Controlling Public Spending: How To Cut 25%

Policy Exchange

Edited by Andrew Lilico, Hiba Sameen and Ed Holmes

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About the Editors

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He is a member of the IEA/Sunday Times Shadow Monetary Policy Committee, is one of Europe's top experts on the economics of financial regulation (having led the teams assessing for the European Parliament the impact of the AIFM Directive, the Financial Services Action Plan, led one of the two large projects for the European Commission on the FSAP, and led the project for the Financial Services Authority on the impact of the Markets in Financial Instruments Directive) and is a leading UK authority on cost of capital analysis (advising Ofwat on the cost of capital for the water industry, the CAA on the costs of capital for the London Airports, and Ofcom regarding BT, Sky Digital, and others).

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Policy Exchange's Economics Unit

What we stand for

- **Rebuilding the British economy.** Even as we manage our way through the recession, we need to think about how to transform the British economy so that we are ready to face the future. Our research looks at how to restore financial stability, and also how to reform government spending and regulation. We believe that with radical reform of the budget, tax, welfare, and the supply side of the economy, Britain will be able to enjoy sustainable and faster growth in the future.

What we are working on

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- **The future of public services:** How can we shift resources from unproductive to productive government spending and find scope to reduce the tax burden? How can Government achieve more with less?
- **Welfare reform:** We are looking at the barriers and disincentives for people on benefits to seek work; what people have to do to qualify for welfare on health grounds; developing a philosophy for what a modern social security system should look like and analysing how to reduce unnecessary welfare spending and dependency.
- **Housing:** Planning law and housing policy are once again high on the political agenda. Previous research by Policy Exchange has helped to shape the discussion in these areas, encouraging examination of issues around local incentives to develop, densification and the weaknesses of central planning. Among the issues we currently considering are: streamlining and localising the planning system, future financing of Social Housing, how to encourage institutional investment into private rented accommodation, what the goal of housing policy should be and whether we should be encouraging the development of new towns.

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Executive Summary

On October 20th the government is scheduled to announce the results of its Spending Review. The Chancellor has set out an objective of eliminating the current structural deficit (i.e. the element of borrowing which will not disappear when the economy recovers – and not including capital spending), by 2015/16. Projections for the Treaty deficit suggest that the Budget as a whole is to be brought back into balance by 2018.

To do this, the Emergency Budget set out an overall reduction of Total Managed Expenditure (in other words, all the money that the state spends) of 3.6% in real terms between 2010/11 and 2014/15.

What makes this 3.6% cut particularly difficult is its composition. Firstly, Annually Managed Expenditure (things like debt interest payments and social security) is anticipated to continue rising, by 8%. This means that the money remaining for departmental budgets (known as Departmental Expenditure Limits or 'DELs') has to fall by 14% – much more than in previous UK fiscal consolidation episodes.

"The money remaining for departmental budgets has to fall by 14% – much more than in previous UK fiscal consolidation episodes"

But even that 14% figure understates the scale of the cuts, for there are three kinds of ringfence in operation. First, there are to be no further cuts in capital spending beyond those already announced in May[1] and June[2]. Capital spending constituted around 14% of total planned DELs in 2010/11. Next, NHS resource spending is not to fall in real terms over the period. NHS resource spending constituted around 27% of total planned DELs in 2010/11. And international development spending is to rise in line with GDP, such that its 2014/15 level is expected to be about 3.0% of 2010/11 total planned DELs[3]. Thus aggregate ringfenced spending represents about 44% of total planned 2010/11 DELs.

So the aggregate 14% cut must be achieved by reductions in the other 56% of spending, implying reductions of 25% on average in non-ringfenced resource budgets, as the Chancellor himself stated in the Budget.[4]

In this report we have considered a subset of departments, rather than attempted a comprehensive coverage of spending. The departments we have looked at (and existing 2010/11 budgets) are:

- Department for Education (DfE) (£51 billion, of which £47 billion is resource spending)
- Business Innovation and Skills (BIS) (£22 billion, £19 billion resource spending)
- Communities and Local Government (CLG) (£32 billion, £29 billion resource spending)

1 Statement by David Laws, May 24th

2 Statement by Danny Alexander, June 17th

3 Suppose that DfID reaches 0.7% of GDP by 2014/15 – the Emergency Budget forecasts GDP at £1803 billion in 2014/15 prices or £1641 billion in 2010/11 prices. 0.7% of that is £11.5 billion, which is 3.0% of the total £380 billion of 2010/11 DEL. That means total ringfenced areas would sum to 44%.

4 14/57 = ~25%.

- Ministry of Justice (MoJ) (£9.4 billion, £9 billion resource spending)
- Home Office (£10.2 billion, £9.5 billion resource spending)
- Department for Energy and Climate Change (DECC) (£3.1 billion, £1.1 billion resource spending)

Together these six departments spend a total of £124.5 billion – which is 19% of total government spending, or 32% of total departmental spending. Leaving aside their capital spending, they account for £114.6 billion in resource (or "current") spending, and this comprises 55% of total non-ringfenced departmental spending.

For Education, we have developed scenarios for achieving cuts of 10% or 20%, whilst for the other departments we consider 25% and 40% cuts.

The most fundamental principle of our approach in this report is: "get to the target". That is to say, we have not considered it an option to decide that in any department it is not possible to achieve either the 10%/20% or 25%/40% cuts required.

- Cuts to particular programmes are level-categorised as
- Efficiency savings (up to 10% cuts)
- Scaling back (20%-60%)
- Reduction to *de minimis* (80%)
- Abolition (100%)

Once we have considered the pros and cons of cutting a programme, we enact a stylised "assessment", according to six criteria:

- Operational feasibility of cutting
- Intrinsic merit of programme
- Scope for alternative provision analysis (private, charitable, alternative government)
- Impact on objective of department
- Status

The main object of this paper is to examine the practical implications of this size of fiscal consolidation, and to explore the way the different departments spend their budgets. It would not be possible for us to give a detailed cost-benefit analysis for all the programmes we look at. However, as an indication of our rough sense of their value, we categorise the cuts as being either:

- Already announced;
- Intrinsically desirable;
- Plausible; or
- Unattractive

It is worth noting that, although in what follows we take the 10%/20% and 25%/40% targets as given, average cuts of 25% would not be required if there were either additional cuts to welfare spending or the Health and/or International Development ringfences were abandoned. One natural interpretation of the discussion that follows is that it investigates the plausibility (and pain) of *not* cutting welfare spending further or abandoning these ringfences.

Department for Education

Spend: £51 billion of which £47 billion is resource departmental spending
Target cuts: 10% – £4.7 billion / 20% – £9.4 billion
Measures already announced include:

Area based grants to local government	£310m
Efficiency savings, cutting waste and scaling back lower priority spending	£360m
Savings from staffing freeze[5]	£1,800m

To reach 10% overall cuts, we would also need to abolish the Education Maintenance Allowance and Extended schools funding, and scale back Sure Start to its original goal of reaching the 30% most deprived wards. The pros and cons of cuts in these areas we identify as follows:

Pros	Cons
Abolish Education Maintenance Allowance	
• A means-tested payment of up to £30 a week for young people in post-compulsory education between the ages of 16-19, introduced to boost post-16 participation and attainment. • Analysis published by the Institute for Fiscal Studies (IFS) in 2007 suggested that there may have been an increase of just 2% in the number of female participants post-16 and no increase at all in the number of male participants. In terms of attainment, the IFS analysis suggests that it may not have increased average performance at all for female students and by just one quarter of one A-level grade for male students. • Arguments for the EMA seem to be further weakened by the fact that child benefit now applies up until the age of 18 and most children who qualify for the allowance remain at home with their parents until that age.	• Students over the age of 16 do not currently qualify for Free School Meals. Thus students from more deprived backgrounds who might currently use the EMA to subsidise schools meals would have to forfeit this.
Extended Schools Grant	
• Cuts are operationally feasible as grants can simply be revoked without any operational costs • Strong case for private provision of similar services if the government was to not provide them.	• Cutbacks in community access might inhibit Government plans to improve local provision of higher skills amongst NEETs and the working adult population. This might be particularly acute in rural areas, where, in addition, the current per pupil deprivation index based on free school meals can fail to adequately take account of the lack of sufficient full time employment. • May adversely affect children with special needs more than others, risk of making some after-school and breakfast clubs unviable, may lead to greater use of more expensive (and perhaps perceived-as-less-service) private childcare, potentially leading to the withdrawal from the labour market of some women.
Scale back Sure Start	
• Programme is poorly targeted as it benefits middle class working mothers as opposed to child development and support for children from impoverished areas.	• Pockets of deprivation in affluent areas could be adversely affected. • Academic evidence suggests that early years intervention has the greatest impact on later life chances and outcomes.

5 Note that there may some double counting in this figure as the other savings may take into account the effect of staffing cuts in particular savings from efficiency cuts.

Our overall assessments are:

Criteria	Programme assessment
Abolish Education Maintenance Allowance	
Operational feasibility of cutting	**High** Comments: Operational costs are not very high thus abolition would result in almost all funds being saved.
Intrinsic merit of programme	**Low** Comments: Studies show that there is almost no rise in participation – the programme does not meet its objectives.
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comments: Unlikely that the private or charitable sectors would be able to provide a similar service, but there may provision by government through alternative programmes. For example, similar services could be provided through mentoring schemes under welfare programmes.
Impact on objective of department	**Low** Comments: No significant impact on the departments objectives.
Status	*Recently established (Piloted in 1999)*
Overall assessment	**Intrinsically desirable to cut**
Extended Schools Grant	
Operational feasibility of cutting	**High** Comment: Operationally feasible as grant can be revoked without any operational costs.
Intrinsic merit of programme	**Medium** Comment: Different schools provide different quality of services from the grant.
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comment: Probable that after-school and breakfast clubs will provide the service with cost-covering fees in many areas. Reduced subsidies could be targeted in areas with limited childcare availability.
Impact on objective of department	**Low** Comment: Objective is now shifting towards the core teaching function from the educational transformational concept.
Status	*Recently established (2008)*
Overall	**Plausible to cut**
Scale back Sure Start	
Operational feasibility of cutting	**Medium** Comment: Operational costs are high.
Intrinsic merit of programme	**High** Comment: High quality services provided, take up is reasonably good even in more affluent areas.
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comment: In affluent areas there would many opportunities for private and charitable provision of child care or private sector roll-out of the existing programme.
Impact on objective of department	**Low** Comment: Programme has gone way beyond its original aims and objectives.
Status	*Recently established*
Overall Assessment	**Intrinsically desirable to cut**

Thus we believe that 10% cuts in the Education budget can be achieved by a combination of measures that have already been announced and measures that are intrinsically desirable, with just one slightly less desirable cut that is nonetheless plausible — a cut to the Extended Schools grant.

Department of Business, Innovation and Skills

Spend: £22.1 billion of which £19 billion of which is resource departmental spending
Targeted cuts: 25% - £4.8 billion / 40% - £7.6 billion
Measures already announced include:

Regional Development Agencies	£360m
Pay freeze	£760m
Efficiency savings	£300m

To reach 25% overall cuts, we could also restrict the interest subsidy on student loans for new students to those who are low earners in their subsequent career (part of the reform of tuition fees which actually saves the government money), remove the budget assigned to providing BIS' internal capability to deliver on its objectives, and the Train to Gain budget, along with cash freezes plus small additional operational efficiency improvements in Research Council grants and HEFCE funding for research and for teaching and learning, plus a cut to the Technology Strategy Board and UK Space Agency. The pros and cons of cuts in these areas we identify as follows:

Pros/Benefits	Cons/Costs
Restrict student loans subsidy	
• The primary beneficiary of subsidies are successful professionals in mid-career, whose loan repayments are switched off sooner because of the subsidy than would otherwise be the case.[6] • Size of loan is small due to the cost. • Subsidy crowds out university income, putting quality at risk. • Recently the cost of interest subsidies has become a contributing factor for the current shortage of university places.	• Debt aversion in students – perception among poorer students that after graduation they may have a mountain of debt plus interest which may discourage them from attending university. • Unclear why it is correct to bind students (who are adults, after all) to the incomes of their parents in the way envisaged.
Train to Gain	
• Not good value for money according to a NAO report, funds should have been redirected even without austerity measures. • Programme has not met its objectives. • High administrative costs and inadequate management. • Politically and operationally feasible.	• At a time of high unemployment, there may be few opportunities to develop skills for young people. • May lead to greater youth unemployment.
10% cuts to Research Council funding	
• Politically and operationally feasible • Not a frontline public service.	• Potential long-term effects on growth rate through acquiring fewer patents[7] if efficiency does not increase.

6 See Barr, Nicholas, "Higher Education Spending", LSE Working Paper, March 2010.

7 Academic literature suggests that more investment in research and development results in higher long-term growth rates.

Pros/Benefits	Cons/Costs
10% cuts to Research Council funding	
• Cutting research funding does not affect those on low incomes, i.e. not a regressive measure. • Does not (necessarily) have an impact on student numbers.	• Some smaller departments, which depend on research funding from research councils, may shut down. • Post-graduate student numbers might decline if efficiency does not increase.
10% cuts to HEFCE Quality-Related Research Funding	
• Politically and operationally feasible. • Does not necessarily reduce student numbers. • Not a frontline public service.	• As the funding is distributed according to quality of research produced by departments, it will target strong departments as opposed to weaker departments. • Some departments may shut down. • Potential long term effects on growth rate.
HEFCE Teaching and Learning funding	
• Could lead to universities raising funds from elsewhere. • Could result in greater efficiency in Universities.	• Further decline in student numbers. • Politically unfeasible. • Could potentially lead to further unemployment.
Abolish Technology Strategy Board including UK Space Agency	
• Politically and operationally feasible. • Not a regressive measure.	• Long-term strategic objectives of the department may be compromised. • Less innovation, patents etc. could lead to lower long-term growth rates. • Loss of international status and prestige from involvement in space research.

Our overall assessments are:

Criteria	Programme assessment
Restrict student loan subsidy to low earners	
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High**
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comments: There would be scope for private sector loans to take up any slack from the abandonment of public schemes for some better off groups.
Impact on objective of department	**Low** Comments: Policy Exchange analysis suggests that focusing the subsidy on low-income families would have little impact on attendance
Status	*Established since 1990/1, and in modern form since 1998/9.*
Overall assessment	**Intrinsically desirable to cut**
Train to Gain	
Operational feasibility of cutting	**High** Comments: Funds are given directly to employers as opposed to FE colleges.

Criteria	Programme assessment
Train to Gain	
Intrinsic merit of programme	**Low** Comments: Programme is not cost efficient and has not met its own goals.
Scope for alternative provision analysis (private, charitable, alternative government)	**Medium** Comments: Many employers may be willing to pay for their employees to receive training.
Impact on objective of department	**Low**
Status	*Recently established*
Overall assessment	**Intrinsically desirable to cut**
10% cuts to Research Council funding	
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High**
Scope for alternative provision analysis (private, charitable, alternative government)	**Medium** Comment: For some research areas such as the humanities the likelihood of alternative provision is low. Research areas that have industrial applications have greater scope for alternative provision.
Impact on objective of department	**Medium** Comment: If applied in a blunt across-the-board manner, cuts would have greatest negative impact where efficiency is currently highest. Some discretion or analysis of past efficiency improvements could mitigate this effect.
Status	*Recently established (2002)*
Overall assessment	**Plausible to cut**
10% cuts to HEFCE Quality Related Research Funding	
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High** Comments: Programme is popular among research oriented departments.
Scope for alternative provision analysis (private, charitable, alternative government)	**Medium** Comments: Potential for private endowments to increase.
Impact on objective of department	**Medium** Comments: Cuts would target high performing research departments, having an impact on the long term objectives of the department.
Status	*Recently established*
Overall assessment	**Plausible to cut**
10% cuts to HEFCE Teaching and Learning Funding	
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High**
Scope for alternative provision analysis (private, charitable, alternative government)	**Low** Comments: Reduced teaching grants would be likely to stimulate the growth of the private universities sector, increased pressure to charge fee-paying students (e.g. foreign students) and novel teaching forms (e.g. two-year programmes for certain courses).

Criteria	Programme assessment
10% cuts to HEFCE Teaching and Learning Funding	
Impact on objective of department	**Low** Comments: Cuts would only induce potential efficiency savings.
Status	*Long established*
Overall assessment	**Plausible to cut**
Abolish Technology Strategy Board including UK Space Agency	
Operational feasibility of cutting	**Low**
Intrinsic merit of programme	**Medium**
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comments: Private sector likely to be eager to be involved in high-value-added sectors. Likely to include scope for private sector space research and space travel (e.g. Virgin Galactic-style private space venturing).
Impact on objective of department	**High** Comments: Some areas of high-tech investment normally considered particularly suitable for public investment. Likely to be some loss of either economic or social value from lost public involvement, but this would be likely to be offset by expansion in private sector alternatives.
Status	*Recently established*
Overall assessment	**Plausible to cut**

Thus we believe that 25% cuts in the BIS budget can be achieved by a combination of measures that have already been announced, measures that are intrinsically desirable, and a number of measures that, though one might not choose to do them outside a period of austerity, are nonetheless plausible. Indeed, as we shall see below, we believe that 40% cuts can be achieved on the same basis.

Department for Communities and Local Government

Spend: £39.5 billion, of which £29.8 billion is resource departmental spending
Target cuts: 25% £7.5 billion / 40% £11.9 billion
Measures already announced include:

Total savings identified (efficiency reforms, withdrawing unallocated funding, grant reductions)	£1,255m
Pay freezes and staff reductions savings (local government)	£1,130m
Pay freezes and staff reductions savings (central government)	£70m
70% cut in Regional Development Agencies funding	£631m

To reach 25% overall cuts, we would also need to cut the Homes and Communities Agency budget by 50%, the CLG contribution to the Olympics budget by 25%, and the Formula Grant to local authorities by 17%. The pros and cons of cuts in these areas we identify as follows:

8 'Briefing for The House of commons Communities and local government committee', October 2009, p. 30.

9 'Communities and Local Government's Departmental Annual Report 2009', Communities and Local Government Select Committee, p. 27. http://www.publications.parliament.uk/pa/cm200910/cmselect/cmcomloc/391/391.pdf

Pros/Benefits	Cons/Costs
50% to Homes and Communities Agency budget	
• The HCA has had a little effect on the supply of UK social housing, with waiting lists continuing to be long and many existing homes failing to meet the 'decent homes' standard.[8] It has proven unsuccessful in delivering money savings targets and raising the contribution of private finance.[9] • It is also a long term programme which could be reactivated when economic conditions improve. • If there is demand for additional housing, prices should rise and expand private sector construction without the HCA. Existing planning law mandates the construction of low cost housing as part of any new development in any case. • It may also have 'crowded out' private sector construction of low cost housing. One way to improve private sector construction might to be increase compulsory social housing provision in planning agreements. • A localist agenda might involve allowing councils to take over the social housing role of the HCA.	• Despite being lower than their peak in 2007, UK house prices are still very high by historic and international standards. Key workers and first-time buyers struggle to buy a home. • Some have argued that government should provide housing to those financially unable to buy or rent privately. Over 3 million people are already on waiting lists for social housing, indicating a continuing shortage of subsidised housing. • Removing funding for the HCA might exacerbate this problem by reducing capital expenditure at a time when the construction industry is weak.
Reduction in Olympics budget	
• Reducing the Olympic budget may eliminate waste and inefficiencies. Implementing this rather than cuts in local government grants would lessen the distributional impact and lead to a reduced need to cut local services, potentially including sports and recreational facilities.	• Could adversely affect the Olympic Games and limit the regeneration of a deprived area of the UK. • The assumed positive benefits of the games (greater interest in sport leading to positive public health effects, for example) could be reduced, leading to adverse second round effects (among others, increased obesity necessitating greater health spending).
Reduction in Formula Grant	
• Cutting Formula Grant is inevitable for the scale of spending reductions needed. • The fact it is unhypothecated will allow local authorities to determine how to make the necessary savings at a local level, promoting efficiency. • The formula could be adjusted to make the distribution of grants meet particular national policy objectives and mitigate the impact on local services.	• An arbitrary cut could have unidentifiably adverse effects on certain public services. Redistribution of Formula Grant could prove controversial and lead to complaints from areas which lose out. • Since local authorities collect national non-domestic rates, it could be argued that they are entitled to have the proceeds fully redistributed. In other words, any cut would likely have to be in the Revenue Support Grant.

Our overall assessments are:

Criteria	Programme assessment
50% to Homes and Communities Agency budget	
Operational feasibility of cutting	**High** Comments: Much of the budget is discretionary (mostly capital) spending. Abolition would result in almost all funds (less existing liabilities) being saved.

Criteria	Programme assessment
50% to Homes and Communities Agency budget	
Intrinsic merit of programme	**Low** Comments: It has been argued that central government should not have such a direct role in the provision of social housing.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Local authorities could be given discretion to make provision for social housing. Charitable activity could also help to fill the gap.
Impact on objective of department	**High** Comments: Improving housing is a core function of the department.
Status	*Recently established (2008- amalgamating several agencies).*
Overall assessment	**Intrinsically desirable to cut**
Reduction in Olympics budget	
Intrinsic merit of programme	**High** Comments: Hosting the Olympics carries significant prestige and can help boost tourism and regeneration in a deprived area.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Substantial charitable donations to ensure the UK has a successful Olympics are plausible if it were known the budget was under pressure. The Olympics is a very high profile international event and is likely to attract significant additional sponsorship by extending advertising rights.
Impact on objective of department	**Low** Comments: The Olympics are a 'one-off' cost which has only a marginal relevance to CLG through a regionally specific regeneration (i.e. the Stratford area of London).
Status	*Long established – planned since successful bid in 2005*
Overall assessment	**Intrinsically desirable to cut**
Reduction in Formula Grant	
Operational feasibility of cutting	**High** Comments: The department has no direct obligations which flow from Formula Grant (although the redistribution of business rates, which are collected by local authorities, might be considered such). Reductions in funding are discretionary.
Intrinsic merit of programme	**Medium** Comments: Since only a quarter of local council expenditure is funded through council tax, local government provided public services are heavily dependent on central government funding, much of it through Formula Grant. The formula allows fiscal transfer between regions to ensure a minimum level of local public services. However, it could be argued that this pattern of financing is characteristic of an undesirably centralised, unitary state, undermining efficiency and diversity in public service provision.
Scope for alternative provision (private, charitable, alternative government)	**Low** Comments: There may be a 'crowding out' effect which arises from the provision of local authority provided services. However, the scale of services, particularly in social care and transport, is likely to be too high to be entirely replaced by private sector or charitable provision.

Criteria	Programme assessment
Reduction in Formula Grant	
Impact on objective of department	**High** The distribution of Formula Grant is CLG's core function.
Status	*Long term programme*
Overall assessment	**Plausible to cut**

Thus we believe that 25% cuts in the CLG budget can be achieved by a combination of measures that have already been announced, measures that are intrinsically desirable, and a cut in the Formula Grant that, though one might not choose to implement outside a period of austerity, appears on a scale that should be plausibly achieved by local authorities through efficiency improvements. However, given that there are large differences in local authority efficiency, it would probably not be appropriate to impose an across-the-board reduction.

Home Office

Spend: £10.2 billion of which £9.4 is resource departmental spending
Targeted cuts: 25% - £2.4 billion / 40% - £3.8 billion

The only measure we can identify that has already been announced is the public sector pay freeze, which would be expected to save £375 million.

To achieve 25% cuts we would also need to make efficiency savings from shared services, collaboration, and contracting out, reduce funding for policing by 5%, abolish the grant ring-fence, implement various departmental reforms, and increase departmental income.

Our overall assessments are:

Criteria	Programme assessment
Efficiency savings from shared services, collaboration, and contracting out	
Operational feasibility of cutting	**Medium** Comment: Mandating these reforms is now necessary and the process should start immediately if savings are to be realised in the CSR period.
Intrinsic merit of programme	**Low** Comment: Inefficient procurement and administration among police forces has been tolerated while spending settlements were generous but are not sustainable now.
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comment: Efficiencies in this area will come from greater involvement of the private sector to drive out cost and improve working practices.
Impact on objective of department	**Low** Comment: Greater outsourcing will deliver resource efficiencies and redeployment opportunities that will help protect the front-line.
Status	*N/A*
Overall Assessment	**Intrinsically desirable to cut**

Criteria	Programme assessment
	5% reduction in Home Office funding for policing
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**Medium**
Scope for alternative provision analysis (private, charitable, alternative government)	**Medium** Comment: Local council precepts could be increased to compensate for central funding reductions but these are not required to make the funding settlement manageable for forces.
Impact on objective of department	**Low** Comment: Frontline policing capacity is necessary to effectively combat crime and ASB but cuts to central expenditure on this scale should be deliverable without police forces having to resort to big cuts in officer numbers.
Status	*N/A*
Overall Assessment	**Plausible**
	Abolish ring-fenced grants
Operational feasibility of cutting	**High** Comment: Funding cuts on this scale are achievable, without harming frontline capacity.
Intrinsic merit of programme	**Low** Comment: Ring-fencing has eroded discretion and restricting workforce flexibility. Elimination of ring-fenced grants accords with the Coalition's devolution agenda.
	Low
Scope for alternative provision (private, charitable, alternative government)	**Medium**
Impact on objective of department	Comment: Overall HO police funding in cash terms would remain higher than in 2006-07, and cuts should not require big reductions in sworn officer numbers, even if other staff numbers fall. Funding reductions may impact on staff and numbers of PCSOs would likely fall but not immediately and not without time for chief constables to adapt their force mix so police visibility need not suffer. Neighbourhood policing teams could be boosted with more Specials.
Status	*N/A*
Overall Assessment	**Plausible**
	Departmental reforms
Operational feasibility of cutting	**High** Comment: Merging various agencies should be possible along with reducing the footprint of the Identity & Passport Service (IPS) by creating a smaller network of interview sites.
Intrinsic merit of programme	**Low** Comment: Rationalising the number of Home Office agencies is long overdue and savings from asset realisation throughout the sector would follow.
Scope for alternative provision (private, charitable, alternative government)	**Low**
Impact on objective of department	**Low** Comment: The department would retain the majority of its current spend on borders but the delivery network would be leaner – enforcement capacity will be enhanced by the creation of the border command within the new National Crime Agency from 2013
Status	*N/A*
Overall Assessment	**Plausible**

In addition, the Home Office could increase income from services it regulates and administers to help raise additional revenue.[10]

Thus we believe that 25% cuts in the Home Office budget can be achieved by a combination of measures that have already been announced, intrinsically desirable efficiency improvements, and a series of plausible reforms.

Ministry of Justice

Spend: £9.4 billion of which £9 billion is resource departmental spending

Targeted cuts: 25% - £2.3 billion / 40% - £3.6 billion

The only measure we can identify that has already been announced is the public sector pay freeze, which would be expected to save £350 million.

To achieve 25% cuts we would also need to institute certain departmental reforms, reduce the legal aid budget by cutting fees/scope, cut back on victims services, realise returns on certain assets, improve efficiency by contracting out one quarter of prisons and outsource the Probation Service, as well as increasing departmental income and instituting an additional 10% pro rata cut to all services to achieve 25% cuts.

Our overall assessments are as follows:

10 It has recently sought to increase certain citizenship and visa fees, but further increases to visa/residency fees, might raise an additional £50-100 million by 2015, or more if the standard UK passport fee was raised further as well in the next five years.

Criteria	Programme assessment
Cut spending on prisons, scale back the legal aid budget, and reduce spending on victim services	
Operational feasibility of cutting	**High** for legal aid / **Low** for prisons
Intrinsic merit of programme	**Medium** Comment: Legal aid provision can be reduced and costs cut by addressing scope and nature of service provision.
Scope for alternative provision analysis (private, charitable, alternative government)	**Medium** Comment: Reductions in legal aid provision and spend on victims services could be partly addressed by inviting more voluntary sector provision.
Impact on objective of department	**Medium** Comment: Moderate, although access to justice would be impacted by legal aid cuts
Status	*Legal aid earmarked for cuts.*
Overall Assessment	**Plausible**
Improve efficiency through shared services, collaboration and contracting out	
Operational feasibility of cutting	**High** Comment: Private provision of more prison and probation services will drive efficiencies and help maintain service provision while funding is cut.
Intrinsic merit of programme	**Medium** Comment: Competition will help drive up standards across the board and outsourcing will reduce demand on State agencies in probation.
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comment: There are well-established private sector providers and charities in this sector and consortia already exist to manage offenders and deliver programmes – upscaling these ventures should be possible.

Criteria	Programme assessment
Improve efficiency through shared services, collaboration and contracting out	
Impact on objective of department	**Low** Comment: Frontline provision will be maintained and potentially enhanced with private involvement with outcomes-based contracting to ensure delivery.
Status	*N/A*
Overall Assessment	**Intrinsically desirable to cut**
Departmental reforms	
Operational feasibility of cutting	**High** Comment: Growth of NOMS bureaucracy has been significant – cuts should not erode frontline delivery. Abolition of the YJB need not undermine youth justice goals if councils are given greater role in overseeing YOTs.
Intrinsic merit of programme	**Low** Comment: A streamlined NOMS/YJB structure is desirable and the lower court estate should be rationalised in response to falling demand.
Scope for alternative provision analysis (private, charitable, alternative government)	**Medium** Comment: Council involvement in youth justice would need to be stepped up, and the centre would commission more NOMS services directly, prior to devolving to PCCs at some future point.
Impact on objective of department	**Low** Comment: Cuts in this area should mitigate funding reductions to programme spend but centralising commissioning now should not be used to block future devolution plans.
Status	*Earmarked for cuts*
Overall Assessment	**Plausible**
Increase departmental revenue	
Operational feasibility of cutting	**High** Comment: Uprating fines in this way is simple to deliver, although actual income depends on collection rates.
Intrinsic merit of programme	**High** Comment: Current fine levels are overdue an increase and now is the obvious time.
Scope for alternative provision analysis (private, charitable, alternative government)	**Medium** Comment: Use of private fine collection agencies could be expanded to increase collection rates/income.
Impact on objective of department	**Low** Comment: Courts levy fines at a more appropriate level aiding justice objectives.
Status	*N/A*
Overall Assessment	**Plausible**

However, these measures deliver cuts of only around 15%. In order to reach the 25% cuts target, one would have to impose an unpalatable brute across-the-board cut of 10% in all areas (including those in which other cuts are detailed above).

Department of Energy and Climate Change

Spend: £3.1 billion of which £1.1 is resource departmental spending

Targeted cuts: 25% - £275 million / 40% - £440 million

The 25% target can be met simply by transferring the resources devoted to "promoting low carbon technology in developing countries" to the International Development budget, where they properly belong, and where a decision can be made in relation to their merits compared to other aid projects. The pros and cons are as follows:

11 *Warm Front: Helping to Tackle Fuel Poverty*, National Audit Office, June 2003.

12 Note that there may some double counting in this figure as the other savings may take into account the effect of staffing cuts in particular savings from efficiency cuts.

Pros/Benefits	Cons/Costs
Transfer the resources devoted to "promoting low carbon technology in developing countries" to the International Development budget	
• International development is the responsibility of another department. Transferring this function to DfID would clarify the role of the department.	• Transferring responsibility to DfID might be considered 'passing the buck' and does not represent a genuine reduction in government expenditure. • Alternatively, cutting the programme maybe difficult due to standing international obligations.

Our assessment is as follows:

Criteria	Programme assessment
Transfer the resources devoted to "promoting low carbon technology in developing countries" to the International Development budget	
Operational feasibility of cutting	**Medium** Comments: Transferring funding responsibility to DfID would be operationally simple. Abolition may fall foul of existing commitments and legacy costs.
Intrinsic merit of programme	**Medium** Comments: Assisting other countries is desirable in terms of cutting overall global carbon emissions, but it is questionable whether this should be the responsibility of DECC.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: A combination of charity provision and the involvement of DfID is likely to largely offset the withdrawal of DECC funding.
Impact on objective of department	**Low** Comments: This is of low importance assuming that DfID continues with the programme; if not it might be more problematic, in particular for international negotiations.
Status	*Long established*
Overall Assessment	**Intrinsically desirable to cut**

We note that the intrinsically desirable cuts in this department go far beyond the 25% or even 40% targets. In particular, it is intrinsically desirable to cut back the "bringing about a low carbon UK" budget by about 70%. The pros and cons of this are:

Pros/Benefits	Cons/Costs
Cut back the "bringing about a low carbon UK" budget by about 70%	
• Cheaper and more effective provisions are available. Warm Front has been criticised for failing to reach the poorest and least energy efficient homes. It has also involves a complex application process and high upfront costs for eligible households.[11]	• Possible problems of legacy costs and complications in transitional arrangements.

Our assessment is:

Criteria	Programme assessment
Cut back the "bringing about a low carbon UK" budget by about 70%	
Operational feasibility of cutting	**High** Comments: Both the Energy Saving Trust and Warm Front are discretionary spending which can be replaced by alternative arrangements.
Intrinsic merit of programme	**Low** Comments: Household energy efficiency is a key objective for both environmental and social reasons. However, these programmes have failed to adequately reduce barriers to energy efficiency improvements in the existing housing stock.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Additional mandates and a bill-funded energy efficiency improvement scheme could replace these programmes.
Impact on objective of department	**Medium** Comments: This is a major element of the department's functions.
Status	*Long established (Warm Front from 2000)*
Overall Assessment	**Intrinsically desirable to cut**

Summary of Scenarios

Table 1: Lower cuts scenarios (10% in Education, 25% in other departments)

Programme/Spending Area	Potential Savings in £ millions	Assessment
Education		
Area based grants to local governments	310	Already announced
Efficiency savings, cutting waste and scaling back lower priority spending	360	Already announced
Savings from staffing freeze[12]	1,800	Already announced
Education Maintenance Allowance	530	Intrinsically desirable
Sure Start	1,200	Intrinsically desirable
Extended Schools Funding	520	Plausible
Total Education	**4,700**	

Department of Business, Innovation and Skills		
Regional Development Agencies	360	Already Announced
Pay freeze	760	Already announced
Efficiency savings	300	Already announced
Student loan interest subsidies	1,200	Intrinsically desirable
Capabilities	280	Intrinsically desirable
Train to Gain	925	Intrinsically desirable
10% real-terms cut to Research Council funding	300	Plausible
10% real-terms cut to HEFCE quality related research funding	150	Plausible
10% real-terms cut to HEFCE	500	Plausible
Technology Strategy Board and UK Space Agency	310	Plausible
Total	**5,100**	
Communities and Local Government		
Total savings identified (efficiency reforms, withdrawing unallocated funding, grant reductions)	1,255	Already announced
Pay freezes and staff reductions savings (local government)	1,130	Already announced
Pay freezes and staff reductions savings (central government)	70	Already announced
70% cut in Regional Development Agencies funding	630	Already Announced
50% cut in Homes and Communities Agency budget	69	Intrinsically Desirable
25% cut in contribution to Olympics budget	108	Intrinsically Desirable
17% cut in Formula Grant	4,190	Plausible
Total	**7,450**	
Home Office		
Staffing freeze	375	Already announced
Departmental reform	150	Intrinsically desirable
Shared services, collaboration, contracting out efficiency savings	600	Plausible
Ring-fenced grant abolition	1,000	Plausible
Reduce local funding for policing by 5%	250	Plausible
Increase departmental income	75	Plausible
Total	**2,450**	
Ministry of Justice		
Central spending		
Staffing Freeze	350	Already announced
Departmental reform	200	Intrinsically desirable
Reduce legal aid budget by cutting fees/scope	600	Plausible
Victims services	90	Plausible
Shared services, collaboration and contracting out		
Contract out 1/4 of prisons	100	Plausible
Probation Service outsourcing	130	Plausible
Asset realisation	20	Plausible
Increase departmental income	140	Intrinsically desirable
Pro rata cut to all services to achieve 25% cuts (10%)	750	Unpalatable
Total	**2,300**	
Department of Energy and Climate Change		
Transfer “promoting low carbon technology in developing countries” to DiFID	250	Intrinsically desirable
Total	**250**	

One important thing to notice about this table is that, on our assessment, cuts on the lower scale can be achieved almost entirely by deploying a combination of cuts already announced, those that would be intrinsically desirable to make anyway, and cuts we regard as "plausible". Apart from in the Ministry of Justice, there is no need to resort to cuts that are unpalatable to achieve the aggregate spending reductions required on the lower scenario. It is perhaps surprising that there is so much "fat" in the system that cuts on this scale can really be made in so many areas so straightforwardly.

In contrast, to achieve the higher cuts scenario, many unpalatable options would have to be implemented, including particularly blunt cuts in certain areas.

13 Note that there may some double counting in this figure as the other savings may take into account the effect of staffing cuts in particular savings from efficiency cuts.

Table 2: Higher cuts scenarios (20% in Education, 40% in other departments)

Programme/Spending Area	Potential Savings in £ millions	Assessment
Education		
Area based grants to local governments	310	Already announced
Efficiency savings, cutting waste and scaling back lower priority spending	360	Already announced
Savings from staffing freeze[13]	2,100	Already announced
Education Maintenance Allowance	530	Intrinsically desirable
Sure Start	900	Intrinsically desirable
Extended Schools Funding	520	Plausible
10% real-terms cut to the dedicated schools budget	2,900	Plausible
Pro-rata cut to all services to achieve 20% cuts	1,780	Unpalatable
Total	**9,400**	
Department of Business, Innovation and Skills		
Regional Development Agencies	360	Already Announced
Pay freeze	760	Already announced
Efficiency savings	300	Already announced
Student loan interest subsidies	1,200	Intrinsically desirable
Capabilities	280	Intrinsically desirable
Train to gain	925	Intrinsically desirable
25% real-terms cut to Research Council funding	750	Plausible
25% real-terms cut to HEFCE quality related research funding	375	Plausible
25% real-terms cut to HEFCE	1,250	Plausible
Technology Strategy Board and UK Space Agency	310	Plausible
Other Business Support Programmes	380	Plausible
UK Commission for Employment andSkills	90	Plausible
Other Higher Education Funding	190	Plausible
Other FE and Skills Funding	430	Plausible
HEFCE Innovation Fund	100	Plausible
Other Science Programmes	110	Plausible
Total	**7,800**	
Communities and Local Government		
Total savings identified (efficiency reforms, withdrawing unallocated funding, grant reductions)	1,260	Already announced
Pay freezes and staff reductions savings (local government)	1,130	Already announced
Pay freezes and staff reductions savings (central government)	70	Already announced
70% cut in Regional Development Agencies funding	630	Already Announced
80% cut in Homes and Communities Agency budget	110	Plausible

Programme/Spending Area	Potential Savings in £ millions	Assessment
	Communities and Local Government	
50% cut in contribution to Olympics budget	220	Plausible
Central Department, CLG (administration only)	260	Plausible
33% cut in Formula Grant	8,250	Unpalatable
Total	**11,920**	
	Home Office	
Staffing freeze	375	Already announced
Departmental reform	135	Intrinsically desirable
Shared services, collaboration, contracting out efficiency savings	600	Plausible
Ring-fenced grant abolition	1,000	Plausible
Reduce central and local funding for policing by 10%	500	Plausible
Increase departmental income	75	Plausible
10% real-terms cut in UKBA	140	Plausible
Area based grant	80	Plausible
Further 10% cuts, pro-rata, to all services to achieve 40% cuts	1,000	Unpalatable
Total	**3,800**	
	Ministry of Justice	
Central spending		
Staffing Freeze	350	Already announced
Departmental reform	120	Intrinsically desirable
Reduce legal aid budget by cutting fees/scope	600	Plausible
Victims services	90	Plausible
Shared services, collaboration and contracting out		
Contract out 1/4 of prisons	100	Plausible
Probation Service outsourcing	130	Plausible
Asset realisation	20	Plausible
Increase departmental income	140	Intrinsically desirable
Pro rata cut to all services to achieve 25% cuts (20%)	2,000	Unpalatable
Total	**3,600**	
	Department of Energy and Climate Change	
Cut “bringing about a low-carbon UK” (Warm Front, Carbon Trust, RDAs) (68%)	445	Intrinsically desirable
Transfer “promoting low carbon technology in developing countries” to DiFID	250	Intrinsically desirable
Total	**700**	

Implications

One natural conclusion from the above is that it would be relatively straightforward to achieve savings of around 25% across most departments, and perhaps a little under 10% for Education. Unfortunately, because of the ringfences on the NHS, international development and capital spending, cuts of below 10% in Education (and cuts of a similar order in Defence) imply a need to cut by much more than 25% in other departments, perhaps around 33% on average, being forced into fundamentally unpalatable cutting. From this one might conclude that, although it would clearly be politically painful to, say, abandon the NHS ringfence at this stage, it could potentially be even more painful to be forced into fundamentally unpalatable cutting across a number of other departments.

And of course there *are* many cuts that one could make to NHS spending. Although it is commonly asserted that demographic factors mean that NHS spending must always rise, in fact the government *has* required efficiency savings to be delivered in the NHS. However, unlike for other departments, when such savings are made in the NHS they are recycled back into the total budget. Furthermore, although it is certainly true that in other major fiscal consolidations in the past, health spending has rarely been cut by as much as other departments, it *has* fairly often been cut, and in other cases health spending had not risen by 33% in real terms over the five years preceding the consolidation. Policy Exchange has previously published a number of options for reducing NHS spending.[14]

However, this is not the only implication that can be drawn. For although cuts above 25% result in widespread unpalatable measures in *some* departments, that is not true in *all*. In BIS, for example, we believe it would be possible to reach the 40% cuts level before exhausting all the cuts that are plausible. Although our study here covers a significant portion of non-ringfenced expenditure (55%), it is possible that the scope for achieving cuts well above 25% is even greater in the departments we have not considered than in the departments we have. If cuts of 40% or more are achieved where they are indeed feasible, that clearly creates headroom for cuts below 33% in other departments. And of course there remains the option of achieving greater cuts to the welfare budget than so far announced.

Thus, it is conceivable that the overall target of a 14% fall in departmental spending, or 25% average across non-ringfenced departments, can be achieved without the need to resort to large numbers of fundamentally unpalatable cuts or giving up on the NHS ringfence. Nonetheless, even the incomplete exercise here illustrates how challenging this will be.

14 Featherstone Henry, Evans, Natalie, 'Controlling Public Spending: The NHS in a period of tight funding', Policy Exchange 2010. http://www.policyexchange.org.uk/images/publications/pdfs/The_NHS_in..._-_Jan__10.pdf

1
Introduction

Andrew Lilico

On October 20th the government is scheduled to announce the results of its Spending Review. In his Emergency Budget statement of June 22nd George Osborne said that the implication of the aggregate £83 billion spending cuts announced as part of the fiscal consolidation, once account was taken of the cuts announced to welfare and the ringfences applied to Health and International Development spending would be average falls in non-ringfenced resource departmental spending of around 25%.

The Chancellor has set out an objective of eliminating the current structural deficit (i.e. the element of borrowing which will not disappear when the economy recovers – notably not including capital spending), by 2015/16. Projections for the Treaty deficit suggest that the Budget as a whole is to be brought back into balance by 2018.

To do this, the Emergency Budget set out an overall reduction of Total Managed Expenditure (in other words, all the money that the state spends) of 3.6% in real terms between 2010/11 and 2014/15. This may seem trivial to some. However, sustaining such a reduced level of public expenditure is unprecedented in the modern day UK – a similar situation has not occurred since at least the 1930s.

What makes this 3.6% cut particularly difficult is its composition. Firstly, Annually Managed Expenditure – the element of spending that governments cannot plan several years in advance – is anticipated to continue rising – by 8%. The drivers of this increase are debt interest payments (which will have doubled in real terms between 2008 and 2015), unemployment benefits (which are anticipated to continue to rise even as the economy recovers), and state and public sector pensions (which are rising rapidly due to the retirement of the 'baby boomers'). This means that the money remaining for department budgets (known as Departmental Expenditure Limits or 'DELs') has to fall by 14% — much more than in previous UK fiscal consolidation episodes.

But even that 14% figure understates the scale of the cuts, for there are ringfences to health and international development spending[15], and there are to be no further cuts in capital spending[16] beyond those already announced in May[17] and June[18]. So to achieve a 14% cut in overall DELs, there must be cuts of about 25% on average in non-ringfenced budgets.[19]

The Chancellor also indicated that spending on schools and on defence would be likely to be treated as special cases — still subject to cuts, but perhaps not of the same scale as those in other departments. If education and defence were subject only to 10% cuts, that would mean cuts of more than 30% in other non-ringfenced budgets.

15 'We will guarantee that health spending increases in real terms in each year of the Parliament, while recognising the impact this decision will have on other departments.', *The Coalition: our programme for government,* HM Government 2010, p. 24: http://www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf International development spending is to rise such that by the end of the planning period it will have reached 0.7% of Gross National Income — equivalent to about 3.0% of 2010/11 total planned DELs.

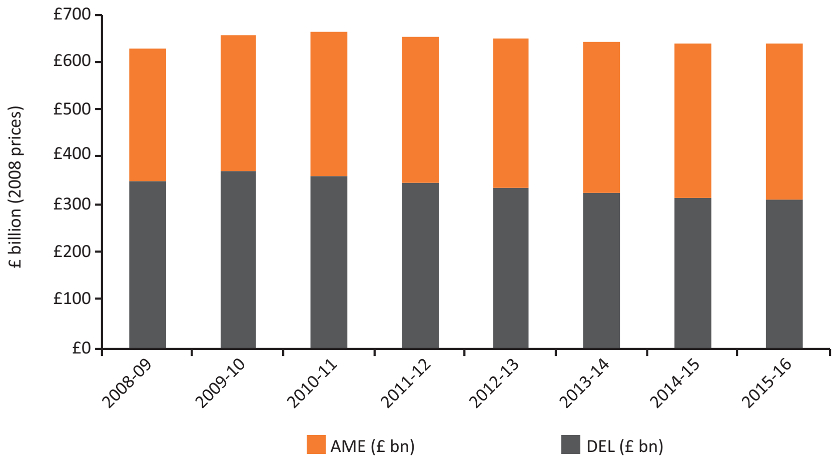
16 Emergency Budget, p2 first bullet: http://www.hm-treasury.gov.uk/d/junebudget_complete.pdf

17 Statement by David Laws, May 24th.

18 Statement by Danny Alexander, June 17th.

19 See Emergency Budget, paragraph 1.40: http://www.hm-treasury.gov.uk/d/junebudget_chapter1.pdf

Figure 1.1: Planned Total Managed Expenditure (TME) broken down into Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DELs) from 2009 – 2016



Ministerial statements subsequently have confirmed that, as part of the review, most departments have been instructed to provide scenarios for budget reductions of 25% and 40%, with Education and Defence providing scenarios of 10% and 20%.[20] However, details on the precise scope of these 25% and 40% scenarios are, at the time of writing, not available — for example, though some analyses suggest that the Emergency Budget's "25%" figure is a proportion of total DELs[20], there is no official statement as to whether the Treasury scenarios are for cuts of 25%/40% in total DELs or in resource DELs.[21] In what follows we have focused upon scenarios for reductions in resource budgets (i.e. we exclude capital spending).

It is worth noting that, although in what follows we take the 10%/20% and 25%/40% targets as given, average cuts of 25% would not be required if there were either additional cuts to welfare spending or the NHS and/or International Development ringfences were abandoned. One natural interpretation of the discussion that follows is that it investigates the plausibility (and pain) of *not* cutting welfare spending further or abandoning these ringfences. Recent weeks have seen intense discussion of reforms to additional cuts to the welfare budget.[22] An Appendix sets out a number of potential cuts that could be made to NHS spending. We return to this theme in the Conclusion section.

In this report we have considered a subset of departments, rather than attempted a comprehensive coverage of spending. The departments we have looked at (and existing 2010/11 budgets) are:

- Department for Education (DfE) (£51 billion, of which £47 billion is resource spending)
- Business Innovation and Skills (BIS) (£22 billion, £19 billion resource spending)
- Communities and Local Government (CLG) (£32 billion, £29 billion resource spending)
- Ministry of Justice (MoJ) (£9.4 billion, £9 billion resource spending)

20 e.g. http://www.businessweek.com/news/2010-07-05/u-k-ministers-are-told-to-plan-for-40-spending-cuts.html

21 e.g. This is the interpretation favoured by the IFS in http://www.ifs.org.uk/budgets/budgetjune2010/crawford.pdf

22 For example see: http://www.telegraph.co.uk/finance/personalfinance/8054717/Millions-on-incapacity-benefit-face-means-testing.html

- Home Office (£10.2 billion, £9.5 billion resource spending)
- Department for Energy and Climate Change (DECC) (£3.1 billion, £1.1 billion resource spending)

Together these £124.5 billion comprise 19% of total government spending, 32% of total departmental spending, with the total of £114.6 billion in resource spending comprising 55% of total non-ringfenced departmental spending.

For Education, we have developed scenarios for achieving cuts of 10% or 20%, whilst for the other departments we consider 25% and 40% cuts. Our scenarios are considered in Sections 2 to 7 below.

Approach

The most fundamental principle of our approach in this report is: "get to target". That is to say, we have not considered it an option to decide that in any department it is not possible to achieve either the 10%/20% or 25%/40% cuts required.

A consequence is that not all of the cuts we discuss would be recommended on their own merits. Instead, we nature-categorise the cuts as being either:

- **Already announced** — e.g. in the statement by David Laws on May 24th, the statement of Danny Alexander of June 17th, or implied by the government's announcement of a two-year public sector pay freeze.
- **Intrinsically desirable** —This category includes proposals for cuts already set out in previous Policy Exchange reports, or cuts in programmes that are widely acknowledged to have failed or expanded in scope well beyond their original useful purpose.
- **Plausible** —This category includes cuts to programmes that are not intrinsically weak and which, in a time of plenty, might be attractive candidates for expenditure, but in a time of austerity are natural areas to cut.
- **Unpalatable** —This category includes cuts that eat into useful core functions of departments or that involve the government resiling from commitments already made. Unpalatable cuts may need to be made in some departments, but we suggest that the scope for plausible cuts should be exhausted before unpalatable cuts are implemented.

Our discussion attempts to focus upon the most material areas of spending. So, for instance, there could be extensive and important debate about the appropriate role of BIS in the promotion of better regulation, but "better regulation" is only £5.5 million out of BIS' total budget of £22.1 billion. Having calculated the remaining shortfall-to-target after noting cuts already announced, we chose candidates for additional cuts by identifying programmes via a top-down analysis of departmental expenditure, and then for (and within) the most significant programmes finding, in the first instance, those about which Policy Exchange had previously written or concerning which there were established concerns as to their usefulness (the intrinsically desirable cuts), then moving on to consider further plausible candidates. When the intrinsically desirable and plausible candidates were not sufficient to reach the 25% or 40% targets required, we moved on to consider unpalatable cuts.

In developing our thoughts, we were aided by a series of workshops — four in all, one for each of DfE, BIS and CLG, and one jointly covering MoJ and the Home Office. The participants in these workshops were provided with provisional briefing material on our emerging thoughts and provided much useful challenge and amplification, as well as suggesting their own additional ideas for cuts. However, though we are most grateful for their contribution, final responsibility for this document lies with Policy Exchange alone.

Level-Categorisations

As well as nature-categorising the cuts options, we also level-categorise them as follows:

- **Efficiency savings** (up to 10% cuts) — A freeze in cash terms over the period of the spending review equates to a real-terms reduction of 9.4% by 2014/15, 11.8% by 2015/16. Some of this gain is already accounted for in the public sector pay freeze already announced and public sector job cuts already forecast — specifically, these imply a £12.6 billion cost reduction or 3.7% of total resource DELs of £343 billion. That leaves 5.7% of further reduction through a cash freeze (9.4% minus 3.7%). So to obtain a 10% target, one would need only to find a further 4.3% of additional efficiency improvements, alongside absorbing the cash freeze. In most programmes this should be straightforward to deliver through standard modest efficiency gains. For some areas of spending this will simply mean organisational and managerial improvements. In other areas there may be changes to tendering procedures (perhaps compulsory competitive tendering in local authorities), or mechanisms for pooling resources (e.g. pooling of administration between localised units — e.g. in local government or education). And in other cases it may be a matter of focusing upon higher-value-added activities (e.g. in the allocation of grants). Even before the huge spending rises of 2007/8 to 2010/11, the productivity performance of the public sector over the previous decade had been appalling — productivity actually (and incredibly) *contracted* 3% over the decade to 2007, over a period in which private sector productivity increased by 28%.[23] A straightforward implication must be that there is enormous scope for efficiency improvements, and we assume here that a modest 10% of real-terms cuts can be achieved almost anywhere in the public sector without any impact on delivery — we note that this would still only cover less than one third of the efficiency increase shortfall built up versus the private sector over the previous decade.
- **Scaling back** (20%-60%) — this category involves more than simply delivering much the same service in much the same way for slightly less money. When the activity is scaled back, there is either a significant structural change (allowing large cost reductions) or an impact on the service delivered.
- **Reduction to *de minimis*** (80%) — When the service is reduced to a *de minimis* level, only a residual fallback level of spending is retained. This might focus on a small number of hard cases that alternative provision through the private or charitable sectors might not reach, or perhaps on a small number of particularly worthy causes, or on a small number of particularly high-value-added projects. Reduction to *de minimis* typically involves accepting the abandonment of the current goals of a project.
- Abolition (100%) — When a programme is abolished entirely.

23 For the public sector, see: http://www.statistics.gov.uk/articles/nojournal/tpsopjuly2010.pdf For the private sector, see http://www.cebr.com/OneStopCMS/Core/CrawlerResourceServer.aspx?resource=43A0DF16-1CF6-42F1-BEAB-3242D85C5735&mode=link&guid=f30bf50b31b34cc1a5dbf7edd5cad601

Assessment criteria

Once we have considered the pros and cons of cutting a programme, we enact a stylised "assessment", according to six criteria:

- **Operational feasibility of cutting** — Independent of their overall merits, programmes differ concerning how operationally feasible they are to cut. If cutting a programme involves reneging on established contractual commitments (e.g. managing the liabilities of past student loans) or potentially exposing the public to danger (e.g. shutting down prisons currently housing dangerous and violent criminals) or driving irreversible negative life changes (e.g. ceasing to teach five year olds to read) then, regardless of whether there might be a strong longer-term case for not spending in this area or spending in a completely different way, the operational feasibility of cutting in the short-term is low. By contrast, many areas of spending that it could be very unpalatable to cut on an overall assessment have very high operational feasibility. For example, removing all research grants or ceasing to provide any government support for higher education would both be operational highly feasible (the country would go on much as it does now, at least for some time), even though there could clearly be profoundly negative longer-term consequences.
- **Intrinsic merit of programme** — Some programmes have low intrinsic merit, for example because they simply don't work. In other cases, the intrinsic merit might be high even though it was undesirable for the government to provide the service. For example, there used to be a nationalised restaurant service in the UK, "British Restaurants". One could envisage a high-quality modern variant providing good food and excellent service. Then the intrinsic merit of the scheme might be high — food is, after all, of intrinsic merit (we all must eat) and we are assuming that the latter-day British Restaurants is organised well. But, despite the intrinsic merit being high, that would still not make British Restaurants a desirable object of government spending. That brings us to the next criterion.
- **Scope for alternative provision analysis (private, charitable, alternative government)** — Some public services (such as restaurants, or, in a modern case, childcare) might offer considerable scope for private sector provision. In other cases (e.g. perhaps research grants) there might be scope for charitable donations (e.g. the Royal Society). In still further cases there might be scope for restructuring government provision on a lower-cost basis (e.g. by reforming schools).
- **Impact on objective of department** — There is a natural tendency for "scope creep" in the public sector, with departments finding it attractive to spend resources on issues that fall outside their main mission. It is important that such tendencies are disciplined, otherwise there may be duplication (with multiple departments all addressing the same goal) and a tendency for departments to adopt programmes that reflect the personal concerns of the minister or matters of high political profile but then continue with these non-core spending areas after the minister has moved on or the political debate has changed. Some areas of spending can be cut with little or no impact on departmental objectives. In other cases, the impact would be much more

pronounced. That would not of course necessarily mean that the cut should not occur — not every departmental objective is indisputably good. But understanding the significance of a cut for the wider functioning of a department is an important piece of context.

- **Status** — This tells us whether the programme is already earmarked for cuts and, if not, then whether it is a long-established programme, a recently established programme, or a programme that is still in implementation. It might be natural to suppose that a long-established programme is more likely to be vital than a programme still in implementation. But, on the other hand, a long-established programme might reflect obsolete thinking or use obsolete methods, or perhaps is a legacy measure that should have been pruned long ago.

These criteria feed into the overall assessment, which nature-categorises the cut as Already announced, Intrinsically desirable, Plausible, or Unpalatable, as discussed above.

2

Department for Education

James Groves and Hiba Sameen

Spend: £51 billion of which £47 billion is resource departmental spending
Target cuts: 10% – £4.7 billion / 20% – £9.4 billion

Purpose/scope of department

The Department for Education was formed in May 2010, succeeding the Department for Children, Schools and Families, and is responsible for education and services to children and young people up to age 19. The department spent **£51 billion** in 2008-09 of which **£47 billion** is resource spending, with over three quarters of net expenditure going to schools and services for young people via local authorities. Therefore, a cut of 10% to the departments' resource budget would amount to **£4.7 billion** and a cut of 20% would be **£9.4 billion**.

The largest spending area is schools of which the dedicated schools grant is about £29 billion. Around £1,384 million of the funding through local authorities provided capital grants and area-based grants to support children and families and youth programmes. Further Education and Skills funding is about £7.5 billion and most of this is administered through the funding through the Learning and Skills Council (now replaced by the Skills Funding Agency and the Young People Learning Agency). The bulk of this was spent in school sixth forms and further education, though the Council spent £2,048 million directly. The department also gives £2.1 billion to the Department for Business, Innovation and Skills (formerly to DIUS) for 6th Form further education.

The Department directly employs more than 2,800 staff, and within the education sector there are some 588,000 teachers, 335,000 teaching support staff, and 55,000 children's social care workers.[24]

Breakdown of Spending

In 2008/09 the department spent a total of £51 billion. A breakdown of spending by major spending area can be seen in Table 2.1.

From Table 2.1 we can see that the largest spending area is the dedicated schools grant, amounting to about £28 billion. Other substantial spending areas for the Department for Education are Further Education, Adult Learning and Skills for

24 Short Guide on the Department for Education, National Audit Office, June 2010

lifelong learning and international programmes (£7.5 billion); current grants to local authorities to support schools (£4.5 billion) and capital grants to local authorities to support schools (£3.5 billion). A further breakdown of these spending areas is given in the Appendix.

Table 2.1: Budget Summary for Department for Education 2008/09[25]

Funding Objective DEL	Total Spend 2008/09 in £000's
Central Government Spending	*10,338,000*
Of which…	
Further Education, Adult Learning and Skills for Lifelong Learning and International programmes (YPLA)	7,546,000
Local Authorities	*39,767,000*
Schools	*36,818,000*
Of which…	
Dedicated School Grants	28,981,000
Current Grants for Local Education Authorities to support Schools and Teachers	4,436,000
Capital Grants for Local Education Authorities to support schools	3,550,000
Children's Centres	*1,565,000*
Sure Start	*1,685,000*
Non-Budget	*1,260,000*
Total	**51,365,000**

Source: Department of Children, Schools and Families, Resource Accounts 2008/9

Implied savings for Department from cuts already announced

Staffing Freeze and cuts

The Office for Budget Responsibility projected that the staffing measures announced in the budget would result in a fall in general government employment of 490,000 from 2010/11 to 2014/15 or a fall of 8.9%.[26]

At the same time, pay is projected to decline by 0.3% (using the Emergency budget's assumptions about GDP deflator). This equates to a 9.3%% fall in the general government paybill, which is estimated to be around £135.1 billion.[27] This would imply a total reduction of £12.6 billion in the paybill to £122.5 billion.

If these savings were to be shared proportionally by each department according to the size of its budget then this would imply a savings of about £1.8 billion for the Department for Education.

Cuts already announced

As part of the announced £1.165 billion cut in local government spending, the Department of Education will reduce its Area Based Grant contribution to Local Authorities in this year by £311 million.

As well as this, the Department has also announced that it will make savings of £359 million in 2010/11 from efficiencies, cutting waste and stopping or scaling back lower priority spending. Details of these savings can be found in the appendix.

In addition the Government's announced cuts to Building Schools for the Future should realize savings of £4 billion – £7 billion over the course of the next parliamentary term.

25 A more detailed version of this table can be found in Table 2.2 in the Appendix

26 General Government Employment Forecasts, Office of Budget Responsibility, July 2010 http://budgetresponsibility.independent.gov.uk/d/general_gov_employment_forecast_130710.pdf

27 Holmes, Ed and Lilico Andrew, "Pay and Staffing in the Public Sector", *Policy Exchange Report*, June 2010.

Options for Further Cuts

Some programmes that might present scope for cuts are explored below:

The Education Maintenance Allowance (EMA)

Potential savings from *abolition*: £532 million

The EMA is a means-tested payment of up to £30 a week for young people in post-compulsory education between the ages of 16-19, introduced to boost post-16 participation and attainment.

Pros	Cons
• Analysis published by the Institute for Fiscal Studies (IFS) in 2007 suggested that there may have been an increase of just 2% in the number of female participants post-16 and no increase at all in the number of male participants. In terms of attainment, the IFS analysis suggests that the EMA may not have increased average performance at all for female students and by just one quarter of one A-level grade for male students. • Arguments for the EMA seem to be further weakened by the fact that child benefit now applies up until the age of 18 and most children who qualify for the allowance remain at home with their parents until that age.	• Students over the age of 16 do not currently qualify for Free School Meals. Thus students from more deprived backgrounds who might currently use the EMA to subsidize schools meals would have to forfeit this.

The EMA could be phased out as the compulsory age rises, applying only to those over the age of 17 from 2013 and being phases out completely by 2015. Raising the leaving age to 18 will require statutory changes such as raising the pupil premium to that age. Thus students currently receiving EMA should be covered in due course by the pupil premium.

We note that the EMA had been ear-marked as one source of funding for the pupil premium.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comments: Operational costs are not very high thus abolition would result in almost all funds being saved
Intrinsic merit of programme	**Low** Comments: Studies show that there is almost no rise in participation – the programme does not meet its objectives.
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comments: Unlikely that the private or charitable sector would be able to provide a similar service, but there may provision by government through alternative programmes. For example, similar services could be provided through mentoring schemes under welfare programmes
Impact on objective of department	**Low** Comments: No significant impact on the department's objectives
Status	*Recently established (Piloted in 1999)*
Overall assessment	**Intrinsically desirable to cut**

Extended schools grant

Potential savings from *abolition*: £522 million

Under the previous Government, the DCSF issued guidance to local authorities in which it indicated that it expected all schools (including academies) to provide access to a 'core offer' of extended services as follows:

- Varied menu of activities including study support, sports, arts and other activities in a safe place; in primary schools combined with childcare lasting from 8am – 6pm, 48 weeks a year.
- Parenting support, including information sessions for parents at key transition points, parenting programmes run with the support of other children's services, and family learning sessions to allow children to learn with their parents
- Swift and easy access to targeted and specialist services such as speech therapy, child and adolescent mental health services, family support services, and sexual health services. Some services could be delivered on school sites.
- Providing wider community access to facilities including ICT and adult learning

Funding over time should fall off and services become sustainable without central funding, at least to some degree.

With an increasing shift onto the core teaching function within schools and away from the concept of educational transformation, the coalition government could introduce a more refined and reduced variant of the extended schools grant. Wider community access to facilities, family learning sessions might be cut in all but the most deprived communities. After-school and breakfast clubs are obviously an attractive offering in a society of working mothers, but might charge closer to cost-covering prices. Schools should retain as much freedom as possible to commission specialist services such as speech therapy on an individual basis from either the Local Authority or from independent provider.

“Schools should retain as much freedom as possible to commission specialist services such as speech therapy on an individual basis from either the Local Authority or from independent provider”

Pros of cutting	Cons of cutting
• Cuts are operationally feasible as grants can simply be revoked without any operational costs • Strong case for private provision of similar services if the government was to not provide them	• Cutbacks in community access might inhibit Government plans to improve local provision of higher skills amongst NEETs and the working adult population. This might be particularly acute in rural areas, where, in addition, the current per pupil deprivation index based on free school meals can fail to adequately take account of the lack of sufficient full time employment. • May adversely affect children with special needs more than others, risk of making some after-school and breakfast clubs unviable, focusing familiar to use more expensive (and perhaps perceived-as-less-service) private childcare, potentially leading to the withdrawal from the labour market of some women.

Table 2.2: Extended Schools Funding

Extended Schools Total Funding 2008-2011	2008-09 (£m)	2009-10 (£m)	2010-11 (£m)	Total CSR Period (£m)
Start Up (through Area Based Grant)	165	172	71	408
Sustainability (through Standards Fund)	40	100	155	295
Extended Schools Subsidy (through Standards Fund)	8.5	40	167	216
Academic-Focused Study Support (through National Challenge and Standards Fund)	0	84	83	167
Total Extended Schools Revenue	**213.5**	**396**	**476**	**1,086**
Extended Schools Capital	84	89	46	219
Total Extended Schools Revenue and Capital	**297.5**	**485**	**522**	**1,305**

Source: DCSF guidance for local authorities and schools, including academies 2008 – 2011

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comment: Operationally feasible as grant can be revoked without any operational costs
Intrinsic merit of programme	**Medium** Comment: Different schools provide different quality of services with the grant
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comment: Probable that after-school and breakfast clubs will provide the service with cost-covering fees in many areas. Reduced subsidies could be targeted in areas with limited childcare availability
Impact on objective of department	**Low** Comment: Objective is now shifting towards the core teaching function from the educational transformational concept
Status	*Recently established (2008)*
Overall assessment	**Plausible to cut**

Cuts to the schools budget

Potential savings from *efficiency gains* (10% cuts): £2,900 million

Flat cash lining (i.e. a cash freeze) the dedicated schools grant on a per pupil basis over the next four years would be the equivalent of a 10% real-terms cut in the budget, equating to an annual saving of £2,900 million. (Note that this would be over and above the efficiency savings already announced and the cost reductions associated with the public sector pay freeze.) A pupil premium would still apply to those students from more deprived backgrounds.

Schools should have the autonomy to build up sensible reserves should efficient practices allow them to reduce their spending in any one year.

Flat lining spending rather that announcing straight cuts would allow schools to plan ahead, albeit in a more straitened fiscal environment. It would also incentivize schools to seek savings where possible by means of exploring partnerships and federated approaches. These approaches could help schools to be managed on a tighter budget. For example:

- Sharing teaching staff and making more efficient use of support staff, including teaching assistants. A 2009 Institute of Education Report indicated that while support staff did reduce stress levels for teachers, they did not have the overall effect of boosting pupil performance.[28]
- A federated approach would enable schools to be more efficient in terms of the procurement of services. According to a recent Audit Commission report, schools could save as much as £400 million a year if they took greater benefits from economies of scale when purchasing equipment and services.[29]

Flat lining would effectively amount to cuts in the amount of money going to frontline services. Core functions including teachers' pay and learning materials would not be sheltered from this. Any moves do so would therefore have to be carefully modelled to ensure that the optimum degree of saving that could be achieved without putting excessive strain on frontline provision.

Pros	Cons
• Scope for achieving modest efficiency gains must be high • Greater freedoms given to schools should provide scope for material savings.	• Efficient schools may be punished for being efficient as they may now need to provide fewer services to cope with cuts

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High**
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comment: Currently under the free schools programme private provision is not permitted but we believe there may be high scope for private provision in this area if permitted
Impact on objective of department	**Low** Comment: Objectives met as cut would likely only result in efficiency savings as opposed to a reduction in services
Status	*Long established*
Overall Assessment	**Plausible to cut**

Sure Start

Potential savings from *scaling back* (60%): £1,200 million

The Sure Start programme was launched in 1998 with the original aim of child development and support for the most disadvantaged. However, it has since developed into a strategy of universal childcare. This has effectively made the working mother, rather than the child the primary customer and has disproportionately benefitted middle class families in affluent areas.

28 Deployment and impact of support staff in schools (DISS) project, IOE, September 2009.

29 *Valuable Lessons: Improving Economy and Efficiency in Schools, Audit Commission, June 2009.*

In 2001, the focus of Sure Start started to shift to formal childcare when the Neighbourhood Nursery Initiative (NNI) was introduced. Yet for many parents in deprived areas, day care was a long way down the list of priorities. Sure Start evaluations also show that formal childcare was actively rejected as inappropriate in most areas (Meadows, Garber and the NESS team, 2004). The change of emphasis effectively made the main customer the working mother rather than the child and transformed the program from one focused on individual, family and community development into an adjunct to labour market and gender equality policies. This was reinforced with the decision to proceed with a network of Children's Centres but also changed it from a scheme targeted on deprived areas to an element in a universal childcare strategy.

In 2004 these changes were consolidated in the Government's Ten Year Strategy for Childcare (2004). This placed emphasis on child development through formal care and set a target of 3,500 Children's Centres – at least one in each community – by 2010.

- **Phase 1** of the construction of Sure Start Children's Centres (2004-06) targeted areas of greatest social need – the 20% most deprived wards in England.
- **Phase 2** (2006 – 2008) completed coverage to 30%
- **Phase 3** of the construction of Sure Start Children's Centres (2008-10) is extending provision to the remaining 70% of wards – many of which are located in areas of relative affluence.

The previous Government target of at least one Children's Centre in every local community was reached this year with an estimated 3500 Centres. This is a significant departure from the original intention to promote child development and support in the most deprived wards across England.

This significant change in emphasis, combined with considerable diversity in how centres are organised and record their costs and activities has meant it is very difficult to examine and compare Children's Centres cost effectiveness.

Potentially, private sector provision could take on full market-cost responsibility for providing the programme in those middle class areas from which the state-subsidised programme would be withdrawn.

Children's Centres could be rolled back to a position much closer to the original intention of Sure Start. This would involve providing a service in the 30% cent most deprived wards in England. Centres would continue to offer provision of the core services:[30]

- integrated full-day childcare and early learning;
- drop-in sessions and activities for parents, carers and children;
- access to child and family health services, including antenatal care (provided by other organisations such as Primary Care Trusts);
- outreach and family support services;
- links with Jobcentre Plus for training and employment advice;
- support for childminders; and
- support for children and parents with special needs.

In addition, greater effort could be made to ensure that partner organisations such as PCTs and JobcentrePlus are funding their respective offerings as efficiently and as effectively as possible.

30 Sure Start Children's Centres (NOA Memorandum for the Children, Schools and Families Committee, Dec. 2008).

31 Note that there may some double counting in this figure as the other savings may take into account the effect of staffing cuts in particular savings from efficiency cuts.

Pros	Cons
• Programme is poorly targeted as it benefits middle class working mothers as opposed to child development and support for children from impoverished areas	• Pockets of deprivation in affluent areas could be adversely affected • Academic evidence suggests that early years intervention has the greatest impact on later life chances and outcomes

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Medium** Comment: Operational costs are high
Intrinsic merit of programme	**High** Comment: High quality services provided, take up is reasonably good even in more affluent areas
Scope for alternative provision analysis (private, charitable, alternative government)	**High** Comment: In affluent areas there would many opportunities for private and charitable provision of child care or private sector roll-out of the existing programme
Impact on objective of department	**Low** Comment: Programme has gone way beyond its original aims and objectives
Status	*Recently established*
Overall Assessment	**Intrinsically desirable to cut**

Potential Savings

Option 1: 10% Savings from Department for Education

Programme/Spending Area	Potential Savings in £ millions	Assessment
Area based grants to local governments	310	Already announced
Efficiency savings, cutting waste and scaling back lower priority spending	360	Already announced
Savings from staffing freeze[31]	1,800	Already announced
Education Maintenance Allowance	530	Intrinsically attractive
Sure Start	1,200	Intrinsically attractive
Extended Schools Funding	520	Plausible
Total	**4,720**	

Option 2: 20% cuts from Department for Education

Programme/Spending Area	Potential Savings in £ millions	Assessment
Area based grants to local governments	310	Already announced
Efficiency savings, cutting waste and scaling back lower priority spending	360	Already announced
Savings from staffing freeze	1,800	Already announced
Education Maintenance Allowance	530	Intrinsically attractive
Sure Start	1,200	Intrinsically attractive
10% real-terms cut to the dedicated schools budget	2,900	Plausible
Extended Schools Funding	520	Plausible
Pro-rata cut to all services to achieve 20% cuts (4%)	1,780	Unpalatable
Total	**9,400**	

Conclusion

In this chapter we have considered potential cuts to the Education budget of 10% and 20%. Cuts to areas-based grants and the Building Schools for the Future programme have already been announced, along with efficiency savings, and there will be cost reductions associated with the public sector pay freeze.

In addition to these, we believe that there is an intrinsic case for cutting the Education Maintenance Allowance which has been an ineffective program in its own terms, whilst the scope of Sure Start has extended far beyond its original purpose of assisting in the 30% most deprived areas. There would be a strong case for containing Sure Start to its original scope even absent the need to find spending cuts. Of course, these programmes sought to achieve goals that had some merit, and if there were not a need to find cuts, there might be a case for re-allocating the funds saved by these cuts to alternative (hopefully more effective and better-targeted) programmes. But given the need to find cuts, these are relatively attractive options even in their own terms.

Less attractive in their own terms, but still plausible as candidates for cuts, are adding small operational efficiency gains to the effects of a cash freeze in the dedicated schools grant and to Extended Schools funding, inducing real-terms cuts of about 10%. Were there not an urgent need to achieve cuts, we feel that it is less likely that there would be cuts in these areas than in the previous set, but in a government-wide assessment, these would appear to be on the table for weighing against the pain of cuts in other departments.

3

Department of Business, Innovation and Skills

Hiba Sameen

Spend: £22.1 billion of which £19 billion of which is resource departmental spending
Targeted cuts: 25% - £4.8 billion / 40% - £7.6 billion

Purpose/scope of department

The Department for Business, Innovation and Skills is responsible for government policy on science and research, innovation, enterprise and business, fair markets, better regulation, universities and skills, regional economic development, the shareholder executive and UK Trade and Investment (which also reports to the Foreign and Commonwealth Office).

The department was created in 2009 by merging the Department for Innovation, Universities and Skills and the former Department for Business, Enterprise and Regulatory Reform.

The department devolves most of its delivery to 70 delivery partners, including 37 non-departmental public bodies; the largest of these include the Higher Education Funding Council for England, the Skills Funding Agency (formerly the Skills and Learning Council), seven Research Councils, and eight Regional Development Agencies (RDAs). Other smaller but influential bodies such as the Competition Commission and the Local Better Regulation Office play a key role in delivering departmental strategic objectives.

BIS had a departmental expenditure budget of just over £22 billion for 2009/10, and the Department is the sixth largest spending department in central government. About 70% of the department's expenditure is channelled through its 70 delivery partners.

The department employs about 8,000 staff (including within its executive agencies) of which 3,900 are employed by the core department. An additional 1,050 people work for the UK Trade and Investment (UKTI) in the UK.

The department's spending can be broken down into 7 strategic objectives as follows:

- **Science and Research:** Fostering a world-class science and knowledge base and promoting the commercial exploitation of knowledge, global excellence in research and better use of science in government

- **Innovation, Enterprise and Business:** Increasing innovation, enterprise and the growth of business, with a focus on new industrial opportunities and bringing benefits to all regions
- **Fair Markets:** Delivering free and fair markets, with greater competition
- **Better Regulation:** Ensuring that government departments and agencies deliver better regulation
- **Universities and Skills:** Improving the skills of the population through excellent further education and world-class universities; building a more economically competitive, socially mobile and cohesive society
- **Capability:** Providing the professional support, capability and infrastructure needed to deliver BIS's objectives and programmes; working effectively with BIS's partner organisation to deliver public service excellence
- **Government as a shareholder:** Ensuring that government acts as an effective and intelligent shareholder and providing excellent corporate finance expertise in government

Breakdown of Departmental Expenditure

Almost all of BIS's spending falls under 'Universities and Skills', 'Science and Research' and 'Innovation, Enterprise and Business Growth' (about 97%). Table 3.1 below shows current and capital expenditure from DELs by the department's strategic objectives outlined earlier.

Table 3.1: Spending by departmental strategic objectives

Departmental Strategic Objective	Spending in £ '000s in 2009/10		
	Current Expenditure in DELs	Capital Expenditure in DELs	Total DELs
Universities and Skills	12,440,000	1,531,000	13,971,000
Science and Research	4,656,000	1,188,000	5,843,000
Innovation, Enterprise and Business Growth	1,298,000	280,000	1,579,000
Capability	277,000	14,100	291,000
Fair Markets / Competition Policy	228,000	6,000	235,000
Shareholder Executive	169,000	5,100	174,000
Better Regulation	4,400	150	5,550
Total	**19,071,000**	**3,024,000**	**22,098,000**

Given that 97% of BIS spending covers three of their stated strategic objectives, most of the spending cuts will also fall on these three strategic objectives. The Appendix breaks down expenditure for each of these three objectives in more detail. Of the other strategic objectives we consider 'Capability', which ensures that the department has the professional support, capability and infrastructure to deliver its own objectives, is an area where we can find further cuts.

Implied cuts on Department from budget measures already announced

Staffing Freeze and cuts

The Office of Budget Responsibility projected that the staffing measures announced in the budget would result in a fall in general government employment of 490,000 from 2010/11 to 2014/15 or a fall of 8.9%.[32]

32 General Government Employment Forecasts, Office of Budget Responsibility, July 2010. http://budgetresponsibility.independent.gov.uk/d/general_gov_employment_forecast_130710.pdf

At the same time, pay is projected to decline by 0.3% (using the Emergency budget's assumptions about the GDP deflator. This equates to a 9.3% fall in the general government paybill, which is estimated to be around £135.1 billion.[33] This would imply a total reduction of £14 billion in the paybill to £122.5 billion.

If these savings were to be shared proportionally by each department according to the size of its budget then this would imply a savings of about £760 million for the department.

Cuts already announced

- £100 million in efficiency savings across the department and its partner organisations
- £233 million UK Centre for Medical Research and Innovation (UKCMRI) project for a new biomedical research facility to be located in Central London – the investment will now not be brought forward this year but spread over five years
- £74 million will be cut from the Regional Development Agencies – the total cut is £270 million shared between CLG, DECC, DEFRA and BIS
- £200 million in efficiencies from the Higher Education budget
- £200 million by refocusing the Train to Gain budget on apprenticeships and college buildings
- £18 million including funding for the Institute of Web Science, a proposal which is still under development and low priority projects like the SME Adjudicator.
- £11 million from the UK vocational reform budget
- £20 million of additional investment in SBRI announced in the Budget, delivering a saving of £10 million this year, although the programme will continue to be supported by the Government.

Cuts already announced amount to £850 million in total.

Policy Options for Cuts

Capability

Potential savings from *abolition*: £290 million

Providing the professional support, capability and infrastructure needed to deliver BIS's objectives and programmes, working effectively with BIS's partner agencies to deliver public service excellence. BIS's Capability Strategy monitors progress made in building capability through key success measures such as the Capability Review and annual People Survey.

33 Holmes, Ed and Lilico Andrew, "Pay and Staffing in the Public Sector", *Policy Exchange Report*, June 2010.

Pros/Benefits	Cons/Costs
● Potentially induces best practices in the department	● Extra administrative costs for monitoring of departmental outcomes through a separate body

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**Low**
Scope for alternative provision (private, charitable, alternative government)	**High**
	Comment: Services and administrative support provided to the department through capabilities should be provided from within allocated budgets of other strategic objectives

Criteria	Programme assessment
Impact on objective of department	**Low** Comment: Objectives can be met through allocated budgets for each spending area of the department – a separate departmental objective is not required.
Status	*Recently established (2008)*
Overall assessment	**Intrinsically attractive**

Science and Research

Research Councils

Potential savings from *efficiency gains* (10%): £300 million[34]

The Research Councils fund research and training activities in different areas of research ranging across the arts and humanities, social sciences, engineering and physical sciences, and the medical and life sciences. The Councils employ around 12,000 staff and support around 30,000 researchers, including 15,500 doctoral students in UK universities and in their own Research Institutes. The Councils are charged with investing taxpayers' money in science and research in the UK in order to advance knowledge and generate new ideas that can be used to create wealth and drive improvements in quality of life.

The modest efficiency improvements envisaged under this heading include management improvements, increased productivity, headcount reductions and other basic efficiency advances.

34 A breakdown Research Council funding under Science and Research funding can be found in the Appendix.

35 Academic literature suggests that more investment in research and development results in higher long-term growth rates.

Pros/Benefits	Cons/Costs
● Politically and operationally feasible ● Not a frontline public service ● Cutting research funding does not affect those on low incomes, i.e. not a regressive measure ● Does not (necessarily) have an impact on student numbers	● Potential long-term effects on growth rate through acquiring fewer patents[35] if efficiency does not increase ● Some smaller departments, which depend on research funding from research councils, may shut down. ● Post-graduate student numbers might decline if efficiency does not increase.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High**
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comment: For some research areas such as the humanities the likelihood of alternative provision is low where as research areas that have industrial applications there is greater scope for alternative provision
Impact on objective of department	**Medium** Comment: If implied in a blunt across-the-board manner, cuts would have greatest negative impact where efficiency is currently highest. Some discretion or analysis of past efficiency improvements could mitigate this effect.
Status	*Recently established (2002)*
Overall assessment	**Plausible to cut**

HEFCE Quality Related Research Funding

Potential savings from *efficiency gains* (10% cut): £150 million[36]

The HEFCE quality related research funding encourages high quality research in departments and universities. It is distributed according to the research performance of a department or university, which is determined by the Research Assessment Exercise (RAE).

The modest efficiency improvements required by a cash freeze might induce include management improvements, increased productivity, headcount reductions and other basic efficiency advances.

Pros/Benefits	Cons/Costs
• Politically and operationally feasible • Does not necessarily reduce student numbers • Not a frontline public service	• As the funding is distributed according to the quality of research produced by departments, it will target strong departments as opposed to weaker departments. • Some departments may shut down. • Potential long term effects on growth rate.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High** Comments: Programme is popular among research oriented departments
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comments: Potential for private endowments to increase
Impact on objective of department	**Medium** Comments: Cuts would target high performing research departments having an impact on the long term objectives of the department
Status	*Recently established*
Overall assessment	**Plausible to cut**

Innovation, Enterprise and Business Growth

Grants to Regional Development Agencies

Potential savings from *reduction to de minimis* (70%): £320 million[37]

The Regional Development Agencies (RDAs) get funding from six different central government departments, one of which is the Department of Business, Innovation and Skills. BIS contributed £526 million in 2009/10. The RDAs are broadly responsible for regional economic development with five specific government objectives: physical regeneration, promoting business efficiency, investment and competitiveness; promoting employment; enhancing development and application of skills; and contributing to sustainable development.

The RDAs have a sizeable budget. Between the financial years 1999/2000 and 2006/07 the agencies spent £15.1 billion, an average of £1.9 billion a year. Of this spending, 32 percent was spent on regeneration activities, 17 percent was spent on business development and business competitiveness and 8 percent was spent on labour market and skills interventions.[38] RDAs administration costs, not

36 A breakdown HEFCE quality related funding under Science and Research funding can be found in Table 3.2 in the chapter Appendix.

37 A breakdown of RDA funding under Innovation, Enterprise and Growth can be found in Table 3.3 in the Appendix.

38 Larkin, Kieran "RDAs: The Facts", Centre for Cities, December 2009.

linked to programmes expenditure, were 7 percent of the total spend, though including programme related expenditure on administration these would be substantially greater.

In March 2009, PricewaterhouseCoopers (PwC) published an evaluation report highlighting that every £1 spent by the RDAs has generated £4.50 by the local economy (or Gross Value Added).[39] This measure was largely based on jobs created or safeguarded by RDA activity. However, the evaluation was an overarching review of the RDAs' own project evaluations. While these evaluations met the required reporting standards, it is hard to conclude that the assessments were completely impartial or objective. For example, many of the estimations for the number of additional jobs created were established through surveys, asking the views of businesses that had received cash or support from the RDAs or project managers. This type of evidence is always in danger of overestimating the actual additional impact of an intervention. In particular, it neglects the additional employment *not* created in other firms that either did not come into existence or did not expand because their rivals received RDA assistance.

Secondly, the economic impact calculated is dependent on a set of assumptions about the expected persistence of the jobs created. Of course, a set of assumptions are required for any type of evaluation, but the impact of the recession may have now brought some of those assumptions into doubt. For example, it seems reasonable to imagine that the assumption of how long some of the created jobs will last – five years in the case of an inward investment intervention – may prove to be optimistic. This is particularly the case for those future potential impacts which PwC says are subject to 'inherent uncertainties'.

In 2005, in terms of gross value added (GVA) per person, the highest ranked (NUTS 3) regions in the UK were West Inner London and Berkshire with GVAs of £44,050 and £39,850 respectively. The lowest ranked were Liverpool and Blackpool, with GVAs that were half of those in London and Berkshire: £19,800 and £21,050.[40] These individual examples are representative of a broader trend – the top ranked 10% of UK (NUTS 3) regions have GVA at least 50% higher than the bottom ranked 10%.

The public service agreement on regional growth commits the government to 'improve the economic performance of all English regions and reduce the gap in economic growth rates between regions'. To help achieve this objective in England, the government created regional development agencies (RDAs) in 1999. The devolved administrations all have agencies with broadly similar objectives.

There is little evidence of significant progress against this objective. The most recent assessment (August 2009) by the Department for Business, Innovation and Skills (BIS), reports 'some progress'. Between 2002 and 2007, five regions improved on baseline (1990- 2002) while four regions saw weaker growth.

In terms of narrowing differences in growth rates, assessment is based on the gap between the Greater South East and the North, Midlands and South West. Again, comparing up to 2007 against the 1990s baseline suggests a small improvement: the gap has fallen from 0.6 to 0.5 percentage points. But add in the 2008 downturn and the gap rises to 0.7%.

A recent report published by the Taxpayers' Alliance noted that of the £2.9 billion given in grants to the RDAs over the last two years, £1.8 billion (about 62%) was awarded to public sector organisations as opposed to the private sector.[41] They also note that RDAs have not delivered on their key objective of closing regional

39 "Impact of RDA spending", PricewaterhouseCoopers, March 2009.

40 Ibid.

41 "RDA Grants", Taxpayers Alliance Research Note 71, June 2010.

imbalances. Gross Value Added (GVA) in the North East increased from £10,758 per head in 1999 to £15,887 in 2008. Over the same period, London's GVA increased from £22,150 per head to £34,786.

Another criticism of the RDAs is that they have awarded grants to large companies that do not require subsidies such as EON, 3M, the AMEC Group and JP Morgan as well as several football clubs.

It may be possible for the department to deliver its objectives on regional development through Local Enterprise Partnerships (LEPs) as opposed to the more costly RDAs. The cuts envisaged under this heading remove the vast bulk of the spending, leaving only a *de minimis* residual, to address areas where spending might potentially be particularly valuable or politically particularly difficult to remove credibly.

Pros/Benefits	Cons/Costs
● RDAs have not achieved their stated goals, i.e. decrease economic disparity between different regions. Between 99 – 06, the South East grew by 18% while the rest of the regions grew at 15%.[42] ● High administrative costs ● NAO evidence[43] also suggests that RDAs are not maximising potential for growth	● Spatially uneven economic growth and unemployment ● Cutting likely to be regressive in terms of first-round impacts (poorer regions likely to receive more assistance)

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**Low** Comments: High administrative costs and inefficiencies make programme intrinsically desirable to cut
Scope for alternative provision (private, charitable, alternative government)	**Low** Comments: Unlikely that charitable sector would step in. Private sector growth much more likely, but with consequences in terms of short-term salary effects (without area subsidies, salaries might be bid down in short term) and population mobility (people may leave depressed or low-wage areas). Longer term impacts likely to be increased income per capita.
Impact on objective of department	**Low** Comments: As programme is to be replaced by more efficient Local Enterprise Partnerships impact on departmental objectives will be low
Status	*Recently established*
Overall assessment	**Already announced to be cut**

Technology Strategy Board including UK Space Agency

Potential savings from abolition: £310 million[44]

The objective of the Technology Strategy Board (TSB) is to stimulate technology-enabled innovation in the areas which offer the greatest scope for boosting UK growth and productivity; by promoting, supporting and investing in technology research, development and commercialisation. The UK space agency receives about £75 million from the total spend in this area.

42 'The Case for Abolishing the Regional Development Agencies', Taxpayers Alliance, August 2010.

43 http://www.nao.org.uk/news/0607/0607rda.aspx

44 A breakdown of TSB and UKSA funding under Innovation, Enterprise and Growth can be found in Table 3.3 in the Appendix.

Policy Exchange has previously argued that the Government should also make greater use of the Technology Strategy Board to focus innovation funding and strengthen networks linking researchers and businesses. In addition, £100 million of the savings from scrapping the R&D tax credit for large companies should be allocated to the TSB's Small Business Research Initiative to stimulate more innovative public procurement, with a target that £250 million eventually be spent through the scheme each year.[45]

The Technology Strategy Board should also be given responsibility for government innovation funding for university incubators, the innovation vouchers scheme for SMEs and other facilities funding to remove regional inconsistencies and increase scale.

Pros/Benefits	Cons/Costs
• Politically and operationally feasible • Not a regressive measure	• Long-term strategic objectives of the department may be compromised • Less innovation, patents etc. could lead to lower long-term growth rates • Loss of international status and societal glory from involvement in space research

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Low**
Intrinsic merit of programme	**High**
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Private sector likely to be eager to be involved in high-value-added sectors. Likely to include scope for private sector space research and space travel (e.g. Virgin Galactic-style private space venturing)
Impact on objective of department	**High** Comments: Some areas of high-tech investment normally considered particularly suitable for public investment. Likely to be some loss of either economic or social value from lost public involvement, but this would be likely to be offset by expansion in private sector alternatives.
Status	*Recently established*
Overall assessment	**Plausible to cut**

Universities and Skills

Student Loans

Potential savings from *reduction to de minimis*: £1.2 billion[46]

Student loans come with two major government subsidies attached: a zero real rate of interest and debt forgiveness after 25 years, which cost the department £1.4 billion annually. Policy Exchange has previously argued for the removal of this costly subsidy on the public loans scheme and instead to introduce a targeted, regulated private loans scheme for selected students from higher income families, alongside the public loans scheme.[47] In combination, these measures would eliminate 80%-90% of the total subsidy. We also note that the Browne Review of Higher Education proposes restricting

45 Willman, John, "Innovation and Industry: A Manifesto for Manufacturing", Policy Exchange Report, March 2010. http://www.policyexchange.org.uk/images/publications/pdfs/Innovation_and_Industry_A_Manifesto_for_Manufacturing_-_March__10.pdf

46 A breakdown of Student Loan funding under Universities and Skills can be found in the Appendix.

47 Fazackerly, Anna and Chant, Julian, "More Fees Please?", Policy Exchange Report, February 2010.

the interest rate subsidy on student loans to those who are low earners in their subsequent careers (i.e. a means test based on the graduate rather than parental income).[48]

Pros/Benefits	Cons/Costs
● The primary beneficiary of subsidies are successful professionals in mid-career, whose loan repayments are switched off sooner because of the subsidy than would otherwise be the case.[49] ● Size of loan is small due to the cost ● Subsidy crowds out university income, putting quality at risk ● Recently the cost of interest subsidies has become a contributing factor for the current shortage of university places	● Debt aversion in students – perception among poorer students that after graduation they may have a mountain of debt plus interest which may discourage them from attending university. ● Unclear why it is correct to bind students (who are adults, after all) to the incomes of their parents in the way envisaged. The current system takes no account of the graduate's subsequent income.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High**
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Since there is now an established track record of student salaries post-graduation, the finance sector is in a much stronger position to price loans (determine an interest rate) than was the case twenty years ago (before the large expansion in student numbers, and before student loans were introduced). There is therefore likely to be considerable scope for private sector loans to take up any slack from the abandonment of public schemes.
Impact on objective of department	**Low** Comments: Policy Exchange analysis suggests that focusing the subsidy on low-income families would have little impact on attendance
Status	*Established since 1990/1, and in modern form since 1998/9.*
Overall assessment	**Intrinsically desirable to cut**

Higher Education Funding Council for England: Teaching and Learning

Potential savings from *efficiency gains* (10% cut): £500 million[50]

HEFCE distributes a recurring current grant to Universities for learning and teaching, as well as a recurring capital grant to universities for learning and teaching that aims to ensure that students benefit from a high quality learning experience. The current grant has been cut by 2% in 2010/11 compared to 2009/10.

The modest efficiency improvements envisaged under this heading include management improvements, increased productivity, headcount reductions and other basic efficiency advances. There would also presumably be measures such as increasing the numbers of hours weekly teaching for lecturers the prime foci of which are teaching rather than research, and potentially also structural changes such as increased use of two-year programmes.

48 http://hereview.independent.gov.uk/hereview/

49 See Barr, Nicholas, "Paying for Higher Education Spending: What policies, in what order?", LSE Working Paper, March 2010.

50 A breakdown of Train to Gain funding under the Skills Funding Agency be found in the Appendix.

Pros/Benefits	Cons/Costs
• Could lead to universities raising funds from elsewhere • Could result in greater efficiency in Universities	• Further decline in student numbers • Politically unfeasible • Could potentially lead to further unemployment

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**High**
Scope for alternative provision (private, charitable, alternative government)	**Low** Comments: Reduced teaching grants would be likely to stimulate the growth of the private universities sector, increased pressure to charge fee-paying students (e.g. foreign students) and novel teaching forms (e.g. two-year programmes for certain courses)
Impact on objective of department	**Low** Comments: Cuts would only induce potential efficiency savings
Status	*Long established*
Overall assessment	**Plausible to cut**

Train to Gain

Potential savings from *reduction to de minimis*: £925 million[51]

The 'Train to Gain' service was introduced in April 2006 to support employers in improving the skills of their employees, and to contribute to improved business performance. It had cost £1.47 billion by March 2009 and has a budget of £983 million for 2010-11. Protecting the 'Skills for life' funding from Train to Gain but eliminating all remaining funding would save about £925 million. The programme comprises:

- A skills brokerage service to advise employers on identifying training needs and sourcing training;
- Flexible training, for example delivered in the workplace and at a convenient time;
- Full public funding of training for eligible employees taking specified courses and qualifications, and contributions to some other training paid for by employers.

The programme has been criticised as 'not providing good value for money' by a National Audit Office report.[52] Since its inception the programme has trained over 1 million learners with a success rate of 71%.[53] A recent study has compared Train to Gain to the Welsh Assembly Government's Workforce Development Programme (WDP). The WDP is centred on adult workforce skill enhancement as part of a wider business improvement and economic development agenda. By contrast, Train to Gain has both productivity and social justice/employability objectives. The study has argued that Train to Gain's wider scope undermines its ability to deliver effectively on both fronts.[54]

51 A breakdown of Train to Gain funding and teaching and learning funding under Universities and Skills can be found in the Appendix.

52 "Train to Gain: Developing the Skills of the Workforce", National Audit Office Report, June 2009. http://www.nao.org.uk/publications/0809/train_to_gain.aspx

53 The success rate is defined as the proportion of those who were expected to leave in the academic year who achieved, represented as a percentage.

54 "A comparison of the Welsh Workforce Development Programme and England's Train to Gain", SKOPE Research Paper 79, June 2008. http://www.skope.ox.ac.uk/sites/default/files/SKOPEWP79.pdf

One objective of publicly-funded labour market interventions should be to seek to minimise levels of deadweight (i.e. the state paying for things that others would have paid for anyway) and maximise leverage over the private sector's investment decisions in order to increase additional outcomes. On this criterion the study has argued that WDP performs much better than Train to Gain.

Pros/Benefits	Cons/Costs
• Not good value for money according to a NAO report, funds should have been redirected even without austerity measures • Programme has not met its objectives • High administrative costs and inadequate management • Politically and operationally feasible	• At a time of high unemployment, there may be few opportunities to develop skills for young people. • May lead to greater youth unemployment

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comments: Funds are given directly to employers as opposed to FE colleges
Intrinsic merit of programme	**Low** Comments: Programme is not cost efficient and has not met its own goals
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comments: Many employers may be willing to pay for their employees to receive training
Impact on objective of department	**Low**
Status	*Recently established*
Overall assessment	**Intrinsically desirable to cut**

Potential Savings

Option 1: 25% cuts from Department of Business, Innovation and Skills

Programme/Spending Area	Potential Savings in £ millions	Assessment
Regional Development Agencies	320	Already announced
Pay freeze	760	Already announced
Efficiency savings	300	Already announced
Student loan interest subsidies	1,200	Intrinsically desirable
Capabilities	280	Intrinsically desirable
Train to gain	925	Intrinsically desirable
10% real-terms cut to Research Council funding	300	Plausible
10% real-terms cut to HEFCE quality related research funding	150	Plausible
10% real-terms cut to HEFCE	500	Plausible
Technology Strategy Board and UK Space	310	Plausible
Total	**5,100**	

Option 2: 40% cuts from Department of Business, Innovation and Skills

Programme/Spending Area	Potential Savings in £ millions	Assessment
Regional Development Agencies	360	Already announced
Pay freeze	760	Already announced
Efficiency savings	300	Already announced
Student loan interest subsidies	1,200	Intrinsically desirable
Capabilities	280	Intrinsically desirable
Train to gain	925	Intrinsically desirable
25% cut to HEFCE	1,250	Plausible
25% cut to Research Council funding	750	Plausible
25% cut to HEFCE quality related research funding	375	Plausible
Other Business Support Programmes	380	Plausible
Technology Strategy Board and UK Space	310	Plausible
UK Commission for Employment and Skills	90	Plausible
Other Higher Education Funding	190	Plausible
Other FE and Skills Funding	430	Plausible
HEFCE Innovation Fund	100	Plausible
Other Science Programmes	110	Plausible
Total	**7,800**	

Conclusion

In this chapter we have considered potential cuts to the Department for Business, Innovation and Skills budget of 25% and 40%. Cuts to the Regional Development Agencies and HEFCE teaching and learning grant have already been announced, along with efficiency savings, and there will be cost reductions associated with the public sector pay freeze.

In addition to these, we believe that there is an intrinsic case for cutting the Regional Development Agency grant, student interest loan subsidy and Train to Gain, all of have been ineffective programmes in their own terms, whilst a cash freeze on the HEFCE teaching and learning grant, HEFCE quality related research grant, and Research council funding is likely to result in greater efficiency savings without compromising the grants' objectives. Cutting the Technology Strategy Board (TSB) and UK Space Agency (UKSA) may have a fairly high degree of impact on the department's objectives but it is possible for these departmental objectives to be met through Research Council funding which would result in the TSB and UKSA being extraneous and thus plausible to cut. Of course, these programmes sought to achieve goals that had some merit, and if there were not a need to find cuts, there might be a case for re-allocating the funds saved by these cuts to alternative (hopefully more effective and better-targeted) programmes. But given the need to find cuts, these are relatively attractive options even in their own terms.

4

Department for Communities and Local Government

Ed Holmes

Spend: £39.5 billion, of which £29.8 billion is resource spending
Target cuts: 25% £7.5 billion / 40% £11.9 billion

Purpose/scope of department

This Department spends £39.5 billion of which £29.8 billion is resource spend. It is responsible for government policy on regeneration and economic growth, communities and neighbourhoods, fire and resilience, housing, planning and building, and local government.

A specifically local government department was formed in May 2002 with responsibility for local government and regional matters passing from the then Department for Transport, Local Government and the Regions to the Office of the Deputy Prime Minister. In May 2006 these responsibilities moved to a new Department for Communities and Local Government (CLG).

> "Around 70% of this is spent in support of local government. This is likely to be difficult to cut"

The department devolves some delivery to non-departmental public bodies (NDPBs). These include 1 executive agency, 3 trading funds, 2 public corporations, 5 advisory NDPBs, 13 Executive NDPBs and 2 Tribunals. The largest of these is the Homes and Communities Agency, responsible for housing and regeneration delivery for England, spending some £3.9 billion a year. CLG is the fifth largest spending department in central government. Around 70% of this is spent in support of local government, about half directly by redistributing national non-domestic rates (based on ratable values for properties and levied by a uniform business rate) collected by local authorities and sent back to them through Formula Grant and a further quarter through the Revenue Support Grant and other grants to local authorities. This is likely to be difficult to cut. The department employs around 6,000 staff including around 4,000 through its NDPBs.

There are two ways of looking at this budget: the Programme Cost (i.e. the 'silos' through which the budget is spent) and the Strategic Objective (i.e which of the Department's stated purposes the money is spent on). We detail these below.

Breakdown of Spending

The department spent £39.5 billion in 2009/10 and has begun reducing its budget comparatively quickly – scheduled to be only £36.0 billion in 2010/11.

Table 4.1: Budget by Strategic Objective, 2009/10

Strategic objective	Departmental Expenditure Limit
Supporting local government	£26.7bn
Improving housing	£8.9bn
Building prosperous communities	£3.1bn
Developing cohesive communities	£0.13bn
Provide a better planning system	£0.21bn
Ensuring safer communities	£0.48bn
Total	**£39.5bn**

From Table 4.1 we can see that most of this spending, 70%, is devoted to supporting the work of local government. This is mostly done by providing money to local authorities with little or no direction on what it is spent on by the Department (though many statutory duties are compiled with through this spending). In total, 84% of the departmental budget is spent on grants to local authorities (details can be found in the Appendix).

The biggest component of these grants is 'National Non Domestic Rates Payments' – business rates revenue collected by local authorities and redistributed via CLG through the 'Formula Grant' which makes an assessment of their resources and relative needs.

Table 4.2: Departmental Expenditure Limit by Programme

Programme Cost	Total Spend 2009-10 in £000's
National Non Domestic Rates Payments	19,500,000
National Non Domestic Rates Outturn Adjustment	283,500
European Regional Development Fund (ERDF) grants	637,300
Revenue Support Grant	4,547,400
Area Based Grant	675,600
Other local authority grants	4,740,900

The remainder of the budget is overwhelmingly spent on arms-length, autonomous 'Non-Departmental Public Bodies' (NDPBs).

Programme Cost	Total Spend 2009-10 in £000's
Grants to arms length bodies	5,592,000

In a sense, this makes CLG an 'easy' budget to cut – since most of the budget consists of grants to local government, central government largely needs to decide how much the grants need to be cut by and how these cuts will be distributed. It would then be up to local authorities to determine how to spend their reduced budgets. In another sense, this also makes it difficult to understand the trade-off involved in terms of the regional or distributional impact of grants reductions. Since the money is spent on the general functions of local authorities over which central government has little or no control, determining the efficacy or otherwise of unhypothecated grants is largely a matter of looking at local spending as a whole.

Also, a focus on genuine localism, it is argued, will also lead to more efficient services. By pursuing initiatives such as 'Total Place'[55], it may be possible to reduce expenditure across a number of departments. Place-based budgets would first require the commitment of central government to release central control of the funds. It may then be possible to 'devolve the cuts' by phasing out grant funding, uniformally, across the country. The Local Government Association has suggested that localised service provision of currently centralised programmes could save £4.5 billion in administration costs through reduced overheads, data burdens on local councils, abolishing local government offices and giving local authorities greater spending flexibility.[56]

Savings announced

The Department has announced the following savings, mostly via efficiency reforms, withdrawing unallocated funding and grant reductions to local authorities. These total to £1.25 billion in current (i.e.non-capital) spending reductions for the year for 2010/11.[57]

Table 4.3: Savings and shortfalls for proposed DEL reduction

Total current savings Identified for 2010-11	1,254,550
Savings needed for 25% reduction in current DEL	7,450,000
(Shortfall)	(6,195,450)
Savings needed for 40% reduction in current DEL	11,920,000
(Shortfall)	(10,665,450)

Since all non-ringfenced departments have been asked to find reductions in current Departmental Expenditure Limits of between 25% and 40% between 2010/11 and 2014/15, this leaves between £6.2 billion and £10.7 billion left to find in CLG's budget. However, finding these savings will be easier due to reductions in public sector pay and headcount.

Staffing Freeze and cuts

In broad brush terms, the Office of Budget Responsibility projected that the staffing measures announced in the budget would result in a fall in general government employment of 490,000 from 2010/11 to 2014/15 or a fall of 8.9%.[58]

At the same time, pay is projected to decline by 0.5% (using the Emergency budget's GDP deflator) due to pay freezes and staff reductions. This equates to a 9.3% fall in the general government paybill, which is estimated to be around £135.1 billion.[59] This would imply a total reduction of £12.6 billion in the paybill to £122.5 billion. If these savings were to be shared proportionally by each department according to the size of its budget then this would imply a savings of

55 Total Place is an initiative that attempts to look at public services from a 'whole area' perspective rather than through the lense of particular public bodies. The intention is to avoid overlap, duplication, promote join-up and thus improve efficiency and service quality.

56 http://www.lga.gov.uk/lga/core/page.do?pageId=5835244

57 Please see the Appendix for details.

58 General Government Employment Forecasts, Office of Budget Responsibility, July 2010 http://budgetresponsibility.independent.gov.uk/d/general_gov_employment_forecast_130710.pdf

59 Holmes, Ed and Lilico Andrew, "Pay and Staffing in the Public Sector", *Policy Exchange Report*, June 2010.

about £1.2 billion for CLG. Around £70 million of this can be attributed to core department staff and NDPBs; thus leaving a notional £1.13 billion saving for local government grants funding for staff costs.[60]

Policy Options

Since the vast majority of the budget is used in grants spending, reductions in grant allocations are unavoidable when savings on this scale are required. The most direct way to cut the CLG budget would thus be to cut Formula Grant, specifically either: the Revenue Support Grant; a proportion of National Non-Domestic Rates; or both. However, it should be noted that business rates are, philosophically, a local tax, redistributed by the centre, making future reforms difficult and requiring primary legislation. It may also be necessary to reconsider the Formula Grant's distribution (for example, the removal of floor damping and/or central allocation) to incentivise future growth and prevent disproportionate impacts on vulnerable areas. This would not change the overall amount distributed, but it would allow some flexibility in where the cuts would fall.

It would be up to local authorities to translate these grant reductions into specific savings, subject to (presumably fewer) central directives, as per the Total Place, placed-based budget agenda. Alternatively, local authorities may realise additional revenue through council tax, charges or other means (though this would mean reversing certain government pledges, perhaps including the freeze on updating council tax valuations). At present, this avenue is limited both through the centrally prescribed council tax band system and the proposed local referenda on council tax rises above a certain threshold. In addition, it may be possible to cut grants to NDPBs and central government administration.

Some programmes that could be considered for cutting are considered below.

Formula Grant

Potential savings from *scaling back* (20%): £4,933 million.

This is the means through which CLG finances local authorities, which make up around 25% of all public spending.

Formula Grant is sourced from:

- National Non-Domestic Rates
- Revenue Support Grant

This is then allocated to local authorities through a complex formula, the components of which are:

- **Relative needs amount** – takes account of the different areas' social, economic and population needs.
- **Relative resource amount** – deducts a certain amount dependent on the mix of council tax revenue (based on council tax bands).
- **Central allocation** – this is the per head amount, based on minimums for each authority calculated for needs and resources blocks.
- **Floor damping** – modifies the grant to achieve a minimum percentage increase.

60 It is difficult to discern what the precise effect of public sector pay and staffing policy on specific budgets might be. Calculated alongside other programme cuts there will be some double counting as a proportion of the assumed savings will be staffing costs; therefore its inclusion here is indicative only.

This funding is unhypothecated, meaning central government does not does dictate what it is spent on. What guidelines or restrictions there are may be reduced as part of the Coalition's 'Big Society' agenda. However, several statutory duties, such as those relating to social care are *de facto* ringfenced and will not be cut.

Since 75% of local government expenditure is sourced from grants, an approximation of its use can be seen by examining local government expenditure as a whole (see Figure 4.3 in the Appendix for details).

Around half of expenditure is from hypothecated grants (police and education) unrelated to CLG. There are several ways the department might assist local authorities in their transition to a reduced Formula Grant settlement, mainly revolving around utilising new powers to councils under the Coalition Government's 'Big Society' agenda. Some possible strategies are given below.

Local autonomy and the 'Big Society'

The UK remains a heavily centralised state with local government heavily dependent on central government funding to carry out their functions – with only a quarter of local government expenditure sourced from local sources of revenue (through council tax). This is in stark contrast to most other major developed economies, where typically between half and three-quarters of local government spending is locally funded. This is also in contrast to the situation before 1990 when more than half was locally funded (and, historically, when virtually all was locally financed). It has been suggested in Total Place pilot reports that only 5% of funding in an area can be spent at the discretion of the local authority.

It has been argued that this denies local government proper control of its finances, leading to too much central control. Central government's lack of specific local information, it is thought, make it unable to tailor its directions to local authorities' particular circumstances, leading to bureaucratic waste and inefficient over-standardisation in public service provision.

Business rates distribution

The Government has announced a policy of allowing councils to keep the growth in business rate revenue for six years (and allow them to borrow against this additional revenue), which would begin to loosen one of the main mechanisms of dependence on central government, moving back towards the pre-1990 system. A more radical approach would be to allow councils to keep a proportion of the business rates they currently collect. The Liberal Democrat conference passed a motion calling for a long-term goal of 75% of local government spending to be raised locally.[61] Even a 10% 'hold back' rate would make far more explicit the link between a councils' revenue and the success of the businesses in its area, which might encourage a greater focus on encouraging business growth. This should also make it easier to devolve spending reductions as it would be up to local authorities to make the savings necessary and allow longer term decision making.

61 'Localism – carried', http://www.libdems.org.uk/policy_motions_detail.aspx?title=Localism_-_carried&pPK=fd6a761d-af85-4e5d-81df-c38822d69fb6

The Coalition is committed to decentralisation, including giving communities the right to run state services and phasing out grant ringfencing. It has reduced from 198 to 114 the number of measures of 'national priorities' for local government. The promotion of unhypothecated 'Community Based Budgets', it is argued, will allow councils to slim down or simplify delivery intermediaries, organising services around the needs of local people rather than centrally directed mandates. The theory is that this will put citizens at the heart of public service organisation and give them control of decisions that affect them, encouraging them to become involved in service outcomes and thus improve service quality. It is also hoped that the use of 'digital-era governance', using technology to integrate services, should expand citizens' interactions and enhance product design around individual needs.

Pros/Benefits	Cons/Costs
• Cutting Formula Grant is inevitable for the scale of spending reductions needed. • The fact it is unhypothecated will allow local authorities to determine how to make the necessary savings at a local level, promoting efficiency. • The formula could be adjusted to make the distribution of grants meet particular national policy objectives and mitigate the impact on local services.	• An arbitrary cut could have unidentifiably adverse effects on certain public services. Redistribution of Formula Grant could prove controversial and lead to complaints from areas which lose out. • Since local authorities collect national non-domestic rates, it could be argued that they are entitled to have the proceeds fully redistributed. In other words, any cut would likely have to be in the Revenue Support Grant.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comments: The department has no direct obligations which flow from Formula Grant (although the redistribution of business rates, which are collected by local authorities, might be considered such). Reductions in funding are discretionary.
Intrinsic merit of programme	**Medium** Comments: Since only a quarter of local council expenditure is funded through council tax, local government provided public services are heavily dependent on central government funding, much of it through Formula Grant. The formula allows fiscal transfer between regions to ensure a minimum level of local public services. However, it could be argued that this pattern of financing is characteristic of an undesirably centralised, unitary state, undermining efficiency and diversity in public service provision.
Scope for alternative provision (private, charitable, alternative government)	**Low** Comments: There may be a 'crowding out' effect which arises from the provision of local authority provided services. However, the scale of services, particularly in social care and transport, is likely to be too high to be entirely replaced by private sector or charitable provision.
Impact on objective of department	**High** The distribution of Formula Grant is CLG's core function.
Status	*Long term programme*
Overall assessment	**Plausible to cut**

Ways to save money in local government

Planning changes

The Coalition is committed to scrapping regional spatial strategies and housing targets and has spoken of devolving more planning decisions to local authorities. This includes a 'New Homes Bonus' through matching council tax raised on new homes for six years to incentivise house building.[62] A more radical solution might involve building on the new Community Infrastructure Levy (CIL), allowing local authorities to receive greater payments in response to planning permission, supplemental (or as an alternative to) Section 106 Agreements.[63] In other words, compensation from developers could be used for general council expenditure, rather than simply hypothecated for mitigating the local impact or infrastructure spending.[64]

If, for example, a council were struggling to pay for its social services, it might choose to give planning permission to develop an area of land it would otherwise have refused – receiving a levy from the developer both to mitigate the regional impact *and* for the rights to develop the land itself. There may be significant tradeoffs involved in this decision. Local communities may not want the additional development – but may be prepared to accept it if the alternative is reduced public services. Increased transparency and consultation with the public would be a key aspect to this.

A further element might involve cost-based charging for licensing and planning applications, allowing the trading of planning and development obligations between authorities, or even additional levies for specific types of developer.

The General Power of Competence

The Coalition has pledged to introduce a General Power of Competence for local authorities as part of its Decentralisation and Localism Bill.[65] In theory, this would give local authorities the power to act in any way that is not against the law. This is a significant change from the current arrangements, where the presumption is that local authorities may only act in an area specifically legally mandated.[66] This may afford opportunities for authorities to be more diverse and innovative in their provision of public services. This could involve greater pooling of administration and operational improvements (greater sharing of Directors and Chief Executives between authorities, for example). Freed from the possibility of costly legal challenges (which may create a reluctance to act even if the proposed action is perfectly legal), authorities may be able to resolve local problems more effectively even with falling budgets. This has been labelled a 'more power, less money' policy.

This, it is hoped, will also make local government more accountable to local people. However, these provisions will not extend to tax raising powers. However, greater flexibility in charging for council services and the ability to enter into more wide-ranging commercial agreements might complement a localist agenda. This might mean making more efficient use of the local government estate (some £250 billion in 2009/10). Other measures might including giving rent control rights back to councils and removing the housing revenue cap (already announced) – perhaps allowing councils the right to borrow against these assets.

62 http://www.bbc.co.uk/news/

63 'Section 106 Agreements' are types of Planning Obligations and part of the Town and Country Planning Act 1990 (amended by Planning and Compensation Act 1991 Section 12). These agreements establish that developers make provision for additional infrastructure to meet the needs of a new development (or mitigate the impact on existing facilities) – either by making financial contributions or carrying out the work themselves.

64 The Community Infrastructure Levy is a capital cost paid by developers to support the development of local and regional infrastructure (Community Infrastructure Levy Regulations 2010). This can include services such as schools, parks, transport and community services.

65 http://www.number10.gov.uk/queens-speech/2010/05/queens-speech-decentralisation-and-localism-bill-50673

66 *Control Shift: returning power to local communities*, February 2009.

Tendering processes

Compulsory Competitive Tendering (CCT) was introduced to bring greater efficiency to local government in the 1980s through mandatory competition for the supply of services. This was replaced by the 'Best Value Regime'; placing less importance on price and more on processes and performance.[67] While criticised for over-emphasising price and undermining employment conditions, CCT was successful in engineering a radical change in management processes, culture and behaviour.[68] Given the need for significant spending reductions, the reintroduction of CCT – prioritising cost efficiency over best value, might be an effective way to proceed, allowing reduction of overheads and the renegotiation of expensive contracts and leases. In combination with the new powers described above, this might allow cheaper tendering processes (the pooling of tendering by authorities where there is multiple applicability, for example) and encourage authorities towards becoming commissioning rather than planning organisations.

"Given the need for significant spending reductions, the reintroduction of CCT – prioritising cost efficiency over best value, might be an effective way to proceed, allowing reduction of overheads and the renegotiation of expensive contracts and leases."

However, this may prove politically difficult given the 'Big Society' focus. An alternative might be to focus on removing barriers to smaller voluntary, social enterprise and business organisations entry to the market and mandating compulsory tendering of services, transforming councils from providers to strategic commissioners.

Other options

It may be necessary for some councils to think about which of their services, were they not provided directly, might be replaced by charitable or private sector provision. For example, some councils have converted leisure centres to Trusts (allowing them to raise more fees or borrow); others are considering handing over libraries or children's playgrounds to local community groups or charities. In this way, services may be able to continue by voluntary or other means without the revenue liabilities that have previously come from direct provision by local government. Why, for example, are 93% of crematoria run by local authorities (implying that scope for privatisation is high)? Again, why are all children's crossings and libraries staffed by paid local government workers? (A useful comparison is that of English Heritage, which is almost entirely run by paid staff and the National Trust, which has 50,000 volunteers and only 10,000 employees.[69]) In many such areas natural charitable impulses may have been crowded out by state provision. Indeed, such charitable co-operation might have its own intrinsic value (value potentially greater even than the value of the output of the co-operation) – drawing communities together.

It may also be possible to provide the same services in a cheaper, innovative way (an online book borrowing system rather than a physical library, for example). In other areas, it may be more productive to redirect existing resources

67 Local Government Act 1999. CCT was phased out by local authorities demonstrating compliance with the Best Value Regime from 1997.

68 http://www.serco.com/instituteresource/subjects/UKmkt/cct/index.asp

69 http://www.nationaltrust.org.uk/main/w-trust/w-volunteering/w-employeevolunteering.htm

(moving from an eligibility based system of social care to personalised assessment, for example). The publication of all purchases over £500 should help to improve transparency and thus promote value for money.[70] A further element might be to sharpen unit cost efficiency through chartered account processes, allowing direct cost comparisons of similar services. This might be particularly important with a reduced regime of audit and inspection. An online system of open source policy development might assist local authorities to capture local knowledge and facilitate the dissemination of best practice. Greater flexibility in bond issues, borrowing rights, asset sales and Tax Increment Financing may also be relevant.[71]

Homes and Communities Agency

Potential savings from *reduction to de minimis* (80%): £111 million (plus £2,979 million capital spending)

The Home and Communities Agency (HCA) is the main NDPB of CLG, responsible for around 57% of its capital expenditure.[72] It is responsible for housing investment and regeneration policy. Most of its budget goes on the construction of social housing through grants to housing associations. The Coalition has announced that the HCA will become 'smaller' with its main functions being delivered at a more local level (though the effect this policy will have on its budget is as yet unclear).[73]

There may be several options to deliver social housing in a more effective way, such as devolving the responsibility to local authorities, using the reduced budget to provide incentives to local areas rather than funding projects directly and creating new financial instruments to discount the costs of such projects over time. Devolving social housing may allow innovative ways for local authorities to provide local solutions to housing needs – particularly if done alongside central government reforms to 'tenancy for life'.

70 http://news.bbc.co.uk/1/hi/uk_politics/8694584.stm

71 http://www.in.gov/indot/div/projects/i69planningtoolbox/_pdf/Tax%20Increment%20Financing.pdf

72 Since our objective is to reduce current departmental expenditure limits rather than capital, 96.4% of the HCA's budget cannot be included (2009/10). We assume a continuation of this ratio in 2010/11 to give the current spend potential saving.

73 This involves using ringfenced anticipated business rate revenues to pay for enabling infrastructure. See http://www.localgov.co.uk/index.cfm?method=analysis.item&id=88119

74 'Briefing for The House of commons Communities and local government committee', October 2009, p. 30.

75 'Communities and Local Government's Departmental Annual Report 2009', Communities and Local Government Select Committee, p. 27. http://www.publications.parliament.uk/pa/cm200910/cmselect/cmcomloc/391/391.pdf

Pros/Benefits	Cons/Costs
• The HCA has had a little effect on the supply of UK social housing, with waiting lists continuing to be long and many existing homes failing to meet the 'decent homes' standard.[74] It has proven unsuccessful in delivering money savings targets and raising the contribution of private finance.[75] • It is also a long term programme which could be reactivated when economic conditions improve. • If there is demand for additional housing, prices should rise and expand private sector construction without the HCA. Existing planning law mandates the construction of low cost housing as part of any new development in any case. • It may also have 'crowded out' private sector construction of low cost housing. One way to improve private sector construction might to be increase compulsory social housing provision in planning agreements. • A localist agenda might involve allowing councils to take over the social housing role of the HCA.	• Despite being lower than their peak in 2007, UK house prices are still very high by historic and international standards. Key workers and first-time buyers struggle to buy a home. • Some have argued that government should provide housing to those financially unable to buy or rent privately. Over 3 million people are already on waiting lists for social housing, indicating a continuing shortage of subsidised housing. • Removing funding for the HCA might exacerbate this problem by reducing capital expenditure at a time when the construction industry is weak.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comments: Much of the budget is discretionary capital spending. Abolition would result in almost all funds (less existing liabilities) being saved.
Intrinsic merit of programme	**Low** Comments: It has been argued that central government should not have such a direct role in the provision of social housing.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Local authorities could be given discretion to make provision for social housing. Charitable activity could also help to fill the gap.
Impact on objective of department	**High** Comments: Improving housing is a core function of the department.
Status	*Recently established (2008- amalgamating several agencies).*
Overall assessment	**Intrinsically desirable to cut**

CLG – the central department

Potential savings from *abolition*: £262 million (administration only)

Some may find it contradictory that there is a central government department whose objectives are decentralisation and localism. The main CLG function is 'cheque writing' – providing central government money in the form of grants to local authorities and housing associations. Its other functions are providing guidelines, directives and analysing the use and effectiveness of these grants. If these oversight functions are to be lessened, revenue to be raised more on a local level and the use of those remaining grants is to be largely devolved, we may well ask what the function of the department will be. If local government spending is truly to be decentralised, is an entire government department really necessary to 'sign the cheques'? If councils are allowed to largely set their own policy objectives and to be freed from central mandates and guidelines, why would it be necessary to have these functions in a central department? Abolition of CLG could be done within the framework of a cross-cutting decentralisation agenda of other departments. The Structural Reform Plans have proven that localisation policy can be diffused throughout the various Whitehall departments.

Pros/Benefits	Cons/Costs
• If its regulatory and oversight functions are to largely be stripped away, the purpose of having a central departmental structure is significantly diminished. • Central administrative costs could be eliminated without 'front-line' impact on public services. • Eliminating the department might 'lock in' a localist 'Big Society' agenda and prevent a build up of bureaucratic regulation on local authorities.	• Without a department, central government would struggle to create similar public service provision in different regions of the country which might be politically unacceptable or impractical. • Complete lack of central oversight might encourage inefficiencies and lack of accountability. • While a significant proportion of local government funding derives from central government grants, complete abolition may be unfeasible. It would still be necessary for civil servants to administer grant allocations, which may lead to simply 'switching the business cards' and reduce potential savings.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Medium** Comments: Existing oversight and financial systems may necessitate this being a medium term policy. Ultimately, Formula Grant allocations could be administered by the Treasury and remaining regulatory functions passed over to the most relevant department.
Intrinsic merit of programme	**Medium** Comments: The department is perhaps necessary for the disbursement of central government grants and the standardised provision of public services. However, were both these functions ended, this necessity may decline.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Greater information transparency (such as the publication of spending over £500 and FoI requests) may give charities and private citizens the means to provide the oversight and accountability potential previously provided by the department. Reduced regional fiscal transfer that may flow from greater local autonomy may be replaced by charitable provision.
Impact on objective of department	**High** Comments: The department's purposes would be eliminated or transferred to other departments.
Status	*Recently established (2006 – previously under other departments).*
Overall assessment	**Plausible to cut**

Regional and London development Agencies

Potential savings from *reduction to de minimis* (70%): £631 million

The Regional Development Agencies get funding from six different central government departments, one of which is CLG. CLG is due to contribute £901 million in 2010/11. RDAs are broadly responsible for regional economic development with five specific government objectives: physical regeneration, promoting business efficiency, investment and competitiveness; promoting employment; enhancing development and application of skills; and contributing to sustainable development. This essentially involves funding and coordinating large development projects designed to improve economic activity in specific regions.

The cuts envisaged under this heading remove the vast bulk of the spending, leaving only a *de minimis* residual, to address areas where spending might potentially be particularly valuable, including ringfenced capital spending, or areas politically difficult to remove credibly. This anticipates the creation of Local Enterprise Partnerships (LEPs).[76] These are designed to be a partnership between local authorities and businesses to promote economic development at the local level. Alternatively, it could be argued that LEPs are likely to be as unsuccessful as RDAs and should be abolished entirely.

76 http://www.communities.gov.uk/localgovernment/local/localenterprisepartnerships/

Pros/Benefits	Cons/Costs
• RDAs have not achieved their stated goals, i.e. decrease economic disparity between different regions. Between 99 – 06, the South East grew by 18% while the rest of the regions grew at 15%.	• Spatially uneven economic growth and unemployment

Pros/Benefits	Cons/Costs
● Regional economic growth was higher in the seven years preceding the creation of RDAs in these areas than in the seven years after.[77] ● RDAs have also been criticised for high administration costs and failure to maximise the potential for economic growth by the National Audit Office.[78]	● Cutting likely to be regressive in terms of first-round impacts (poorer regions likely to receive more assistance)

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comments: Most RDA spending is discretionary.
Intrinsic merit of programme	**Low** Comments: High administrative costs and inefficiencies make programme intrinsically desirable to cut.
Scope for alternative provision (private, charitable, alternative government)	**Low** Comments: Unlikely that charitable sector would step in. Private sector growth much more likely, but with consequences in terms of short-term salary effects (without area subsidies, salaries might be bid down in short term) and population mobility (people may leave depressed or low-wage areas). Longer term impacts likely to be increased income per capita.
Impact on objective of department	**Low** Comments: As programme is to be replaced by more efficient Local Enterprise Partnerships impact on departmental objectives will be low.
Status	*Earmarked for cuts*
Overall assessment	**Already announced to be cut**

Olympics contribution

Potential savings from *reduction to de minimis* (50%): £216 million

The cost of the Olympics in 2012 has already increased significantly since it was announced – from £2.4 billion to £9.3 billion.[79] It seems reasonable that 50% of the CLG contribution could be removed – proportionately, this would still leave the total spend at around double the original budget. Of course, the original budget may have been unrealistic – it may be necessary to have a significantly more modest programme or rely on significantly greater private sector involvement.

Several budgets involved in the Olympics project (the £839 million transport budget, £350 million Media Centre and £1.9 billion Contingency Fund) have been called in question. The economic benefits of the Olympics Games have also been questioned.

77 'The Case for Abolishing the Regional Development Agencies', Taxpayers Alliance, August 2010.

78 Reviews of the Regional Development Agencies, National Audit Office.

79 http://news.bbc.co.uk/1/hi/6453575.stm

Pros/Benefits	Cons/Costs
● Reducing the Olympic budget may eliminate waste and inefficiencies. Implementing this rather than cuts in local government grants would lessen the distributional impact and lead to a reduced need to cut local services, potentially including sports and recreational facilities.	● Could adversely affect the Olympic Games and limit the regeneration of a deprived area of the UK. ● The assumed positive benefits of the games (greater interest in sport leading to positive public health effects, for example) could be reduced, leading to adverse second round effects (among others, increased obesity necessitating greater health spending).

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comments: This is a discretionary grant contribution to the Olympics budget.
Intrinsic merit of programme	**High** Comments: Hosting the Olympics carries significant prestige and can help boost tourism and regeneration in a deprived area.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Substantial charitable donations to ensure the UK has a successful Olympics are plausible if it were known the budget was under pressure. The Olympics is a very high profile international event and is likely to attract significant additional sponsorship by extending advertising rights.
Impact on objective of department	**Low** Comments: The Olympics are a 'one-off' cost which has only a marginal relevance to CLG through a regionally specific regeneration (i.e. the Stratford area of London).
Status	*Long established – planned since successful bid in 2005.*
Overall assessment	**Intrinsically desirable to cut**

Potential Savings

Most of the 'work' in spending reduction for both scenarios is being done by Formula Grant. Reaching a 25% or 40% reduction in the DEL requires a cut in this of 17% and 34% respectively.

Option 1: 25% cut from Department of Communities and Local Government

Programme/Spending Area	Potential Savings in £ millions	Assessment
Total savings identified (efficiency reforms, withdrawing unallocated funding, grant reductions)	1,255	Already announced
Pay freezes and staff reductions savings (local government)	1,130	Already announced
Pay freezes and staff reductions savings (central government)	70	Already announced
70% cut in Regional Development Agencies funding	631	Already Announced
50% cut in Homes and Communities Agency budget	69	Plausible
25% cut in contribution to Olympics budget	108	Plausible
17% cut in Formula Grant	4,187	Plausible
Total	**7,450**	

Option 2: 40% cut from Department of Communities and Local Government

Programme/Spending Area	Potential Savings in £ millions	Assessment
Total savings identified (efficiency reforms, withdrawing unallocated funding, grant reductions)	1,255	Already announced
Pay freezes and staff reductions savings (local government)	1,130	Already announced
Pay freezes and staff reductions savings (central government)	70	Already announced
70% cut in Regional Development Agencies funding	631	Already Announced

Programme/Spending Area	Potential Savings in £ millions	Assessment
80% cut in Homes and Communities Agency budget	111	Plausible
Central Department, CLG (administration only)	262	Plausible
50% cut in contribution to Olympics budget	216	Plausible
33% cut in Formula Grant	8,245	Unpalatable
Total	**11,920**	

Conclusion

In this chapter we have considered potential cuts to the Department for Communities and Local Government budget of 25% and 40%. Cuts to certain grants, unallocated funding and the Regional Development Agencies have already been announced along with efficiency savings. There will also be cost reductions associated with the public sector pay freeze.

In addition to these, we believe that there is a plausible case for cutting the Regional Development Agency grant, Homes and Communities Agency budget and Olympics contribution, which have proved wasteful and ineffective in achieving their objectives. Abolishing the central department itself and cutting the Formula Grant to local authorities, while plausible, would significantly impact upon the core objectives of the department. The Formula Grant is by far the largest and most obvious area of spending to cut, but may have the greatest adverse (and not readily identifiable) impact on the provision of local public services. However, while not desirable, cuts in this area appear inevitable given the scale of spending reduction required.

5

Home Office and Ministry of Justice

Blair Gibbs and Hiba Sameen

Purpose/scope of department

Two Whitehall departments now share responsibility for law and order policy. The Ministry of Justice (MoJ), created in 2006 from the old Department for Constitutional Affairs and parts of the Home Office is principally responsible for criminal justice policy including sentencing and criminal law, the courts system and legal aid, and for funding and oversight of the prisons and probation system through the National Offender Management Agency. After the split, the Home Office retained responsibility for security policy, policing, asylum and immigration and counter-terrorism. It has recently recovered licensing to its portfolio from DCMS, while the MoJ has largely ceded constitutional affairs and electoral reform to the Office of the Deputy Prime Minister.

Both departments are roughly equal in size of budget, although the Home Office remains the larger department in terms of personnel, and the size of the workforce – policing and border agency staff – it oversees. Both departments exercise their functions through a range of Non-Departmental Public Bodies (NPIA, YJB, LSC), Executive Agencies (NOMS, SOCA, UKBA) and inspectorates, ombudsman, and other semi-independent organisations (IPCC, HMIC, HM Courts Service, Parole Board), many of which have a long history.

Breakdown of Departmental Expenditure

The Home Office has a departmental expenditure budget of £10.2 billion. The equivalent Ministry of Justice budget is £9.8 billion. The Home Office directly employs 22,700 staff in addition to which there are 25,000 UK Border Agency staff, and 143,700 police officers – a record number of officers.[80] The Ministry of Justice employs 98,100, including 19,300 employed by HM Courts Service, 50,000 prison staff, and 16,000 probation staff.[81]

Part A: Home Office

The departmental expenditure of the Home Office is broken down into:

Spend: £10.2 billion of which £9.4 billion is resource departmental funding

Targeted cuts: 25% - £2.4 billion / 40% - £3.8 billion

80 Resource Accounts 2008/09, Home Office and Ministry of Justice.

81 ASHE Supplementary Data, Office of National Statistics, 2009

Cuts already announced

Home Office
- £367 million savings in 2010/11.
- £34 million from increased immigration and visa fees, and criminal asset recovery receipts.
- £135 million from police efficiency savings.
- £82 million from arms-length bodies, including NPIA (£30 million) and SOCA (£10 million).

Implied cuts on Department from budget measures already announced

Staffing Freeze and Cuts

The Office of Budget Responsibility projected that the staffing measures announced in the budget would result in a fall in general government employment of 490,000 from 2010/11 to 2014/15 or a fall of 8.9%.[82] At the same time, pay is projected to decline by 0.5% (using the Emergency Budget's assumptions about RPI inflation). This equates to a 9.3% fall in the general government paybill, which is estimated to be around £135.1 billion.[83] This would imply a total reduction of £12.6 billion in the paybill to £122.5 billion. If these savings were to be shared proportionally by each department according to the size of its budget then this would imply a savings of about £375 million for the Home Office. The two-year public sector pay freeze applies to all public sector staff, including police staff.

Policy Options for Cuts

A selection of policy options for the necessary spending reductions is proposed below. These reflect what might be plausible cuts on the scale required of £2.3 billion, or 25% by 2014-15. These scenarios are meant to be indicative and so do not address every conceivable area for cuts. While some options may be controversial, they are practically deliverable and consistent with, or at least do not conflict with, stated departmental priorities.

1. Central expenditure

The majority of the Home Office budget is spent on policing, and most of this is absorbed in staff costs – £8 out of every £10 spent on the police is on staff – and so reductions in headcount are unavoidable when savings on this scale are required. Taking into account the two-year public sector pay freeze, it is likely that police officer numbers will fall in the years ahead. However, the decline will be from a historic high, and need not erode policing capacity if forces become more efficient and change how they work, and who they work to.

The scale of any reduction in officer numbers depends upon (a) the funding settlement agreed by the Home Office, combined with the local funding sustained through council tax; and (b) how individual police authorities choose to allocate this reduced funding settlement, and in particular, how ambitious forces are in driving out cost, reforming workforce arrangements and reducing unnecessary spend on back office and non-core functions.

If the Home Office instigated an overall 5% reduction in *central funding of the police* (the funding not derived from council tax), then expenditure would reduce by £250 million, taking the settlement back to the levels of 2006-07. Additional revenue to help offset the reduction in central spending could come from local

82 General Government Employment Forecasts, Office of Budget Responsibility, July 2010 http://budgetresponsibility.independent.gov.uk/d/general_gov_employment_forecast_130710.pdf

83 Holmes, Ed and Lilico Andrew, "Pay and Staffing in the Public Sector", *Policy Exchange Report*, June 2010.

sources – police authority reserves, and from increases in local authority precepts – thus helping to entrench the welcome trend towards more local police funding.

However, even assuming no uplift in local funding, with council tax precepts remaining flat in most localities for the next two years at least, a 5% cut in the HO settlement should be manageable. Her Majesty's Inspectorate of Constabulary's own analysis suggests that savings on this scale (up to 12% of *total* police spending) are possible without impacting the frontline, mostly through better workforce arrangements, reduced overtime, and greater collaboration and outsourcing (see below).

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High**
Intrinsic merit of programme	**Medium**
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comment: Local council precepts could be increased to compensate for central funding reductions but these are not required to make the funding settlement manageable for forces
Impact on objective of department	**Low** Comment: Frontline policing capacity is necessary to effectively combat crime and ASB but cuts to central expenditure on this scale should be deliverable without police forces having to resort to big cuts in officer numbers
Status	*N/A*
Overall Assessment	**Plausible**

Potential savings from *efficiency*: £250 million

2. Ring-fenced grant reduction

The Home Office spend makes up roughly half of all police funding, but this spend is comprised of more than just the core HO grant. Reduction in central expenditure of 5% should be *in addition* to the staged reduction of almost all ring-fence grants.

Large *ring-fenced grants made by the Home Office should be reduced and eventually abolished*, simultaneously saving money and enhancing local discretion over resource allocation. There were no Home Office specific grants ten years ago. Since 2000, centralised ring-fencing of Home Office police funding has increased from £90 million to over £1.2 billion (2009-10) in real terms – now accounting for 10 per cent of total police funding, or £1 in every £5 that the Home Office allocates.

Since legislation in 2002, neighbourhood policing teams have been rolled out on the back of the Neighbourhood Policing Fund (NPF) – a HO specific grant that required the recruitment of Police Community Support Officers (PCSOs) dedicated to public-facing, uniform patrolling as part of local beat policing teams. With the exception of counter-terrorism (CT) grants and the pensions top-up grant, the NPF is the largest of all the grants awarded by the HO at £332 million in 2009-10, amounting to £1 of every £4 in Home Office grants. The fund directly employs over 16,000 PCSOs.

Reducing HO specific grants is an important element of greater devolution and autonomy for police forces. The services funded by the grants can then be assessed by each force who can then make provision from general funding if the service is deemed warranted. As a forerunner to abolishing ring-fence grants entirely, the remaining grants should be reduced in number (in the same way as the new 'Rule 2' grant), and the budget for all grants including the NPF should be cut by 20 per cent, year on year, leading ultimately to their abolition. By 2014-15, with the exception of counter-terrorism, there would be no substantial ring-fence grants remaining.

As an indicative scenario to illustrate the broad effect of the staged abolition of most grants, the other remaining grants have been kept flat in cash terms for the years up to 2014-15, with the ring-fenced grants reduced to zero by the same date (in reality, both the pensions top-up, and CT funding, would be affected by other funding decisions (see Table 5.3 in the Appendix for details).

Table 5.1: Home Office Police Grant reduction 2009/10 to 2014/15

Police Home Office Revenue Funding			£000s in 2009 prices			
	2009-2010	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
HO Main Grant (5% reduction by 2014/15	4,473,926	4,429,1867	4,384,447	4,339,708	4,294,969	4,250,230
Rule 2	208,752	167,001	125,251	83,501	41,750	0
Rural, Forensic, SE Allowances and SPP grants	0	0	0	0	0	0
Welsh Top-up	15,542	12,434	9,325	6,217	3,108	0
CFF	277,368	221,894	166,421	110,947	55,474	0
NPF/CSO	332,240	265,792	199,344	132,896	66,448	0
BCU	40,000	32,000	24,000	16,000	8,000	0
SCI	0	0	0	0	0	0
CT Grants	437,000	437,000	437,000	437,000	437,000	437,000
Dedicated Security Provision	131,000	104,800	78,600	52,400	26,200	0
Pensions top-up grant	760,368	760,368	760,368	760,368	760,368	760,368
Total Specific Grants (Not including pensions)	1,233,150	1,073,920	914,690	755,460	596,230	437,000
Total HO Core Settlement	4,682,678	4,596,188	4,509,699	4,423,209	4,336,719	4,250,230
Total	**5,915,828**	**5,670,108**	**5,424,389**	**5,178,669**	**4,932,949**	**4,687,230**
Total Annualised Savings		**245,720**	**491,439**	**737,159**	**982,879**	**1,228,598**

Funding for the police should maximise the freedom of Chief Constables to decide their own deployment of resources. Protecting the NPF grant for the next five years and thereby the employment of all 16,000 PCSOs at the expense of other policing activity, including the manpower of sworn officers, would be an unpopular priority for funding, goes against Coalition commitments on devolution, and could undermine crime fighting capacity in other specialist areas where cuts would have to be deeper as a result. Eliminating these grants allows for a less severe reduction in the size of the main, un-ringfenced Home Office funding settlement.

The introduction of democratic accountability at force level from 2012 with the abolition of police authorities and the election of Police & Crime Commissioners (PCCs) could allow complete funding discretion after this date, with all ring-fence grants eliminated in just two years and PCCs left to allocate all resources as they see fit. However, the abolition of almost all ring-fenced grants over 5 years in a staged process is preferable as it will mean (a) forces can plan better for the reduction; and (b) that the necessary reduction in the main HO funding for the police can be smaller over this period as a result – both factors that would ensure maximum discretion for police forces with the reduced resources they will have. Some variant of this plan would end some of the ring-fencing earlier in those areas where the Home Office was confident that PCCs were able to begin deciding their own resource mix.

Taken together, the total net reduction in central police funding, both the core HO expenditure and the staged abolition of most ring-fenced grants, is therefore roughly 10% of HO expenditure, or £1.23 billion.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comment: Funding cuts on this scale are achievable, without harming frontline capacity
Intrinsic merit of programme	**Low** Comment: Ring-fencing has eroded discretion and restricting workforce flexibility. Elimination of ring-fenced grants accords with Coalition's devolution agenda.
Scope for alternative provision (private, charitable, alternative government)	**Low**
Impact on objective of department	**Medium** Comment: Overall HO police funding in cash terms would remain higher than in 2006-07, and cuts should not require big reductions in sworn officer numbers, even if other staff numbers fall. Funding reductions may impact on staff and numbers of PCSOs would likely fall but not immediately and not without time for chief constables to adapt their force mix so police visibility need not suffer. Neighbourhood policing teams could be boosted with more Specials
Status	*N/A*
Overall Assessment	**Plausible**

Potential savings from *reduction to de minimis*: £1.2 billion

3. Shared services, collaboration and contracting out

There is scope to go much further by outsourcing certain policing services and future funding settlements should partly be predicated on savings arising from more efficient working practices and service arrangements. Major efficiencies can be realised by this route but years of tentative steps by individual police authorities have not delivered savings on the scale necessary. There is a long history of forces agreeing the rationale for such reforms and accepting the savings that could be made, without police authorities then actually making the changes to deliver them. With significant savings required in the short term, only a degree of mandation from the Home Office will force police authorities to strip out cost and free up officers for the front-line through a bold programme *of shared services and outsourcing of back office functions.*

The Government should begin by mandating all police forces to open up their HR, finance and accounting and other commodity functions to competitive tender by the end of 2011. This should be followed by a benchmarking process to precede and help encourage a more systematic contracting out of whole service functions, including control room operations and justice administration, with the requirement for all police forces to meet the new benchmark for value for money contracting in these areas by 2014. To complement the initial mandation, the Home Office should establish an incentive scheme for early movers in the outsourcing of these additional areas.

The Cleveland Police Authority example indicates what could be achieved. From 2010, extensive back-office functions – including the police control room – have been outsourced to a sole supplier, Steria. The contract is predicted to yield savings of 20% in operating costs (£50 million over 10 years), while simultaneously freeing up sworn officers to return to frontline duty. Applied across all forces, this scale of efficiencies suggests that annualised savings of £500-600 million could be realised by 2014, with ongoing savings beyond that date. Taken with the abovementioned funding reductions, the police would face budget reductions of up £1.8 billion, or around 15%.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Medium** Comment: Mandating these reforms is now necessary and the process should start immediately if savings are to be realised in the CSR period
Intrinsic merit of programme	**Low** Comment: Inefficient procurement and administration among police forces has been tolerated while spending settlements were generous but are not sustainable now
Scope for alternative provision (private, charitable, alternative government)	**High** Comment: Efficiencies in this area will come from greater involvement of the private sector to drive out cost and improve working practices
Impact on objective of department	**Low** Comment: Greater outsourcing will deliver resource efficiencies and re-deployment opportunities that will help protect the frontline
Status	*N/A*
Overall Assessment	**Plausible**

Potential savings from *efficiency*: £600 million

4. Departmental reform

The Home Office landscape could undergo further estate consolidation and asset realisation. The Identity and Passport Service currently operates 68 interview offices across England & Wales – some with a utilisation rate of just 10%. Reducing this number by a third to 45 offices, would require applicants to travel further but would yield annual savings of £15 million.

Further departmental reform to reduce the size and number of NDPBs, and streamline administration could be pursued. For the Home Office, this might involve merging the Identity & Passport Service (IPS) with UKBA (saving on examination case work, shared interview network), and rolling the Criminal

Records Bureau (CRB) into the new National Crime Agency (NCA) from 2013. Total administration and staff costs for IPS is roughly £450 million, so assuming a 30% reduction in administration and staffing costs due to merging with the UKBA could potentially save £135 million.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comment: Merging various agencies should be possible along with reducing the footprint of the Identity & Passport Service (IPS) by creating a smaller network of interview sites.
Intrinsic merit of programme	**Low** Comment: Rationalising the number of Home Office agencies is long overdue and savings from asset realisation throughout the sector would follow
Scope for alternative provision (private, charitable, alternative government)	**Low**
Impact on objective of department	**Low** Comment: The department would retain the majority of its current spend on borders but the delivery network would be leaner – enforcement capacity will be enhanced by the creation of the border command within the new National Crime Agency from 2013
Status	*N/A*
Overall Assessment	**Intrinsically desirable to cut**

Potential savings from *efficiency*: £150 million

5. Increase departmental income

The Home Office could increase income from services it regulates and administers to help raise additional revenue. It has recently sought to increase certain citizenship and visa fees, but further increases to visa/residency fees, might raise an additional £50-100 million by 2015, or more if the standard UK passport fee was raised further as well in the next five years.

Potential Savings

Option 1: 25% cuts

Programme/Spending Area	Potential Savings in £ millions by 2014	Assessment
Home Office		
Staffing freeze	375	Already announced
Departmental reform	150	Intrinsically desirable
Shared services, collaboration, contracting out efficiency savings	600	Plausible
Reduce main HO funding for policing by 5%	250	Plausible
Ring-fenced grant abolition	1,000	Plausible
Increase departmental income	75	Intrinsically desirable
Total	**2,450**	

Option 2: 40% cuts

Programme/Spending Area	Potential Savings in £ millions by 2014	Assessment
Home Office		
Staffing freeze	375	Already announced
Departmental reform	135	Intrinsically desirable
Shared services, collaboration and contracting out efficiency savings	600	Plausible
Ring-fenced grant abolition	1,000	Plausible
Reduce central and local funding for policing by 10%	470	Plausible
UKBA efficiency savings (10%)	140	Plausible
Area based grant	80	Plausible
Pro-rata cut to all services to achieve 40% cuts (10%)	1,000	Plausible
Increase departmental income	75	Intrinsically desirable
Total	**3,800**	

Part B: Ministry of Justice

Spend: £9.4 billion of which £9 billion is resource departmental funding

Targeted cuts: 25% - £2.3 billion / 40% - £3.6 billion

The departmental expenditure of the Ministry of Justice is broken down into:

Table 5.3: Ministry of Justice – Programme Funding

Funding Objective	Total Spend 08/09 £ thousands
Central Government Spending	
Headquarters and Associated Offices	451,000
HM Court Service	1,016,000
Tribunal Service	295,000
Criminal Justice Reform	139,000
National Offender Management HQ	1,193,000
Prisons Private Sector	245,000
Prisons Public Sector	2,212,000
Other	71,000
Non Budget	
Legal Services Commission: Administration	129,000
Criminal Defence Service	1,188,000
Community Legal Service	913,000
National Probation Service (local area boards)	781,000
Youth Justice Board	459,000
Criminal Injuries Compensation Authority	254,500
Other	30,340
Total	**9,377,000**

Details can be found in Figures 5.3 and 5.4 in the Appendix.

Cuts already announced

Ministry of Justice

- £325 million savings in 2010/11.
- Consultation on court closures – could save £16.5 million per year.

Implied cuts on Department from budget measures already announced

Staffing Freeze and Cuts

The Office of Budget Responsibility projected that the staffing measures announced in the budget would result in a fall in general government employment of 490,000 from 2010/11 to 2014/15 or a fall of 8.9%.[84]

At the same time, pay is projected to decline by 0.5% (using the Emergency budget's assumptions about RPI inflation). This equates to a 9.3% fall in the general government paybill, which is estimated to be around £135.1 billion.[85] This would imply a total reduction of £12.6 billion in the paybill to £122.5 billion. If these savings were to be shared proportionally by each department according to the size of its budget then this would imply a savings of about £355 million for the Ministry of Justice.

Policy Options for Cuts

A selection of policy options for the necessary spending reductions is proposed below. These reflect what might be plausible cuts on the scale required of £2.3 billion, or 25% by 2014-15. These scenarios are meant to be indicative and so do not address every conceivable area for cuts. While some options may be controversial, they are practically deliverable and consistent with, or at least do not conflict with, stated departmental priorities.

1. Central expenditure

Much of the MoJ budget is absorbed in staff costs, and so some reductions in headcount are unavoidable when savings on this scale are required. However, the biggest item of expenditure under the MoJ – NOMS – is accounted for *by spending on prisons and probation* and the vast majority of the prisons budget is fixed costs that cannot yield real savings unless establishments are closed and staffing levels cut. Despite recent improvements in population projections up to 2015, current capacity constraints and the time-lag inherit in any sentencing reforms prevent the Government from realising large savings from the early closure of prisons within the timescale of the spending review, unless they resort to emergency measures to artificially free up prison places. Regime costs in the public sector could be reduced by cutting back on certified programmes and further limiting time-out-of-cell for purposeful activity, however this would severely undermine the rehabilitation objective of the Coalition and would not yield very large savings.

Other options to reduce MoJ central expenditure are less politically difficult. The *legal aid budget* of £2.1 billion is the second biggest item of MoJ expenditure after NOMS. Funding for what is the most generous legal aid system in the world cannot be sustained at current levels. Reducing the scope of civil legal

84 General Government Employment Forecasts, Office of Budget Responsibility, July 2010. http://budgetresponsibility.independent.gov.uk/d/general_gov_employment_forecast_130710.pdf

85 Holmes, Ed and Lilico Andrew, "Pay and Staffing in the Public Sector", *Policy Exchange Report*, June 2010.

aid, cutting fees for legal aid work and reducing in-person advice at police stations would deliver significant savings, with reduced costs in the medium term:

- Police station advice – restrict to telephone advice only in most cases, as in Canada, saving £150- 170 million, and reduce fees by 25% saving £47 million
- Legal fees – reduce rates of higher and Crown Court fees by 10% saving £7 million
- Civil representation – cut scope to restrict to just public law, children and human rights cases, saving £100 million, and cut from scope all private law family £150-200 million

The above mentioned cuts would bring total savings of £500-600 million in 2014-15.

Other criminal justice system savings could be secured *by reducing spend on victims services* and associated administration costs. The Criminal Injuries Compensation Scheme, administered by the Criminal Injuries Compensation Authority (CICA), is one of the most generous in the world. A largely demand-led service, the CICA paid out £244 million in compensation in 2009-10, a rise of around a third since 2004-5, with increases in total payouts taking place even while volume crime and the total number of victims (according to the British Crime Survey) has fallen. The CICA budget could be cut by a third over four years to return it to its 2005 level, with the scope and value of compensation reduced. The budget for the charity Victim Support includes £37 million of public funding. This could be reduced by 30% or £13 million– in line with reductions to the CICA budget – in advance of ending public support and allowing Victim Support to operate as an independent charity, majority funded by donations.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High for legal aid / Low for prisons**
Intrinsic merit of programme	**Medium** Comment: Legal aid provision can be reduced and costs cut by addressing scope and nature of service provision
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comment: Reductions in legal aid provision and spend on victims services could be partly addressed by inviting more voluntary sector provision
Impact on objective of department	**Medium** Comment: Moderate, although access to justice would be impacted by legal aid cuts
Status	*Legal aid earmarked for cuts*
Overall Assessment	**Plausible**

Potential savings from *scaling back*: £690 million

2. Shared services, collaboration and contracting out

The MoJ is already engaged in a market-testing round for 5 existing prisons, with a further round of 5 prisons to take place in 2011. However, there are currently a number of prisons that the NOMS performance framework judges to be 'requiring development' and many more that are judged to be high-cost. Despite the risks from volatile unions and the attendant industrial relations problems, savings could be generated if these *prisons were contracted out* to the private and voluntary sectors starting immediately, with the incumbent public sector barred from the bidding process. Given the savings required over the next period for the Ministry of Justice, the Government could also go further, faster: contracting out the operation of a quarter of public sector prisons in total. Even accounting for TUPE conditions in the new contracts, lower running costs and fewer public sector staff would yield annualised savings of at least £100 million in prison operating costs by 2015.

There is also scope for outsourcing in probation. Unpaid Work, as one key element of community sentences, accounts for up to half the budget of Probation Trusts and is currently administered by the Probation Service under NOMS. Outsourcing Unpaid Work with a series of large contracts to consortia of private and voluntary sector providers could yield efficiencies of up to 30%. This would deliver annualised savings of up to £130 million from the current probation budget by 2014-15.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comment: Private provision of more prison and probation services will drive efficiencies and help maintain service provision while funding is cut
Intrinsic merit of programme	**Medium** Comment: Competition will help drive up standards across the board and outsourcing will reduce demand on state agencies in probation
Scope for alternative provision (private, charitable, alternative government)	**High** Comment: There are well-established private sector providers and charities in this sector and consortia already exist to manage offenders and deliver programmes – upscaling these ventures should be possible
Impact on objective of department	**Low** Comment: Frontline provision will be maintained and potentially enhanced with private involvement with outcomes-based contracting to ensure delivery
Status	*N/A*
Overall Assessment	**Intrinsically desirable**

Potential savings from *efficiency*: £230 million

3. Departmental reform

Central spending on the largest agency, NOMS, amounts to 21% of the MoJ budget in this area and could be cut back significantly by *abolishing the regional structure of NOMS* and centralizing procurement and performance management functions to yield sizeable savings. We estimate that scrapping this regional tier of bureaucracy will save between

£25 million and £30 million in staff and premises costs alone. At some point after 2015, devolving funding and commissioning to force level when the directly-elected Police and Crime Commissioner's offices are established could then be considered in line with devolution plans. There is greater scope for *headcount reduction at the MoJ* itself, reducing the total policy staff of 1,700 by one third, with annualized savings of £43 million.

The Youth Justice Board commissions youth custody places on behalf of the MoJ, and oversees Youth Offending Teams (YOTs), organised locally by partnerships of councils, police forces and probation. The operating costs of a separate agency to administer youth custody provision are high, and it is preferable that policy formation should take place in the MoJ. If commissioning duties reverted to the pre-1998 arrangements, policy teams amalgamated and administration of YOTs entirely devolved to local authorities, the *YJB could be abolished entirely* saving around £25 million per year by 2014/15.

An ambitious programme of asset realisation in the MoJ area, would raise further revenue. In particular, the sale of large parts of *HM Courts Service property portfolio*, consistent with the closure of under-used county and magistrates courts, should be considered. The value of the court estate in 2010 was £2.8 billion. The closure of 150 courts and the sale of the sites to private developers could raise one-off receipts of £300 million over the next four years and the Government estimates that £16.5 million could be saved in annual court running costs.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comment: Growth of NOMS bureaucracy has been significant – cuts should not erode frontline delivery. Abolition of the YJB need not undermine youth justice goals if councils are given greater role in overseeing YOTs.
Intrinsic merit of programme	**Low** Comment: A streamlined NOMS/YJB structure is desirable and the lower court estate should be rationalised in response to falling demand
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comment: Council involvement in youth justice would need to be stepped up, and the centre would commission more NOMS services directly, prior to devolving to PCCs at some future point
Impact on objective of department	**Low** Comment: Cuts in this area should mitigate funding reductions to programme spend but centralising commissioning now should not be used to block future devolution plans
Status	*Earmarked for cuts*
Overall Assessment	**Plausible**

Potential savings from *efficiency*: £120 million

4. Increased departmental revenue

The MoJ has scope to raise much more income by increasing fine rates. The last major up-rating of court fines occurred in the early 1990s. Backdating an increase in court fines to 1992 in-line with RPI inflation and assuming no improvement in collection rates would raise £130 million annually (lowest tier fines would increase from £200 to £300, highest tier from £5,000 to £7,500). The potential for the private sector – on outcomes-based contracts – to be more involved in court order services could help improve current poor collection rates. Additional MoJ income for victim's services to offset central funding cuts in this area could be secured by doubling the Victims' Surcharge to £30, raising an up to an additional £10 million.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comment: Uprating fines in this way is simple to deliver, although actual income depends on collection rates
Intrinsic merit of programme	**High** Comment: Current fine levels are overdue an increase and now is the obvious time
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comment: Use of private fine collection agencies could be expanded to increase collection rates/income
Impact on objective of department	**Low** Comment: Courts levy fines at a more appropriate level aiding justice objectives
Status	*N/A*
Overall Assessment	**Plausible**

Potential Savings

Option 1: 25% cuts

Programme/Spending Area	Potential Savings in £ millions by 2014	Assessment
Ministry of Justice		
Central spending		
Staffing Freeze	350	Already announced
Departmental reform	120	Intrinsically desirable
Reduce legal aid budget by cutting fees/scope	600	Plausible
Victims services	90	Plausible
Asset realisation	20	Plausible
Shared services, collaboration and contracting out		
Contract out 1/4 of prisons	100	Plausible
Probation Service outsourcing	130	Plausible
Increase departmental income	140	Intrinsically desirable
Pro rata cut to all services to achieve 25% cuts (10%)	750	Less Desirable
Total	**£2,300**	

Option 2: 40% cuts

Programme/Spending Area	Potential Savings in £ millions by 2014	Assessment
Ministry of Justice		
Central spending		
Staffing Freeze	350	Already announced
Departmental reform	120	Intrinsically desirable
Reduce legal aid budget by cutting fees/scope	600	Plausible
Victims services	90	Plausible
Asset realisation	20	Plausible
Shared services, collaboration and contracting out		
Contract out 1/4 of prisons	100	Plausible
Probation Service outsourcing	130	Plausible
Increase departmental income	140	Intrinsically desirable
Pro rata cut to all services to achieve 40% cuts (20%)	2,050	Unpalatable
Total		**3,600**

Conclusion

We have identified a package of measures that could be enacted to save significant expenditure in the budgets of both the Home Office and the Ministry of Justice. Although difficult decisions are necessary on central funding of the police, these would be consistent with departmental commitments to localism, modernising workforces and driving out unnecessary cost. Unlike the MoJ, fewer of its departmental costs are fixed, and consequently, the Home Office could deliver 25% efficiencies.

In contrast, despite accepting the scope for large efficiencies, the scale of savings at the Ministry of Justice presents the bigger challenge of the two departments. Even taking certain tough measures into account and proposing difficult decisions on legal aid, outsourcing and funding for victims services that may prove politically unviable, because of the size and fixed nature of the prisons budget, it remains hard to see how the MoJ will be able to deliver cuts on the scale of 25%.

The MoJ's savings shortfall in the scenarios that we outline is around £570 million. If additional savings were to come from the prisons budget alone to bridge this gap, then the estate would need to shrink by around 20,000 places to facilitate the necessary reduction in running costs and consequent staffing levels. However, even restricting the use of custodial sentences so that no offenders receive disposals of less than 12 months would only reduce demand on the estate by 8,000 places per year. Cuts at this level are therefore only possible by fundamentally compromising either the department's policy objectives or, in extremis, the obligation on government to maintain public safety.

6
Department of Energy and Climate Change

Dr Robert McIlveen and Ed Holmes

Spend: £3.1 billion of which £1.1 billion is resource departmental funding
Targeted cuts: 25% – £280 million / 40% – £440 million

Purpose/scope of department

The Department of Energy and Climate Change (DECC) was created in 2008 to bring together all policy covering energy and climate change, which had previously been shared between Defra and BERR. Its spending covers historic liabilities from the UK's nuclear and coal industries as well as programmes to tackle climate change and meet the UK's targets on carbon emissions and renewable energy.

Breakdown of Spending

DECC is unusual in that as well as its DEL spending discussed here, it is responsible for programmes which are paid for through energy bills and delivered by energy companies, for example the Renewables Obligation. We calculate that the effective taxes controlled by DECC amount to £5.7 billion in 2010 and will rise to £16.3 billion by 2020.[86]

This spending is not included in our consideration of 25% cuts here. We have previously made recommendations for reforming or abolishing some of the policies funded through energy bills including Feed-in Tariffs and the Renewable Heat Incentive.[87]

Table 6.1: DECC's spending programmes (DEL, 2010-11, £ million)[88]

Programme	Spending (£m)	% of total
Supporting affordable, secure and sustainable energy	79.1	2.5%
Managing historic energy liabilities	2,007	64.3%
Bringing about a low-carbon UK	650.7	20.9%
Developing an international agreement on climate change	11.5	0.4%
Promoting low carbon technologies in developing countries	250	8.0%
Professional support and infrastructure	121.7	3.9%
Total	**3,120**	**100.0%**

86 Less, Simon, *Green Bills*, Policy Exchange, 2010.

87 McIlveen, Robert, *Cutting the Cost of Cutting Carbon* in Less, S ed. *Greener, Cheaper*, Policy Exchange, 2010.

88 DECC Resource accounts, 2009-10.

DECC's total DEL is £3.12 billion for the year 2010-11. Table 6.1 shows the breakdown of DECC's spending into its (rather vaguely named) programmes. This is how the department presents its spending in its resource accounts, with the figures being the planned spend in 2010-11 from 2009.

The largest proportion of DECC's budget (64.3%) is related to managing historic liabilities from the coal and nuclear industries. This includes, among other things, coal-related compensation payments (e.g. for Vibration White Finger sufferers) and managing spent civil and military nuclear fuel.

“While the UK is seeking a leading role in tackling climate change globally, at a time of budget constraints government must focus on value for money”

This area of spending would be hard to cut, since the liabilities have to be met eventually (however, since these are counted as capital expenditure they would not be included for the purposes of this exercise in any case). In 2010-11 the total liabilities of the Department and its Non-Departmental Public Bodies stood at £45.4 billion, and they spent over £2 billion financing them (though there may be scope for efficiency savings within this). This valuation of the liabilities is based on discounting the "expected monthly contracted cash payments to be made until 2029,"[89] so while it could be possible to under-spend for a period it would require more to be spent later.

Breaking down some of the larger programmes into activities, based on a Freedom of Information request, reveals where the money goes. The data is from 2008-09 so will differ slightly for 2010-11. Some of the programmes cover a very wide range of activities. For example, "Supporting affordable, secure and sustainable energy" includes the G8 Global Partnership, an anti-nuclear proliferation programme, supporting specific low-carbon technologies and targeting specific sources of greenhouse gas emissions in the economy, such as buildings.

The second largest programme is for "Bringing about a low-carbon UK". This programme's budget is dominated by Warm Front, which gives householders grants to improve the energy efficiency of their homes. Policy Exchange examined energy efficiency policy, including Warm Front, in *Warm Homes* and recommended its abolition and replacement.[90]

Within this programme, payments to RDAs have already been cut this year, since several are slated for abolition. There may be more room for cuts from RDAs, given that in the cuts already announced by the Government some of DECC's spending was labelled as "lower impact spend".[91]

The other programme which could yield significant savings is "promoting low carbon technology in developing countries". This is a joint programme between DECC and the Department for International Development (DfID) which is growing very quickly to a projected £250 million in 2010-11, compared to £100 million in 2009-10.[92] While the UK is seeking a leading role in tackling climate change globally, at a time of budget constraints government must focus on value for money.

Policy Options for Cuts

In May 2010, the Chancellor and Chief Secretary to the Treasury set out savings of £6.2 billion across government, including £85 million in DECC's budget. This was secured through efficiencies in DECC's delivery bodies, administrative costs and

89 Ibid.

90 http://www.policyexchange.org.uk/images/publications/pdfs/Warm_Homes.pdf

91 Savings by DECC on Low Carbon Technology Programmes (Press release), http://www.decc.gov.uk/en/content/cms/news/pn10_84/pn10_84.aspx, 16th July 2010.

92 DECC Resource accounts 2009-10.

efficiency savings as well as cuts to programmes including low carbon buildings and deep geothermal projects. The recommendations below suggest savings on top of those already made.

Managing Historic Energy Liabilities

Potential savings from *efficiency* (5%): £100 million.

A 25% cut in DECC's DEL amounts to £780 million in 2010-11. There are several options for cuts. Shaving a small amount off the very large 'managing historic energy liabilities' area of spending could yield significant savings, at least in the short term. However, since our objective is to permanently reduce spending, long term savings may be difficult – particularly given the assumption against defaulting on established obligations.[93] Any reduction in this area is thus likely to come from managing existing liabilities more effectively and delaying some future measures.

93 Historic liabilities are generally considered to be non-discretionary spending and thus incapable of being reduced. Ex post facto reneging on established obligations is frowned up in UK law and would require primary legislation. Without it – via defaulting on contractual legacy costs or statutory obligations – the action would be struck down by judicial review. Ex post facto law is not unprecedented, however. An Act of Parliament is permitted to override existing obligations (War Damage Act 1965) and take retrospective effect (Pakistan Act 1990).

Pros/Benefits	Cons/Costs
• Since historic liabilities constitute over 60% of the budget, the degree of savings required is likely to require spending reductions in this area. • Reducing the available budget in the short-term may eliminate waste and promote efficiency, yielding long term savings.	• There is an assumption that governments do not default on established obligations and to do so would likely require primary legislation. • Cutting sensitive programmes such as nuclear clear-up and coal-related compensation payments are likely to prove politically, legally or practically impossible. • Any reduction in immediate spending could simply constitute pushing the liabilities into the future and not represent a genuine long-term saving.

Larger cuts to DECC's budget than 25% mooted here would almost certainly require larger cuts in this programme. This is not attractive and not particularly feasible either.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Low** Comments: Since most of this spending is legally mandated, reductions could be very difficult without primary legislation and may be subject to judicial review. There may be some scope for efficiencies though.
Intrinsic merit of programme	**High** Comments: This area of spending is necessary to meet established UK environmental and compensation obligations.
Scope for alternative provision (private, charitable, alternative government)	**Low** Comments: Highly expensive and technical clean up operations are unlikely to be replaced by the private sector (which already provides these services under contract) or charitable provision. Compensation payments are unlikely to be entirely mitigated by charitable provision.
Impact on objective of department	**High** Comments: This is a core departmental objective.
Status	*Long established.*
Overall Assessment	**Unpalatable to cut**

Supporting affordable, secure and sustainable energy

Potential savings from *scaling back* (25%): £20 million.

Cutting spending by doing less could affect three of the programmes. In "Supporting affordable, secure and sustainable energy" there is a mix of international obligations and support for low carbon technologies. The international obligations are likely to be hard to cut quickly, but the technology subsidies are potential candidates, especially those which are relatively low-value measures for tackling climate change such as microgeneration technologies. Some perverse spending, for example on coal investment aid, should also be cut. Cutting 25% of this programme appears feasible and would save £20 million.

Pros/Benefits	Cons/Costs
• We consider some subsidies to be ineffective and wasteful. Other areas which create perverse incentives are intrinsically desirable to cut.	• Cuts in some programmes may be impractical due to established international obligations

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Medium** Comments: Domestic technology subsidies are largely discretionary spending, whereas those necessary to fulfill international obligations are likely to prove harder to cut.
Intrinsic merit of programme	**Medium** Comments: While supporting environmentally sustainable technologies is a key objective, some programmes focus on lower-value technologies.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Low carbon technology investment is already widespread in the private sector and is likely to continue.
Impact on objective of department	**High** Comments: Mitigating climate change and encouraging low carbon technologies is a key function of the Department.
Status	*Long established but rapidly growing*
Overall Assessment	**Plausible to cut**

Bringing about a low carbon UK

Potential savings from *reduction to de minimis* (70%): £450 million.

For the "Bringing about a low carbon UK" programme there is greater potential for cuts. This area is dominated by Warm Front, which gives grants to householders to improve the energy efficiency of their homes. The overall programme also includes significant spending by quangos, including the Energy Saving Trust. In Policy Exchange's research note *Warm Homes* we advocated abolishing Warm Front and the Energy Saving Trust and replacing them with a loan scheme for household energy efficiency improvements, funded through bills. The government is implementing the second of these recommendations but not yet the first, and should do so. This would save around £435 million from this programme. Adding in the remaining payments to RDAs of around £10 million, a total of £445 million could be saved.

In abolishing Warm Front, we recognise the need to continue supporting energy efficiency measures in hard to treat houses and vulnerable households. Our proposals for replacing Warm Front and the Energy Saving Trust included the recommendation that the proposed loan scheme be focused on lower income households first.

The Carbon Trust also comes under this programme. There may well be scope to reconsider the balance of public and private funding it receives, as well as the extent of its remit.

Pros/Benefits	Cons/Costs
• Cheaper and more effective provisions are available. Warm Front has been criticised for failing to reach the poorest and least energy efficient homes. It has also involves a complex application process and high upfront costs for eligible households.[94]	• Possible problems of legacy costs and complications in transitional arrangements.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**High** Comments: Both the Energy Saving Trust and Warm Front are discretionary spending which can be replaced by alternative arrangements.
Intrinsic merit of programme	**Low** Comments: Household energy efficiency is a key objective for both environmental and social reasons. However, these programmes have failed to adequately reduce barriers to energy efficiency improvements in the existing housing stock.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: Additional mandates and a bill-funded energy efficiency improvement scheme could replace these programmes.
Impact on objective of department	**Medium** Comments: This is a major element of the department's functions.
Status	*Long established (Warm Front from 2000)*
Overall Assessment	**Intrinsically desirable to cut**

Promoting low carbon technology in developing countries

Potential savings from *transferring to DfID*: £250 million.

The last large programme is "Promoting low-carbon technology in developing countries", joint with the Department for International Development (DfID). Much of this spending is from international agreements and is likely to be hard to cut. However, it is not clear that it should come from DECC's budget; as an international development issue it could more properly be regarded as DfID's responsibility. DfID's budget has been protected by the government. Given the Government's commitment to raise international development spending over time, transferring responsibility is consistent with increasing support to developing countries. This

94 *Warm Front: Helping to Tackle Fuel Poverty*, National Audit Office, June 2003.

would save £250 million, at a cost of some re-prioritisation of DfID's protected budget. Alternatively, DfID may consider this to be a low-priority spending area and abolish the scheme entirely.

Pros/Benefits	Cons/Costs
• International development is the responsibility of another department. Transferring this function to DfID would clarify the role the department.	• Transferring responsibility to DfID might be considered 'passing the buck' and does not represent a genuine reduction in government expenditure. • Alternatively, cutting the programme maybe difficult due to standing international obligations.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Medium** Comments: Transferring funding responsibility to DfID would be operationally simple. Abolition may fall foul of existing commitments and legacy costs.
Intrinsic merit of programme	**Medium** Comments: Assisting other countries is desirable in terms of cutting overall global carbon emissions, but it is questionable whether this should be the responsibility of DECC.
Scope for alternative provision (private, charitable, alternative government)	**High** Comments: A combination of charity provision and the involvement of DfID is likely to largely offset the withdrawal of DECC funding.
Impact on objective of department	**Low** Comments: This is of low importance assuming that DfID continues with the programme; if not it might be more problematic, in particular for international negotiations.
Status	*Long established*
Overall Assessment	**Intrinsically desirable to cut**

Professional Support and Infrastructure

Potential savings from *efficiency gains* (10%): £12 million.

The Department has already found some efficiency savings in its operational and administrative functions. "Professional Support and Infrastructure" costs £12 million. A cash freeze would require cutting activities by means such as reducing relevant administrative support spending proportionately. Once implemented, we assume that such measures might induce modest further savings of around 10%, or £12 million.

Pros/Benefits	Cons/Costs
• Reducing administrative costs should limit cuts to more 'frontline' objectives.	• May have unintentional second round effects on core functions.

Assessment

Criteria	Programme assessment
Operational feasibility of cutting	**Medium** Comments: a 10% efficiency saving should be a reasonable target
Intrinsic merit of programme	**Low** Comments: This auxiliary support cannot be considered frontline spending.
Scope for alternative provision (private, charitable, alternative government)	**Medium** Comments: Infrastructural spending may be partly replaced by private sector provision.
Impact on objective of department	**Low** Comments: This spending is auxiliary to the department's main functions.
Status	*Long established*
Overall Assessment	**Plausible to cut**

Potential Savings

Option 1: 25% cuts from Department of Energy and Climate Change

Programme/Spending Area	Potential Savings in £ millions	Assessment
Transfer "promoting low carbon technology in developing countries" to DiFID	250	Intrinsically desirable
Total	**£250**	

Option 2: 40% cuts from Department of Energy and Climate Change

Programme/Spending Area	Potential Savings in £ millions	Assessment
Transfer "promoting low carbon technology in developing countries" to DiFID	250	Intrinsically desirable
Cut "bringing about a low-carbon UK" (Warm Front, Carbon Trust, RDAs) (70%)	450	Intrinsically desirable
Total	**£700**	

Conclusion

In this chapter we have considered potential cuts to the Department for Energy and Climate Change budget of 25%, as well as 40%. Cuts to some spending and the Regional Development Agencies have already been announced along with efficiency savings.

Cuts of 25% are achievable by transferring responsibility for Promoting Low Carbon Technology in Developing Countries to DfID. We believe this is intrinsically desirable. To achieve cuts of 40% would require cutting Warm Front, the Energy Savings Trust and various subsidies; also an intrinsically desirable outcome. We also note that any attempt to significantly cut the capital budget (unconsidered here) would require unfeasibly large savings in managing historic liabilities.

7
Conclusion

In this report we have considered a number of options for achieving cuts to resource spending on two scales: (i) 10% for Education and 25% for a subset of other departments; and (ii) 20% for Education and 40% for a subset of other departments.

Summary of Scenarios

The following table summarises, across the departments, for scenario (i).

Table 7.1: Lower cuts scenarios (10% in Education, 25% in other departments)

Table 7.1: Lower cuts scenarios (10% in Education, 25% in other departments)

Programme/Spending Area	Potential Savings in £ millions	Assessment
Education		
Area based grants to local governments	310	Already announced
Efficiency savings, cutting waste and scaling back lower priority spending	360	Already announced
Savings from staffing freeze[95]	1,800	Already announced
Education Maintenance Allowance	530	Intrinsically desirable
Sure Start	1,200	Intrinsically desirable
Extended Schools Funding	520	Plausible
Total Education	**4,700**	
Department of Business, Innovation and Skills		
Regional Development Agencies	360	Already Announced
Pay freeze	760	Already announced
Efficiency savings	300	Already announced
Student loan interest subsidies	1,200	Intrinsically desirable
Capabilities	280	Intrinsically desirable
Train to Gain	925	Intrinsically desirable
10% real-terms cut to Research Council funding	300	Plausible
10% real-terms cut to HEFCE quality related research funding	150	Plausible
10% real-terms cut to HEFCE	500	Plausible
Technology Strategy Board and UK Space Agency	310	Plausible
Total	**5,100**	
Communities and Local Government		
Total savings identified (efficiency reforms, withdrawing unallocated funding, grant reductions)	1,255	Already announced
Pay freezes and staff reductions savings (local government)	1,130	Already announced
Pay freezes and staff reductions savings (central government)	70	Already announced

Programme/Spending Area	Potential Savings in £ millions	Assessment
Communities and Local Government		
70% cut in Regional Development Agencies funding	630	Already Announced
50% cut in Homes and Communities Agency budget	69	Intrinsically Desirable
25% cut in contribution to Olympics budget	108	Intrinsically Desirable
17% cut in Formula Grant	4,190	Plausible
Total	**7,450**	
Home Office		
Staffing freeze	375	Already announced
Departmental reform	150	Intrinsically desirable
Shared services, collaboration, contracting out efficiency savings	600	Plausible
Ring-fenced grant abolition	1,000	Plausible
Reduce local funding for policing by 5%	250	Plausible
Increase departmental income	75	Plausible
Total	**2,450**	
Ministry of Justice		
Central spending		
Staffing Freeze	350	Already announced
Departmental reform	200	Intrinsically desirable
Reduce legal aid budget by cutting fees/scope	600	Plausible
Victims services	90	Plausible
Shared services, collaboration and contracting out		
Contract out 1/4 of prisons	100	Plausible
Probation Service outsourcing	130	Plausible
Asset realisation	20	Plausible
Increase departmental income	140	Intrinsically desirable
Pro rata cut to all services to achieve 25% cuts (10%)	750	Unpalatable
Total	**2,300**	
Department of Energy and Climate Change		
Transfer "promoting low carbon technology in developing countries" to DiFID	250	Intrinsically desirable
Total	**250**	

One important thing to notice about this table immediately is that, on our assessment, cuts on the lower scale can be achieved almost entirely by deploying a combination of cuts already announced, those that would be intrinsically desirable to make anyway, and cuts we regard as "plausible". Apart from in the Ministry of Justice, there is no need to resort to cuts that are unpalatable to achieve the aggregate spending reductions required on the lower scenario. It is perhaps surprising that there is so much "fat" in the system that cuts on this scale can really be made in so many areas so straightforwardly.

In contrast, to achieve the higher cuts scenario, many unpalatable options would have to be implemented, including particularly blunt cuts in certain areas.

95 Note that there may some double counting in this figure as the other savings may take into account the effect of staffing cuts in particular savings from efficiency cuts.

Table 7.2: Higher cuts scenarios (20% in Education, 40% in other departments)

Programme/Spending Area	Potential Savings in £ millions	Assessment
Education		
Area based grants to local governments	310	Already announced
Efficiency savings, cutting waste and scaling back lower priority spending	360	Already announced
Savings from staffing freeze[96]	2,100	Already announced
Education Maintenance Allowance	530	Intrinsically desirable
Sure Start	900	Intrinsically desirable
Extended Schools Funding	520	Plausible
10% real-terms cut to the dedicated schools budget	2,900	Plausible
Pro-rata cut to all services to achieve 20% cuts	1,780	Unpalatable
Total	**9,400**	
Department of Business, Innovation and Skills		
Regional Development Agencies	360	Already Announced
Pay freeze	760	Already announced
Efficiency savings	300	Already announced
Student loan interest subsidies	1,200	Intrinsically desirable
Capabilities	280	Intrinsically desirable
Train to gain	925	Intrinsically desirable
25% real-terms cut to Research Council funding	750	Plausible
25% real-terms cut to HEFCE quality related research funding	375	Plausible
25% real-terms cut to HEFCE	1,250	Plausible
Technology Strategy Board and UK Space Agency	310	Plausible
Other Business Support Programmes	380	Plausible
UK Commission for Employment and Skills	90	Plausible
Other Higher Education Funding	190	Plausible
Other FE and Skills Funding	430	Plausible
HEFCE Innovation Fund	100	Plausible
Other Science Programmes	110	Plausible
Total	**7,800**	
Communities and Local Government		
Total savings identified (efficiency reforms, withdrawing unallocated funding, grant reductions)	1,260	Already announced
Pay freezes and staff reductions savings (local government)	1,130	Already announced
Pay freezes and staff reductions savings (central government)	70	Already announced
70% cut in Regional Development Agencies funding	630	Already Announced
80% cut in Homes and Communities Agency budget	110	Plausible
50% cut in contribution to Olympics budget	220	Plausible
Central Department, CLG (administration only)	260	Plausible
33% cut in Formula Grant	8,250	Unpalatable
Total	**11,920**	
Home Office		
Staffing freeze	375	Already announced
Departmental reform	135	Intrinsically desirable
Shared services, collaboration, contracting out efficiency savings	600	Plausible
Ring-fenced grant abolition	1,000	Plausible
Reduce central and local funding for policing by 10%	500	Plausible

Programme/Spending Area	Potential Savings in £ millions	Assessment
Home Office		
Increase departmental income	75	Plausible
10% real-terms cut in UKBA	140	Plausible
Area based grant	80	Plausible
Further 10% cuts, pro-rata, to all services to achieve 40% cuts	1,000	Unpalatable
Total	**3,800**	
Ministry of Justice		
Central spending		
Staffing Freeze	350	Already announced
Departmental reform	120	Intrinsically desirable
Reduce legal aid budget by cutting fees/scope	600	Plausible
Victims services	90	Plausible
Shared services, collaboration and contracting out		
Contract out 1/4 of prisons	100	Plausible
Probation Service outsourcing	130	Plausible
Asset realisation	20	Plausible
Increase departmental income	140	Intrinsically desirable
Pro rata cut to all services to achieve 25% cuts (20%)	2,000	Unpalatable
Total	**3,600**	
Department of Energy and Climate Change		
Cut "bringing about a low-carbon UK" (Warm Front, Carbon Trust, RDAs) (68%)	445	Intrinsically desirable
Transfer "promoting low carbon technology in developing countries" to DiFID	250	Intrinsically desirable
Total	**700**	

Implications

One natural conclusion from the above is that it would be relatively straightforward to achieve savings of around 25% across most departments, and perhaps a little under 10% for Education. Unfortunately, because of the ringfences to the NHS, international development and capital spending, cuts of below 10% in Education (and cuts of a similar order in Defence) imply a need to cut by much more than 25% in other departments, perhaps around 33% on average, being forced into fundamentally unpalatable cutting. From this one might conclude that, although it would clearly be politically painful to, say, abandon the NHS ringfence at this stage, it could potentially be even more painful to be forced into fundamentally unpalatable cutting across a number of other departments.

And of course there *are* many cuts that one could make to NHS spending. Although it is commonly asserted that demographic factors mean that NHS spending must always rise, in fact the government *has* required efficiency savings to be delivered in the NHS — it's just that, unlike for other departments, when such savings are made in the NHS they are recycled into the total budget.[97] Furthermore, although it is certainly true that in other major fiscal consolidations in the past, health spending has rarely been cut by as much as other departments, it *has* fairly often been cut, and in other cases health spending had not risen by 33% in real

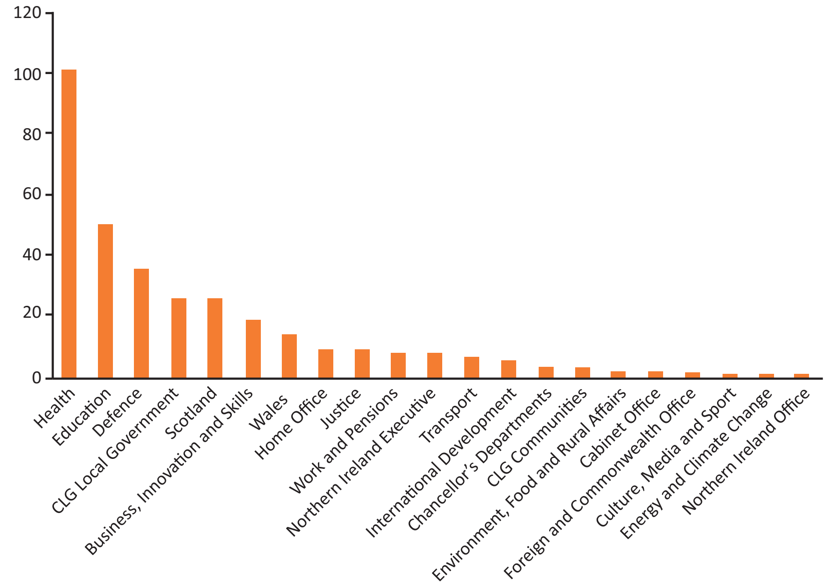
96 Note that there may some double counting in this figure as the other savings may take into account the effect of staffing cuts in particular savings from efficiency cuts.

97 See http://www.hm-treasury.gov.uk/press_06_10.htm *"As previously announced, the following departments will make efficiency savings of their own, but these will be recycled within their own budgets in 2010/11: Health, International Development, Defence. The savings in these departments are not included in the £6.243 billion."* — David Laws, Chief Secretary to the Treasury, speech on 24 May 2010.

terms over the five years preceding the consolidation.[98] Policy Exchange has previously published a number of options for reducing NHS spending.[99]

As can be seen in Figure 7.1, a little saving in the NHS would spare a lot of cuts elsewhere.

Figure 7.1: Resource DEL (£ bn 2010/2011)



However, this is not the only implication that can be drawn. For although cuts above 25% result in widespread unpalatable measures in *some* departments, that is not true in all. In BIS, for example, we believe it would be possible to reach the 40% cuts level before exhausting all the cuts that are plausible. Although our study here covers a significant portion of non-ringfenced expenditure (55%), it is possible that the scope for achieving cuts well above 25% is even greater in the departments we have not considered than in the departments we have. If cuts of 40% or more are achieved where they are indeed feasible, that clearly creates headroom for cuts below 33% in other departments. And of course there remains the option of achieving greater cuts to the welfare budget than so far announced.

Thus, it is conceivable that the overall target of a 14% fall in departmental spending, or 25% average across non-ringfenced departments, can be achieved without the need to resort to large numbers of fundamentally unpalatable cuts or giving up on the NHS ringfence. Nonetheless, even the incomplete exercise here illustrates how challenging this will be.

98 See Controlling Spending and Government Deficits: Lessons from History and International Experience, http://www.policyexchange.org.uk/images/publications/pdfs/Controlling_Public_Spending_-_Nov_09.pdf Cases of cuts to health spending included Canada, Ireland, and the 1970s UK.

99 *Controlling Public Spending: The NHS in a period of tight funding*, January 2010. Our proposals included the following:

- **Performance related pay:** The NHS now employs 1.6 million people and the pay bill accounts for around 40% of overall expenditure and up to 70% in acute or mental health trusts. However, almost all NHS staff are automatically awarded incremental increases on an annual basis at a cost of **£420 million per year**. We believe that these incremental pay increases should be linked to improvements in organisational, team or individual performance.
- **Reducing variations in clinical practice:** Until recently the work of the NHS Institute for Innovation and Improvement involved the spread of best practice, innovative technologies and new ways of working from a quality perspective rather than focusing on the costs savings they could deliver. However, a range of programmes by the NHS Institute shows that if all NHS organisations were performing as well as the top 25% this would yield a productivity gain of approximately **£7 billion per year**.
- **GP fundholding:** Deciding what clinical services to buy and where from is currently performed by Primary Care Trusts (PCTs) and is widely recognised as being a weak point for the NHS. However, evidence from GP fundholding in the 1990's was that giving GPs real budgets, and allowing them to buy services for their patients, actually reduced elective hospital admissions by 3% and drove up hospital efficiency by 1.6%. We estimate that successfully implementing GP fundholding across the country has the potential to deliver savings from reduced admissions of at least **£1 billion per year**.
- **Decommissioning services:** In the National Institute for Health and Clinical Excellence (NICE), the NHS has a mechanism to exclude non-cost-effective treatments and technologies. However, NICE does not have to consider whether or not the NHS as a whole can afford the number of treatments that might be required. We believe that NICE should have to consider its recommendations within the NHS' budget and that its remit should be

8
Appendix

Department for Education (Chapter 2)

Table 2.1: Budget Summary for Department for Education 2008/09

Funding Objective DEL	Total Spend 2008/09 in £000's
Central Government Spending	***10,338,000***
Activities to support all functions	244,000
Support for schools and teachers not through Local Education Authorities	2,157,000
Support for children and families not paid through Local Authorities	325,000
Sure Start current grants not through Local Authorities	40,000
Sure Start schools current grants not through Local Authorities	15,000
Further Education, Adult Learning and Skills for Lifelong Learning and International programmes (YPLA)	7,546,000
Education Maintenance Allowances	*532,000*
Work-based learning	*778,000*
Learners with Learning Difficulties	*203,000*
Learner Support	*96,000*
16 – 18 Further Education	*3,298,000*
School Sixth-Forms	*2,039,000*
Compensation to former College of Education Staff	12,000
Local Authorities	***39,767,000***
Schools	*36,818,000*
Dedicated School Grants	28,981,000
Current Grants for Local Education Authorities to support Schools and Teachers	4,436,000
Capital Grants for Local Education Authorities to support schools	3,550,000
Children's Centres	*1,565,000*
Current Grants for Local Education Authorities to support Children and Families	124,000
Capital Grants to Local Authorities to support children and families	98,000
Area Based Grants	1,176,000
Current Grants to Local Authorities to support Youth Programmes	12,000
Capital Grants to Local Authorities to support Youth Programmes	15,000
Sure Start	*1,685,000*
Local Authority current Grants	1,264,000
Local Authority capital Grants	421,000
Non-Budget	***1,260,000***
Grant in Aid to NDPBs supporting Schools	895,000
Grant in Aid to NDPBs supporting Children and Families	170,000
Grant in Aid to NDPBs supporting Further Education, Adult Education and Skills and Lifelong Learning	163,000
Grant in Aid to NDPBs supporting Children, Families and Young People (Sure Start)	22,000
Support for Local Authorities	
Current Grants to Local Authorities to support Youth Programmes	12,000
Capital Grants to Local Authorities to support Youth Programmes	15,000
Total	51,365,000

Source: Department of Children, Schools and Families, Resource Accounts 2008/9 extended to include evaluating existing NHS treatments, so that those that are not clinically effective – such as homeopathy – or do not represent value for money can be excluded from the NHS.

- **Transformational change projects:** The Department of Health is testing ways to get the NHS working more efficiently through integrated care pilots, but the current studies are too small. We recommend that a full scale integrated care pilot should be set up covering any one of a number of hospital trusts in deficit and their local health economies. For example, Hinchingbrooke Health Care NHS Trust has well documented financial difficulties – a £40 million deficit on a turnover of £81 million and is currently being offered on a franchise basis to the private sector. It would be an ideal site for an integrated care pilot.

100 Details of acronyms used are given at the end of the Appendix

Figure 2.1: Central Government Spending for Department for Education 2008/09

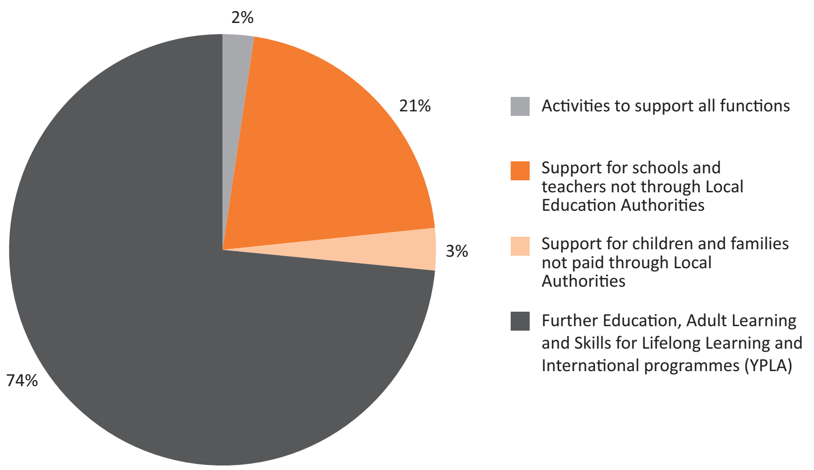


Table 2.3: Breakdown of Further Education, Adult Learning and Skills for Lifelong Learning and International programmes greater than £1 million[100]

Programme Name	Programme Object Description	Expenditure Description	Total Spend 08-09 (£k)	Grant Recipient
Offender Education	Offender Education Recurrent	Current Grants to private sector – NPISH	23,000	3rd Party grants
Qualifications &Curriculum	Qualifications	Purchase of Goods & Services (excluding Consultancy Services)	15,000	3rd Party grants
Local Delivery	14-19 Development	Purchase of Goods & Services (excluding Consultancy Services)	77,000	3rd Party grants
Attainment at 19	14-19 Development	Current Grants to private sector – NPISH	20,000	3rd Party grants
14-19 Local Delivery	14-19 Development	Current Grants to private sector – NPISH	12,000	3rd Party grants
14-19 Diploma Costs	14-19 Development	Current Grants to private sector – NPISH	29,000	3rd Party grants
16-18 Capital Grants Education (LSC)	Payments to DIUS (LSC) Education General	Grants to NDPBs, other bodies & organisations within Central Government (CAP)	145,000	NDPB – LSC
Youth Services	Payments to DIUS (LSC) Education General	Grants to NDPBs, other bodies & organisations within Central Government (CAP)	2,000	NDPB – LSC
16-18 Capital Grants Education (LSC)	Payments to DIUS (LSC) Education General	Grants to NDPBs, other bodies & organisations within Central Government (CAP)	60,000	NDPB – LSC
LLDD Participation (LSC)	Payments to DIUS (LSC) Education General	Grant in aid to NDPB's	3,376,000	NDPB – LSC
16-18 FE Participation (LSC)	Payments to DIUS (LSC) Education General	Grant in aid to NDPB's	178,000	NDPB – LSC
Learner Support Youth Education (LSC)	Payments to DIUS (LSC) Education Youth	Grant in aid to NDPB's	99,000	NDPB – LSC
14-19 Reform Education (LSC)	Payments to DIUS (LSC) Education Youth	Grant in aid to NDPB's	121,000	NDPB – LSC
Workbased Learning 16-18 Participation (LSC)	Payments to DIUS (LSC) Training General	Grant in aid to NDPB's	676,000	NDPB – LSC

Programme Name	Programme Object Description	Expenditure Description	Total Spend 08-09 (£k)	Grant Recipient
Entry to Employment Participation (LSC)	Payments to DIUS (LSC) Training General	Grant in aid to NDPB's	119,000	NDPB – LSC
EMA's (LSC)	Payments to DIUS (LSC) EMA's	Grant in aid to NDPB's	525,000	NDPB – LSC
Payments to DIUS (LSC) 6th Forms	Payments to DIUS (LSC) 6th Forms	Payments by one CG body to another	2,115,000	OGD -DIUS
Total			**7,592,000**	

Source: Freedom of Information request

Figure 2.2: Local Government Spending for Department for Education 2008/09

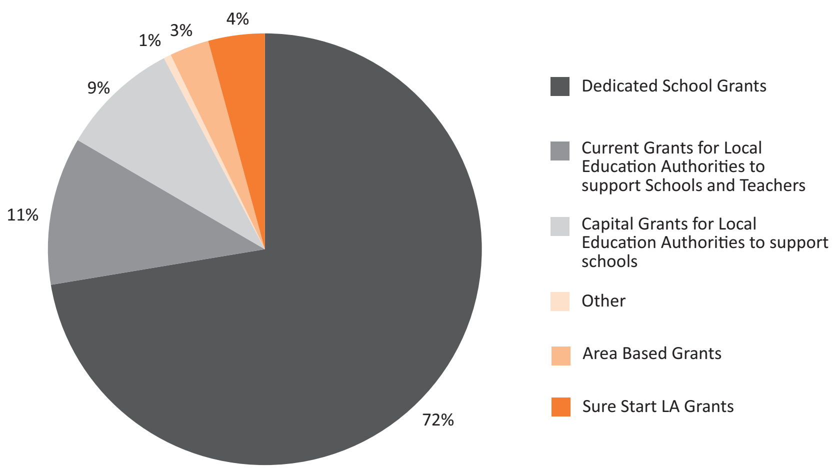
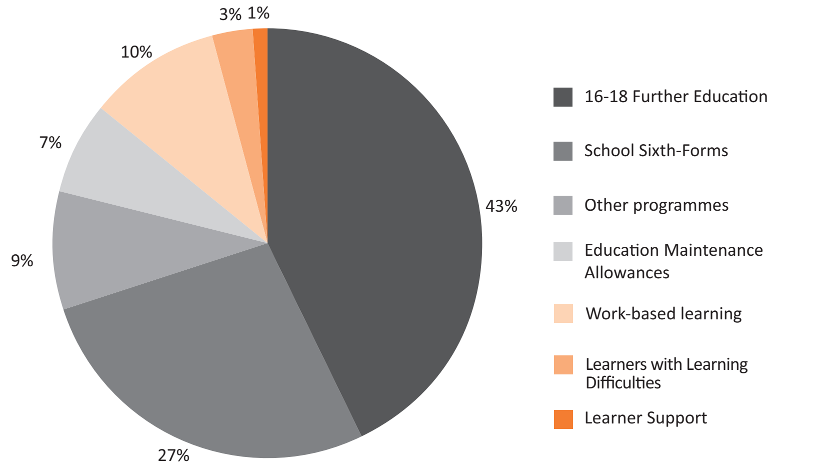


Figure 2.3: Breakdown of Further Education, Adult Learning and Skills Spending 2009/10[101]



101 A table with more detailed information about the breakdown of spending in this area can be found in Table 3.3 in the Appendix.

Table 2.4: Current Grants for Local Education Authorities to support Schools and Teachers

Programme Name	Programme Object Description	Expenditure Description	Total Spend 08-09 (£m)	Grant Recipient
School Standard Grants	Schools Standard Grant	Grants to Local Authorities within AEF / AEG	1,545	LA funding
Standards Fund Current	Standards Fund	Grants to Local Authorities within AEF / AEG	2,925	LA funding
Voluntary Aided PFI	Voluntary Aided Schools PFI credits	Grants to Local Authorities within AEF / AEG	12	LA funding
Line Total			**4,482**	

Table 2.5: Capital Grants for Local Education Authorities to support Schools and Teachers

Programme Name	Programme Object Description	Expenditure Description	Total Spend 08-09 (£m)	Grant Recipient
Misc Schools Capital	Primary Capital Programme LA	Other Grants to Local Authorities (CAP)	225	LA funding
Targeted Capital Local Authority	Targeted Capital LA	Other Grants to Local Authorities (CAP)	656	LA funding
Total BSF & Academies LA	BSF & Academies LA	Other Grants to Local Authorities (CAP)	731	LA funding
Total Devolved Capital LA	Devolved Capital LA	Other Grants to Local Authorities (CAP)	1,770	LA funding
Line Total			**3,383**	

Source: Freedom of Information request

A further breakdown of the two major capital spending programmes, that is, 'Building Schools for the Future & Academies' and 'Devolved Capital to Local Authorities' can be found in the figures below.

Figure 2.4: Total Capital Grants for Local Education Authorities to support BSF and Academies (£000s)

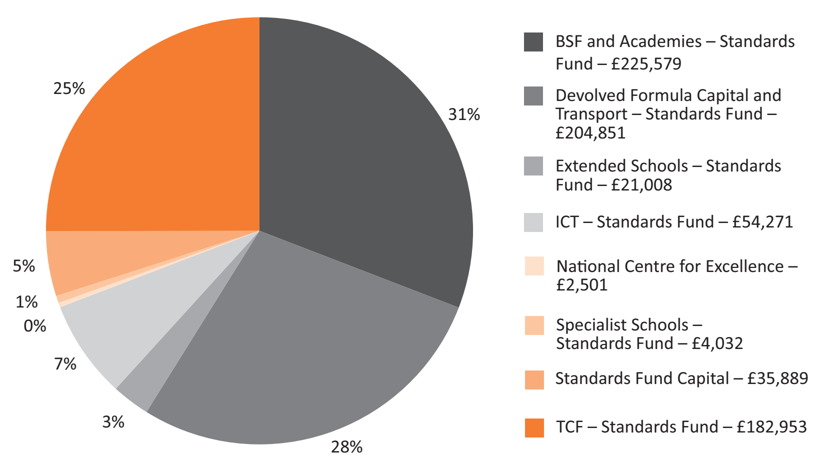
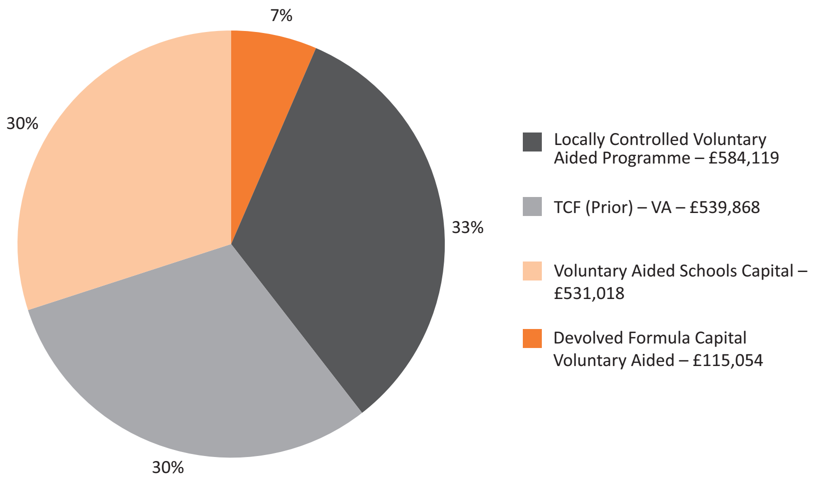


Figure 2.5: Total Capital Grants for Local Education Authorities in the form of Devolved Capital (£000s)

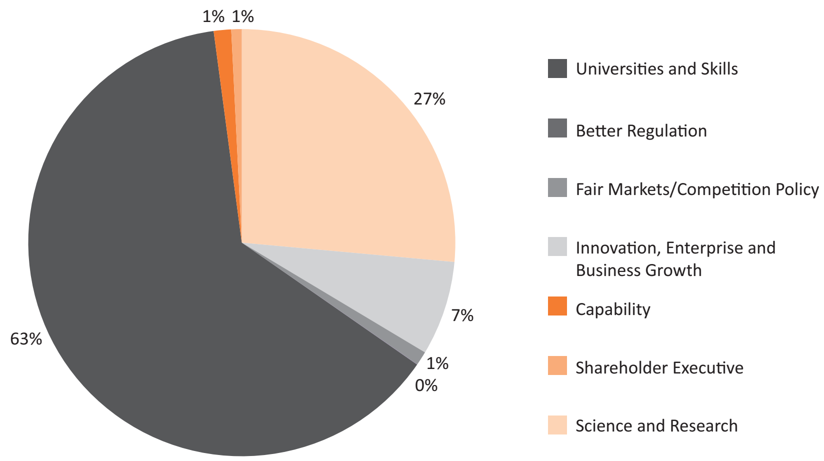


Acronyms

AEF	Aggregate External Finance
AEG	Aggregate Exchequer Grant
BSF	Building Schools for the Future
CG	Central Government
DIUS	Department for Innovation, Universities and Skills
EMA	Education Maintenance Allowance
FE	Further Education
ICT	Information and Communication Technology
LA	Local Authority
LCVAP	Locally Controlled Voluntary Aided Programme
LLDD	Learner with Learning Difficulties or Disabilities
LSC	Learning and Skills Council (Now the Skills Funding Agency)
NDPB	Non Departmental Public Body
NPISH	Non Profit Institutions Serving Households
OGD	Other Government Department
PFI	Private Finance Initiative
TCF	Targeted Capital Fund
VA	Voluntary Aided

Department for Business, Innovation and Skills (Chapter 3)

Figure 3.1: Spending by departmental strategic objectives as % of total DELs



Science and Research

Table 3.2: Breakdown of spending in Science and Research

Resource Expenditure in DEL	Spending in £ '000s in 2009/10		
	Current expenditure in DELs	**Capital Expenditure in DELs**	**Total DELs**
Research Councils	2,933,000	545,000	3,479,000
Arts and Humanities Research Council	*104,000*	*2,850*	*107,000*
Biotechnology and Biological Science Research Council	*362,000*	*121,000*	*483,000*
Economic and Social Research Council	*158,000*	*21,000*	*179,000*
Engineering and Physical Sciences Research Council	*758,000*	*73,000*	*830,000*
Medical Research Council	*608,000*	*117,000*	*725,000*
Natural Environment Research Council	*381,000*	*67,000*	*448,000*
Science and Technology Facilities Research Council	*563,000*	*143,000*	*706,000*
Higher Education Funding Council for England Innovation Fund (HEIF)	99,000	-	99,000
Higher Education Funding Council for England Quality Related Research	1,509,000	-	1,509,000
Other Science Programmes	114,000	260	114,000
Research Capital Investment Fund: HEFCE	-	222,000	222,000
Research Capital Investment Fund: Devolved Regions	-	43,000	43,000
Higher Education Funding Council for England - Research Capital	-	377,000	377,000
Total	**4,656,000**	**1,188,000**	**5,843,000**

Figure 3.2: Breakdown of spending as a % of total spending on Science and Research

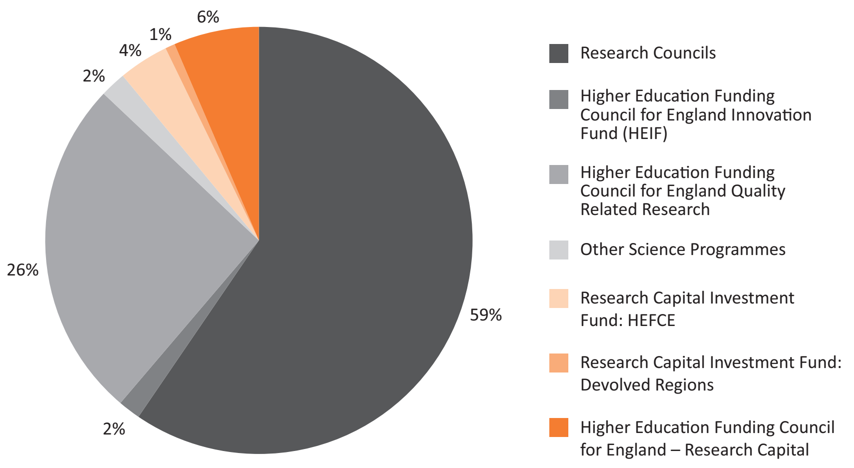
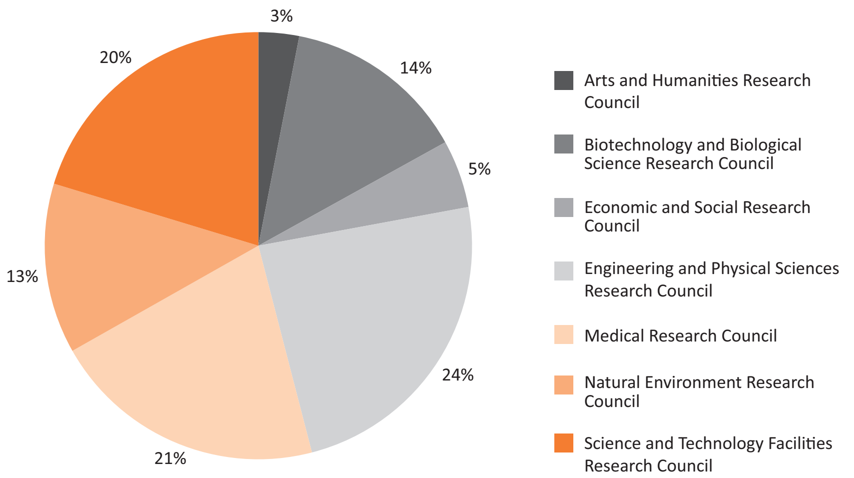


Figure 3.3: Breakdown of Research Council Funding



102 BIS provided funding amounting to £400 million for the Automotive Scrappage Scheme, which ran for 2009-10, to aid the automotive industry through an unprecedented fall in global demand.

103 The Small Firms Loans Guarantee Scheme ended in 2008-09 and was replaced by Enterprise Finance Guarantees, one of the "Fiscal Stimulus Programmes", introduced in 2009-10. Following the implementation of International Financial Reporting Standards, all payments in respect of defaults against loans have become reclassified as capital expenditure.

Table 3.3: Breakdown of spending in Innovation, Enterprise and Growth

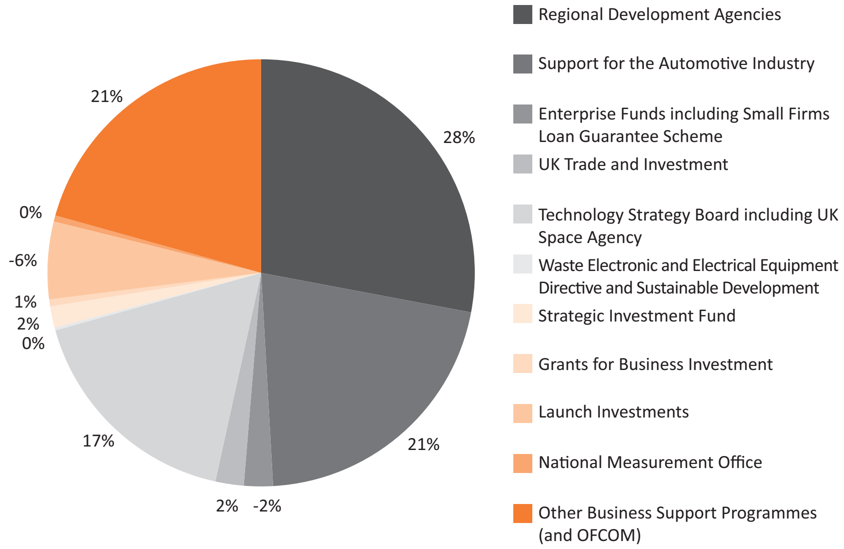
Resource Expenditure in DEL	Spending in £ '000s in 2009/10		
	Current expenditure in DELs	Capital Expenditure in DELs	Total DELs
Regional Development Agencies	454,000	72,000	526,000
Support for the Automotive Industry[102]	397,893	-	397,893
Enterprise Funds including Small Firms Loan Guarantee Scheme[103]	(117,973)	76,745	(41,228)
UK Trade and Investment	40,286	-	40,286

Innovation, Enterprise and Growth

Table 3.3: Breakdown of spending in Innovation, Enterprise and Growth

Resource Expenditure in DEL	Spending in £ '000s in 2009/10		
	Current expenditure in DELs	Capital Expenditure in DELs	Total DELs
Technology Strategy Board including UK Space Agency	309,484	14,606	324,090
Waste Electronic and Electrical Equipment Directive and Sustainable Development	4,033	-	4,033
Strategic Investment Fund	-	30,417	30,417
Grants for Business Investment	-	9,803	9,803
Launch Investments[104]	-	(110,444)	(110,444)
National Measurement Office	-	8,670	8,670
Other Business Support Programmes (and OFCOM)	210,195	178,748	388,943
Total	**1,298,297**	**280,485**	**1,578,782**

Figure 3.4: Breakdown of spending in Innovation, Enterprise and Growth as a % of total



Universities and Skills

Table 3.4: Breakdown of spending in Universities and Skills

Resource Expenditure in DEL	Spending in £ '000s in 2009/10		
	Current expenditure in DELs	Capital Expenditure in DELs	Total DELs
Higher Education Funding Council for England[105]	5,081,000	561,000	5,642,000
Learning and Skills Council/Skills Funding Agency[106]	3,884,000	954,000	4,837,000
Student Loans	1,368,000	0	1,368,000
Student Grants	1,420,000	-	1,420,000
UK Commission for Employment and Skills[107]	89,000	-	89,000
Other Further Education and Skills Funding	426,000	2,400	428,000
Other Higher Education Funding	173,000	13,000	186,000
Total	**12,440,000**	**1,530,000**	**13,971,000**

Figure 3.5: Breakdown of spending in Universities and Skills as a % of total

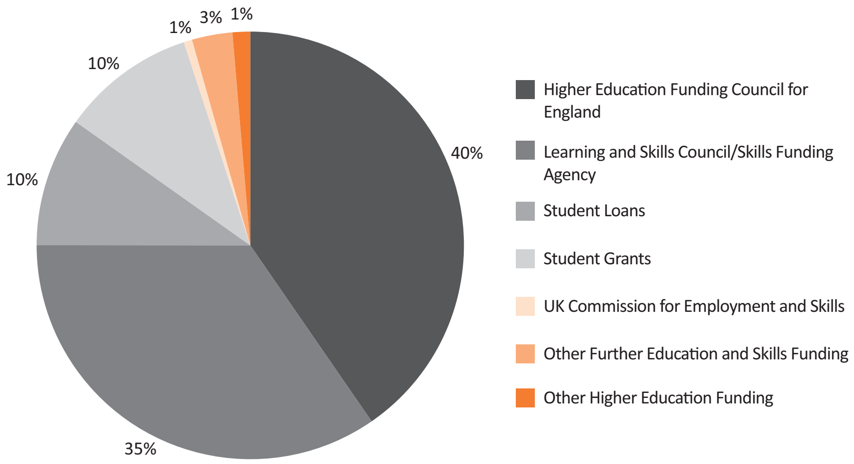


Table 3.5: Breakdown of spending of Learning and Skills Council/Skills Funding Agency 2008 – 2011

Programme		**£000's**	
	2008/09	**2009/10**	**2010/11**
Adult Learner Responsive	*1,664,555*	*1,753,338*	*1,782,906*
Adult Learner Responsive	1,664,555	1,753,338	1,782,906
Foundation Learning (excluding Skills for Life)	158,399	175,081	182,857
Skills for Life	526,997	541,339	514,871
Full Level 2	228,276	293,107	327,791
Full Level 3	281,526	329,555	374,771
Level 4	17,147	15,694	17,164
Development Learning	424,056	330,769	186,696
6 Month unemployment Programme	-	26,500	56,500
Young Person's Guarantee	-	21,500	100,900
Employer Responsive Total	*1,158,614*	*1,315,575*	*1,381,781*
Apprenticeships	332,911	389,914	398,410
Train to Gain	825,703	925,661	983,371
Foundation Learning (excluding Skills for Life)	8,163	4,774	5,031
Skills for Life	67,755	88,995	84,532
Full Level 2	522,744	550,576	552,786
Full Level 3	131,675	162,793	185,179
Level 4	19,726	10,726	11,843
Adult Safeguarded Learning	210,000	210,000	210,000
Offender Learning & Skills Service	137,685	132,630	134,828
Total Participation	*3,170,854*	*3,411,543*	*3,509,515*

104 The negative amounts in Launch Investments reflect income. The Launch Investment figure for 2009-10 includes income offset by additional investment of £145.6 million.

105 £200 million of the capital expenditure was brought forward from 2010-11 to 2009-10 under the Fiscal Stimulus programme

106 From 1 April 2010 the Learning and Skills Agency has been superseded by the Skills Funding Agency which has undertaken the related work in tandem with the newly created Young Persons' Learning Agency (an NDPB of the Department for Education).

107 The UK Commission for Employment and Skills is a NDPB for BIS created in 2008 by merging the Sector Skills Development Agency and the National Employer Panel.

Programme	£000's		
	2008/09	2009/10	2010/11
Learner Support	146,087	154,087	155,998
FE Development, Capacity and Quality	308,221	271,779	240,588
Total Capital Grants	628,300	907,800	513,800
Total Administration	191,876	189,163	81,400
Total	**4,445,338**	**4,934,372**	**4,501,301**

Figure 3.6: Breakdown of planned spending of Skills Funding Agency 2010/11

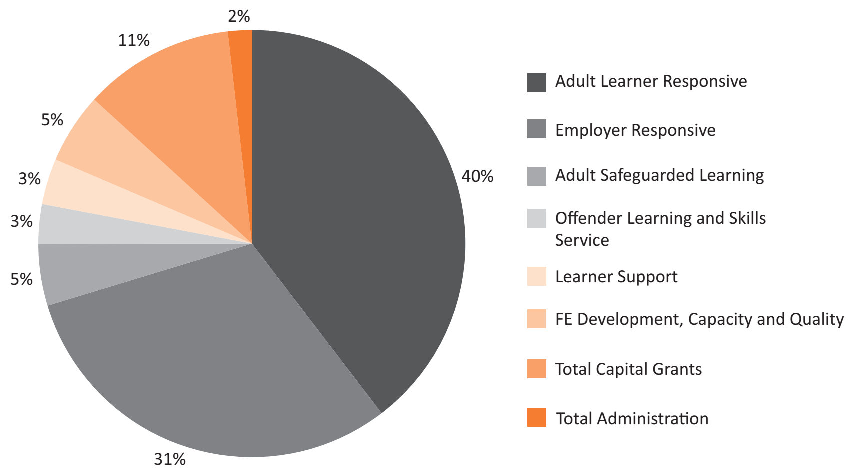


Figure 3.7: SFA – Adult Learning Responsive 2010/11

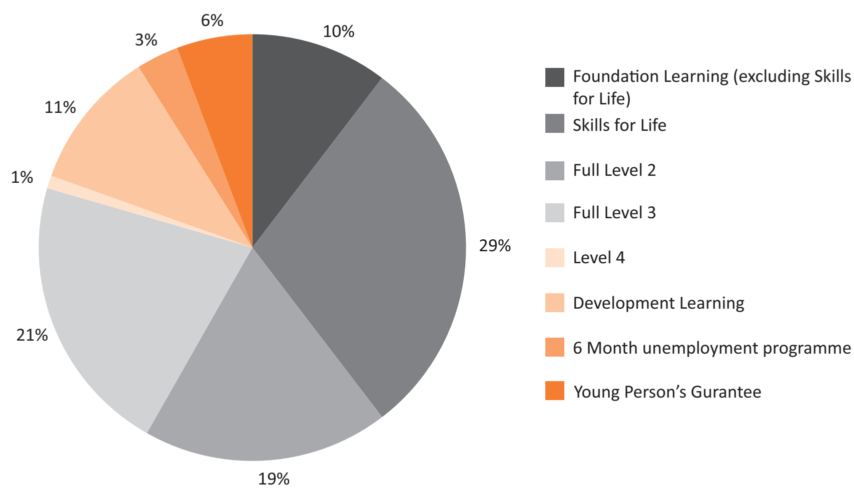
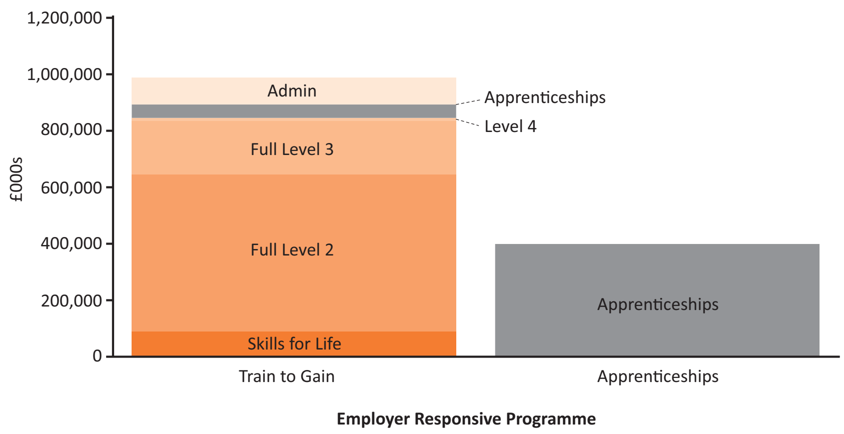
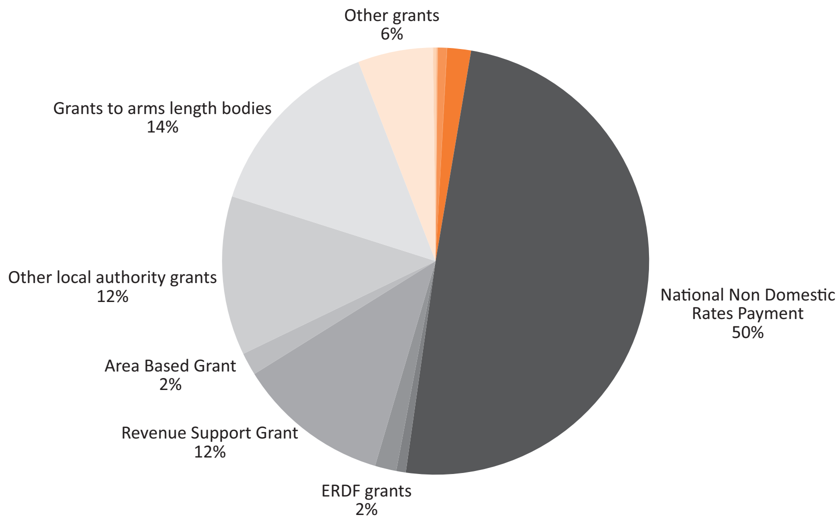


Figure 3.8: SFA – Employer Responsive 2010/11



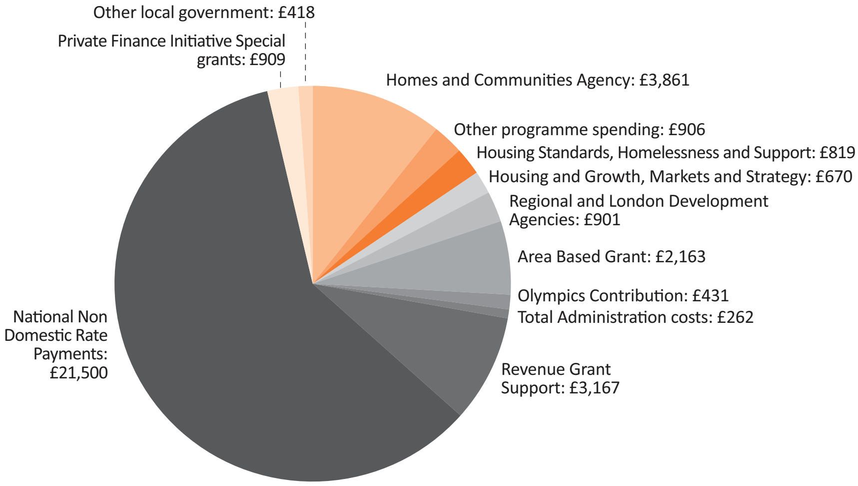
Department for Communities and Local Government (Chapter 4)

Figure 4.1: Budget by Programme, 2009/10



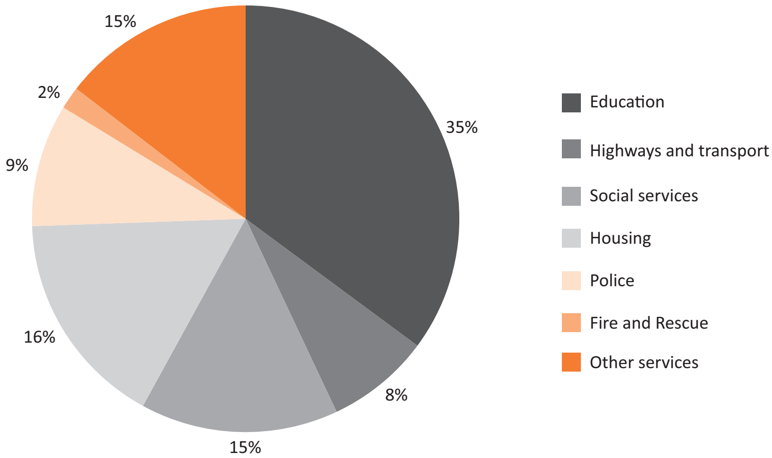
Source: Freedom of Information request

Figure 4.2: Spending by Programme



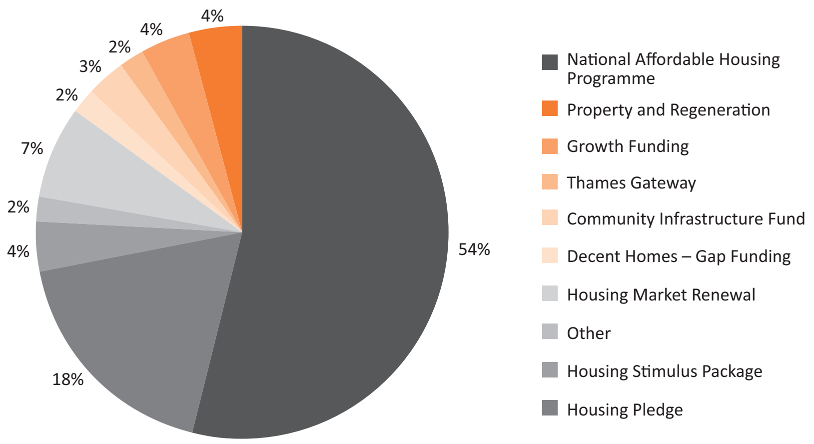
Source: Freedom of Information request

Figure 4.3: Local Government expenditure by area, 2008-9



Source: Local Government Financial Statistics England (No. 10, 2010)

Figure 4.4: Homes & Communities Agency Programme Expenditure, 2010-11



108 http://www.communities.gov.uk/news/newsroom/1611369

Savings in CLG DEL announced, 2010/11[108]

Table 4.3: Reductions in CLG DEL

Programmes	% of programme	Description	Savings in £000's
Running costs for CLG and its Quangos	10	Efficiency savings from 2010-11 budgets	50,000
Running costs – Regional Development Agencies	<1	Efficiency savings from 2010-11 budgets	17,000
Fire – New Dimensions Programme	10	Procurement Saving	5,000
Crosscutting Cohesion & Extremism	100	Unallocated funding	3,100
Thames Gateway	10	Unallocated funding	500
Cohesion & faith (non Local Government element)	32	Unallocated funding	3,200
Prevent (non ABG element)	53	Unallocated funding	6,600
Unallocated funding	100	Unallocated funding	5,000
Regional Development Agencies	20	Savings in line with plans to restructure regional tier	186,000
National Affordable Housing Programme	3	Funding announced but not yet allocated	100,000
Kickstart	12	Funding announced but not yet allocated	50,000
Total			**426,400**

Table 4.4: Reductions in Local Government DEL

Programmes	% of programme	Description	Savings in £000's
PFI Special Grant	15	Underspend	160,000
Valuation Office Agency	10	Efficiency Savings from 2010-11 budgets	17,000

Programmes	% of programme	Description	Savings in £000's
Local Authority Business Growth Incentives	100	Reduction in grant	50,000
Inspection Grant to the Audit Commission	51	Efficiency Savings from abolishing CAA	10,000
Valuation Tribunal Service	6	Efficiency Savings from 2010-11 budgets	700
Standards Board for England	18	Efficiency Savings from 2010-11 budgets	1,450
Total			**404,650**

Table 4.5: Direct reductions in grants to local authorities – CLG DEL

Capital	
Housing Market Renewal	50,000
Gypsy & Traveller site grant	30,000
Total capital	80,000
Revenue	
Housing and Planning Delivery Grant	146,000
Connecting Communities	19,000
Other cohesion funding	5,000
Area Based Grant – Supporting People administration	30,000
Area Based Grant – Working Neighbourhood Fund	49,000
Area Based Grant – Local Enterprise Growth Initiative	17,500
Area Based Grant – Prevent	7,000
Area Based Grant – Cohesion	4,000
Total revenue	278,500
Total CLG revenue and capital	**358,500**

Table 4.6: Direct reductions in grants to local authorities – Local Government DEL

Local Area Agreement Reward	125,000
Local Authority Business Growth Incentives scheme	50,000
Total	**175,000**

Table 4.7: Outsourcing of quangos (confirmed)

Audit Commission	50,000 (est.)

Table 4.8: NDPBs with significant funding, 2009-10[109]

	CLG funding	Staff employed	Status
Audit Commission for Local Authorities and the National Health Service in England	£25.7m (£209.5m gross expenditure, new arrangements to save circa £50m).	1,971	To be abolished
Homes and Communities Agency	£3,908m (£4,505m gross expenditure)	905	Under review
London Thames Gateway Development Corporation	£50m	43	To be abolished
Rent Assessment Panels/Residential Property Tribunal Service	£10.9m (£11.2m gross expenditure)	90	To be merged or consolidated
Standards Board for England	£8.3m	74	To be abolished
Tenant Services Authority	£37.2m	250	Under review
Thurrock Thames Gateway Development Corporation	£27m	44	To be abolished
Valuation Tribunals Service	£10.1m	103	To be merged or consolidated
West Northamptonshire Development Corporation	£22.7m	58	To be abolished

Table 4.9: Summary of CLG DEL, 2010/11

Programme (inc Resource and Capital Expenditure)	Financial Year 2010-11
Homes and Communities Agency	3,861
Housing Standards, Homelessness & Support	819
Housing Growth, Markets & Strategy	670
Planning	53
Sustainable Building & Climate Change	12
Planning Inspectorate	50
European Regional Development Fund	96
Communities and Neighbourhoods	197
Firelink	30
New Dimension	46
Fire and Rescue Services Improvement programme (inc Supported Capital Expenditure – £71m)	135
Fire Control	59
Regional and London Development Agencies	901
Local Enterprise Growth Initiative	19
Area Based Grant	2,163
Thames Gateway	67
Olympics Contribution	431
Other programmes	142
Total Main Programme DEL	**9,750**

Table 4.10: Administration Costs

Central Administration	160
Government Office Administration	102
Total Administration costs	**262**

109 Above £1 million.

Home Office and Ministry of Justice (Chapter 5)

Part A: Home Office

Table 5.1: Home Office – Programme Funding

DEL Funding Objective	Total Spend 09/10 £thousands
Central Government Spending	
Police	195,000
Crime Reduction and Drugs	114,000
Criminal Records Bureau	51,000
Office for Security and Counter Terrorism	332,000
UK Border Agency	1,470,000
Identity and Passport Services	95,600
Central Services	171,000
European Solidarity Mechanism	-
Support for Local Authorities	
Police Grants	5,509,000
Crime Reduction and Drugs Grants	187,000
Office for Security and Counter Terrorism	658,000
UK Border Agency Grants	168,000
Area Based Grants	81,000
Non- budget	
Grants in Aid to NDPBs	1,006,000
Other (PFI and Loan charges)	198,000
Total DEL	**10,235,600**

Figure 5.1: Home Office Central Government Spending, 2009/10

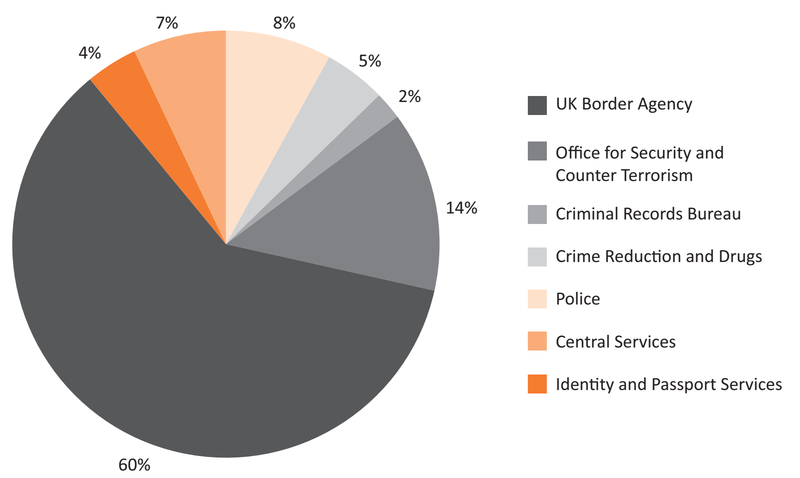
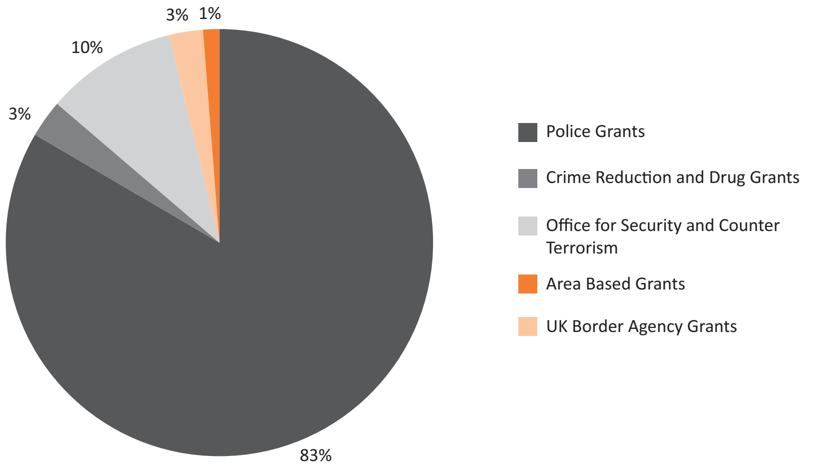


Figure 5.2: Home Office Local Government Spending, 2009/10



Part B: Ministry of Justice

Figure 5.3: Ministry of Justice Central Government Spending, 2009/10

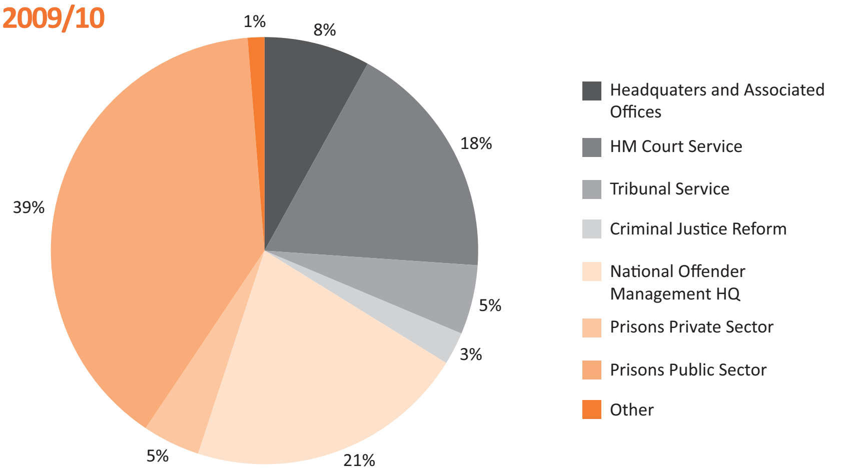
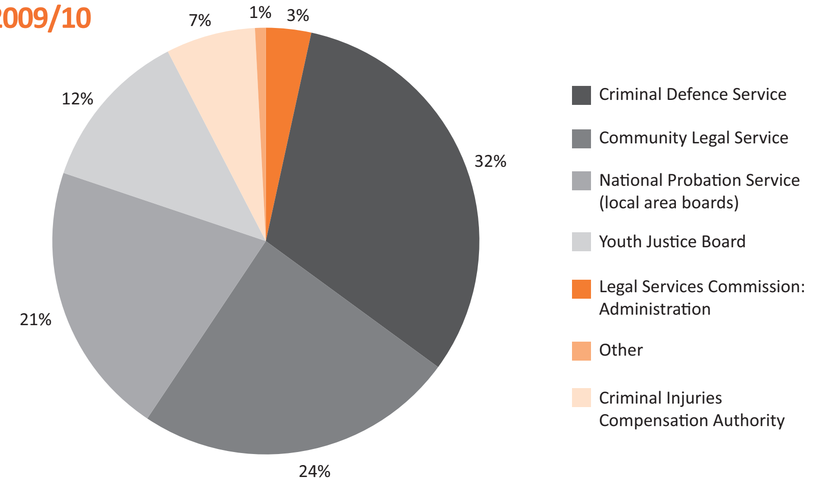


Figure 5.4: Ministry of Justice Non-Budget Spending in DELs, 2009/10



Department of Energy and Climate Change (Chapter 6)

Figure 6.1: DECC's spending programmes, 2010/11 (DEL)

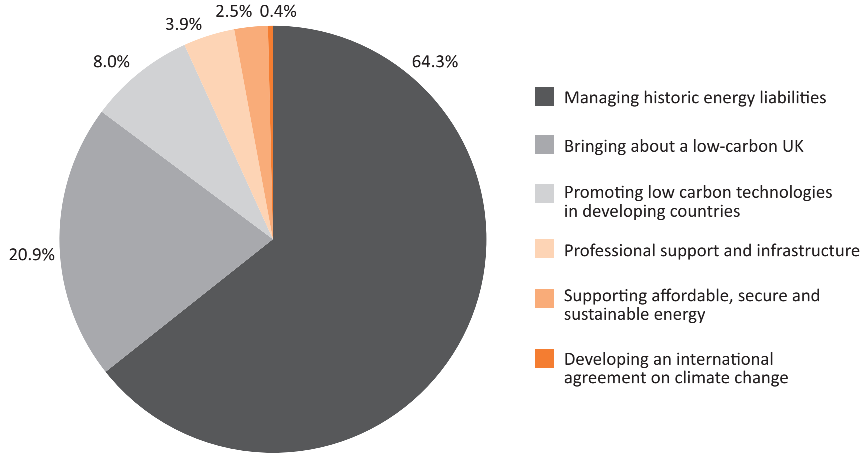


Table 6.2: Supporting affordable, secure and sustainable energy – projects above £2 million, in £ million (2008/9)

G8 Global Partnership	35.9
IAEA Annual Subscription	15.7
Clean Sustainable Energy Policy & International	13.0
New And Renewables Offshore Wind Capital Grants	7.5
Microgeneration Technologies	7.4
Low Carbon Buildings	5.7
Contribution To The IAEA Technical Co-Operation Fund	5.3
Smart Metering	5.0
Organisation For The Prohibition Of Chemical Weapons	3.3
Hydrocarbons Additional Recovery	2.6
Energy Review Team	2.4
Offshore Environmental Permits	2.3
Redfern Inquiry	2.1

Table 6.3: Bringing about a low-carbon UK – projects above £1 million

Programme	Total Spend in 2008/9 (£ million)
Fuel Poverty (Warm Front)	399.7
Carbon Trust	41.4
Payments to RDAs	36.0
Energy Saving Trust	35.9
Environmental Protection Research & Monitoring	15.9
Bio energy Grants	10.6
International climate change	4.8
Climate Change Science	1.6
Renewable Fuels and Materials Policy and International	1.6
Energy Policy (renewables & low carbon)	1.3

Policy Exchange

The Coalition government plans to cut departmental budgets by 25% by 2014/15. This major report considers how to achieve this for s**ix key departments: Education, Business, Innovation and Skills, Communities and Local Government**, the **Ministry of Justice**, the **Home Office** and **Energy and Climate Change**.

For these, we examine the **status, feasibility** and **merit** for spending reduction for each programme and consider alternative means of provision, categorising each new cut as “intrinsically desirable”, “plausible” or “unpalatable”.

With extensive analysis from experts and input from senior stakeholders, this detailed report is intended to inform public debate and to be a useful tool for policymakers before the Spending Review and subsequently, as details are finalised.

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