Government Spending Review

Comprehensive Spending Review: tackling the deficit

Spending reviews have been part of the governmental landscape since the late 1990s, but none have garnered quite the anticipation of the one which the Coalition Government delivered on 20 October, set as it was against the largest UK budget deficit since the war. The Chancellor, George Osborne duly stood up in the House Commons to detail the largest series of public spending cuts seen in decades.

Mr Osborne told MPs that the reductions in expenditure, totalling almost £83 billion, were needed to draw Britain "back from the brink". The comprehensive spending review would eliminate the UK's structural deficit by 2014/15 and would see national debt falling significantly over the same period.

The coalition Government's plans would set both public services and the welfare system on what Mr Osborne described as a sustainable footing. The cost will be the loss, as predicted by the Office for Budgetary Responsibility, of some 490,000 public sector jobs by 2015.

EMPLOYMENT AND PAYE

It was widely expected that the spending review would focus on welfare funding. One of the areas to be affected by the cuts is employment. Claims for the contributory Employment Support Allowance are to be limited to 12 months for those in the work related activity group.

As from April 2011, the basic and 30-hour elements of the Working Tax Credit is to be frozen for three years. From April 2011, the proportion of costs covered by the childcare element of the Working Tax Credit will fall from 80 per cent to 70 per cent of costs.

In future, real time PAYE information will be used to update the tax authorities on tax credit calculations. It is estimated that linking real time details on earnings and tax credits will help to eliminate errors and overpayments, so saving £300 million by 2014/15.

A new Universal Credit is to be phased in over the next two Parliaments which will replace the current system of benefits. The Government hopes that the new tapered single payment will encourage more people to seek employment.

The Department for Work and Pensions is to cut its core budget by 26 per cent in real terms by 2014/15. Some of the savings will come from dropping the present welfare-to-work programmes with a single new Work Programme. The DWP is also to stop issuing national insurance cards and will send out letters with the relevant information instead.

TAX

Like most other Government departments, HM Revenue and Customs (HMRC) is to lose some of its budget as a result of the spending review. The Chancellor introduced cuts of 15 per cent in real terms in the tax authority's spending.

HMRC has been briefed to make the savings through a reduction in admin costs and a more effective targeting of customer services. The Government said that the backlog of PAYE underpayment or overpayment cases will not be cleared until 2012. Processes that cause the greatest number of errors, such as VAT registrations, are to be redesigned. HMRC will also be conducting the next stage of the consultation on improving the PAYE system, examining how best to manage a real time information process. The purpose is to ease the administrative burden of tax management on employers.

Despite the cuts, HMRC has been granted an extra £900 million over the next four years to tackle the issue of tax avoidance. The plan is that the additional resources will enable HMRC to recover some £7 billion a year in underpaid or unpaid tax by 2014/15.

ANTROBUS
Chartered Accountants

Antrobus Accountants Ltd | 01730 234 500
info@antrobus.biz | www.antrobus.biz
Antrobus House 18 College Street Petersfield GU31 4AD

PENSIONS

One of the headline statements in the spending review was that the state retirement age for men and women is to be equalised at 65 by November 2018. The retirement age for both men and women will then rise to 66 by April 2020, some six years ahead of previous plans. It is thought the move will affect more than five million people.

For the ten years between 2015 and 2025, the Government estimates that the change will save some £30 billion in state spending on pensions and pensioner benefits, while raising an extra £13 billion in income tax and NIC receipts.

Although it is to carry a 26 per cent reduction in its core budget, the Department of Work and Pensions (DWP) is to have the funds to introduce the planned new workplace pension scheme that will mean the automatic enrolment of all employees who are not already members of pension schemes. The DWP will also set up the National Employment Savings Trust (NEST) which will manage the auto-enrolment scheme's funds.

Taking on board the recommendations of John Hutton's interim review of public sector pensions, the Government is to raise the level of contributions made by employees. The exact nature of the additional contributions will have to wait until Lord Hutton's final report is submitted, but the Chancellor said that progressive changes to employee contributions could see savings of up £1.8 billion by 2014/15.

Elsewhere, the maximum award paid under the Pension Credit is to be frozen for four years as from 2011/12.

TRAINING AND HIGHER EDUCATION

The Department of Business is to lose 25 per cent of its funding over the course of the next four years. It is estimated that 65 per cent of those savings will come from funding reforms to higher education as outlined in Lord Browne's review. In other words, increased student fees will help to supplement the Department's cuts.

However, the science budget is to remain at £4.6 billion a year, so protecting the teaching of and research into stem subjects such as technology, maths and engineering. The further education budget is to fall by £1.1 billion, the equivalent of 25 per cent, over the next four years. But the Government has insisted that it will continue to support basic skills provision in order to boost literacy and numeracy skills.

The Government also committed itself to increase spending on adult apprenticeships by £250 million a year, creating an extra 75,000 apprenticeship places. However, the flagship Train to Gain programme is to end as part of the cuts. It will be replaced by a SME-focused training scheme. The Government also confirmed the abolition of the Regional Development Agencies set for 2012.

LOW CARBON ECONOMY

As promised, the Government is to create a Green Investment Bank in an effort to boost the UK's low carbon economy. The Bank will have an initial capital of £1 billion and its aim will be to act as a catalyst for business investment in green technologies and green infrastructure.

The Department of Energy and Climate Change will find that its resource spending is to be reduced by 18 per cent in real terms over the next four years. However, its capital spending will rise by 41 per cent over the same period.

The spending review, the Government insists, will enable the UK to meet its environmental targets, including a 34 per cent reduction in greenhouse gas emissions by 2020. One of the key elements in such a reduction is the recently introduced Carbon Reduction Commitment (CRC) scheme, which imposes a levy for particularly heavy users of energy and rewards those firms that reduce the level of their emissions. The money raised from the CRC scheme will be used to support the public finances and environmental projects, the Government said, rather than be recycled to participating companies.

TRANSPORT

The Government has committed itself to £30 billion of investment in the transport system but has also announced that capital spending by the Department of Transport is to be cut by 11 per cent.

Commuting employees, and employers who want to encourage greener travel, will find that train fares are to rise by 3 per cent above the RPI rate of inflation for three years as from January 2012. The Government hopes that the additional funds can be used to ease the overcrowding on the railway system in many of the UK's larger cities. Subsidies to bus operators are to be cut by 20 per cent, saving some £300 million by 2014/15. However, £10 billion will be spent on the national and local road networks, while £14 billion will go to improving the national rail system over the same four-year period.

ECONOMY

Current debt interest payments total £43 billion a year. But the spending review will see them lower by £1 billion in 2012, £1.8 billion in 2013 and £3 billion in 2014, a total of £5 billion over the course of the review.

Capital spending will be £51 billion next year, then £49 billion, then £46 billion and £47 billion in 2014-15, roughly £2 billion a year higher than set out in the Budget.

Total public expenditure, which includes debt interest payments, will be £702 billion next year, then £713 billion, £724 billion and £740 billion, bringing real terms public spending to the same level as 2008, said the Chancellor.

SUMMARY

The Government has set its path for the next four years. Whether it leads to sustained recovery, as the coalition believes it will, or to a double-dip recession, as its opponents fear, time will tell.