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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

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Contents

Report	<i>Page</i>
1 Introduction	3
2 Economy	5
Impact of the Spending Review	5
Fiscal multipliers	7
Employment	9
3 Process	14
Star chamber	14
Speed	16
Spending challenge and consultation	17
4 Spending	20
Ringfencing	20
International Development	20
Health	22
Overall criticism of ringfencing	24
Defence	27
Leaks	27
Aircraft carriers	27
Reviewing defence spending	29
5 Distributional analysis	35
Distributional analysis	35
Fairness and progressivity	37
Child benefit	39
Housing	42
Regional policy	44
6 Conclusion	47
Formal Minutes	53
Witnesses	54
List of printed written evidence	55
List of additional written evidence	55
List of Reports from the Committee during the current Parliament	56

1 Introduction

1. The Chancellor of the Exchequer presented his Spending Review on 20 October 2010. It was clear from the Budget statement that this would be a review which attempted a far-reaching reshaping of United Kingdom public expenditure. We immediately arranged a more extensive programme of oral evidence than in previous years, to assess both the process by which the review was conducted, and the substance of its conclusions. As part of that assessment, we looked in more detail at some selected departmental policy areas. In addition to taking evidence from the Chief Secretary to the Treasury, the Rt Hon Danny Alexander MP, and the Chancellor of the Exchequer, the Rt Hon George Osborne MP, we heard from Lord Turnbull, a former Cabinet Secretary, the Institute for Fiscal Studies and Citizens Advice, experts on health, housing and defence, and officials from HM Treasury.¹ We also had the benefit of written submissions from a wide variety of organisations, who responded impressively quickly. We are very grateful to all those who gave oral evidence or submitted written material to our inquiry.

2. In any spending review, the Treasury sits at the heart of a process intended to assess spending priorities across government. This Government has agreed to undertake a significant fiscal consolidation, with a particular impact on certain departmental budgets. The Spending Review has spelt out the allocation of that consolidation. It has done so relatively quickly. Nor has it simply reduced spending across the board. This is a substantial overall package of reforms for both departmental and welfare spending. It is also a far-reaching package, with tensions between priorities for different departments. In areas such as housing benefit the Government argues that it is acting to influence incentives and behaviour in certain markets.

3. There will be political debate over both the detail of individual reforms, and whether the overall package carries undue economic risks. There are major risks and uncertainties which need testing and examination. This Report identifies some of these, but we do not attempt to resolve them. That will come later, with Office for Budget Responsibility forecasts, full government policy statements and the resulting analyses and debates.

4. The Government has also changed the reporting process. Public Service Agreements have been replaced by Departmental Business Plans, and attempts have been made to improve procurement and financial oversight. The NAO provided us with a useful paper on performance measurement as background to this inquiry. However, since the Departmental Business Plans appeared some weeks after the Spending Review, we have not

1 Carl Emmerson, Acting Director, Institute for Fiscal Studies, and Mike Brewer, Director, Direct Tax and Welfare, Institute for Fiscal Studies; John Appleby, Chief Economist, King's Fund, and Simon Maxwell, Senior Research Associate, Overseas Development Institute; Dr Paul Cornish, Head, International Security Programme, Chatham House, Trevor Taylor, Professorial Research Fellow in Defence Management, and Malcolm Chalmers, Professorial Fellow in British Security Policy, RUSI; Adam Lent, Chief Economist, TUC, Ian McCafferty, Chief Economist, CBI, Priyen Patel, Policy Adviser Economic Affairs, Federation of Small Businesses, and Dr John Philpott, Chief Economist, Chartered Institute of Personnel and Development; Gillian Guy, Chief Executive, and Lizzie Iron, Head of Welfare Policy, Citizens Advice, David Montague, Chief Executive, L&Q Group, and David Orr, Chief Executive, National Housing Federation; Sir Nicholas Macpherson, Permanent Secretary, Public Services, Mr Andrew Hudson, Managing Director, Public Services and Growth, HM Treasury, Mr James Richardson, Director, Public Services, HM Treasury, and Ms Indra Morris, Director, Personal Tax and Welfare Reform, HM Treasury.

looked at performance management in any detail in this report. The changes in organisation and approach at the centre will be one of the matters that we examine in future financial enquiries.

5. The 2010 Spending Review is in practice the beginning, rather than the end, of a process, and the overall expenditure totals will be delivered by many different departments and organisations. Even in the brief time between the Review and this Report, more detail has emerged about the policy changes in areas such as welfare which were prefigured in the Review.

6. Our current inquiry began the task of collecting a wide range of evidence and putting this initial evidence on record. It is too early to come to firm judgements. Scrutiny of the Government's consolidation and reform plans will be one of our key tasks over the entire course of this Parliament. We will examine how policy and expenditure evolve, as will our colleagues on departmental Committees. We expect to conduct regular inquiries into the Government's fiscal and expenditure planning and the OBR's forecasts; this regular examination will, we trust, help our Parliamentary colleagues to assess whether the Government is successful in meeting its objectives for public spending.

2 Economy

Impact of the Spending Review

7. In the June 2010 Budget, the Chancellor announced an extensive fiscal consolidation. That Budget forecasted that the policies of the previous Government inherited by the current Government would have led to a fiscal consolidation of £73 billion by 2014–15, made up of £52 billion of spending reductions, and £21 billion increases in net taxation.² The June 2010 Budget was forecast to add a further consolidation of £40 billion by 2014–15, comprising of £32 billion of reduced spending, and £8 billion from additional net taxation.³ The Spending Review 2010 provided further information on the Government's plans, which had changed slightly over the period, although the scale of the overall fiscal consolidation remained largely unchanged.

8. As the National Institute of Economic and Social Research (NIESR) explained in their written evidence, cuts to departmental spending ended up lower than expected at the time of the June 2010 Budget:

In cash terms the Emergency Budget showed RDEL [Resource Departmental Expenditure Limit⁴] being cut by £15.5 billion in 2014–15 in comparison to the Pre-Budget forecast of the OBR [Office for Budget Responsibility]. The CSR has reversed some of these cuts with the difference from the pre-Budget forecast of the OBR now only £4.5 billion. It is of course not possible to fully detail which departments scaled back their cuts the most, but the reductions are not balanced across departments.⁵

9. The reduction in the cuts to departmental budgets was however, as NIESR explained, offset by further cuts to the welfare (within Annually Managed Expenditure⁶) budgets:

To keep budget spending on course something else has had to give and the Chancellor has focused yet again on the welfare budget. A further £7 billion is to be cut from this budget by 2014–15. This is on top of the £11 billion of welfare cuts in 2014–15 announced [in] June's Budget. In the space of 5 months the planned spending on the welfare budget has been reduced by 1 per cent of GDP.⁷

10. On capital spending, NIESR reported that “Investment plans have been raised by £2.2 billion by 2014–15. This returns the capital expenditure plans to those of the previous

2 HM Treasury, Budget 2010, June 2010, Table 1.1, p 15

3 HM Treasury, Budget 2010, June 2010, Table 1.1, p 15

4 Departmental Expenditure Limits (DEL) effectively set out the expenditure budget for government departments. Resource DEL is the budget for current expenditure and Capital DEL is the budget for capital spending.

5 Ev 21

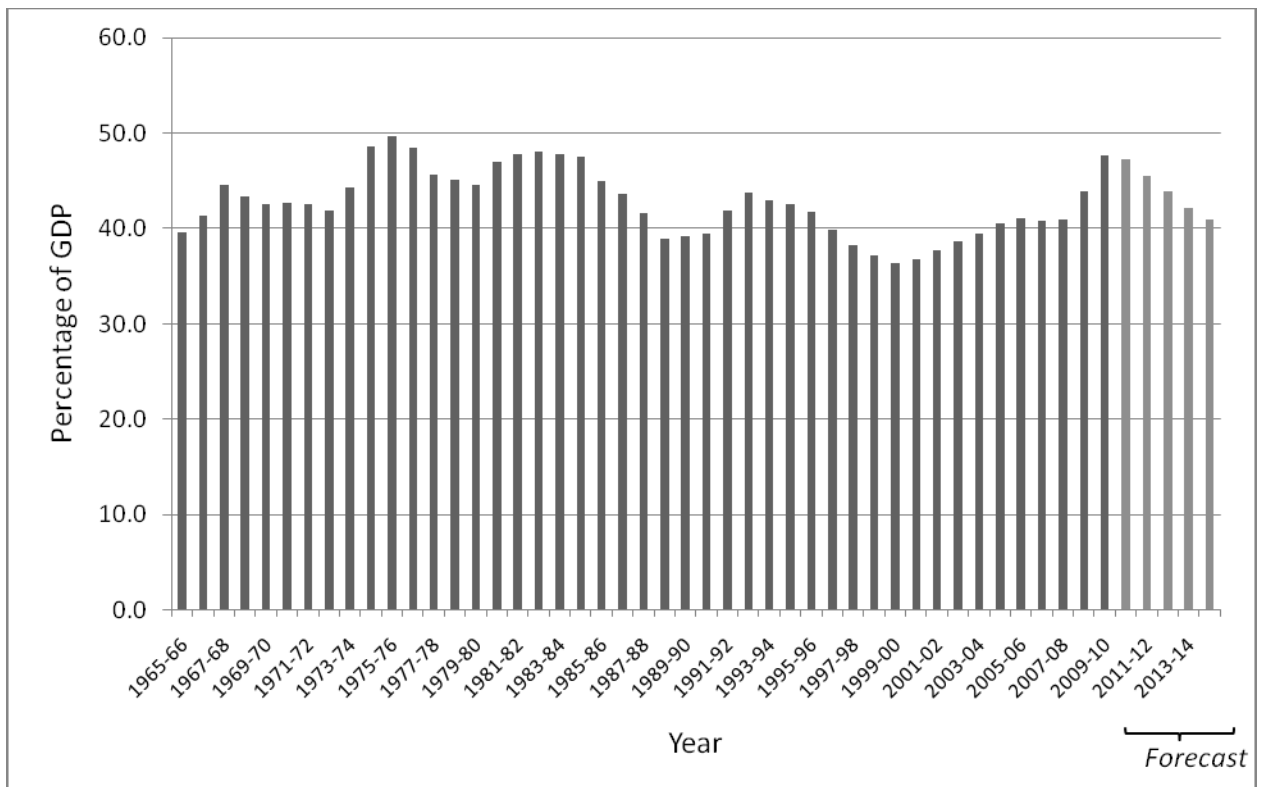
6 Annually Managed Expenditure (AME) is expenditure which is not included in DEL and is not as readily controlled as DEL. It includes social security expenditure, local authority expenditure financed from local taxation and government debt interest.

7 Ev 21

government by this year. But capital spending still falls over the next four years, from £51.6 billion in 2010–11 to £40.2 billion in 2014–15; a real terms cut of 29 per cent”.⁸

11. The Spending Review set out spending cuts which will result in total public expenditure falling from over 47% in 2009–10 to approximately 41% in 2014–15, as a proportion of GDP. Over the last 45 years the average figure for total public expenditure as a proportion of GDP has been 42.7%.

Chart 1 Total Managed Public Expenditure as a proportion of GDP



Source: HM Treasury website, Public Sector Finances Databank, Table B2

12. Lord Turnbull told us “you need to look at public expenditure in relation to the resources available”⁹ and that:

expectations about what we as a nation could afford were 10% or 11% higher than they are likely to turn out to be. You can work this out by looking at money GDP. The latest figure of money GDP in the Budget Red Book, for 2014–15, is £1,800 billion. The expectation was that that would be about 10% more than that—that’s, let’s say, another £200 billion. The state, on average, takes about 40% of GDP, so it would have expected these revenues to be about £80 billion higher than they are likely to be. That is pretty roughly the number that people talk about as the savings that are necessary.¹⁰

8 Ev 22

9 Q 1

10 Q 2

The Government has embarked on consolidation which is significantly faster and deeper than that envisaged by the previous administration, but that should not obscure the fact that, whilst there is general party political agreement that consolidation is necessary, there continue to be differences over its precise method, timing and pace.

13. The Government should be realistic about the scale of the task it faces. In evidence, we pressed witnesses on whether the economic situation was as dire as had repeatedly been claimed.¹¹ While there was general agreement that the United Kingdom faced a very serious situation, we questioned witnesses about whether assessing the situation through the scale of the deficit, rather than of debt, which is not out of line with international comparisons, was appropriate.¹² We also questioned witnesses about the long run trend of public expenditure.¹³ We agree that the Government faces an extremely serious economic situation; however an important task for Government is to maintain economic confidence. That confidence is undermined if the Government is unrealistically optimistic in its outlook; it is also damaged if the Government overstates the economic difficulties it faces.

Fiscal multipliers

14. We examined whether different forms of Government spending and taxation had different impacts on the economy. In its Budget forecast, the OBR provided table 1 of fiscal multipliers. The OBR explained the fiscal multipliers as follows:

A figure of 0.6, for example, means that a measure which has a direct effect of raising revenue by 1 per cent of GDP is estimated to reduce GDP by 0.6 per cent in the short run. The multipliers are based on a range of empirical studies which, together with judgement, can be applied to specific policy changes. The table shows the impact multipliers, which show the immediate effect of the change. We assume that the immediate effect is reduced over time through a number of processes as the economy adjusts.¹⁴

Table 1: Estimates of Fiscal Multipliers

	Impact multipliers
Change in VAT rate	0.35
Changes in the personal tax allowance and National Insurance Contributions	0.3
AME welfare measures	0.6
Implied Resource Departmental Expenditure Limits (RDEL)	0.6
Implied Capital Departmental Expenditure Limits (RDEL)	1.0

HM Treasury, June 2010 Budget, OBR Budget Forecast, p 95, paras C.54-60 and Table C8

11 Qq 1, 64, 65, 373-375, 609, 610, 685, 686, 759,

12 Qq 774-782

13 Qq 180, 193

14 HM Treasury, June 2010 Budget, OBR Budget Forecast, p 95, paras C.54-60

15. As can be seen in Table 1, reductions in capital spending have the largest immediate impact on economic growth. Ian McCafferty, the Chief Economist of the CBI, noted that “infrastructure spending has a higher than average multiplier, in terms of stimulating growth over the short term”.¹⁵ He thought that “getting the infrastructure of this country right in support of business is particularly important”.¹⁶ In their written evidence, the CBI continued their call “for public sector net investment to return to 2.25% of GDP as soon as possible”.¹⁷

16. We questioned Adam Lent, TUC, on whether the cut in capital spending placed the UK economy closer to recession, given the multiplier attached to it. He replied:

Obviously, any reduction in Government spending that has a fiscal multiplier of that sort will make it harder for the economy to grow effectively. That inevitably brings us closer to recession. That doesn’t necessarily mean that we will go into recession, because there is a lot of uncertainty and unpredictability in the global economy and in how the national economy will perform. [...] Obviously there are spending restraints, but you also have to remember that capital spending, particularly on infrastructure, purchases assets for the Government that can be turned into future sources of revenue, so this is not a straightforward case of money lost into the economy. It is a serious mistake to cut it.¹⁸

When we questioned the Chief Secretary on why capital expenditure had been cut by 29%, given its high impact on growth, he replied:

In the context of a set of decisions that were about the need to go further and faster with deficit reduction than had been set out, [...], we decided not to reduce capital expenditure further, even though we were going further and faster in other areas, precisely because we thought that that was wrong in the context of economic growth.¹⁹

He then questioned whether all capital spending was of equal value:

As I said, when we then pored over the individual capital projects in detail, from a sort of bottom-up point of view, if you like, and we looked at the economic value—it’s not quite true to say that all capital expenditure has the same economic value, because different projects have different economic value, as the analysis showed—we chose to emphasise and focus our expenditure on those areas that delivered most in terms of the wider economy. We are getting better value, in terms of economic growth, from the capital expenditure that we have chosen to sustain as a result of the quality of decision making in the spending review process.²⁰

15 Q 300

16 Q 300

17 Ev 136

18 Q 308

19 Q 710

20 Q 710

17. As explained in paragraphs 8 and 9, the Spending Review has increased the amount of projected departmental expenditure by £11 billion in 2014–15, and decreased welfare spending by a further £7 billion (in comparison with the June forecast). Although Table 1 suggests there is no difference between the OBR’s fiscal multipliers for welfare and departmental spending changes, NIESR sets different multipliers for welfare and departmental spending. NIESR told us:

The fiscal multipliers derived from our global econometric model NiGEM suggest that a reduction in government spending on goods and services (broadly similar to RDELs) has a larger negative impact on overall GDP growth than a reduction in the size of the welfare budget (see Barrell and Kirby, 2010b). Overall then, this redistribution of spending may well boost GDP growth in 2013 and 2014 by 0.1 to 0.2 percentage points. Given that our latest forecast is for GDP growth to have accelerated to 2½ per cent per annum in 2013 and 2014 this positive contribution to economic growth comes when the economy is already well on the way to recovery.²¹

18. Given that it appears capital spending by Government has the greatest impact on overall growth, we welcome the additional £2.2 billion of capital spending by 2014–15 announced in the Spending Review, compared to the June Budget. We look forward to the forthcoming Autumn forecast, where the new Office for Budget Responsibility’s forecasts will be presented. We will use subsequent opportunities to examine further the impact of the Spending Review on economic growth more closely.

Employment

19. Such a large-scale fiscal consolidation has given rise to questions about its effect on employment. The OBR had previously published a forecast of the expected reduction in general government employment, based on the effects of the June Budget.

Table 2: OBR employment forecast

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Whole economy Employment (LFS measure, millions, end of financial year)	28.89	29.08	29.36	29.69	29.97	30.23
General Govt employment level (millions, end of financial year)	5.53	5.47	5.39	5.23	5.04	4.92

Source: Office for Budget Responsibility, OBR forecast: Employment, 30 June 2010

That OBR forecast, set out in Table 2, suggests that General Government employment will fall by 610,000 from 2010–11 to 2015–16. On the day of our hearing, the Chartered Institute of Personnel and Development (CIPD) published a press release providing analysis of its expectations of job losses in the public sector. It expected that “based on soundings from public sector managers, [...] from the end of 2009–10 to 2015–16 the

public sector will shed a total of 725,000 jobs”.²² This includes changes in employment projected to occur from 2009–10 to 2010–11, an additional year outside that covered by the OBR forecast figures in Table 2. We also questioned Dr John Philpott, Chief Economist of CIPD, on what was meant by “soundings”.²³ He provided further information and clarification in written evidence explaining his projections.²⁴ Dr Philpott acknowledged though that these were ‘first-round’ effects, measuring the initial impact of the spending cuts, but without any consideration of behavioural reactions in later periods.²⁵

20. Potential job losses in the public sector are only one factor in determining the overall forecast for unemployment. For that, further information is required on the potential for job losses in the private sector stemming from the spending cuts or tax rises, as well as the ability of the private sector to provide job opportunities. In the short-term, several of our witnesses expressed concern about the ability of the private sector to absorb these public sector job losses. Dr Philpott noted that “The big question is whether the economy will sustain a 3% rate of growth for the next few years. I think that that is a debatable point”.²⁶ Ian McCafferty, CBI, told us that:

We have worries that in the very short term it is clear that 2011 is likely to be a period in which growth is relatively sluggish. I believe that we will see growth, but it is probably not going to be significantly in excess of our economic potential so unemployment is unlikely to come down and job creation is likely to be lower than average in the short term.²⁷

However Mr Priyen Patel, Financial Affairs and Local Government Adviser of the Federation of Small Businesses, noted that:

I don’t think that in the short term—in the next 18 months or two years or so—we will see top-line unemployment levels rise much more above what they are now. We think that with our flexible labour market, people accept pay freezes, working part-time and reduced hours, and that dampens down top-line unemployment figures. We think that will continue for some time in the short term, but we don’t see a massive rise in unemployment above the current levels.²⁸

21. Despite his forecast for public sector job losses, and concern over the near term, Dr Philpott was more optimistic about the ability of the private sector in the economy to absorb the job losses in the medium term. He noted that “My expectation is that once we get to 2012–13, given the amount of spare capacity that we have in the economy and

22 CIPD, CIPD estimates 1.6 million extra private sector jobs needed by 2015-16 simply to offset full impact of Coalition Government’s spending cuts and VAT rise, 1 November 2010

23 Qq 314-322

24 Ev 142

25 Qq 337-340

26 Q 325

27 Q 354

28 Q 394

growth returning to trend, we should see a healthy and decent recovery. I expect that we will get substantive and strong employment growth.”²⁹ Ian McCafferty, stated that:

If we look at the performance of the economy both over the decade of the 1990s, when we had a similar period of economic austerity in terms of the public sector, and in the period from 2000 to 2008, we saw growth in total economy employment of some 250,000 or 300,000 a quarter over those two long periods. In that regard we would argue that over time the sorts of figures that the OBR has estimated so far are absorbable within the broader economy.³⁰

However, Adam Lent, Head of the Economic and Social Affairs Department, TUC, was more cautious:

The OBR’s expectation is that 2 million jobs will be created in the economy by 2015, and that will absorb the job losses that occur through the fiscal consolidation. However, if you look back to the recession in the early 1980s, it took seven years to create 2 million jobs in the economy and that was off an average growth rate of 3.6%. After the recession in the 1990s, it took nine and a half years to create 2 million net jobs in the economy, off an average growth rate of 3.2%. The OBR is predicting an average growth rate of 2.5% over the next five years. I’m not saying that its forecasts are wrong, but there are questions to be asked.³¹

The Rt Hon Danny Alexander MP, Chief Secretary to the Treasury, felt that the private sector would absorb the job losses in time:

The forecast we have for employment is for a marked reduction in the public sector head count of 490,000—that is the latest OBR forecast for June; it will publish another one in November—and for a growth in private sector employment over the same period of 1.6 million. The historical evidence suggests, in the way that you say, that that pattern of significant growth in private sector employment is one that has happened during previous consolidations, albeit not as marked as this one. None the less, experience suggests that those people who deny the possibility of the private sector creating jobs and leading the recovery are wrong.³²

22. Several witnesses pointed out that the flexibility of the private sector had reduced the impact of the recession on employment. Ian McCafferty pointed out that:

It has already been cited this morning that many economists expected that unemployment would already have reached 3 million, rather than the 2.6 million that we have. That is testimony to the fact that the labour market has behaved very differently in this recession; there has been a great deal more flexibility and a great deal more adjustment in terms of hours and working conditions and less

29 Q 325

30 Q 354

31 Q 355

32 Q 720

unemployment or at least total unemployment. There are more part-time/full-time splits than would have been expected at the outset.³³

Mr Lent also suggested that there had been some flexibility:

What we certainly saw in the private sector, as you said, were unions willing to negotiate short-time working, pay freezes etc., although the extent of that was often overplayed quite considerably. About a third of trade union settlements in the private sector during the recession were pay freezes. There was no overwhelming 100% pay freeze across the private sector by any means.³⁴

23. We asked whether the flexibility shown in the private sector, if extended to the public sector, would reduce job losses. Several observers were not sure that could occur. Mr Lent replied that:

It is really important to keep in mind here that that was possible in the private sector and key private sector organisations where there are high levels of trust between management and trade unions. Trade unions need to be absolutely convinced that there is a pressing financial need for those measures to be put in place, and they also need to be convinced that the measures are being put in place through careful negotiation with due consideration to the impact on trade union members and the wider work force. My concern is that, with the Government essentially announcing everything in one go, without any serious discussion with trade unions and public sector employee representatives, they have potentially lost the opportunity to create that trust and create a process whereby the changes can be negotiated.³⁵

Dr Philpott also noted that:

The important distinction to make though between what happened in the private sector during the recession and what's going to happen in many public sector organisations over the next few years is that during the recession many private sector employers wanted to hold on to key staff. They had realised that there would be a demand for them in the medium term, but they were struggling to survive in the short term. They therefore looked to wage restraint as a way to reduce labour costs on a temporary basis, in the expectation that things would get back to normal at some stage. The difference in many public sector organisations in the current context is that they're engaged in substantial restructuring and employment downsizing. The prospect for continued employment is much lower and therefore, selling the quid pro quo is that much more difficult.³⁶

Over the course of the Parliament, we will be monitoring the extent of public sector job losses, the capacity of the private sector to absorb reductions in public sector

33 Q 354

34 Q 365

35 Q 365

36 Q 366

employment, and the relationship between employment and growth. As a first step, we look forward to the publication of the OBR's updated forecasts of employment later this month.

3 Process

Star chamber

24. In June 2010, HM Treasury published *The Spending Review framework*, which set out the Government's plans for the Spending Review. As part of the Spending Review, the Public Expenditure Committee (PEX), referred to as the 'star chamber' by many witnesses, was revitalised. The Treasury stated that the PEX would ensure "the Government takes the time to consider collectively the effect of different options on its agreed priorities, and on different groups of society".³⁷ It also noted that "Over the summer, the PEX Committee will test and challenge departments' plans, and ensure that they respond to external engagement. These deliberations will be informed and supplemented by the detailed conversations that will take place between the Treasury and departments".³⁸

25. The Treasury suggested that this system "draws on lessons learned from international examples of successful fiscal consolidations in the past, such as in Canada in the 1990s. They used a "Star Chamber" model of programme review boards at Ministerial and senior official level to challenge departmental spending plans using a series of key questions to promote innovative thinking".³⁹ In written evidence, the Institute for Government suggested that comparison with the Canadian system might not be completely appropriate:

The UK's spending review followed a fairly traditional route. The spending review committee was designed as a "star chamber", there to act as judge and jury. This was a form of committee structure that the UK is use[d] to employing, and in the relatively short timescales it could be argued it was the only choice.

The UK did not follow the model used in somewhere like Canada, w[h]ere the ministerial committee was charged with devising the plan, and deliberately contained those members of the cabinet who were most likely to be "difficult" in the process. The logic was that, by building the plan in this way, there would be more political support for taking on the difficult political challenges involved in implementing the plan.⁴⁰

26. The initial PEX was formed of the Chancellor of the Exchequer as Chair, the Chief Secretary to the Treasury as Deputy Chair, the Foreign Secretary, the Minister for the Cabinet Office and Paymaster General and the Minister of State at the Cabinet Office.⁴¹ The Treasury noted that "Other Cabinet Ministers will be eligible to be considered as members of the Committee once they have settled their departmental allocation".⁴² Lord Turnbull told us that someone had described it to him as "a game of British bulldog: as you

37 HM Treasury, *The spending review framework*, June 2010, p 16, para 4.10

38 HM Treasury, *The spending review framework*, June 2010, p 16, para 4.10

39 HM Treasury, *The spending review framework*, June 2010, p 5, para 1.11

40 Ev 40-41

41 HM Treasury, *The spending review framework*, June 2010, p 16, para 4.7

42 HM Treasury, *The spending review framework*, June 2010, p 16, para 4.7

capture someone, they then play on your side”.⁴³ He described the usefulness of the PEX as follows:

I don't think that the detailed negotiations get dealt with by a Committee like PEX, but they are worthwhile exercises in building your collective commitment, and they are an investment—an insurance against problems further down the line. It isn't people simply getting a bilateral deal, sidling up to the Chancellor of the day and doing a deal with him, but people feeling a collective responsibility.⁴⁴

27. Treasury officials provided more information on how the PEX had operated. Mr Richardson, Director, Public Services, HM Treasury, told us that “in the end, the Secretary of State for Energy and Climate Change, the Home Secretary, the Secretary of State for Communities and Local Government, the Secretary of State for Scotland and the Secretary of State for Environment, Food and Rural Affairs all joined the committee”.⁴⁵ He also told us that:

I think there were seven meetings of PEX in total. There were also two meetings of the sub-committee of PEX on pay and pensions, which is a rather wider group that involves the Secretary of States with the big work forces—so Health, Education, Defence and so on—and that met to discuss specific issues around particularly public sector pensions and met to discuss Lord Hutton's interim report. So there were a number of fora. There was also a committee specifically on asset sales and that met on at least one occasion; it may have met twice.⁴⁶

28. There was however a wide range of other meetings taking place during the process. One such set of meetings concerned the ‘quadrilateral’, formed of the Deputy Prime Minister and the Prime Minister, Chief Secretary and Chancellor.⁴⁷ According to Mr Richardson, this group met “about” nine times.⁴⁸ The Chancellor suggested that this institution was a necessity of the Coalition. He told us that:

[...] our coalition partners need to be constantly involved. So, for example, decisions around taxation would normally be the preserve of the Chancellor and the Prime Minister, discussing it together and pronouncing it to the Cabinet on the day of the Budget. Here, at every step, we involve the Deputy Prime Minister, and the Chief Secretary is much more involved than previous chief secretaries would have been in these decisions, and we establish a quadrilateral process that worked both in the run-up to Budget and the run-up to the spending review.⁴⁹

43 Q 16

44 Q 16

45 Q 502

46 Q 503

47 Q 481

48 Q 482

49 Q 764

29. However Policy Exchange suggested that the Star Chamber may not have been as effective as it might have been. They noted that:

Previously successful consolidations have involved allowing ministers to keep a proportion of the identified savings to be ‘recycled’ back into their own budget (e.g. Canada in the 1990s). The prospect of membership of a ‘Star Chamber’ does not seem to have been an adequate replacement for such financial incentivisation given the significant number of ‘last minute’ deals. In any case, this process seems to have been overridden by political and time pressures.⁵⁰

30. We questioned Treasury officials as to how well these systems had operated, compared to previous spending reviews. Mr Richardson told us that “compared with the previous Administration where the public spending committee rarely met and played a much lighter touch role, this was a more collective process—not only through PEX, but also through some of the other fora, like quadrilateral, through bilateral discussions and through some of the collective processes on big issues”.⁵¹ The Chief Secretary confirmed the collective nature of this Review:

It has been of great material benefit that we sought to have a process that was collective, where in addition to one-to-one exchanges between the Treasury and Departments and between myself and Secretaries of State, we had a Cabinet Committee—the Public Expenditure Committee—which had a key role in the major decisions that we made.

The process had very close working relationships between the Treasury, the Prime Minister and the Deputy Prime Minister, so both the Deputy Prime Minister and Prime Minister were able to give, if you like, their “political steers” to the process as it went along and the Cabinet had regular discussions about the spending review. That ensured that we took the best quality decisions that we could.⁵²

The evidence we have received from those within the process suggests that the wider use of the Public Expenditure Committee, and a wide-ranging system of meetings of more select groups reflecting the new coalition arrangements, led to a collective decision making process in reaching the final position outlined in the Spending Review.

Speed

31. The Spending Review was published only five months after the election. Treasury officials explained that most of the spending reviews under the previous Government had taken about a year,⁵³ The Treasury felt there were two reasons for speed. Mr Richardson

50 Ev 18

51 Q 504

52 Q 661

53 Q 506

explained that “we inherited a position where there were no budgets set for Departments from the next financial year”.⁵⁴ He also considered that:

There were also market-related reasons why it was important for the Government to have a clear fiscal plan quickly. I don’t think, even if we had had more time, that it would have been wise in terms of market perceptions to have taken more time because people needed to see that we had a fully worked-up fiscal plan.⁵⁵

32. When asked whether the spending review suffered as a result of tight timescales, Mr Hudson replied “I don’t think so”.⁵⁶ He explained that:

There had been a lot of preparation because, as I said earlier, it was clear that, whoever won the election, there would have to be a spending review and that it would have to be on pretty much this timescale [...]the current settlements run out in March. It’s good to get the numbers sorted early for planning purposes for everybody. It’s necessary to do it for local government because of statutory requirements to consult and then set budgets by a given time. And so it was clear to everybody that this was roughly the timescale we’d have to follow.

Lord Turnbull told us that:

The first thing you notice is that this is not a hastily constructed exercise. It has been five months since the election and the civil service was working on this from the time the election was called. It has been known for two years that an exercise of this kind—an announcement of the big picture followed by an announcement of departmental settlements—would be required. So people have seen this coming and been able to plan for it.⁵⁷

We note that while the Spending Review was conducted relatively quickly, the Civil Service had clearly been making preparations for it for some time.

Spending challenge and consultation

33. In June, in advance of the Spending Review, public sector workers and members of the public were invited to suggest money saving ideas through the ‘Spending Challenge’ website. Government witnesses were positive about the tool. Mr Andrew Hudson, Managing Director, Public Services and Growth, HM Treasury, said that the Treasury had “received 100,000 responses, of which 63,000 came from within the public services, and there’s some savings totalling up to £500 million from things like collaborative procurement”.⁵⁸ **We are sceptical about how new some of the large savings from the**

54 Q 506

55 Q 507

56 Q 508

57 Q 82

58 Q 464

‘Spending Challenge’ are in reality. For example the Office of Government Commerce’s (OGC) Collaborative Procurement Programme has been running since 2007.

34. The Chief Secretary considered the exercise was worthwhile as “it is important with decisions of this scale that you seek to engage with people” and insisted that it was not a “gimmick”.⁵⁹ He stated that the suggestions had made a “useful contribution” and, as an example, explained that by abolishing National Insurance plastic cards there would be savings of £1 million a year.⁶⁰

35. Although the Treasury and Chief Secretary were very positive about the ‘Spending Challenge’, we have received written evidence from organisations who felt the process of engagement and consultation could have been improved. While the TaxPayers’ Alliance agreed that the ‘Spending Challenge’ website was a good idea in principle they felt it was “not well executed”. In particular they noted that the listing and rating system for ideas resulted in most prominence for ideas which were deliberately designed to be malicious or humorous. They consider that this devalued the tool in the eyes of members of the public who wanted to engage with it seriously. Overall they “would have liked to see more effort to genuinely involve the public” rather than something which “looked tokenistic and half-hearted”.⁶¹

36. The Institute for Government while noting some minor results from the ‘Spending Challenge’ stated in their written evidence that “there was potential to go much further in involving the public, and thereby understanding their concerns”.⁶² Reform considered that the “Government did not go anywhere near far enough to engage the public in the Review”.⁶³ They felt this compared unfavourably with the example of Canada in the 1990’s, when before plans to reduce the deficit were made there had been in-depth consultation and engagement with the public.

37. Although the ‘Spending Challenge’ website allowed members of the public to contribute we note that there was no straight-forward method for interest groups to put their ideas and evidence forward. This was raised by The Joseph Rowntree Foundation who stated that “there was no uniform, transparent and cross-government mechanism to feed in wider research evidence to inform decisions”.⁶⁴ The British Chambers of Commerce felt that more could have been done to consult with business. They stated in written evidence that Government should have done more “to solicit views on which areas of spending were considered essential to supporting private-sector growth” and that the “Treasury could usefully have conducted a coordinated, high profile programme of

59 Q 665

60 Q 666

61 Ev 29

62 Ev 41

63 Ev 12

64 Ev 37

consultation with business in the regions during the months leading up to the Spending Review”.⁶⁵

38. Seeking the views of public servants and the general public can produce some worthwhile suggestions for savings and income generation. This has to be set against the resources required to manage and review tools such as the ‘Spending Challenge’. Short-term e-consultation can be useful but it cannot be a substitute for longer-term engagement with public sector employees and responsiveness to input from stakeholder groups. The Committee may return to the ‘Spending Challenge’ to examine its effectiveness.

4 Spending

Ringfencing

39. The Coalition Agreement included several commitments that effectively ‘ringfenced’, or protected, spending programmes against cuts during the Spending Review. Examples of those commitments included:

- A guarantee that health spending would increase in real terms in each year of the Parliament, while recognising the impact this decision will have on other departments.
- The decision to restore the earnings link for the basic state pension from April 2011, with a ‘triple guarantee’ that pensions are raised by the higher of earnings, prices or 2.5%.
- The decision to protect key benefits for older people such as the winter fuel allowance, free TV licences, free bus travel, free eye tests and prescriptions.
- The commitment to spend 0.7% of Gross National Income (GNI) on overseas aid from 2013, and to enshrine that commitment in law.⁶⁶

We were keen to assess the impact of such ringfencing on the Spending Review process. We particularly looked at two departmental budgets that were effectively ‘ringfenced’ in the Spending Review process—Health and International Development. Our aim was not to replicate the scrutiny of the responsible departmental select committees, but to inform our understanding of the Spending Review process, and the effects of ring fencing on overall government expenditure decisions.

International Development

40. The commitment to spend 0.7% of GNI on overseas aid from 2013 was reflected in the spending envelope agreed for the Department for International Development (DfID). Table 3 from the Spending Review 2010 outlines how that commitment will be met, with the main increase occurring in 2013–14. As well as this increase in the department’s budget, the Spending Review notes that “DfID will become a leaner organisation with a focus on managing aid efficiently and effectively, by significantly reducing back office costs. Running costs will account for only 2 per cent of total spending by 2015, compared to a global donor average of 4 per cent”.⁶⁷ Mr Simon Maxwell, Senior Research Associate, Overseas Development Institute, told us that “It is clear that DFID will suffer a 30% cut in its head count as a result of savings on headquarters cost, so it will have to do things differently”.⁶⁸

66 HM Government, *The Coalition: our programme for government*,

67 HM Treasury, *Spending Review 2010*, p 61, para 2.98

68 Q 206

41. Aid spending can be used to support wider policy objectives. We note that the Spending Review said that one of DfID’s priorities would be to “improve the coordination and performance of British development policy in conflict countries, in line with the [Strategic Defence and Security Review] SDSR, with particular focus on Afghanistan and Pakistan. 30 per cent of ODA will be used to support fragile and conflict affected states by 2014–15”.⁶⁹

Table 3: Department for International Development budget

		£ billion ¹				
		2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL		6.3	6.7	7.2	9.4	9.4
Capital DEL		1.6	1.4	1.6	1.9	2.0
TOTAL DEL		7.8	8.1	8.8	11.3	11.5
Departmental AME		0.1	0.1	0.1	0.1	0.1

¹ In this table, Resource DEL excludes depreciation and AME excludes non cash items

Source: HM Treasury, Spending Review 2010, p 60, Table 2.15

42. When we asked whether DFID could manage the rapid increase in spending in 2013-14, Mr Maxwell replied that:

That will not be until 2013, by which time DFID and the international agencies with which it works will have had time carefully to think about how to spend the money. There will be a number of options open to all parties at that point. The first is to channel more through the large, multilateral agencies that we already support, including particularly the International Development Association of the World Bank—the soft loan window of the World Bank which will have a replenishment about then. We can also channel more money through other multilaterals, including the regional development banks, and, if DFID wishes to, it could increase the level of budget support and programme aid that it provides to countries for projects that are relatively less staff-intensive and easier to manage than small-scale projects.⁷⁰

43. Unlike Health, which we discuss below, public support for ringfencing international aid is not universal. In their Report *Aid to Developing Countries: Where does the UK public stand*, the Institute for Development Studies presented evidence that “63 per cent of respondents expressed the view that spending on aid to developing countries should be reduced as part of efforts to address the UK budget deficit”.⁷¹ Mr Maxwell acknowledged this difficulty, but responded that:

69 HM Treasury, Spending Review 2010, p 60, para 2.97

70 Q 205

71 Institute of Development Studies, *Aid to Developing Countries: Where does the UK public stand*, September 2010, p 2

Of course, it would be preferable if 63% of the population said they wanted to maintain the aid budget, rather than the reverse. It is a question of how the argument is made, and there is a very strong attachment to the voluntary sector in the UK. For example, during the last Comic Relief, at a time of recession, contributions went up by over 50% compared with the previous Comic Relief. So, when people see the human face of international development and are told about the successes, they can be convinced. But it is a job for political leaders to tell the story in such a way that, as was done in 2005, a million people were brought on to the streets in support of Make Poverty History.⁷²

Health

Table 4: Department for Health budget

		£ billion ¹				
		2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL		98.7	101.5	104.0	106.9	109.8
Capital DEL		5.1	4.4	4.4	4.4	4.6
TOTAL DEL		103.8	105.9	108.4	111.4	114.4
Departmental AME		-2.0	-1.6	-1.0	-0.4	-0.2

¹ In this table, Resource DEL excludes depreciation and AME excludes non cash items

Source: HM Treasury, Spending Review 2010, p 43, Table 2.2.

44. Table [4] shows the Department for Health's budget as set out in the Spending Review. The Spending Review states that this "settlement increases overall NHS funding in real terms every year, with a total increase of 0.4 per cent in real terms over the Spending Review period—meeting the Government's commitment on health spending".⁷³ Meanwhile, as with DFID, the Spending Review also noted the need for efficiency within Health spending. The Spending Review stated that "The NHS will need to make efficiencies to deal with rising demand from an ageing population and the increased costs of new technology".⁷⁴

45. The Institute for Government pointed out that a series of apparently optimal spending decisions could lead over time to a sub-optimal distribution of resources:

Three year cash spending plans are a sensible idea in most circumstances, and were indeed thought to be a major step forward over annual settlements. But they produce unplanned expansions in real spending if stuck to in a deflationary recession. If subsequently a government feels politically obliged to commit to protect these areas, irrespective of how well they have fared relative to other areas (as arguably the new

72 Q 233

73 HM Treasury, Spending Review 2010, p 43, para 2.11

74 HM Treasury, Spending Review 2010, p43, para 2.21

Coalition government did with the ringfences on health, aid and commitments to pensioners), we can end up with a radically different structure of public spending to anything which we would have consciously planned. This may be because we never stand back and take a look at the cumulative impact of individual decisions and ask whether that is the outcome we want.⁷⁵

Several of those who provided written evidence considered it wrong to ringfence departments, such as health, which had received large real increases in the recent past. Policy Exchange stated that in a world where spending had “risen too fast because of very large rises in particular departments [...] the least painful way to cut back spending would be to cut it in the areas where it has risen the most. (Of course, some cuts elsewhere might also be necessary.)”⁷⁶ They provided the following example from health to illustrate their point:

By way of illustration (without recommending a particular figure at this point—which we see as fruitless), if health spending had been cut by 10% then that would have left it, in real terms, still above its 2007/8 level. We do not believe that Health was regarded as significantly under-funded in 2007/8, and we note that real GDP in 2010 will certainly be smaller than it was in 2006. Such a cut would have reduced cuts in other departments by around £10bn—clearly allowing scope to avoid significant cuts in defence and allowing lower cuts in many other departments that had not previously experienced large rises.⁷⁷

When we asked Mr Appleby whether he thought there could be a backlash against the Health settlement, he replied:

No, I am sure that there are people in other spending areas and other departments who are looking over the fence and thinking, “Well, the NHS has had it pretty good for the last 10 years or so, and it’s not suffering as well”. But again I suspect that that won’t happen too much, because the NHS still reflects some values that people have. I have to say that people value health, pound for pound, probably more than certain other areas of other public spending.⁷⁸

46. However, there were signs in the Spending Review of the Health ringfence being slightly porous. The Department of Health settlement noted that there would be “an additional £1 billion a year for social care through the NHS, as part of an overall £2 billion a year of additional funding to support social care by 2014–15”.⁷⁹ As well as this, as part of its commentary on the Spending Challenge, the Spending Review stated that “The Government will aim to break down the barriers between health and social care funding through new approaches including reablement services provided by the NHS”.⁸⁰ A letter

75 Ev 40

76 Ev 19

77 Ev 19

78 Q 212

79 HM Treasury, Spending Review 2010, p43

80 HM Treasury, Spending Review 2010, p21

from the NHS Chief Executive to NHS Executives noted that “there will be a further redistribution of £1bn by 2014/15 from capital to revenue specifically to support greater integration between health and social care”.⁸¹

Overall criticism of ringfencing

47. Several less department specific concerns about ringfencing were expressed in the written evidence we received. Reform noted that ringfencing may mean spending is not effectively allocated, and provided the following example:

Cutting an extra pound of spending from, say, community services to protect a pound of spending on health will only maximise the national interest if the pound of health spending provides greater value than the pound of spending on community services. It is highly debatable that this is true for every single pound of health spending.⁸²

A similar argument was raised by NIESR:

Prior to the election we argued that if existing spending plans were properly balanced then the case for ringfencing did not exist. Spending on each part of the government should perhaps be seen as an optimisation exercise where marginal social benefits, whatever they may be, are the same across spending departments. This means that a cut would have the same costs wherever it was applied. If the crisis has left us worse off compared to where we thought we would be (a permanent loss of output) then spending plans need to be re-evaluated. On top of this we need to ensure the fiscal costs of the crisis are paid off through a fiscal consolidation programme. It is perhaps unwise to start discussion with what should be ringfenced. Ringfencing some areas has meant that cuts have had to be deeper in others, and the incremental costs of those cuts in terms of loss of benefit to society could be large.⁸³

48. Some evidence argued that ringfencing was inequitable to those departments not in the ringfence. In its written evidence, the New Local Government Network stated that:

The Government’s decision to ringfence and partially ringfence budgets across the public sector has undermined the equity of the spending review. The question is not whether any parts of public spending should be prioritised, but the method by which this has been done.

The impact of the protection of specific domestic budgets has been that local government has had to shoulder the largest budget reductions after the Treasury (not itself responsible for frontline service delivery) and Defra. NLGN’s analysis in

81 Letter from Sir David Nicholson Chief Executive of the NHS, to NHS Chairs, Chief Executives and Directors of Finance, 20 October 2010

82 Ev 13

83 Ev 21

summer 2010 demonstrated that by protecting major spending departments such as the Department of Health, budget cuts were being passed onto other departments.⁸⁴

And the British Chamber of Commerce in their written evidence stated that:

Business did not support this politically-motivated and ill-considered decision, as its outcome was to further squeeze spending that supports growth (e.g. transport infrastructure) and jobs (e.g. housing and training).

Later decisions to partially ringfence both education and defence spending, which became clear when the Review itself was published, further exacerbated this situation. While we are well aware that private-sector contractors gain substantially from Government spending in both these areas, there was no opportunity to weigh up whether these ringfences would have negative effects on ‘growth spending’ elsewhere.⁸⁵

49. Reform also expressed a concern that ringfencing meant that officials in those ringfenced departments might feel “that they are insulated from the need to deliver reform and efficiency”.⁸⁶ This was an area we explored in our hearings with experts in differing spending areas, the pressure for evidence of effectiveness was often brought forward. For instance, Professor Taylor, an expert on defence, argued that “I think the aid budget needs better to be justified not by the input, which is the share of GDP or share of Government spending that goes to aid, but by the outputs and outcomes that it generates”. Mr Maxwell provided us with a defence of the effectiveness of aid spending:

I don’t think that anybody working in the development business would say that we want to be unaccountable for results. We look at the growth rates of countries, the reduction in child malnutrition, the improvement in health status and the number of people receiving antiretroviral treatments. And our guide for the past decade has been the millennium development goals, which were passed by the UN General Assembly, with, I might say, strong British leadership in 1990. We are on the road to achieving some of those goals in some countries—not all of them in all countries.⁸⁷

However, Professor Taylor noted “The MOD is quite widely measured as to whether its procurement projects come in on time, and whether its military operations are carried out successfully. I am not sure that the same scrutiny is given to how effectively the aid budget is spent. I would like to see a firmer assessment of outcomes from aid spending, and use that as a guide to what level of resource it should be given”.⁸⁸

50. The risk that ringfencing might lead to poor oversight of protected departments was highlighted when Mr Hudson was asked which department settlements he had taken a key

84 Ev 9

85 Ev 2

86 Ev 13

87 Q 214

88 Q 279

interest in, indicated welfare, health, education, local government and BIS and noted that perhaps health “given the ringfence, attracted less debate than it has done in previous years” though “it was nonetheless important”.⁸⁹ The Chief Secretary denied that ringfencing had led to less scrutiny of the ringfenced departments during the Spending Review process:

I spent a great deal of time with Andrew Lansley, and there was considerable engagement at official level. It is true that there may have been other budgets that consumed more time, but that doesn't mean that proper attention wasn't given to the health budget. There certainly was. We sought to identify areas—some of which we set out in the spending review document—to give priority to, such as provision for social care. We sought to identify the proper balance between resource and capital spending within the health budget, so I think we gave proper attention to it, not least of course because there is a substantial programme of structural reform going on in the NHS. Ensuring that the interactions of that reform and the money we are allocating were properly thought through was an important part of the spending review process.⁹⁰

51. Overall, the Chief Secretary defended the decision to ringfence as follows:

The approach we took in the coalition agreement, setting out what our political priorities were, was the decision to ringfence the health budget with small increases in real terms, as you've seen in the spending review, and to make a political commitment on international aid. Those were important statements of the coalition's political priorities. In that sense, it was very similar to decisions we made in our own manifesto, setting out our own political priorities. As Liberal Democrats, we set out a commitment to spend more in certain areas and less in others. It was simply a way of showing the political priorities that we are seeking to deliver through the spending review. In fact, in the case of the health service in particular, it does not in any way—as some of your previous evidence has shown—remove the need to make efficiency savings and changes within the NHS budget, given that even with the very small increments in real terms that we have set aside in the spending review, it is a considerably more challenging settlement than the Department of Health has received in past spending reviews.⁹¹

52. Ringfencing may fulfil electoral promises. But ringfencing can also lead to allocative problems across government as a whole. It could also reduce scrutiny of ringfenced departments. The decision to use the NHS budget to purchase social care and the DfID budget to support fragile and conflict-affected states shows that ringfencing has not been absolute and the Treasury should not be afraid to demand that spending currently ringfenced in certain areas be used where the benefit is the greatest, or where greater value for money can be obtained.

89 Q 478

90 Q 582

91 Q 581

Defence

53. We also looked at the Defence settlement. We wished to see how the very public disagreements over defence expenditure affected the Spending Review process. Moreover, the effect of the contract to provide aircraft carriers demonstrated a potential mismatch between Government spending plans and long-term contracts.

Leaks

54. On 28 September 2010, the *Daily Telegraph* published a leaked letter from the Defence Secretary to the Prime Minister over the Defence review.⁹² We explored the effect of the leak on the Spending Review. We asked Lord Turnbull as to his ‘best guess’ as to how the leaked had occurred. He replied:

I think that the letter was written to be leaked. This was not a letter that a Secretary of State, who is engaged in negotiation, would write to the Prime Minister, with whom he has been discussing detailed figures and how he could do this and how he could do that. It was very much going back to square one—a lot of rhetoric. It looked to me like something written to reassure the constituency that the Secretary of State was fighting hard for their corner.⁹³

55. Our defence expert witnesses were divided as to what impact the leaked letter had had on the Review process. While they all noted that they had no inside information, Professor Chalmers told us that his impression was that the leaked letter “didn’t make a lot of difference”.⁹⁴ Dr Cornish though disagreed, telling us that he thought “that the letter did have a huge impact publicly and across Whitehall”.⁹⁵

Aircraft carriers

56. The decision to continue with the purchase of two aircraft carriers caused a great deal of comment at the time of the Strategic Defence and Security Review. Concern was expressed at the period of time the UK would be without a carrier-based fixed-wing aircraft capability, and at the fact that cancelling one aircraft carrier and proceeding with only one may have cost more than proceeding with two carriers.

57. These carriers will cost around £5 billion.⁹⁶ Only one will be operational, while the other will be placed at ‘extended readiness’.⁹⁷ The operational carrier will now have catapult and arrestor gear installed, which will allow greater interoperability with US and French carriers and naval jets, but will delay its arrival in-service from 2016 to around 2020.⁹⁸ This

92 The Daily Telegraph, Defence cuts: Liam Fox's leaked letter in full, 28 September 2010

93 Q 100

94 Q 252

95 Q 253

96 HM Treasury, Letter from BAE Systems to the Government on the building of the future aircraft carriers, 5 October 2010

97 HM Government, Strategic Defence and Security Review, October 2010, p 23

98 HM Government, Strategic Defence and Security Review, October 2010, p 23

change will also mean that the carriers can carry the carrier variant of the Joint Strike Fighter, which the *Strategic Defence and Security Review* noted “will be cheaper, reducing through-life costs by around 25%”, while the aircraft themselves will have “a longer range and greater payload”.⁹⁹ These decisions have to be seen in the wider context of related defence spending cuts. The Strategic Defence and Security Review stated that Harrier jets are to be withdrawn from service in 2011,¹⁰⁰ and that HMS Ark Royal will immediately be decommissioned.¹⁰¹

58. The *Strategic Defence and Security Review* (SDSR) noted that the UK would only need to operate one aircraft carrier.¹⁰² The Prime Minister, in his statement on the SDSR, revealed that the previous Government had though “signed contracts so we were left in a situation where even cancelling the second carrier would cost more than to build it. I have this in written confirmation from BAE systems.”¹⁰³ We therefore questioned both officials and ministers on how the Government had tried to negotiate its way out of the aircraft carrier contract. Mr Richardson assured us that “the question of ‘could you break the contract’ was looked at. Not surprisingly, however, the people who build aircraft carriers do not build them on spec. This is not something that you can build and then just hope that a buyer will turn up”.¹⁰⁴ He then provided further detail as to the alternatives that had been considered:

It became clear that it wasn’t possible to get out of the contract. It would have been possible to have done alternatives. It would have been possible not to have built the carriers and to have built other ships instead. But that would have been less good value for money, and in the end, the judgment was that the carrier strike force was part of the long-term strategic needs; that, looking 10 to 20 years ahead, this was something that would be part of the adaptable posture that we have adopted and, therefore, that we would go ahead with building the carriers. But there were alternatives and those were considered but they were thought, in the end, to be less good from a strategic military perspective and less good from a value-for-money perspective.¹⁰⁵

59. The Chief Secretary provided the following explanation as to why the contract had continued:

What became apparent was that we had an arrangement with two elements. One, of course, was the contract to build the carriers. The second was the terms of business arrangement that exists with the dockyards, where a decision had been taken—not a decision we sought to overturn—that we wanted to retain the capacity to undertake

99 HM Government, *Strategic Defence and Security Review*, October 2010, p 23

100 HM Government, *Strategic Defence and Security Review*, October 2010, p 26, para 2.A.11

101 HM Government, *Strategic Defence and Security Review*, October 2010, p 22, para 2.A.5

102 HM Government, *Strategic Defence and Security Review*, October 2010, p 23

103 HC Deb, 19 October 2010, Col 800

104 Q 492

105 Q 493

naval shipbuilding in the United Kingdom, and therefore if we had decided to stop building the carriers we would have had to replace that work in those shipyards with other work that was not as far advanced as the carriers and would not have met our strategic defence needs as a country. We and our officials spent significant time, on my instruction, looking in detail at the contracts to make absolutely sure that what we were being told by the [Ministry of Defence] was correct.¹⁰⁶

60. In response to our questioning on the aircraft carriers, the Treasury published the confirmation from BAE referred to by the Prime Minister, in a letter to him from Ian King, Chief Executive Officer of BAE Systems.¹⁰⁷ The letter provided further details on the costs of cancelling one carrier. If both carriers were completed the stated cost would be £5.25 bn. If the Prince of Wales was cancelled, BAE said the direct cost would be £4.86 bn, plus an additional £690 million of consequential costs. The letter also warned that the loss of a second carrier would precipitate the closure of at least one BAE Systems shipyard, and 2,500 job losses in BAE Systems in Scotland and the South East, as well as several thousand in the wider supply chain. The Chancellor told us that this was “of all the problems we faced, probably the greatest.”¹⁰⁸

61. It is argued that the aircraft carrier contract was unbreakable not just for legal reasons, but also because it was inextricably linked to the strategic need to maintain a stable supply of work for the sole warship-producing supplier in the UK. The National Audit Office will, no doubt, examine this intensively. In evidence to the Liaison Committee the Prime Minister agreed to look into the matter and provide this Committee with the maximum amount of information possible. When we have seen this information we may decide whether and how best to undertake further work. The Treasury should draw on the lessons from the contract to analyse all future Ministry of Defence procurement to ensure that value for money is being obtained, particularly when little competition exists in the market.

Reviewing defence spending

Speed

62. In their Report, *The Strategic Defence and Security Review*, published in September 2010, the Defence Committee concluded that “the rapidity with which the SDSR process is being undertaken is quite startling. A process which was not tried and tested is being expected to deliver radical outcomes within a highly concentrated time-frame. We conclude that mistakes will be made and some of them may be serious.”¹⁰⁹ The National Security Strategy was released on 18 October 2010, the Strategic Defence and Security Review on the 19 October, and the Spending Review was released on 20 October. In his written evidence Professor Taylor warned that:

106 Q 585

107 Appendix

108 Q 731

109 Defence Committee, *The Strategic Defence and Security Review*, First Report of Session 2010–11 HC 345, para 14

The SDSR of 2010 should not be compared with the 1998 exercise SDR because the latter sought to identify and introduce important improvements to the MoD's structures and processes: the creation of the Defence Logistics Organisation, the Equipment Capability Customer and the Permanent Joint Headquarters were examples. The five months allotted to the SDSR process was insufficient for any similar effort, hence the separate treatment of a Defence Industry and Technology Policy and of the Defence Reform effort under Lord Levene.¹¹⁰

63. However, despite the speed with which the process was undertaken, some of those from whom we took evidence appeared comfortable with the result, as Dr Cornish told us:

We have to bear in mind that the NSS and the SDSR, the whole process, was, as they say, pushed to the wire. It was being reviewed in all sorts of ways and at all sorts of levels almost up to the day of publication. As I said earlier, I really can't tell whether there was a causal influence at all. I'm guessing that there was. I go back to my earlier point: in the end, the outcome of the process was reasonable, intelligent and stable enough for the time being.¹¹¹

And Professor Chalmers noted that:

RUSI conducted a survey just after the review among members of the foreign security policy elite, and one of the questions we asked them was whether they felt the Government had struck the right balance, in terms of resource allocation, between the need to make savings generally in Government spending and the allocation to defence. Interestingly, the majority of our respondents said they felt the Government had struck the right balance in relation to defence spending.¹¹²

64. The Spending Review is not the end of the Government's reform programme for defence spending. In a speech in August, the Defence Secretary announced that "To ensure oversight and implementation of this programme, I am today setting up the Defence Reform Unit. A heavy hitting Steering Group of internal and external experts will guide the hard thinking and challenge preconceptions. I have asked Lord Levene to Chair this Group and I am grateful for his acceptance."¹¹³

Over-commitment of future defence spending

65. The National Audit Office has noted that the Ministry of Defence repeatedly over-commits its budget. They stated that:

At the end of the last two spending rounds, the Department's over-committed plans have led to budgetary pressure in the new financial year. This has led to additional savings being necessary. During 2009–10 the Department had to find additional

110 Ev 138

111 Q 255

112 Q 269

113 Speech delivered by Secretary of State for Defence at The Royal Institute of Chartered Surveyors on Friday, 13 August 2010.

savings of £800 million in year to bring its planned expenditure back into line with its budgets. Finding further savings mid-year is a time-consuming and de-stabilising exercise. Many areas have to revisit or adjust their plans leading to delays, material changes to project specifications, and costly renegotiation of contracts with industry.¹¹⁴

In evidence to us, the Chief Secretary said that “We came into office with a defence budget with a £38 billion projected overspend,” a point previously made by the Prime Minister in his statement on the Strategic Defence and Security Review.¹¹⁵

66. Professor Taylor was concerned that this prior commitment meant that short-term cuts would be made from areas that could be cut, rather than needed to be cut. He referenced a July 2010 National Audit Office, which stated that:

The Defence plans require a longer horizon than Government spending plans and are relatively inflexible. Long timescales are required to develop and field modern military capabilities with defence plans extending up to 20 years when compared against typical spending reviews at two to three year intervals. Decisions taken at any given point in time create long term commitments and liabilities, with up to 75 per cent of the budget committed in the next financial year to long term capabilities and people, reducing gradually thereafter.¹¹⁶

When we pressed Professor Taylor, he provided the following description of the impact of having only a small part of the budget immediately available for cuts:

The MOD model for generating capability involves eight lines of development: training, equipment, logistics, doctrine and so on. Many of those lines of development are under long-term contracts, particularly equipment. The carriers are a case in point. Some others, particularly elements of training and recruitment, are not subjected to the same long-term commitments, so one can expect the MOD to be pushed to make savings in areas in which it does not have those long-term commitments. Therefore, you’ll have some areas of capability not being generated when, perhaps, they should be. That is my anticipation. I cannot see how that can be avoided easily if you have to take a 4% cut in the defence budget out of, perhaps, a 30% total available to be changed.¹¹⁷

67. We discussed with witnesses how this tendency to over-commitment, stemming from the different periods over which defence and the Treasury were monitoring spending, could be tackled. Professor Taylor provided us with a strong case for reforming the acquisition procedures of the Ministry of Defence:

114 National Audit Office, Strategic Financial Management of the Defence Budget, HC 290 2010-11

115 Q 40; HC Deb, 19 October 2010, col 801

116 National Audit Office, Ministry of Defence: Strategic Financial Management of the Defence Budget, 21 July 2010 ,p 5, para 7

117 Q 247

The whole area of acquisition—as I would prefer to put it, rather than simply procurement—is something that needs further attention. We can see that, in the past, the level of technological ambition that the MOD has sought from its weapons systems in its requirements has been a contributing factor to the cost escalation and to the difficulty of predicting just what these new systems were going to cost. I hope that that is something that would be reviewed.¹¹⁸

68. Dr Cornish noted that work was under way with papers “coming out on the whole defence industrial strategy [...] next year”.¹¹⁹ He also noted that Treasury had worked closely with the National Security Council and all other Government departments on the recent defence reviews.¹²⁰ He argued that “the spending cycle at three or four years is out of kilter with an acquisition cycle that could take five or ten years, or perhaps even longer. There is no doubt that improvement is needed in the MOD, but it is also important to secure more flexibility and adaptability within the Treasury”.¹²¹ He felt that the use of ‘urgent operational requirements’ were “regarded by the Treasury as a bit of a scam and by the MOD as a desperate measure to get something that you need on time. One would hope that, from both sides of the discussion, we could move away from that sort of process”.¹²²

69. Professor Chalmers thought that the over-commitment of the Ministry of Defence’s budget had meant that the Treasury had had to become more involved in the Ministry of Defence. He explained that:

If there was a situation where it felt that the MOD was managing its priorities within the budget available, [the Treasury] would probably be more inclined to stand back, but that has not been the case in the recent past.

He added that this is “an issue of over-commitment, but it’s also an issue of wasting money by making commitments, which we then can’t afford to fulfil”.¹²³

70. Our witnesses suggested two different, but not necessarily incompatible, responses to the need for changes to the acquisition process. Professor Taylor told us:

I would like to see requirements that can be developed more quickly, so that they are more short-term requirements. They would then contain less technological risk and we would have a better chance of them coming in on time. There is some sympathy for this sort of argument in some parts of the Ministry of Defence. My shorthand argument is that, normally, we should not approve a project unless it’s planned to come into service within five years. I emphasise “normally”. That should be the normal rule. There are hints in the review that the Government might be more

118 Q 265

119 Q 266

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drawn towards this sort of thinking, and I think that will help with the procurement scene—to get the requirements a little more modest.¹²⁴

He noted though that “If it [the MOD] went for shorter term contracts, they would be more expensive because companies would be taking on more risk that the contract would be cancelled—therefore, they would have to take that into account in their prices”.¹²⁵ Professor Chalmers called for a longer-term budget for the Ministry of Defence, helping it to plan further in the future, and better matching the profile of its spending commitments:

Where I think there is room for more thought in coming months is whether to take up the suggestion, to which the previous Government committed, of having a 10-year equipment budget, which is well beyond the spending review process and therefore creates problems for the Treasury. That would be more in keeping with the sort of time scales that procurement, and indeed defence capability planning more generally, deals with. It is worth while in that respect to look at the lessons of Australia and Canada, both of which have 20 to 25-year indicative budgets for defence, which can then be used for the planning of their long-term capabilities. There is a parallel with transport in this country, which has a 10-year capital programme, and which of course gets revised at spending reviews. There is a whole set of issues there.¹²⁶

71. The Government inherited an over-committed defence budget. Successive governments have tried and failed to deal with over-commitments. The major concern of the Committee is the interaction between the Treasury and the Ministry of Defence over how defence acquisitions, and day-to-day funding, is agreed. In many cases, it may be sensible to accept that the high costs of short-term contracts are offset by the increased flexibility they give. There will however be some long-term projects which cannot be planned within the confines of the Spending Review, as these are in the programmes of many spending departments. The MoD has a poor record of dealing with such contracts. These continuing difficulties suggest that the level of scrutiny given to these contracts by the central departments is not sufficient to prevent serious blunders in procurement.

Afghanistan

72. Operations in Afghanistan continue. The *Strategic Defence and Security Review* noted that “the Government is fully committed to ensuring that the campaign is properly resourced, funded and equipped”.¹²⁷ The Spending Review 2010 noted that “the Treasury remains committed to funding all the net additional costs of military operations in Afghanistan from the Special Reserve”.¹²⁸

124 Q 265

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126 Q 266

127 HM Government, *National Defence and Security Review*, p 15, para 2.3

128 HM Treasury, *Spending Review 2010*, p 85, para A.12

73. Such an important and necessary commitment has a significant impact on how defence spending is allocated.

74. UK military personnel engaged in ongoing operations in Afghanistan must have the necessary equipment. But such operations must not overly colour the shape of defence spending after their expected end.

5 Distributional analysis

Distributional analysis

75. The Budget contained, for the first time, a section giving a distributional analysis of the measures it contained. In our report on the June 2010 Budget we recommended that this work be taken further in the Spending Review:

It is likely that the Comprehensive Spending Review will also have different effects on different income groups. We recommend that the Treasury builds on the approach taken in the Budget to give information about the impact of CSR changes on different households. We would like the analysis for both the CSR and future Budgets to take two forms: a narrowly drawn set of figures based on those measures most easily modelled and a wider analysis, using more assumptions, which would allow a fuller set of measures to be included.¹²⁹

76. We are pleased that Treasury has responded to our recommendation and included an Annex within the Spending Review which models some of the distributional impacts of future changes to tax, welfare and public spending information on different households. Carl Emmerson, Acting Director, IFS, agreed that the analysis was a “welcome development”.¹³⁰ The Chancellor revealed to us that this type of analysis had previously been done by the Treasury but that it had never previously been published.¹³¹

77. The distributional analysis produced by the Treasury included changes already announced and modelled at the time of the Budget combined with some of the further changes announced in the Spending Review. Mike Brewer, Programme Director, IFS, had no criticism of the accuracy of the modelling done at the Budget. He considered that the analysis done could have been more extensive if more of the welfare reforms had been included and that the results had been presented over a longer time period.¹³²

78. The IFS produced their own distributional analysis of the Spending Review. This included more of the changes to welfare spending than the Treasury had done and looked further ahead into the future. However, unlike the Treasury analysis, it did not include any of the impact of cuts in departmental spending. As Mr Emmerson explained:

One question that we think we are answering very well is, “To what extent are tax changes and benefit changes affecting individuals’ incomes, and how does that vary by family type and across the income distribution?” Another question that is also extremely interesting and important is, “What about the whole fiscal consolidation package once you include all the public service cuts?” We have not included any of that. The Treasury has made a stab at it. Doing it is very, very difficult, and it is

129 Treasury Committee, First Report of Session 2010–11, *June 2010 Budget*, HC 350, para 82

130 Q 105

131 Q 757

132 Q 111

important to bear in mind that even on its own figures it is including 55%—I make it—of the consolidation package of the tax rises, the benefit cuts and the public service cuts. So no one can claim that they have looked at the whole fiscal consolidation package.¹³³

79. While the Treasury had modelled some of the departmental cuts which the IFS had omitted, the IFS had produced a more comprehensive model of welfare changes than the Treasury. Mr Brewer said:

The analysis produced by the Treasury covered about 40% of the welfare cuts in 2012, and the cuts in 2012 are about 40% or 50% of the cuts in 2014. Overall, the analysis printed by the Treasury covers about 20% of the cuts due in 2014; we got to about 90% of the cuts in 2014. So, no, we did not cover every single welfare change—you have mentioned the very small increase in discretionary housing payments—but our coverage is a lot greater than that of the Treasury.

80. The IFS also raised questions about the inconsistencies between some of the charts in the Spending Review document. In written evidence they pointed out that Chart B.6 (which considers the impact in 2014–15) includes additional changes to ESA (Employment and Support Allowance) and DLA (Disability Living Allowance) yet omits the changes to LHA (Local Housing Allowance). They also drew attention to the differences between Charts B.4 and B.5, that show changes as a percentage of net income, and Chart B.6 that shows the impact of changes as a percentage of net income plus benefits in kind. The IFS told us that “we are also unclear why HMT did not additionally publish the distributional impact of the tax and benefit changes due by 2014–15 in the same form as the analysis in Charts B.4 and B.5”.¹³⁴

81. The Chief Secretary robustly defended the distributional analysis included with the Spending Review document. He explained that a “number of tax and benefit changes are difficult or impossible to include, because of data limitations”¹³⁵ and that:

The distribution analysis that we have done, which is shown at the end of the document in chart B6, includes for the year 2014–15 departmental expenditure, welfare changes and tax changes. It takes them all together and offers the fullest possible analysis that we could develop, in the context of the spending review, of the distributional effect of the decisions that we have made.¹³⁶

82. The Chancellor agreed that the analysis had been done in the best way possible and he welcomed input from the Committee on the methodology:

Speaking for the officials in that part of the Treasury, I think they would welcome input on that work. As I say, I think we want to come to an agreed form of

133 Q 115

134 Ev 145

135 Q 700

136 Q 705

methodology, which may be this Committee, or with the help of the Public Accounts Committee as well, that we're going to use for future Budgets under whoever is the Chancellor.¹³⁷

83. We welcome the Treasury's response to our request greatly to increase its distributional analysis, showing the effect of measures in the Spending Review on different households. We recommend the Treasury continues to extend and improve the analysis it provides and takes account of our recommendations in our report on the June Budget. We recommend that the Treasury examine the IFS's proposal that more of the welfare changes can be modelled and included in its analyses. We also recommend that the Treasury publish not just the sources but additional information on the calculations underpinning their distributional analysis to provide further transparency and encourage debate on how the methodology of such analysis might be improved.

Fairness and progressivity

84. A great deal of debate around the Spending Review has been over whether the measures were 'progressive' and 'fair'. The two are not synonymous but they have sometimes appeared so. While 'fair' is a word in common use, in this debate 'progressive' has had a specific meaning. The IFS told us:

The definition [of "progressive"] that we're using, in a very technical sense, is "How are the gains or losses from a measure changing as an individual's income rises?" So, as you move up the income distribution, do you see the gains or losses increase or decrease? It is a very technical, narrow definition, and it is our understanding that that was the definition that the Chancellor had in mind when he used the term in his June Budget speech.¹³⁸

85. The day after the Spending Review was published the IFS gave a briefing in response to it. At the briefing Mr Emmerson stated that:

The Treasury yesterday published an attempt to model the distributional impact of some of the cuts to public services. This is far from straightforward and it is laudable that the Treasury has attempted this exercise [...] the Treasury's analysis shows both the welfare cuts and public service cuts announced yesterday being regressive. But large tax rises for the very rich announced by Labour lead, on the Treasury's estimates, to the overall fiscal consolidation hitting the highest income individuals the most.¹³⁹

86. We questioned Mr Emmerson about how the fiscal consolidation could have been achieved without being regressive. He explained that given that the "Government and its predecessor has chosen to do more on the spending side and less on the tax side. That

137 Q 755

138 Q 112

139 Opening remarks by Carl Emmerson at IFS briefing on the October 2010 Spending Review, 21 October 2010

clearly makes it harder to do it in a progressive way”.¹⁴⁰ He agreed that the Chancellor was “in some ways trying to be as progressive as possible by taking child benefit away from higher rate taxpayers and by cutting the higher education teaching budget very deeply”¹⁴¹. Mr Brewer agreed that “given his [the Chancellor’s] choices about the split between tax rises and spending cuts, it is hard to imagine how he could have done this without it being regressive”.¹⁴²

87. The Chancellor stated that the Budget was a “progressive Budget.”¹⁴³ In contrast we noted that he did not refer to the Spending Review as progressive. However the principle of “fairness”¹⁴⁴ was mentioned as one of the guiding principles of the Review. The IFS were clear that they were not making a judgement about the fairness of the Spending Review. Mr Emmerson stated that “fairness and progressivity are not the same thing” and in regard to previous IFS comments he reminded us that they had “tried to be very clear that we were not saying the spending review was fair, or indeed that it was unfair”.¹⁴⁵

88. We had a discussion with Mr Emmerson and Mr Brewer about ‘fairness’ and ‘progressivity’. Mr Emmerson explained that in some cases fairness and progressivity may not be aligned:

You can take measures that are progressive that may well be seen as unfair. They could redistribute from what you might deem to be the undeserving poor to the deserving people in the middle of the income distribution, in which case you could say that it is fair and right, but it wouldn’t be progressive. You could carry out a reform that taxed high-income people to a really high degree and to such an extent that they worked less and the economy was smaller. That would be progressive, but you might not think it was right, because everyone else would have to pay more tax to pay for public services.¹⁴⁶

89. The Chief Secretary highlighted the changes to housing benefit as an example of applying the principle of fairness:

There is a need to reform the housing benefit system to ensure that we are not paying, to people who are out of work, housing benefit at a level that ordinary working people in work could not afford. That is a basic principle of fairness, actually.¹⁴⁷

90. Given the choices made by the Government to employ more spending cuts than tax rises in the consolidation, the evidence suggests that it would have been very hard for

140 Q 120

141 Q 121

142 Q 123

143 HC Deb, 22 June 2010, col 180

144 HC Deb, 20 October 2010, col 951

145 Q 134

146 Q 134

147 Q 657

the overall consolidation to have been progressive. Fairness and progressivity are two different concepts. Decisions that are technically regressive are not necessarily unfair. Whether or not the consolidation is fair is, and will remain, the subject of political debate.

91. In written evidence, the Government told us:

Publishing analyses of tax, tax credit and benefit changes far into the future may not be representative of the impact of Government policy. This is because the Government will take a view on tax and welfare policy based on the emerging fiscal position in future fiscal events.¹⁴⁸

Debate about the distributional analysis should take into account the extent to which government policy is likely to evolve. The distributional analysis done at the time of the Spending Review is a snap shot. It should not be seen as immovable but as a forecast which should be adapted as more detail on tax and spending is revealed. On 11 November 2010 The Secretary of State for Work and Pensions announced the publication of a White Paper on welfare reform in a statement to the House.¹⁴⁹ The White Paper proposes combining many out-of-work benefits and in-work support payments into a single “Universal Credit”. The first individuals will receive it in 2013, and full implementation is expected by October 2017. Such a significant change to the welfare system will inevitably affect the distributional analysis for 2013 onwards. **We are confident that the Treasury will update their analysis to take effect of major policy changes. However, given that the Universal Credit is to be introduced gradually, as other major changes may be, care will have to be taken to show both the effect of the long term reforms, and of transitional measures.**

Child benefit

92. We were keen to understand more about the process for deciding and the implications of removing child benefit from higher rate tax payer households. The Chancellor confirmed to us that the decision had not been discussed with the Cabinet prior to its announcement at the Conservative Party conference on 4 October 2010. He explained that this was partly due to the fact that it was technically a tax measure, and therefore did not need to go to Cabinet, and partly because Cabinet discussion in a coalition was impractical during conference season. He did state however that there had been consultation and planning as “the people with the direct responsibility and the Deputy Prime Minister were involved for many weeks beforehand. This was not sprung on them.”¹⁵⁰ The Chief Secretary reiterated that there had been discussions and said that officials in HMRC had been consulted a “significant number of weeks”¹⁵¹ before the child benefit announcement.

148 Ev 150

149 HC Deb, 11 November 2010, cols 438-440

150 Q 765

151 Q 689

93. We asked Indra Morris, Director, Personal Tax and Welfare Reform, HM Treasury, why the Chancellor had initially announced the changes to child benefit would save £1 billion yet in the Spending Review the saving was in fact £2.5 billion. She explained that

The difference is essentially that, as officials, we were being overly cautious ahead of the OBR certifying the costings and, therefore, that was fed into our advice to the Chancellor. It is very much as simple as that.¹⁵²

Ms Morris explained that she considered the changes chosen were “incredibly simple”¹⁵³ in comparison to the other option which had been considered which would have involved complex means testing. She did however concede that one of the reasons that the changes were not being introduced until 2013 was due to the current change programme at HMRC and the work being done on PAYE and tax avoidance.¹⁵⁴

94. Treasury officials and Ministers defended their decision to withdraw child benefit by asking higher rate tax payers to confirm whether or not child benefit was claimed in their household, rather than by means testing, on the grounds of administrative simplicity. The Chancellor told us:

What I’ve sought to do is introduce this in the simplest possible way—to use the existing systems we have. We know who higher rate taxpayers are. The alternative, if one wanted to remove child benefit from higher rate taxpayers or tax it in some way, would have been to create some means-tested system. I just don’t think that was sensible because what I’ve done preserves the way child benefit is claimed by the vast majority of people in this country.¹⁵⁵

95. The Chancellor’s decision to preserve the way that child benefit is claimed is important because, as the HMRC website points out, Child Benefit not only provides income directly to mothers, but it gives those who stay at home to care for children under 12 access to state pension credits:

If you have a child under 12—and you’re either looking after them at home or you work but don’t earn enough to pay National Insurance contributions— Child Benefit can help you qualify for ‘credits’ for being a parent or a carer. These credits count towards your State Pension.¹⁵⁶

Claiming child benefit builds up entitlement to the state pension for parents of children under 12 who cannot pay National Insurance contributions. When the Government implements its changes to child benefit, clear information will be essential to ensure that parents are aware that if they simply cease to claim Child Benefit it could affect their pension entitlement.

152 Q 565

153 Q 566

154 Q 568

155 Q 767

156 <http://www.hmrc.gov.uk/childbenefit/start/claiming/protect-pension.htm>

96. We have other concerns about how removing child benefit from higher rate taxpaying household will work in practice. We raised the practicalities of compelling couples to discuss financial arrangements with each other. Ms Morris did not think this would be a problem stating “all we are asking for is a very reasonable conversation between a couple”.¹⁵⁷ The Chief Secretary responded to our questions by saying:

There are many things that higher-rate taxpayers are required to declare in the context of filling in their tax return. We will be adding a further item to that list and, in common with other areas of the tax system, there will be penalties for failing to do so.¹⁵⁸

We [the Treasury] will set this out in legislation. The requirement on the higher-rate taxpayer will be to declare whether child benefit is being received in their household or not.¹⁵⁹

97. We consider there are some risks involved in the new system. When we questioned Mr Brewer about the difference between two couples that collectively earn the same amount but only one of which has a higher rate tax payer and will therefore lose their child benefit he agreed that there was an issue of fairness.

We [the IFS] have avoided using the word “fairness” when talking about progressivity, but I am happy to use that word here, when we are talking about two families who are apparently very similar. It seems unfair that those two families should be treated so differently.¹⁶⁰

He also pointed out another problem regarding incentives.

What also seems economically perverse is that families who are just below the higher rate threshold, who get a pay rise, will find themselves worse off. A £1 increase in one of those families’ incomes will lead to a loss of all their child benefit, which could be £1,700. That is economically distorting and perverse. The Treasury published a figure in the Budget that suggested that it expected to lose £270 million a year in tax revenues from people tax planning around this. That sounds like an inefficient way to devise a means test.¹⁶¹

98. The change to Child Benefit is not being made until 2013. Government will want to carefully consider the issues raised with us in evidence: perverse economic incentives; perceived unfairness; and enforceability.

157 Q 567

158 Q 677

159 Q 678

160 Q 144

161 Q 144

Housing

99. The Spending Review announced reforms to housing benefit and social housing intended to reduce housing benefit costs and increase incentives to build while significantly decreasing public sector capital investment. These changes have been controversial. Indeed, the Work and Pension Committee are undertaking a major inquiry into the housing reforms announced in the June Budget. We do not intend to replicate that inquiry but wished to explore the effect of Spending Review changes on public spending, and on the operation of the housing market.

100. As one of the Government's aims is to reduce the housing benefit bill we were keen to understand the drivers behind the increases in it in the past. The Chief Secretary considered that one of the reasons that housing benefit had increased in the past decade was that "rents would follow housing benefit which would follow rent, and you would get a sort of ratchet effect".¹⁶² David Orr, Chief Executive, National Housing Federation, agreed that this was an issue but felt that the underlying reason that housing benefit bill was so high is the "desperately overheated housing markets characterised by an absence of supply right across the board".¹⁶³ He attributed the increase in the housing benefit bill to a lack of social housing:

Most of the recent increase in housing benefit costs has been due to the number of people who might traditionally have expected to live in social housing at rents of perhaps £80 a week, but who now live in privately rented accommodation at rents of maybe two or three times as much, the cost of which is still covered by housing benefit. Unless we find some way of addressing that core issue, we will not resolve the problem.¹⁶⁴

David Montague, Chief Executive, L&Q, also felt that increasing supply from "the housing association sector, because we currently charge about 50% of the market rent"¹⁶⁵ would be an important way of reducing the housing benefit bill.

101. Mr Montague considered that the changes to increase new social housing rents to an intermediate level of 80% of the market rate would help his housing association (which is based in London and the South East) to increase supply. He did not think it would be effective in areas in the north where rents were lower.¹⁶⁶ Mr Orr agreed that these changes would be less effective in other areas of the country, where differentials between the social housing and private sector rental market were lower or non-existent. Indeed he said that in some areas charging 80% of the market rent would require housing associations to reduce their rents.¹⁶⁷ Mr Orr agreed that more houses would be built but was concerned that the provision "will be a net transfer away from social housing to these intermediate [80% of

162 Q 629

163 Q 433

164 Q 435

165 Q 435

166 Q 456

167 Q 442

market rent] offers”.¹⁶⁸ Mr Orr was frustrated that the decision to cut capital investment by 74% would mean less social rented housing to provide a good offer for the working poor.¹⁶⁹

102. While increasing the income from housing would help increase the housing supply, Mr Montague also said that certainty over housing benefit was necessary to ensure there would be investment in new housing. He explained that investor “confidence sits on the security of our income stream, and that security sits on housing benefit, so we really do need certainty about the future of housing benefit”.¹⁷⁰ David Orr said that “If we get nothing else in the next year, a real commitment to flexibility would make a huge difference.”¹⁷¹ He claimed such flexibility would increase the effectiveness of the sector. As an example, he said that was important to use the existing stock as effectively as possible but that it would be very hard to encourage current social housing tenants to move to smaller more suitable properties if this meant that their rent would increase significantly to the new 80% level.¹⁷²

103. Gillian Guy, Chief Executive, Citizens Advice, considered that the higher rents that will be charged in future mean “there is lower work incentive coming through this package” as people would become more reliant on housing benefit to pay their rent.¹⁷³ She was also concerned about the 10% cut in housing benefit for people on Job Seekers Allowance for over a year.¹⁷⁴

104. We were interested in better understanding the numbers of people affected by the proposed changes to housing benefit. Lizzie Iron, Head of Welfare Policy, Citizens Advice, considered that over 21,000 households (17,000 of which are in London) would be affected by the cap in housing benefit and therefore could potentially have to move.¹⁷⁵ Mr Orr said that as many as 1.3 million people could be affected by all of the different housing benefit cuts announced and “as many as 80,000 households could be displaced in London”¹⁷⁶. In a debate in Whitehall on 4 November 2010 the Parliamentary Under-Secretary of State for Work and Pensions said:

What is important is that the Government have an important role in the private rental sector. Some 40% of people in that sector are in receipt of housing benefits, so we are part of the market-making, and we must recognise that. We cannot stand back and let the market control the sector, as the Opposition did when they were in government. We must take action and, at the same time, protect the sort of people in the constituency of my hon. Friend the Member for Nuneaton (Mr Jones) who he

168 Q 455

169 Q 438

170 Q 440

171 Q 456

172 Q 444

173 Q 446

174 Q 421

175 Qq 425-427

176 Q 428

mentioned. That is why we have put in place £140 million transitional relief to ensure that the support is there if it is needed. That problem was anticipated by the previous Government and it was in Labour's manifesto.¹⁷⁷

There was concern from some representatives of the housing sectors that the reforms may adversely affect new and existing tenants.

105. The Government's housing benefit reforms attempt to reshape the housing market. We shall monitor their effectiveness both in terms of their effect on public expenditure, and on the regional and national housing market, and on the London market.

Regional policy

106. As a committee we wanted to understand more about the regional impact of the Spending Review. The Joseph Rowntree Foundation told us:

JRF is concerned about the geographical and regional impact of the spending review. The Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust (a provider of housing and care services) are both based in York and we have a ten year commitment to working in partnership with the district and people of Bradford. The JRHT runs operations in Hartlepool, Scarborough and Leeds as well as York and its surrounding area. From this base, as well as from our research evidence, we are very aware that the spending review will have markedly different impacts on different towns, cities and regions across the UK—and may be particularly damaging for Northern towns and cities, where the public sector is a major employer as well as a major source of private sector, voluntary sector and social enterprise contracts, and grant funding for community and voluntary sector organisations.¹⁷⁸

107. Given the variations in the extent to which different regions relied on public sector employment, the regional effects of headcount reductions caused particular concern. Mr McCafferty said that there was a “worry that [...] the regional match, in terms of where the jobs will disappear and where the new jobs will be created, will be absolutely as one would hope”.¹⁷⁹ This concern was also echoed by Mr Patel who spoke about a “regional mismatch”.¹⁸⁰ Dr Philpott said that he would recommend “more regionally targeted support for small businesses [...] getting more credit and help to them”.¹⁸¹

108. Mr McCafferty expressed some concerns over the new Local Enterprise Partnerships (LEPs), which have replaced Regional Development Agencies (RDAs):

177 HC Deb, 4 November 2010, Cols 378WH-379WH

178 Ev 38

179 Q 354

180 Q 357

181 Q 286

The worry that we have had, and that John Cridland [Deputy Director-General, CBI] has expressed, is whether these new forms of regional economic management have sufficient scale to be effective; whether they are sufficiently focused to allow the business view to be heard and acted upon; and whether they have sufficient resources to carry out their job.¹⁸²

Mr Patel also had some concerns “On the equity side, we think that there is probably a lot more that the Government can do [...] one thing that the RDAs did well was promote a lot of these regional equity schemes”.¹⁸³

109. We raised our concerns with the Chief Secretary about the significant cut in funding that the LEPs will receive in comparison to the RDAs. He agreed that “across the board of Government spending, we are having to make spending reductions, and regional spending cannot be immune from that”.¹⁸⁴ However the Chief Secretary considered that the new LEPs would help in “empowering businesses and local authorities to work together at a local level”¹⁸⁵ and disagreed that requiring LEPs to bid to a centrally managed fund would be a problem.¹⁸⁶ The Chancellor also considered that the RDAs were “not an effective tool of policy” as “at the end of more than a decade, the gap between the regions was growing”.¹⁸⁷ We note the Business, Innovation and Skills Committee is conducting an inquiry into LEPs.

110. The Chancellor said that “producing a new model of growth that is not so dependent on debt, or so concentrated in one part of the country, is a major challenge”. He pointed out “that for every 10 private sector jobs created in the south-east of England over the last decade, only one was created in the north”. The Chancellor told us that:

I don't accept that any particular regions should do worse out of the Government's economic policy. Our intention is that all regions do well and, indeed, we have a bit more of a rebalancing of this economy geographically in the way that I was just describing.” He noted that “there are some very specific regional tools that we are using through, for example, the distribution of the capital projects, where they are located, and partly through, as I say, the Regional Growth Fund, the regionally based tax reduction, which is, again, not something that has been tried before. So there are a number of tools which also, I think, help.”¹⁸⁸

111. In written evidence after the hearings, the Treasury drew attention to these policies to support local growth, citing the Regional Growth Fund, the NICs holiday and infrastructure programmes. In addition, we were told the Local Growth White Paper

182 Q 298

183 Q 302

184 Q 614

185 Q 615

186 Q 618

187 Q 808

188 Q799

Sets out a new approach to supporting growth in all places, including

- a framework of powerful incentives to ensure that local authorities who deliver sustainable economic development benefit from that growth, including considering options to enable councils to retain locally-raised business rates
- launching the first round of bids to the £1.4bn Regional Growth Fund
- reform of the planning system so that it promotes rather than hinders growth, including a national presumption in favour of sustainable development establishing 24 Local Enterprise Partnerships (LEPS).

112. While the economy grew in the last decade, some regions benefited more than others. We agree with the Chancellor that it will be a “major challenge” to ensure that all parts of the United Kingdom benefit from future growth. The Government has announced some policies designed to help achieve this. We will monitor their progress.

6 Conclusion

113. The Spending Review cycle has been changed, so there will now be allocations over a four-year, rather than a three-year, period. This review is effectively the spending plan for the Government's first term. However, as we have seen, although it sets out a clear overall trajectory for public spending over the period, it does so when major policy changes are expected. There will be significant challenges in implementing such changes. In addition, the approach to central control of policy delivery has changed. This is manifest both in changes to the way in which departmental performance is assessed, and in changes to controls over local government expenditure. The Government, like other governments before it, is attempting to increase public sector efficiency and productivity.

114. We expect that our fellow committees will look closely both at policy changes, and at the new departmental business plans. We ourselves expect that a large part of our work over the course of the Parliament will be to monitor the effects of government policy both on growth, and on the overall pattern of public expenditure.

Conclusions and recommendations

Economy

1. The Government has embarked on consolidation which is significantly faster and deeper than that envisaged by the previous administration, but that should not obscure the fact that, whilst there is general party political agreement that consolidation is necessary, there continue to be differences over its precise method, timing and pace. (Paragraph 12)
2. Given that it appears capital spending by Government has the greatest impact on overall growth, we welcome the additional £2.2 billion of capital spending by 2014–15 announced in the Spending Review, compared to the June Budget. We look forward to the forthcoming Autumn forecast, where the new Office for Budget Responsibility's forecasts will be presented. We will use subsequent opportunities to examine further the impact of the Spending Review on economic growth more closely. (Paragraph 18)
3. Over the course of the Parliament, we will be monitoring the extent of public sector job losses, the capacity of the private sector to absorb reductions in public sector employment, and the relationship between employment and growth. As a first step, we look forward to the publication of the OBR's updated forecasts of employment later this month. (Paragraph 23)

Process

4. The evidence we have received from those within the process suggests that the wider use of the Public Expenditure Committee, and a wide-ranging system of meetings of more select groups reflecting the new coalition arrangements, led to a collective decision making process in reaching the final position outlined in the Spending Review. (Paragraph 30)
5. We note that while the Spending Review was conducted relatively quickly, the Civil Service had clearly been making preparations for it for some time. (Paragraph 32)
6. We are sceptical about how new some of the large savings from the 'Spending Challenge' are in reality. For example the Office of Government Commerce's (OGC) Collaborative Procurement Programme has been running since 2007. (Paragraph 33)
7. Seeking the views of public servants and the general public can produce some worthwhile suggestions for savings and income generation. This has to be set against the resources required to manage and review tools such as the 'Spending Challenge'. Short-term e-consultation can be useful but it cannot be a substitute for longer-term engagement with public sector employees and responsiveness to input from stakeholder groups. The Committee may return to the 'Spending Challenge' to examine its effectiveness. (Paragraph 38)

Spending

8. Ringfencing may fulfil electoral promises. But ringfencing can also lead to allocative problems across government as a whole. It could also reduce scrutiny of ringfenced departments. The decision to use the NHS budget to purchase social care and the DfID budget to support fragile and conflict-affected states shows that ringfencing has not been absolute and the Treasury should not be afraid to demand that spending currently ringfenced in certain areas be used where the benefit is the greatest, or where greater value for money can be obtained. (Paragraph 52)
9. It is argued that the aircraft carrier contract was unbreakable not just for legal reasons, but also because it was inextricably linked to the strategic need to maintain a stable supply of work for the sole warship-producing supplier in the UK. The National Audit Office will, no doubt, examine this intensively. In evidence to the Liaison Committee the Prime Minister agreed to look into the matter and provide this Committee with the maximum amount of information possible. When we have seen this information we may decide whether and how best to undertake further work. The Treasury should draw on the lessons from the contract to analyse all future Ministry of Defence procurement to ensure that value for money is being obtained, particularly when little competition exists in the market. (Paragraph 61)
10. The Government inherited an over-committed defence budget. Successive governments have tried and failed to deal with over-commitments. The major concern of the Committee is the interaction between the Treasury and the Ministry of Defence over how defence acquisitions, and day-to-day funding, is agreed. In many cases, it may be sensible to accept that the high costs of short-term contracts are offset by the increased flexibility they give. There will however be some long-term projects which cannot be planned within the confines of the Spending Review, as these are in the programmes of many spending departments. The MoD has a poor record of dealing with such contracts. These continuing difficulties suggest that the level of scrutiny given to these contracts by the central departments is not sufficient to prevent serious blunders in procurement. (Paragraph 71)
11. UK military personnel engaged in ongoing operations in Afghanistan must have the necessary equipment. But such operations must not overly colour the shape of defence spending after their expected end. (Paragraph 74)

Distributional analysis

12. We welcome the Treasury's response to our request greatly to increase its distributional analysis, showing the effect of measures in the Spending Review on different households. We recommend the Treasury continues to extend and improve the analysis it provides and takes account of our recommendations in our report on the June Budget. We recommend that the Treasury examine the IFS's proposal that more of the welfare changes can be modelled and included in its analyses. We also recommend that the Treasury publish not just the sources but additional information on the calculations underpinning their distributional analysis to provide further transparency and encourage debate on how the methodology of such analysis might be improved. (Paragraph 83)

13. Given the choices made by the Government to employ more spending cuts than tax rises in the consolidation, the evidence suggests that it would have been very hard for the overall consolidation to have been progressive. Fairness and progressivity are two different concepts. Decisions that are technically regressive are not necessarily unfair. Whether or not the consolidation is fair is, and will remain, the subject of political debate. (Paragraph 90)
14. We are confident that the Treasury will update their analysis to take effect of major policy changes. However, given that the Universal Credit is to be introduced gradually, as other major changes may be, care will have to be taken to show both the effect of the long term reforms, and of transitional measures. (Paragraph 91)
15. Claiming child benefit builds up entitlement to the state pension for parents of children under 12 who cannot pay National Insurance contributions. When the Government implements its changes to child benefit, clear information will be essential to ensure that parents are aware that if they simply cease to claim Child Benefit it could affect their pension entitlement. (Paragraph 95)
16. The change to Child Benefit is not being made until 2013. Government will want to carefully consider the issues raised with us in evidence: perverse economic incentives; perceived unfairness; and enforceability. (Paragraph 98)
17. The Government's housing benefit reforms attempt to reshape the housing market. We shall monitor their effectiveness both in terms of their effect on public expenditure, and on the regional and national housing market, and on the London market. (Paragraph 105)
18. While the economy grew in the last decade, some regions benefited more than others. We agree with the Chancellor that it will be a "major challenge" to ensure that all parts of the United Kingdom benefit from future growth. The Government has announced some policies designed to help achieve this. We will monitor their progress. (Paragraph 112)

Appendix 1

Letter from the Chief Executive of BAE Systems to the Prime Minister

I have written to you on two separate occasions during the course of the Strategic Defence and Security Review. As you approach the conclusion of the Review, I understand that you are giving serious consideration to the cancellation of the second aircraft carrier, Prince of Wales. I wanted to make sure that you and NSC colleagues understood what this would mean in practice, before you make your final decision.

BAE Systems has invested £500m of shareholder funds since 2008, in response to the MOD's aim of consolidating the surface ship sector. This investment was predicated on a stable workload over a 15 year period, based on the construction of two aircraft carriers, the development of a new frigate, and the support of these and other ships in the existing RN fleet. It was underpinned by an agreement with MOD that, in return for a guaranteed level of funded work, we would sustain in the UK the key capabilities needed for warship design, development, build, integration and support, and we would rationalise and transform the business. We have already saved £70m from MOD costs in the first year of that agreement's existence.

If both carriers are completed the cost will be £5.25bn. If Prince of Wales is cancelled, the direct cost of the programme will be £4.8bn. However, in these circumstances, and under Treasury rules and the agreements I have outlined, there will be consequential costs, including those related to rationalisation, which we estimate would amount to £690m. Some of these costs would have been incurred by MOD in any event. But the cancellation of PWLS would pull rationalisation costs forward by at least three years, into 2012/13, whereas, under the current plan, these costs would have been funded through the savings we would make under our agreement with MOD. Of course, if Prince of Wales were cancelled you would make the long term savings from operating only one ship.

The cancellation of Prince of Wales would mean that production in all BAE Systems shipyards would cease at the end of 2012. There is no further production work planned until steel is due to be cut on the new frigate programme in 2016. This means that the business would be unsustainable, and all three yards would have to close by early 2013, with the loss of more than 5,000 jobs in BAE Systems and many more across the UK in hundreds of companies in the supply chain. In practice, that means the end of the UK's capability in complex warships, and would bring the sector to a halt. Significant additional rationalisation costs would also result for MOD, the BAE Systems element alone of which would be £250m. And a potential termination liability under our agreement with MOD would also arise.

It might be possible to ameliorate this position through the direct award of new work to BAE Systems. With fuel tankers, an ice capable ship, and the acceleration of the frigate programme, it would be just about possible to sustain the Key Industrial Capabilities set out in the BAE Systems agreement with MOD. But the speed at which these decisions would have to be made in order for us to be in a position to cut steel of any sort by 2013 has never been achieved in defence acquisition before on a programme of this sort, and would mean significant cash funding being brought forward in to the next 2-3 years of the

programme. We would of course do everything we could to make sure this worked, but we really do need a reality check here to ensure that the business and the future of the sector is not put at unacceptable risk. We have had a week to consider how this would work.

In any event, all of this activity would not overcome a production gap, which would still see the yards empty for six to nine months, it would be a huge challenge, managerially and financially, to sustain our highly skilled workforce in those circumstances, and it would give rise to very significant industrial relations and political issues.

So, in practical terms, and even after the potential amelioration, the cancellation of Prince of Wales would cause the abrupt rationalisation of the industry over the next 2-3 years, which will precipitate the closure of at least one of the BAE Systems shipyards, and the layoff of production staffs at the others. We anticipate that this will require at least 2,500 job losses in BAE Systems in Scotland and on the South Coast of England, as well as several thousands in the wider supply chain.

There are then real risks for the sector if the Prince of Wales is cancelled. As you know, the sector represents one of the highest technology, advanced manufacturing sectors in the British economy. It has delivered £2bn in exports over the past 10 years, even when there were few exportable products in the portfolio. With the prospect of a new exportable frigate as part of the current plan, the potential for the industry would be extremely bright. By contrast, the cancellation of the Prince of Wales would put the future of the sector seriously at risk.

I have no doubt that there may be scepticism about some of this analysis. But I fully stand behind it and would welcome the opportunity, which we have not had, to present this to you, and allow you to question any aspect of it before reaching a fully informed decision. There are key issues too which we should discuss about the future of the military aerospace sector, which will also be profoundly affected by the outcome of the SDSR.

We fully understand the pressure which the Government is under in addressing the fiscal deficit, and we are committed to doing what we can to help you in this. We have proposed to MOD how we might contribute to significant savings in the Defence budget over the next 10 years, and we stand ready to do more to help, in the context of a sustainable long term programme in which the industry can continue to deliver capability to the front line.

In addition to NSC members, a copy of this goes to Vince Cable and Michael Moore.

Yours sincerely

Ian G King

5 October 2010

Formal Minutes

Monday 22 November 2010

Members present:

Mr Andrew Tyrie, in the Chair

John Cryer	John Mann
Michael Fallon	Mr George Mudie
Mark Garnier	Jesse Norman
Stewart Hosie	David Rutley
Mr Andrew Love	Mr Chuka Umunna

Draft Report (*Spending Review 2010*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 114 read and agreed to.

A Paper was appended to the Report as Appendix 1.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for publishing with the Report.

[Adjourned till Tuesday 23 November at 9.30 am

Witnesses

Thursday 28 October 2010

Page

Lord Turnbull KCB

Ev 1

Monday 1 November 2010

Carl Emmerson, Acting Director, Institute for Fiscal Studies, and **Mike Brewer**, Director, Direct Tax and Welfare, Institute for Fiscal Studies

Ev 15

John Appleby, Chief Economist, King's Fund, and **Simon Maxwell**, Senior Research Associate, Overseas Development Institute

Ev 28

Dr Paul Cornish, Head, International Security Programme, Chatham House, **Trevor Taylor**, Professorial Research Fellow in Defence Management, and **Malcolm Chalmers**, Professorial Fellow in British Security Policy, RUSI

Ev 34

Tuesday 2 November 2010

Adam Lent, Chief Economist, TUC, **Ian McCafferty**, Chief Economist, CBI, **Priyen Patel**, Policy Adviser Economic Affairs, Federation of Small Businesses, and **Dr John Philpott**, Chief Economist, Chartered Institute of Personnel and Development

Ev 42

Gillian Guy, Chief Executive, and **Lizzie Iron**, Head of Welfare Policy, Citizens Advice, **David Montague**, Chief Executive, L&Q Group, and **David Orr**, Chief Executive, National Housing Federation

Ev 61

Wednesday 3 November 2010 – morning sitting

Mr Andrew Hudson, Managing Director, Public Services and Growth, **Mr James Richardson**, Director, Public Services, and **Ms Indra Morris**, Director, Personal Tax and Welfare Reform, HM Treasury

Ev 70

Wednesday 3 November 2010 – afternoon sitting

Rt Hon Danny Alexander MP, Chief Secretary to the Treasury, **James Richardson**, Director, Public Services, and **Indra Morris**, Director, Personal tax and Welfare Reform, HM Treasury

Ev 86

Thursday 4 November 2010

Rt Hon George Osborne MP, Chancellor of the Exchequer, **Sir Nicholas Macpherson**, Permanent Secretary, and **Mr James Richardson**, Director, Public Services, HM Treasury

Ev 106

List of printed written evidence

	<i>Page</i>
1 Letter from the Chairman of the Committee to the Chancellor of the Exchequer	Ev 125
2 Reply from the Chancellor of the Exchequer to the Chairman of the Committee	Ev 125
3 Citizens Advice	Ev 126
4 CBI	Ev 134
5 Professor Trevor Taylor, Royal United Services Institute	Ev 138
6 Federation of Small Businesses	Ev 139
7 Chartered Institute of Personnel and Development	Ev 141
8 Institute for Fiscal Studies	Ev 143
9 HM Treasury	Ev 150
10 National Housing Federation	Ev 154

List of additional written evidence

(published in Volume III on the Committee's website www.parliament.uk/treascom)

	<i>Page</i>
1 Jane Langfield	Ev w1
2 British Chambers of Commerce (BCC)	Ev w1
3 Association of Colleges (AoC)	Ev w3
4 National Audit Office	Ev w5
5 New Local Government Network (NLGN)	Ev w9
6 Reform	Ev w12
7 Local Government Association	Ev w14
8 Policy Exchange	Ev w18
9 National Institute of Economic and Social Research (NIESR)	Ev w20
10 The Nuffield Trust	Ev w23
11 Gingerbread	Ev w24
12 Save the Children UK	Ev w26
13 TaxPayers' Alliance	Ev w29
14 Low Incomes Tax Reform Group (LITRG)	Ev w32
15 Barnardo's	Ev w35
16 Joseph Rowntree Foundation	Ev w36
17 Institute for Government	Ev w39
18 Institute of Economic Affairs (IEA)	Ev w41
19 Scope	Ev w43
20 nef (the new economics foundation)	Ev w46
21 Shelter	Ev w49
22 Child Poverty Action Group (CPAG)	Ev w54
23 BAE Systems	Ev w57

List of Reports from the Committee during the current Parliament

Session 2010–11

First Report	June 2010 Budget	HC 350
Second Report	Appointment of Dr Martin Beale to the Monetary Policy Committee of the Bank of England	HC 195
Third Report	Appointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 476
Fourth Report	Office for Budget Responsibility	HC 385
Fifth Report	Appointments to the Budget Responsibility Committee	HC 545