class
*Briefing*

# Autumn Statement and Spending Review 2015

**Welcome to our briefing on the 2015 Autumn Statement and Spending Review; a detailed summary of the most important aspects of the Chancellor's plan for government spending over the next 4 years.**

**This briefing focuses upon the announcements in Wednesday's Spending Review, including the news that approximately 2.6 million working families will be on average £1,600 a year worse off as a result of the Chancellor's proposals. We look at the reversal of the changes to tax credits, the severe cuts to local government and local services and to almost every government department. This summary also covers the further cuts to social security and housing benefit recipients and new attacks on in work families, the low paid and disabled, and what this means for ordinary people and for the country's economy.**

**Take a look below, and please contact us with feedback via Twitter, Facebook or through our website.**

## What is the Spending Review?

Every year, the Government sets out its economic plans for the year ahead in an Autumn Statement. This year, the Government also outlined its plan for the economy over the next 4 years up to the 2020 General Election in the Spending Review.

Introduced under Gordon Brown, the Spending Review is an opportunity for the Government to set out its fiscal/economic agenda and contains details of the state of the economy for every year and cumulatively until 2020. Not everything in the Spending Review and Autumn Statement will happen, particularly as a lot is dependent on the state of the economy over the next few years. Similarly, it is likely there will be many policies and decisions made in the next 4 years that do not appear in the Spending Review.

## Background to the Spending Review

The Office for Budget Responsibility (OBR) announced on Wednesday that it expects lower growth in 2019 and 2020 than it had originally forecasted in July 2015. The OBR also now expects slower average earnings growth in the years after 2015.

Some departments were protected from spending reductions in the Spending Review, including the NHS, some schools spending, defence spending and the international development budget. Although whether they really are 'protected' is disputed, because many will face cuts in real terms. By 'protecting' some departments, this has meant that other departments saw larger reductions, in many cases on top of reductions seen over the previous Parliament.

**Read more**

- Government Spending Review
- OBR Report

## The main announcements

The main announcements in this year's Spending Review included a delay in planned cuts to the support given to working people and those with children but further cuts to housing and other benefits, extensive cuts to local government and local services, further cuts to almost all government departments and another round of privatisation of publicly owned assets such as the Land Registry and OS. Analysis by the Institute for Fiscal Studies reveals that approximately 2.6 million working families will be on average £1,600 a year worse off as a result of the benefit changes.

## Key announcements

- Changes to tax credits abandoned as a result of public and political pressure, but with cuts due to come in with Universal Credit in 2020.
- Total spending to rise from £756bn this year to £821bn by 2019-20.
- Housing benefit for new social tenants to be capped, further penalising those already suffering the brunt of previous cuts.
- DWP budget to be cut by 14%, BiS funding to be cut by 17%, Culture to see funding cut by 20% and Transport cut by 37%.
- The OBR judge that the Government will not meet the welfare cap in 2016/17, 2017/18 and 2018/19.
- NHS in England expected to make £22bn in 'efficiency savings'.
- Grants for student nurses to be scrapped and replaced by loans.
- New social care "precept" of up to 2% being added to council tax.
- New 30-hour free childcare subsidy for parents of three- and four-year-olds to be limited to those working more than 16 hours a week.
- New 3% surcharge on stamp duty for buy-to-let properties and second homes.
- Local government to keep revenue from business rates by the end of the Parliament.
- Budget surplus of £10.1bn to be delivered by 2019-20.
- Borrowing to total £73.5bn this year.

## 'Budget Surplus' Rule

The Chancellor's statement was largely motivated by the current government's ideological aim to shrink the state. Perhaps the key indicator is the goal of generating a budget surplus by 2020, an arbitrary target with no basis in necessity, and which has nonetheless been used as justification for another round of cuts and sell-offs. There is no reason to think that a long term budget surplus is appropriate for the economy, desirable or even achievable, yet Osborne's Spending Review was based in a large part on such a measure, limiting the government's ability to react to economic developments, borrow funds in order to invest in the future and to strengthen the economy.

**Read more**

- Eminent economists denounce Osborne's budget surplus plan

The Chancellor was helped in his announcement on Wednesday by the Office of Budget Responsibility (OBR)'s discovery of a "£27 billion improvement in the underlying forecast" for the UK economy, based on estimated higher tax returns and increased government receipts, this is despite slowing economic growth and an increase in the likelihood of another recession. This extra hypothetical £27 billion enabled the Chancellor to u-turn on his planned £4.4 billion tax credit cut, and to add another £18.7 billion to public net borrowing through avoiding the planned cuts to the police, to housing funding and to the NHS. However, the OBR forecast is itself uncertain, with the IFS warning that there was a 50-50 chance of the Chancellor being forced to revisit his plans.

Over the coming days, expect more of the Chancellor's better announcements to unravel as the scale and effect of newer cuts become clear.

## Tax Credits

The biggest headline following the Chancellor's Spending Review on Wednesday was the apparent u-turn over proposed cuts to tax credits for working people. However, although the Chancellor was forced to abandon the two main elements of the £4.3bn reform, it was only a partial reverse. Indeed, with the planned switch to Universal Credit in 2020 the Government's cuts to social security have simply been delayed rather than cancelled. The Resolution Foundation estimates that about 3 million families on the new Universal Credit will be about £1,000 a year worse off in 2020.

Crucially, the new limit on Child Tax Credits to the first two children is still going ahead. New claimants, or existing claimants that come off the benefit for more than six months, will only be able to claim for the first two children- leaving tens of thousands of families and young children worse off as a result. At the same time, the flat rate £545 "family element" paid before the amount for each child will also be abolished.

The Spending Review hits parents by cutting free childcare proposals. Despite election promises that all working parents of 3 and 4 year olds would be able to claim 30 hours of free childcare from 2017, the Chancellor announced that people working less than 16 hours a week will no longer be able to claim, denying free childcare to up to 1.4 million part-time workers.

### Further reading

- Resolution Foundation - Low-income working families on Universal Credit set to lose £1,300
- Child Poverty Action Group response to the Autumn Statement
- IFS analysis

## Social Security

Although the Government will miss their self-imposed reduced welfare spending target in the first few years of this Parliament, their overall welfare cuts totalling £12 billion will still be delivered in full through imposing freezes to working-age benefits for the next four years, and by increasing the number of families hit by the benefit cap. In addition, the Department for Work and Pensions resource budget will be slashed by 14%, although the basic state pension will rise by £3.35 next year to £119.30 a week.

### Further reading

- Exposing the myths of welfare

## Housing

Housing benefit will be capped at local housing allowance rate, which could mean £570 less a year for households in the private rented sector. Social housing tenants would also lose £460. The Spending Review launched a new pilot scheme with five housing associations to allow tenants to buy their own homes, although no clear plan for replacement social housing was set out.

The Chancellor announced an increase in the housing budget to £2bn on the back of his years of underfunding. While investment in housebuilding is welcome, this comes after years of deliberate underinvestment and analysis shows that this government will be spending 46% less than the last Labour government invested.

400,000 'affordable' new homes will be built by 2020, with half of these being the 'starter homes' already announced and 135,000 shared ownership. However there is still an issue over what 'affordable' actually means and the Government's definition of 80% of the local market rate puts 'affordable 'housing in the vast majority of the country beyond the reach of the average earner.

Osborne announced increased stamp duty rates (an extra 3%) for buy-to-let properties, with the extra tax aimed at funding new homes, but there is a risk that without additional measures in place, this could push up property prices in the short term and runs the risk of costs being passed on to vulnerable tenants.

**Further reading**

- Shelter: What is affordable housing?
- Selling off the government's stake in housing associations is the endgame for social housing
- Luke Murphy, Osborne the builder? On housing, the reality doesn't match the rhetoric
- Tom Murtha, The new Housing Bill is even worse than expected

## Education

The Spending Review announced 500 new free schools, confirming the proposals set out by the Conservatives in the run up to the General Election and further undermining the accountability, coherence and equality of our state education system.

Sixth-form colleges will be encouraged to become academies via a financial incentive (exemption from having to pay VAT), the latest step in the Government's decision to remove local authority control and increase the influence of the private sector in education.

Significantly, while research funding for science was protected, along with the further education budget, the department responsible (BiS) will see its budget fall by 17%.

In higher education, graduates will be forced to pay more in repayments on their student loans. The Chancellor confirmed the earnings threshold at which student loan repayments began would be frozen for five years instead of raised in line with average earnings, as promised in 2010, and would be backdated to include the terms of loans to students who started courses from 2012. The retrospective freezing of the threshold (£21,000) would mean an average graduate would pay back about £3,000 extra according to the Institute for Fiscal Studies.

**Further reading**

- Prof Stephen Bell, Are our schools in safe hands?
- Richard Adams, Student loans: Osborne's overhaul 'betrays a generation'
- Christine Blower, Academies are a failed experiment
- Prof Diane Reay, Grammar schools segregate children by social class

## Health

Before the Spending Review, the government announced that it was making the "biggest ever" financial commitment to the NHS in England with the £8.4 billion real terms rise by 2020-21. But this was offset to an extent when the Chancellor used the Spending Review to announce that the NHS must deliver £22 billion efficiency savings in England, while the Department of Health will be cut by 25%, leading to job losses and risking reduced services. NHS Trusts already anticipate £2.2 billion in deficits this year. As Karen Bloor, Professor of health economics and policy at the University of York, highlights, "*A seven-day NHS will cost hospitals £1 billion-£1.5 billion a year, plus the same again for primary care. Together, these costs could soak up the new funds*" leaving little for improved or additional services.

State funding for student nurses will be scrapped completely, with the £6,000 tuition paid with a loan, which will have to be paid back, risking deterring thousands from becoming nurses and burdening future generations of nurses with debt.

An additional £600 million for mental health services was announced and is much-needed and welcome support for vital services. However, the impact of the Government's austerity policies and cuts to related health services have already resulted in the closure of specialist services and increased waiting times.

### Further reading

- Professor David Gunnell, Our study shows that economic recession leads to increased levels of suicide
- Tom Riddington, This is why junior doctors are protesting

## Local Government

The Department for Communities and Local Government has agreed to cuts of about 30% over the next four years, which will result in job losses and a reduction in the number of projects and programmes undertaken by the department. This is separate to funding for local government, which has been cut.

Responsibility for much of the funding of adult social care was passed to local authorities in the Spending Review, but the ability of local authorities' to take this on is limited considerably by their already overstretched and underfunded budgets. The powers to use council tax- a new care precept- to cover it will likely result in very different levels of funding raised across the country and increases in council tax for millions of people in many areas, adding to a regressive tax which already hits the poorest hardest. Deteriorating social care is also likely to have a knock-on effect on the NHS, as more people begin to rely on the health service to compensate for poor care elsewhere.

Big questions remain about the decision to allow local authorities to retain 100% of business rates, a plan that is likely to benefit wealthy and prosperous authorities in the south of England at the expense of Northern authorities if an equalisation system is not in place.

The Conservative Chair of the Local Government Association, Lord Porter said: "It is wrong that the services our local communities rely on will face deeper cuts than the rest of the public sector yet again and for local taxpayers to be left to pick up the bill for new government policies without any additional funding."

### Further reading

- Daniel Bailey, Osborne's Northern Powerhouse centralises power and devolves blame
- Jon Trickett MP, Spending review 2015: Our Panel's Reaction
- Views from local government on George Osborne's spending review

## Environment and climate

The Spending Review cut the budget for Department for Energy and Climate Change by almost a quarter (22%). The Government has already cut a wide range of green policies such as solar power, green homes onshore wind and the Spending Review announced further cuts in support for home energy efficiency and the Renewable Heat Incentive. The government has announced it is abandoning the £1bn competition to develop "carbon capture and storage" technology on power stations.

### Further reading

- Adam Vaughan and Terry Macalister, The nine green policies killed off by the Tory government
- Philip Pearson, Greenprint for a low carbon industrial strategy

## Privatisation

As part of an attempt to raise £5 billion from the sale of corporate and financial assets, the Spending Review contained details of a considerable number of public assets the Government is planning to sell off. As part of a further privatisation programme, consultations have been announced on the future of the Met Office, Land Registry and confirmation that it will look to sell off the Ordnance Survey, the Green Investment Bank, the Student Loan book and the government's 49% stake in air traffic control operator NATS as part of the £4.6 billion of assets that have been identified for privatisation through the Spending Review.

### Further reading

- Spending Review: Ordnance Survey 'private investment' plan
- Spending review: second try at Land Registry privatisation
- Spending review 2015: Our Panel's Reaction - Selling-off our assets

## Other measures announced

The Spending Review contained a significant change to how political parties are funded, including the announcement of 19% cuts to opposition party funding or 'Short Money.' Short money is given to all opposition parties to fund staff and resources (the Government has taxpayer-funded advisors and the civil service - short money aims to balance this out). As a result of the cuts, the Labour Party stands to lose £1.2 million, while the SNP will lose around £240,000 a year.

It was also announced that day-to-day spending on environment and energy will fall by 15% and 22% respectively, with transport cut by 37%. Capital spending is protected allowing much-needed investment in road and rail, although this comes off the back of years of underinvestment and underfunding.

## Articles we like

- Professor Mariana Mazzucato, Osborne isn't fixing the roof, he's eroding the foundations
- IFS warning following the Spending Review
- The Conversation response to the Spending Review

## What has Class published?

- Spending Review: Our Panel's Reaction
- Your Guide to the Spending Review 2015
- Economy growing at around half the pace of last year