HM Treasury

A country that lives within its means

Spending Review 2015

Cm 9112

July 2015

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Spending Review 2015

Presented to Parliament by
the Chancellor of the Exchequer to the Treasury
by Command of Her Majesty

July 2015

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Foreword

The government is committed to putting Britain's security first. When it comes to the economy, and providing security for working families, that means finishing the job of repairing Britain's finances. So today we are launching Spending Review 2015, to identify the further savings required to eliminate the deficit by 2019-20.

Over the last Parliament the government delivered the reductions in public spending that it committed to and more than halved the budget deficit it inherited. We honoured our promise to increase spending in vital public services such as the NHS and schools, and our reforms improved the quality of public service delivery. Employment is back to near record levels, crime is falling and public satisfaction with the NHS is rising year on year. More children than ever are now in a good or outstanding school. But we are still borrowing £1 for every £10 we spend and national debt remains at its highest level for 50 years. If we do not deal with this debt, we run risks with our economic security.

At the Summer Budget we took the first step to finish the job of fixing the public finances. This set out £12 billion of savings from welfare, to move Britain to a higher wage, lower welfare, lower tax economy that is more productive. We also found £5 billion from addressing avoidance, evasion and imbalances in the tax system. Together, this will deliver around half of the consolidation needed to eliminate the deficit. Today we are asking government departments to draw up plans to help to deliver the remaining £20 billion of consolidation required overall, over the next 4 years.

The Spending Review will prioritise our investment in the NHS and in our national security. We will continue to protect spending on schools and honour our commitment to the poorest people in the world. In other areas, we will need to make significant savings. We know we can achieve this while maintaining the public services we rely on, because we have done it before.

We also need to take radical steps towards the devolution of power in the UK, moving away from the imbalanced and overly-centralised system of government we inherited. Devolution to Scotland, Wales and Northern Ireland is well underway. Devolution within England has only just begun. This Spending Review is an opportunity to take a further big step forward.

We will also make greater use of digital technology to modernise Britain's public services and give people greater choice in the decisions that affect them and their communities. We will go further to maximise efficiencies and get the best value for money for taxpayers in all areas of public spending.

On 25 November we will set out how this will be done. We will fix the roof while the sun is shining and ensure we have a more balanced economy that offers security for the working people of Britain.

George Osborne
Chancellor of the Exchequer

Greg Hands
Chief Secretary to the Treasury

July 2015

1 Introduction

1.1 The government's long-term economic plan has laid the foundations for a stronger economy, and the UK's recovery is now well established. Significant progress has been made in putting the public finances on a sustainable footing but further work is needed to finish the job.

1.2 Spending Review 2015 is central to the government's commitment to control spending, eliminate the deficit and start to run a surplus. This means taking a step back and thinking about the shape of the state, exploring innovation and reform in public services, ensuring spending on core public services is prioritised and delivering value for money for the taxpayer.

1.3 Taking further action to reach a surplus will involve difficult decisions, but the government is committed to eliminating the deficit in a fair and balanced way, and the Spending Review will set out how the government will deliver the remaining £20 billion of consolidation required overall to achieve this.

Fiscal context

1.4 Since 2010, the government has made significant progress in reducing the deficit and repairing the public finances. Over the course of the last Parliament, the deficit was more than halved as a percentage of GDP from its post-war peak of 10.2% to reach 4.9% in 2014-15.[1] Debt is forecast to have peaked as a share of GDP at the end of 2014-15.[2] However, risks remain to the recovery — including from events in Greece and a slowing global economy — while the deficit remains among the highest in advanced economies, and debt stands at its highest share of GDP since the late 1960s.[3]

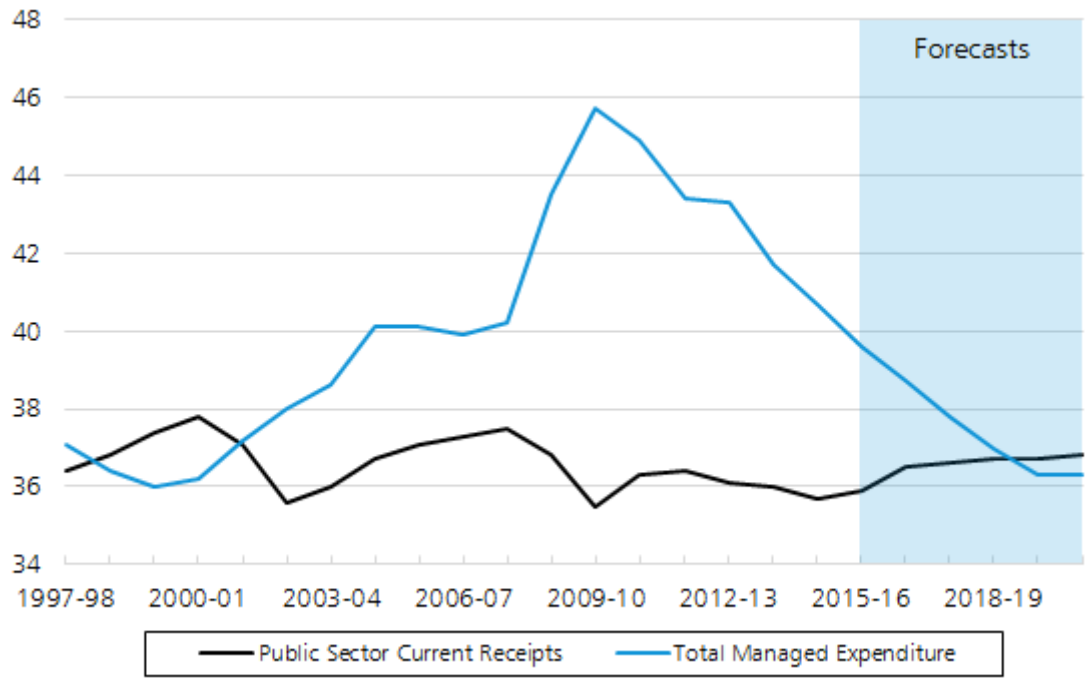
1.5 High debt increases the UK's vulnerability to future shocks, and means a high burden of interest costs on future generations. Running a surplus on the headline measure of borrowing is the only sustainable way to bring down debt as a share of GDP in the long term.

1.6 The government is taking further action to finish repairing the public finances. This Parliament, the government has already identified a further £3 billion of departmental savings in 2015-16.[4] Those savings have been achieved through efficiency savings, asset sales and tighter control of budgets to drive underspends in-year.

1.7 Summer Budget 2015 set out the government's fiscal plan, reaffirming the government's commitment to deliver an overall surplus and reduce debt year on year. The government is continuing to prioritise sustainable public finances and take further action to deliver economic security.

[1] Public Sector Finances, ONS, May 2015
[2] 'Economic and fiscal outlook', Office for Budget Responsibility (OBR), July 2015
[3] 'Three Centuries of Data on the UK Economy', Bank of England data; 'IMF Fiscal Monitor', IMF, April 2015
[4] 'Chancellor announces £4½ billion of measures to bring down debt', HM Treasury, 4 June 2015

Chart 1.A: Total public sector spending and receipts (per cent of GDP)



Source: Office for Budget Responsibility

1.8 In the last Parliament, the headline measure of public sector net borrowing (PSNB) was reduced by around 1.1% of GDP a year on average.[5] The government has decided to maintain the same average pace of reduction in the headline measure of PSNB in this Parliament to reach an overall surplus in 2019-20. The fiscal path means that the deficit falls smoothly and that debt falls as a share of GDP in every year of the Parliament. As a result of this plan, a larger surplus will be achieved in 2019-20 and debt as a share of GDP in that year is forecast to be lower than expected at March Budget 2015.

1.9 To achieve the surplus in 2019-20 the government will undertake around £37 billion of consolidation measures. As shown in Table 1.A, the Summer Budget made significant progress towards this aim, setting out £17 billion of measures to reduce the deficit, including £12 billion by 2019-20 from welfare reform and £5 billion by 2019-20 from tackling tax avoidance and tax planning, evasion and non-compliance, and imbalances in the tax system.

1.10 Summer Budget 2015 also set out the government's commitments in priority areas of spending, including increasing NHS funding in England by £10 billion in real terms by 2020-21, above 2014-15 levels, and raising the entire Ministry of Defence budget by 0.5% a year in real terms. The government has also committed to protect per-pupil funding for schools, and to meet its commitment to spend 0.7% of GNI on Official Development Assistance (ODA).

1.11 In the autumn, having conducted Spending Review 2015, the government will confirm how it will both invest in priority spending and deliver the remaining £20 billion of consolidation required overall to eliminate the deficit.

[5] HMT analysis based on 'Public Sector Finances', ONS, May 2015

Table 1.A: Consolidation plans over this Parliament (£ billion)

	2016-17	2017-18	2018-19	2019-20
Discretionary consolidation[1]	9	20	31	37
of which announced at Summer Budget 2015[2]	6	9	13	17
of which welfare reform	5	7	9	12
of which tax avoidance and tax planning, evasion and compliance, and imbalances in the tax system	1	2	4	5
Remaining consolidation	3	11	18	20

[1] Discretionary consolidation is calculated as the sum of: receipts from avoidance and tax planning, evasion and compliance and imbalances in the tax system and welfare policy decisions announced at Summer Budget 2015; and the additional reduction in spending (or equivalent increase in taxes) needed to meet the government's overall fiscal path, compared to a counterfactual in which RDEL excluding depreciation grows in line with whole economy inflation from its 2015-16 level (excluding the OBR's allowance for shortfall) and all other spending (and receipts) follows the OBR's July 2015 Economic and fiscal outlook forecast.

[2] Total welfare policy decisions and total receipts from avoidance and tax planning, evasion and compliance, and imbalances in the tax system as set out in Table 2.1 of Summer Budget 2015.

Source: Office for Budget Responsibility, HM Treasury policy costings and HM Treasury calculations

1.12 HM Treasury is inviting government departments to set out plans for reductions to their Resource budgets. In line with the approach taken in 2010, HM Treasury is asking departments to model two scenarios, of 25% and 40% savings in real terms, by 2019-20.

1.13 Alongside departmental savings the government will continue to consider further sensible welfare reforms that strengthen work incentives and make the welfare system fairer and more affordable. It will also look to do more to tackle avoidance and tax planning, evasion and compliance, and imbalances in the tax system.

About this document

1.14 This document sets out the government's priorities for Spending Review 2015 and how plans to deliver the overall £20 billion of consolidation will be developed in the coming months.

1.15 Chapter 2 explains the progress the government has made in driving efficiencies, reforming the delivery of public services and boosting jobs and growth. Chapter 3 sets out the government's priorities for public spending over this Parliament. Chapter 4 explains how the government will conduct Spending Review 2015.

2 Progress over the last Parliament

2.1 Since 2010, the government has saved taxpayers' money by driving efficiency and improving financial management. It has done this while funding its priorities, modernising the delivery of public services, and prioritising jobs and growth.

Reforming public services and delivering value for money across the public sector

2.2 Over the last 5 years the government introduced ambitious reforms to public services to improve outcomes and better meet the needs and expectations of citizens, such as digitising tax returns and UK border controls. Reforms to the welfare system and action to restrain the cost of public sector pay and pensions have enabled the government to protect jobs and spending on frontline services.

2.3 As a result, the performance and citizen experience of many public services continue to improve:

- The Commonwealth Fund named the NHS the best healthcare system in 2014.[1] Satisfaction with the NHS is at its highest for years, and dissatisfaction with the service is at its lowest ever.[2]
- Crime in England and Wales has fallen by more than a quarter since June 2010[3] and public confidence in the police is up[4], even as spending has reduced. Over the last five years, the criminal justice system in England and Wales has undertaken a programme of reform to prioritise care for victims, reduce re-offending and eradicate outdated working processes through digitisation.
- The number of pupils taught in good or outstanding schools has increased by over a million since 2010.[5] There are now over 4,700 academies, giving schools more freedom in how they operate, and over 300 new free schools, studio schools and University Technical Colleges, offering real choice to parents.[6] Since 2010 more than 2.3 million apprenticeships have started in England.[7]
- The reforms to Higher Education are establishing a sustainable approach to funding the sector, while increasing opportunities for more students to go to university and ensuring that graduates only repay their loans once they are in well-paid jobs. In 2014, record numbers of young students and students from disadvantaged backgrounds were accepted into university – recent data show that 18 year olds

[1] 'Mirror, Mirror on the Wall: how the performance on the US health care system compares internationally', The Commonwealth Fund, June 2014
[2] 'Public Satisfaction with the NHS in 2014', The King's Fund, 2015
[3] Crime Survey for England and Wales – year ending September 2014, ONS, 2015
[4] Crime Survey for England and Wales – year ending September 2014, ONS, 2015
[5] OFSTED, dataview.ofsted.gov.uk
[6] Department for Education, www.gov.uk/government/publications/open-academies-and-academy-projects-in-development, www.gov.uk/government/publications/free-schools-open-schools-and-successful-applications, www.gov.uk/government/publications/utcs-and-studio-schools-open-schools-and-applications-received
[7] Data from Individualised Learner Record

living in the most disadvantaged areas of England are now 72% more likely to apply to university than they were in 2006.[8]

- Over 5 million people have been automatically enrolled into a workplace pension.[9]

2.4 During the last Parliament the government reformed the welfare system to strengthen work incentives and spending control. Between 1997 and 2010 the cost of welfare increased significantly in real terms due to the absence of firm year-by-year controls. The government addressed this by legislating for over £21 billion of welfare savings and introducing a welfare cap to ensure that unplanned increases in welfare spending do not go uncorrected.

2.5 Further reforms to the welfare system are having a marked impact on work incentives and employment. The Work Programme, a major new payment-by-results initiative, is successfully supporting people who are at risk of becoming long-term unemployed to find lasting work. To date, 433,000 individuals have found sustained employment of at least three or six months while on the scheme. [10] The new Universal Credit, which brings 6 benefits into one, is now available in more than 240 jobcentres and over a million claimant commitments, which set out claimants' job-seeking responsibilities, have been signed.[11]

Driving efficiency and delivering improved outcomes for citizens

2.6 Over the last Parliament the government achieved significant reductions in the deficit by making the public sector more efficient. Figures from the Cabinet Office show that by 2013-14 the government had saved £14.3 billion from efficiency compared to 2010, equivalent to £830 a year for every working household in the UK.[12] By the end of the current financial year central government's administration costs will have fallen by 40% in real terms, or £7 billion, since 2010.

2.7 This strong focus on efficiency, combined with far-reaching reforms to public services, has meant that even with significant spending reductions public services continue to deliver improved outcomes for both citizens and the UK economy:

- The NHS's QIPP (Quality, Innovation, Productivity and Prevention) Programme set out plans to drive forward quality improvements in NHS care, at the same time as making up to £20 billion of efficiency savings by 2014-15.[13]
- The Government Digital Service (GDS) and the GOV.UK website in 2012 have established the United Kingdom as a digital world-leader. The GDS has redesigned and digitised more than 20 key public services, driving down transaction costs and improving service quality for citizens. More than 2 million people have registered to vote using a new digital service, and new claims for Jobseeker's Allowance, State Pension and Carer's Allowance are now all available online.[14]
- Consolidating government-owned land and property has saved more than £625 million in running costs and released £1.4 billion of receipts since 2010.[15] March Budget 2015 announced a new commercially-driven approach to land and property asset management across the central government estate from March 2017. In

[8] UK application rates by country, region, constituency, sex, age and background, UCAS, 30 January 2015
[9] Declaration of compliance report, automatic enrolment (July 2012 – end June 2015), The Pensions Regulator, 2015
[10] Department for Work and Pensions Work Programme Statistics, June 2015, table 1.4
[11] Summer Budget 2015, HM Treasury, July 2015. Also Universal Credit at work, DWP, February 2015.
[12] 'Efficiency and Reform in the next Parliament', Cabinet Office and HM Treasury, December 2014
[13] 2010 to 2015 government policy: NHS efficiency, Department of Health, March 2013
[14] Efficiency and Reform in the next Parliament, Cabinet Office and HM Treasury, December 2014
[15] Efficiency and Reform in the next Parliament, Cabinet Office and HM Treasury, December 2014

terms of estates utilisation, the UK now has one of the most efficient governments in the world.[16]

- Buying goods and services in a more centralised way and improving the way departments manage suppliers have made substantial savings for government since 2010. Cabinet Office figures show that £2 billion of those savings came from reduced spending on consultants, contingent labour and marketing and advertising.[17] Efficiencies in operational PFI contracts for transport projects have saved £478 million, out of a government total of £1.6 billion.[18]

2.8 In 2010 the government made a firm commitment to ensure financial discipline is at the heart of decision making at all levels of government. To that end, and following publication of the Review of Financial Management in government, an ambitious and innovative programme of work is underway to drive value for money in all areas of public spending. The programme has strengthened the government's finance capability, is improving accuracy in public spending forecasting and is building a more granular understanding of the cost and value of public services, particularly in cross-cutting areas of expenditure. This will benefit the government's approach to Spending Review 2015.

2.9 The costs of public service pensions rose by a third in the ten years to 2011, with much of the additional cost falling to the taxpayer. In the last Parliament the government delivered a package of reforms to rebalance taxpayer and member contributions in the short term, and to ensure that costs are sustainable and fair in the long term. The total reform package is projected to save 40% of net expenditure on the public service pensions schemes by 2061-62[19] — more than £430 billion of savings, in current GDP terms, over the next 50 years.

Boosting jobs and economic growth

2.10 Alongside driving efficiencies and improving public services and outcomes, the government has prioritised employment and growth.

2.11 Employment in the UK is back to near record levels with 31 million people in work, having risen by almost 2 million since 2010.[20] Between the first quarter of 2010 and the first quarter of 2015, over 5.5 jobs were created in the private sector for every public sector job lost.[21]

2.12 Infrastructure is an essential part of raising productivity and economic growth. On transport alone, the government delivered 60 major roads and local transport projects over the last Parliament including the completion of Kings Cross station and the tunnelling for Crossrail, while saving more than £500 million in project costs.

2.13 Over the last Parliament the government prioritised capital investment over day-to-day spending, and increased its capital spending against the plans it inherited: as a share of GDP, public investment will be higher on average this decade than under the whole period of the previous government. The government published the first ever National Infrastructure Plan as well as the first Roads Investment Strategy – a five year plan to deliver an unprecedented £15 billion of investment in strategic roads over the course of this Parliament.

[16] State of the Estate, Cabinet Office, March 2015
[17] Efficiency and Reform in the next Parliament, Cabinet Office and HM Treasury, December 2014
[18] Savings from operational PFI contracts, National Audit Office, 29 November 2013
[19] See 'Fiscal sustainability report 2012', OBR, July 2012
[20] ONS Labour Market Statistics, July 2015
[21] ONS Labour Market Statistics, July 2015

3 A strategic approach to spending

3.1 Alongside delivering the government's overall fiscal aims, Spending Review 2015 is an opportunity to review the role of government, ensure that public spending is sustainable for future generations, and deliver public services in a modern way that meets people's expectations about decisions that affect them and their communities. The government will ensure that spending on key services is prioritised and delivers value for money for the taxpayer.

Priorities for Spending Review 2015

3.2 Summer Budget 2015 confirmed the government's commitment to fund increases in the NHS and defence spending. The government also remains committed to meeting its target of spending 0.7% of GNI on Official Development Assistance (ODA), and is protecting schools funding on a per-pupil basis including pupil premium rates. These investments will ensure the sustainability and quality of core public services, but must be accompanied by measures to increase productivity and efficiency to ensure that every extra pound is put to the very best use.

3.3 Alongside protecting these specific areas, the Spending Review will prioritise spending according to a number of core outcomes:

- promoting innovation and greater collaboration in public services
- promoting growth and productivity, including through radical devolution of powers to local areas in England
- delivering high-quality public services, such as the NHS
- promoting choice and competition
- driving efficiency and value for money across the public sector

3.4 The following sections set out further detail on the government's priorities for Spending Review 2015.

Health

3.5 The government will protect spending on the NHS in England and backs the NHS 'Five Year Forward View' which outlines a plan for a more sustainable, integrated health service that cares for people closer to home.[1] By committing to increase NHS funding in England by £10 billion in real terms by 2020-21, above 2014-15 levels, the government is supporting the NHS in England to deliver its plan and produce a step change in safety, quality and access. In return for the additional investment, the NHS will need to deliver on its commitment to achieve significant efficiency savings by 2020-21, as set out in the Five Year Plan.

3.6 Work to deliver those savings has already started. The Department of Health is currently undertaking an Efficiency Review led by Lord Carter. An interim report was published in June 2015 highlighting potential efficiency savings in a number of areas.[2] These included NHS workforce efficiencies (for example establishing best practice in the management of productive

[1] 'Five Year Forward View', NHS, October 2014

[2] 'Review of Operational Productivity in NHS providers', Department of Health, June 2015

time and rostering) and procurement savings through developing an electronic NHS catalogue for goods and standardising clinical items.

3.7 The additional investment in the NHS will ensure that the NHS becomes a 7-day service by 2020-21. Everyone will be able to access GP services from 8am – 8pm 7 days a week. These improvements will allow people to better balance work, family and their healthcare, and will be central to a more productive economy. Further, over this Parliament the NHS will continue to improve quality, choice and clinical outcomes in areas such as cancer, dementia and mental health.

Defence and security

3.8 At the Summer Budget, the government built on its commitment to safeguard the security of the United Kingdom by:

- raising the Ministry of Defence (MoD) budget by 0.5% per year in real terms to 2020-21
- making available an additional £1.5 billion a year towards the end of the Parliament to increase spending on the military and intelligence agencies
- committing to meet the properly measured NATO pledge to spend 2% of GDP on defence every year of this decade
- protecting in real terms counter terrorism spending of more than £2 billion across government

3.9 The final allocation of this additional funding will be determined by the Strategic Defence and Security Review and the Spending Review. There is more work to do on rationalising the MoD's estate and other parts of its activities. The additional funding is conditional on the armed services and agencies producing further efficiencies within their existing budgets to ensure continued investment in the most important capabilities.

Schools

3.10 The government reaffirms its commitment to protect per-pupil funding for schools. Evidence shows that while many schools have driven down costs, there is still significant scope for other schools to increase efficiency and productivity. Secondary school spending on back-office costs ranges from £202 to £1,432 per pupil, and between 2003 and 2013, back-office spending per pupil in maintained schools increased by around 60% in real terms.[3] The government will support schools to improve productivity and maximise expenditure on improving children's education, including through the Spending Review process.

3.11 The government will also make schools funding fairer and focus efforts to support school improvement in underperforming areas, including coastal areas, encouraging the best academy chains to expand and bringing new sponsors where needed.

Official Development Assistance

3.12 The government will continue to meet its ODA commitment of 0.7% of GNI. To achieve an optimal allocation of ODA spending, the Treasury will run a competitive process as part of the Spending Review to scrutinise proposed ODA spending across government and ensure ODA spending represents high value for money.

[3] 'Review of efficiency in the schools system', Department for Education, June 2013; 'Consistent Financial Reporting data', Department for Education, 2002-03 and 2012-13

Growth, productivity and devolution

3.13 As set out in 'Fixing the foundations: creating a more prosperous nation', higher productivity can increase household incomes and support sustainable economic growth for the long term, as well as contribute to fiscal consolidation. Spending Review 2015 will therefore prioritise spending in areas that drive productivity and growth. As public services represent around 20% of the economy, the government will also continue to increase the productivity and efficiency of the public sector.[4]

3.14 The UK needs to make significant improvements to productivity across the regions, and the government is committed to further radical devolution of power within England. This will give local leaders more opportunity to drive efficiencies by bringing budgets and powers closer to the point of use. It will also improve outcomes through giving local people greater influence over how services are delivered. The Spending Review will establish how spending can be used to rebalance the economy, including by building a Northern Powerhouse.

3.15 The government is committed to building strong city regions led by elected mayors, building on the ground-breaking devolution deal with Greater Manchester in November 2014. The Chancellor has asked all relevant Secretaries of State to proactively consider what they can devolve to local areas and where they can facilitate integration between public services. City regions that want to agree a devolution deal in return for a mayor by the Spending Review will need to submit formal, fiscally-neutral proposals and an agreed geography to the Treasury by 4 September 2015. The Treasury and DCLG will work with city regions to help develop their proposals.

3.16 As part of the Spending Review, the government will look at transforming the approach to local government financing and further decentralising power, in order to maximise efficiency, local economic growth and the integration of public services.

3.17 The Local Growth Fund, recommended by Lord Heseltine, is an important part of the government's commitment to empower local places with the tools they need to drive economic growth. Autumn Statement 2013 confirmed that central government departments will devolve at least £12 billion from 2015-16 to 2020-21 to the Local Growth Fund. As part of the Spending Review process, the government will identify which budgets will be devolved into the Local Growth Fund to support economic development across the country. This will place more funding in the hands of local communities for their priority projects.

3.18 The government continues to deliver against its commitment to devolve further powers to Scotland, Wales and Northern Ireland, ensuring that each administration has the appropriate levers to take decisions to address their specific challenges. It has also set out its plans for delivering English votes on English matters, including tax and spending powers.

Criminal justice

3.19 In the Spending Review, the government will look to build on the progress made over the last Parliament, by:

- creating a fully integrated criminal justice system from the police station to the courts to ensure services are more efficient and focused on needs of victims and witnesses
- continuing to modernise courts and prison infrastructure

[4] 'Fixing the foundations: creating a more prosperous nation', HM Treasury, July 2015

- supporting the police to innovate and exploit opportunities for greater efficiency and value for money

3.20 The government's investment in courts in England and Wales will deliver more efficient and effective administration for citizens using courts and tribunals, realising savings in excess of £100 million a year by 2019-20.

Modernising public services through innovation, integration and localism

3.21 The Troubled Families programme has demonstrated the effectiveness of integrating services at the local level, providing a more efficient and joined-up approach to meeting troubled families' complex needs. The programme has already turned around the lives of thousands of families with complex problems and the government has committed to extending it to a further 400,000 families in this Parliament. The government will continue to support this and similar cross-cutting initiatives that generate efficiencies and bring together public services at local level.

3.22 In the last Parliament the government created the biggest ever financial incentive to join up health and social care services, with each part of the country now managing its share in a £5.3 billion pooled budget. The government is also backing the ground-breaking plan to bring together £6 billion of health and social care funding in Greater Manchester. In the next Spending Review period the government will continue to join up services from hospital to home and areas that want to go further more quickly will be considered for devolution deals that suit their area and benefit local communities.

3.23 Spending Review 2015 will consider options to reform the markets that deliver public services to improve service quality and potentially deliver savings. Effective and active choices made by services users can help drive more efficient outcomes. Modernising regulatory requirements for delivering services or the approach to payments for services can allow more providers to enter the market, increasing competition and innovation, resulting in increased efficiency and reduced costs. For example, by competing some of the peripheral services required to run a prison (visitor catering, repairs and other ancillary services) across the public sector prison estate, the National Offender Management Services (NOMS) expects savings of over £12 million a year from 2016-17.

3.24 There is still too much duplication of processes and services across the public sector. The first steps to integrate services, to save money and improve service outcomes, were taken in the last Parliament. The government will take further action to ensure departments and agencies work more closely together.

Efficiency and financial management

3.25 The government will continue to examine pay reforms and modernise the terms and conditions of public sector workers. As part of this, the government has agreed proposals with all departments to abolish contractual progression pay across the Civil Service.

3.26 In the last Parliament, the government exercised firm restraint over public sector pay to deliver reductions to departmental spending, saving approximately £8 billion.[5] The government will need to continue taking tough decisions on public sector pay in order to deliver reductions to departmental spending and protect the quality of public services. The Summer Budget confirmed that the government will fund a 1% pay award for public sector workforce for 4 years from 2016-17. This will save approximately £5 billion by 2019-20.[6] The government expects pay

[5] HM Treasury analysis
[6] HM Treasury analysis

awards to be applied in a targeted manner within workforces to support the delivery of public services.

3.27 To get the most value from taxpayers' money, the government will continue with its ambitious programme to improve financial management across all 17 main government departments and arm's length bodies. The government is improving business planning through the creation of Single Departmental Plans, to ensure resources are being matched to government priorities. Single Departmental Plans will provide a strong means to monitor progress against government priorities and the delivery of the manifesto commitments.

3.28 The government will continue to maximise the economic value generated from electromagnetic spectrum by sharing or releasing spectrum currently used by the public sector wherever practicable. As announced in 'Fixing the Foundations: developing a more prosperous nation', the government has implemented a new model for the centralised management of public sector spectrum to enable us to take a strategic approach to managing its use.[7] As part of the Spending Review, spectrum-using departments will be charged a market-based fee for their spectrum use based on expert advice from Ofcom.

3.29 The government has taken strides to reduce the size of its estate, getting out of expensive buildings that it no longer needs, and releasing surplus public sector land. This is vital to reducing running costs, promoting economic growth, and meeting the government's housing ambitions. In the last Parliament, the government met its target to sell surplus land with capacity for 100,000 homes. But taxpayers still own over £300 billion worth of land and buildings,[8] with the Ministry of Defence (MoD) alone owning approximately 1% of all UK land.[9] Operating from such a diversified estate also drives other costs, including the £115 million a year the MoD spends on vehicle hire, including to travel between different sites. The government has committed to dispose of public sector land for at least 150,000 homes by 2020. As part of the Spending Review, departments will set out how they will meet their share of contributions to this target.

[7] 'Fixing the foundations: creating a more prosperous nation', HM Treasury, July 2015

[8] Whole of Government Accounts, year ended 31 March 2014, HM Treasury, March 2015

[9] MOD land holding bulletin 2014, Ministry of Defence, July 2014

4 Delivering the Spending Review

4.1 This chapter explains how the government will conduct Spending Review 2015, which will be published on 25 November 2015.

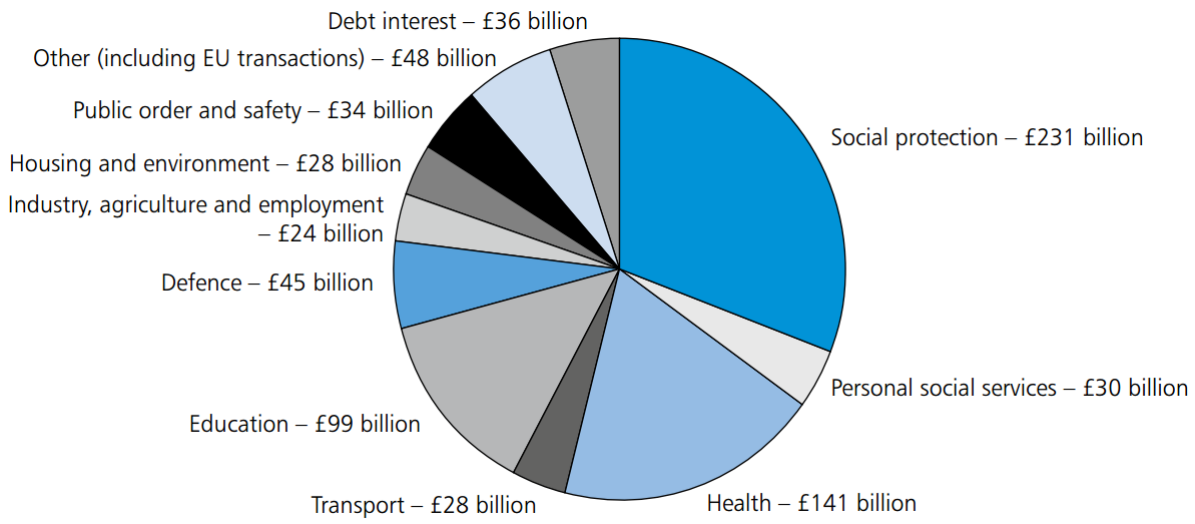
Scope

4.2 To ensure the Spending Review is as comprehensive as possible, all areas of public expenditure will be in scope including departmental budgets and Annually Managed Expenditure (AME). Priority budgets such as the NHS will be protected as set out in Chapter 3.

4.3 HM Treasury is inviting government departments to set out plans for reductions to their Resource budgets. In line with the approach taken in 2010, HM Treasury is asking departments to model two scenarios, of 25% and 40% savings in real terms, by 2019-20.

4.4 Chart 4.A shows public spending in 2015-16 by function.

Chart 4.A: Public sector spending, 2015-16



Source: Office for Budget Responsibility 2015-16 estimates. Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics. Figures may not sum due to rounding.

Devolved administrations

4.5 Every part of the UK will need to take action to tackle the UK's fiscal deficit and build the foundations for strong and sustained economic growth. The government is committed to working with the devolved administrations to do this. For the majority of spending, the Barnett formula will apply in the normal way at the Spending Review, and devolved administration allocations will be calculated by the Treasury on the basis of the settlements reached with UK government departments.

Process and timetable

4.6 Departmental Expenditure Limits (DELs) will be set for every government department and all AME will be scrutinised. The Treasury will work with departments to develop options for reforms across DEL and AME to reduce spending and increase efficiency while improving public services.

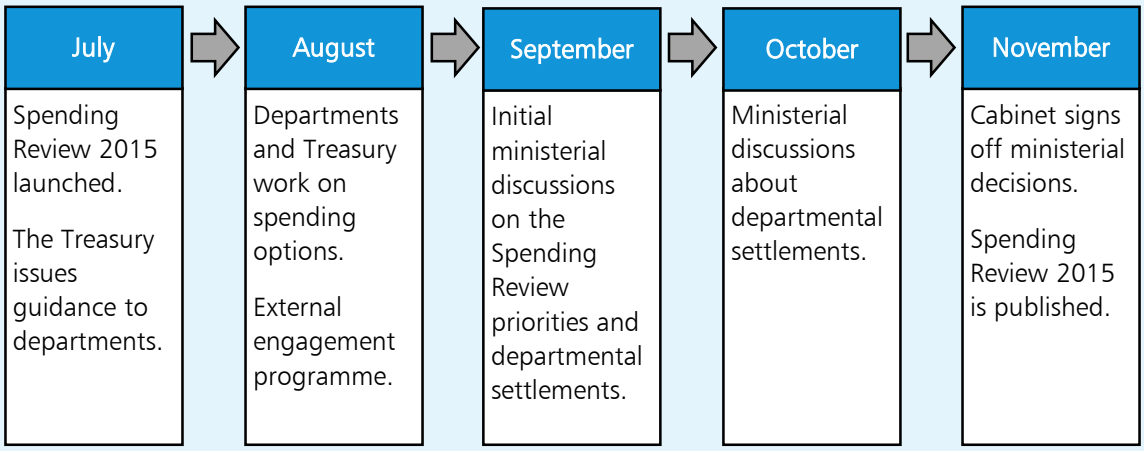
4.7 The government will undertake a full review of capital spending plans to identify the areas of spending that will achieve the best economic returns while delivering on the commitment to invest £100 billion in infrastructure by the end of the Parliament.

4.8 Departments will also be asked to examine their assets and consider how they can be managed more effectively, including considering the role of privatisation and contracting out where assets do not need to be held in the public sector.

4.9 The Public Expenditure (PEX) committee will be re-established to advise Cabinet on the high-level decisions that will need to be taken in the Spending Review.

4.10 A high-level timetable for the Spending Review is set out in Box 4.A.

Box 4.A: High-level timetable for Spending Review 2015



Engaging experts throughout the process

4.11 The government will carry out an engagement process over the summer to discuss and consult on the big spending questions it faces, harnessing expertise from within the public sector and beyond.

4.12 During the last Parliament the government established a network of 'What Works' centres to produce independent analysis on the impact and cost-effectiveness of major areas of public spending. The government wants to draw on this expertise and will invite the centres to submit their analysis to HM Treasury.

4.13 The government will organise a series of events over the summer to discuss and debate various aspects of public spending. These will involve a wide range of experts, including those working on the front line of public services. The schedule of events will incorporate many of the key areas that need to be considered as part of the Spending Review process, including:

- devolving and integrating public services at the local level, such as health and social care

- cross-cutting issues such as greater use of big data and digital technologies to drive the next stage of efficiency and reform across government

4.14 Representative bodies, interest groups and individuals are invited to submit written representations to HM Treasury by 4 September 2015. In order to inform the Spending Review, representations should contain relevant policy, reform or money-saving suggestions and be sent to SpendingReview.Representations@hmtreasury.gsi.gov.uk. Further guidance and detail can be found at GOV.UK.

Conclusion

4.15 The government will use the Spending Review to set out plans for eliminating the deficit and safeguarding Britain's long-term economic security. But it will also take the opportunity to invest in its priorities, and deliver ambitious reforms to modernise and localise public services to achieve better outcomes for citizens.

HM Treasury contacts

This document can be downloaded from
www.gov.uk

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