainable social care system.

## Policy implications

Many in the social care sector have welcomed the announcement of additional funding in the wider context of cuts. But the additional funding does not present a solution to the funding and delivery of social care. Significant challenges and questions remain.

- The NHS budget is ringfenced, but has to find £15bn–20bn of efficiency savings and is undergoing radical reform of provision. In this context, it is not entirely clear where the additional £1bn will come from, nor how reforms which move NHS commissioning away from PCTs and towards GPs will impact the commissioning and provision of social care.
- The additional £1bn rolled into the local government formula grant is not ringfenced for social care. In the wider context of local authorities needing to cut 28% of their budgets, there is no guarantee that the money will be protected for social care.
- The population continues to age. In their submission to the CSR, the Association of Directors of Adult Social Services calculated that there would be a £5.7bn shortfall in social care funding.
- People want personalisation and independence from the social care system. Smarter commissioning and innovative and creative prevention and delivery services will be essential if squeezed services are required to deliver more for less.
- The CSR's impact on the social care workforce remains unknown, with wider local authority cuts almost certainly having an impact on the quality and quantity of the care workforce.
- The intersection with other benefits is important – for example, the CSR outlines a cut to the Disability Living Allowance for people in care homes from April 2012. As more changes to the pension system are announced, this will have a significant impact on many care users.
- There is little mention of children's social care in the CSR – this is an area where costs are increasing, as more children are being placed in care.

The Dilnot Commission on the funding of long-term care is due to report in July 2011 and will be critical in determining the sustainability and fairness of social care funding.

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## Welfare

### Headlines

- The CSR announced £7bn in welfare cuts, as part of just over £10.5bn in overall Annually Managed Expenditure savings by 2014–15.
- These are in addition to £11bn of reductions in welfare spending at the June budget, allowing the government to limit the cuts to departmental spending needed to deliver its path for deficit reduction.
- The Department for Work and Pensions (DWP) will see its resource budget rise by 2.3% over the CSR period, including £2bn for the implementation of the 'universal credit'. However, it will still need to find 26% savings in its core budget over the next four years.

### Details

The £7bn of benefit cuts break down as follows:

- time-limiting contributory Employment and Support Allowance to one year, saving £2bn; claims beyond one year will be subject to means-testing
- removing Child Benefit from higher-rate taxpayers, saving £2.5bn
- changes to tax credits saving £1.7bn overall, including freezing the value of the main elements, increasing the work requirement for couple families and reducing the level of support for childcare costs

- localising Council Tax Benefit and reducing its cost by 10%, saving £490m
- smaller changes to Housing Benefit, disability benefits and the savings credit.

Other measures announced in the CSR include:

- protecting universal benefits for older people, such as the Winter Fuel Allowance, free TV licences and concessionary bus pass
- further increases in the child element of the Child Tax Credit (£30 in 2011 and £50 in 2012), aiming to prevent increases in child poverty
- raising the state pension age to 66 for men and women by 2020 and going ahead with plans for auto-enrolment and the National Employment Savings Trust (NEST) to provide low-cost workplace pensions for all.

Since the CSR, the government has signalled it will publish a green paper before the end of the year on a 'single tier' state pension.

### **Policy implications**

The tension in the CSR settlement on welfare is between the government's long-term aspirations and the likely short-term effects of its policies. Most obviously, £18bn of welfare cuts will be made by 2014–15, while the new Universal Credit will take two parliaments to introduce. This has implications for two sets of issues.

#### **Work incentives, simplification and the Universal Credit**

A number of CSR measures cut across the core goals of better work incentives and greater simplicity that are at the heart of the Universal Credit concept. Reducing eligibility to Working Tax Credits will weaken work incentives; localising Council Tax Benefit will increase complexity.

#### **Distributional analysis, child poverty and the working poor**

The IFS says the CSR's tax and benefit changes are regressive, though offset by the Coalition's retention of Labour's progressive tax measures. The Chancellor claims the measures will not increase child poverty over the next two years, but most of the benefit cuts kick in after 2012–13. Frank Field's review of child poverty, due by the end of the year, is likely to shift the focus to a multi-dimensional poverty measure.

Overall, the CSR was relatively good for older people and relatively bad for families with children. Despite the rhetoric, it also hits the working poor, rather than just those wholly reliant on benefits. Working Tax Credit is the obvious example, though Housing Benefit, Council Tax Benefit and Disability Living Allowance can all also be claimed by those in work.