



HOUSE OF LORDS

Library Note

Debate on 1 November: Spending Review 2010

This Library Note provides background reading for the debate to be held on Monday 1 November:

“To take note of the Spending Review 2010”

The purpose of this Note is to present a summary of initial reactions to the Spending Review from a variety of sources including the press, think tanks, bodies representing different interest groups and public opinion polls. In particular, it looks at assessments of whether the Spending Review achieved the Coalition Government’s stated aims of supporting growth, reforming public services and building a fairer society.

Nicola Newson
28 October 2010
LLN 2010/026

House of Lords Library Notes are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of the Notes with the Members and their staff but cannot advise members of the general public.

Any comments on Library Notes should be sent to the Head of Research Services, House of Lords Library, London SW1A 0PW or emailed to brocklehursta@parliament.uk.

Table of Contents

1. Introduction	1
2. Headline Measures	1
3. Overview	3
3.1 Supporting Growth.....	4
3.2 Reforming Public Services	6
3.3 Building a Fairer Society	8
3.3.1 Distributional Impact.....	8
3.3.2 Women.....	10
3.3.3 Disabled People	11
3.3.4 Regional Impact	11
4. Public Opinion Polls	13
5. Treasury Select Committee Inquiry.....	16
Annex: Links to Think Tank Responses.....	17

1. Introduction

The Chancellor of the Exchequer presented the 2010 Spending Review to the House of Commons on 20 October.¹ The Spending Review sets out the Government's spending plans for the four financial years 2011–12 to 2014–15. The June Emergency Budget set out the overall level of public spending for this period (known as the 'spending envelope'), while the Spending Review allocated these resources across government departments and set out the Government's plans for capital spending.

Full details of the Spending Review were published by HM Treasury in its [Spending Review 2010](#) document (Cm 7942, October 2010). The House of Commons Library has published a Standard Note which gives a summary of the main measures announced in the Spending Review, giving particular consideration to the distributional impact: [The Outcome of the 2010 Spending Review](#) (20 October 2010, SN/EP/5718).

Useful information about the economic background to the 2010 Spending Review, the process of conducting a spending review, and announcements made by the Government prior to 20 October can be found in a House of Commons Library Standard Note: [Background to the 2010 Spending Review](#) (15 October 2010, SN/EP/5674).

Readers are invited to consult these documents and George Osborne's statement to the House of Commons for full details of the spending plans and departmental allocations brought in by the Spending Review. The purpose of this Note is to present a summary of initial reactions to the Spending Review from a variety of sources including the press, think tanks, bodies representing different interest groups and public opinion polls. In particular, it looks at assessments of whether the Spending Review achieved the Coalition Government's stated aims of supporting growth, reforming public services and building a fairer society.

The Spending Review will be debated in the House of Commons on 28 October.

2. Headline Measures

Over the four-year period covered by the Spending Review, the average departmental cut in programme and administration spending is 8.3 per cent in real terms. However, as the Department for International Development (DfID), the Department for Work and Pensions (DWP) and the Department of Health (DH) will receive real term increases in their programme and administration budgets, other departments will see average real term cuts of 19 per cent over the Spending Review period.² Capital spending will be cut by 29 per cent on average.

The Spending Review announced that £10.6 billion of savings will be made in non-departmental spending by 2014–15. Around £7 billion of this will be achieved from cuts in welfare spending.

¹ HC *Hansard*, 20 October 2010, cols 949–72.

² House of Commons Library Standard Note, [The Outcome of the 2010 Spending Review](#) (20 October 2010, SN/EP/5718).

Other key measures include:

- About 490,000 public sector jobs likely to be lost
- Structural deficit to be eliminated by 2015
- Police funding cut by 4 per cent per year
- Retirement age to rise from 65 to 66 by 2020
- English schools budget protected; £2bn extra for social care
- NHS budget in England to rise every year until 2015
- Regulated rail fares to rise 3 per cent above inflation
- Bank levy to be made permanent³

Commending the Spending Review to the House, George Osborne stated:

The decisions we have taken today bring sanity to our public finances and stability to our economy. We have dealt decisively with the largest budget deficit this House of Commons has ever had to face outside of wartime. We have had to make choices—choices about the things we support—and today I have announced real increases in the NHS budget and the resources of schools, as well as new investment in the infrastructure of our economy. I have announced real reductions in waste and reforms to welfare and although that will reshape public services to meet the challenges of this time, I think it is the right choice.

... We have made sure that we are all in this together, and we have taken our country back from the brink of bankruptcy. A stronger Britain starts here.⁴

Responding on behalf of the Opposition, the Shadow Chancellor, Alan Johnson, argued that the speed of the cuts brought in by the Spending Review risked a negative impact on economic growth:

This Spending Review is not about economic necessity; it is about political choices. The Chancellor argues that Labour would have done nothing about the deficit; he goes on to say that his cuts are no worse than ours. He cannot have it both ways. He cannot be right in both arguments, although he does manage to be wrong on both counts. The difference between us is that the Government are removing almost twice as much from Department budgets, while we were looking for a much more gradual, much slower reduction, which would not stifle the very low levels of growth in our economy. It is our firm belief that the rush to cut the deficit endangers the recovery and reduces the prospects for employment in the short term and for prosperity in the longer term. We believe that we can and should sustain a more gradual reduction, securing growth. I do not believe that the Chancellor or the Prime Minister sufficiently understands the worries and concerns of families up and down this country. Those worries will have multiplied considerably as a result of the Chancellor's statement today.⁵

³ ['Spending Review 2010: Key points at-a-glance'](#), BBC News website, 21 October 2010.

⁴ HC *Hansard*, 20 October 2010, col 965.

⁵ HC *Hansard*, 20 October 2010, col 969.

3. Overview

The Chancellor stressed that three principles had underpinned the Spending Review:

First, on reform, in every area where we make savings, we must leave no stone unturned in our search for waste, and we must deliver the changes necessary to make our services fit for the modern age.

Secondly, on fairness, we are all in this together and all must make a contribution.

...Thirdly, on growth, when money is short, we should ruthlessly prioritise those areas of public spending that are the most likely to support economic growth.⁶

There has been a mixed response as to whether the Spending Review succeeded in delivering measures that support these principles. In the assessment of the *Times*, “The tests [the Chancellor] set himself—was this a reforming settlement? Was it fair? Would it encourage growth?—were the right ones. And, very broadly, the priorities he chose were correct too”. However, “the impact on the income of the poorest is the most serious question over Mr Osborne’s choices”. The *Times* took issue with the rationale for welfare reform, questioning why it should be “impossible to ask poor people to fund the child benefit of wealthy people, but a social imperative for poor people to fund the heating bills of wealthy people. As long as they are old”, but “the Chancellor, for the most part, said the right things”.⁷

The *Economist*’s assessment was also broadly positive. It concluded that the direction in which the Government was travelling “is basically the right one” and congratulated George Osborne and David Cameron for pulling off the “quietly impressive” achievement of drawing up a spending reduction programme to match the fiscal goals set out in the Budget in June.⁸ On balance, the *Economist* agreed that “the economic risks of not decisively tackling the deficit outweigh the risks of doing so”, but “All the same, the Government’s bet that the private sector will generate growth as the public sector retrenches remains just that: a gamble”. The *Economist* praised the Government for protecting defence and capital spending as far as possible, but criticised it for not being bolder in its public service reforms, suggesting that it “may prove a political mistake” and that it is “wrong in principle” not to question further the principle of universalism in the welfare system.

The *Daily Telegraph* gave the Chancellor its backing, saying that he “made the right call” in presenting an “intelligent, business-like and brave package”.⁹ It welcomed the opportunity to set a new political direction, “shifting the balance away from the overblown and inefficient public sector created by Labour for the most cynical political purposes and towards the wealth-creating sector that is the only guarantee of long-term economic success”. It did, however, sound a note of caution that the Spending Review was “a gamble, for no-one can be sure it will work”.

The *Independent*, the *Financial Times* and the *Guardian* also all referred to the Chancellor’s “gamble”. The *Independent* described measures such as the removal of ring-fencing from central government grants to local authorities, and the ‘pupil premium’

⁶ HC *Hansard*, 20 October 2010, col 951.

⁷ ‘A new settlement’, *Times*, 21 October 2010, p 2.

⁸ ‘Ouch!’, *The Economist*, 21 October 2010.

⁹ ‘[The Chancellor has made the right call](#)’, *Daily Telegraph*, 21 October 2010, p 29.

as “pinpricks of light in a very dark horizon”.¹⁰ While the introduction of a ‘universal credit’ was welcomed as “good news”, the *Independent* felt that parts of the Spending Review failed George Osborne’s fairness test, noting that “the zeal with which the Coalition will go about shaking up the welfare system for the poor sits uneasily with the kid-glove treatment of wealthy pensioners” and that “it is an inescapable reality that the less well-off rely more than the prosperous on local council services” which are set to be cut. It concluded that “in the end, fairness and a growing economy are two sides of the same coin. The country will not get one without the other. If this Government’s economic policy ends up undermining growth, its claim to be upholding fairness will soon be snuffed out”.

The *Guardian* maintained that the government was taking a “major gamble” economically, socially and politically.¹¹ It did not find plausible the arguments that spending cuts were “unavoidable”, and criticised a plan based on spending cuts rather than tax rises, which it argued would be more progressive. The Spending Review’s plans to promote economic growth, such as a green investment bank, and transport infrastructure projects, were dismissed as “distressingly thin”. The *Guardian* was critical of the fact that “Welfare is now set to take almost as much spending pain as all the other main public services put together”.

The *Financial Times* gave the Spending Review a mixed scorecard on how well it achieved its stated aims of growth, reform and fairness. It said it was “a stretch to call the Spending Review a programme for growth in the medium term”.¹² Although the Government has “wisely preserved” investment in transport infrastructure and scientific research, the *Financial Times* argued that other growth-promoting measures, such as the green investment bank, “smack of gimmickry”. The move towards a benefit system based on a universal credit was described as a “bold and positive change”, but “there is little evidence that the Government has seriously attempted to re-appraise the scope of the state as opposed to its cost”. The regressive nature of some measures “may be justifiable when set against the pressing need to lift the burden of debt from the shoulders of future generations”, but the *Financial Times* argues that it “sits oddly” alongside the retention of non-means tested benefits for the elderly, such as bus passes and TV licences.

3.1 Supporting Growth

By and large, the business community has been supportive of the Spending Review. The Institute of Directors (IoD) said that the Spending Review set out the “correct path” for reducing public spending. Miles Templeman, the IoD’s Director-General, commented that:

We strongly support the Government’s determination to stick to its overall plan of reducing public spending quickly. The only way we get a private sector recovery underway is through macro-economic stability, and this will only be achieved with sustainable public finances. Opponents of today’s spending reductions need to wake up to that fact. The alternative is a tax hike which would damage the economy in both the short and long term.¹³

¹⁰ ‘[So this is what austerity looks like](#)’, *Independent*, 21 October 2010, pp 2–3.

¹¹ ‘[Spending review: The work of a gambler](#)’, *Guardian*, 21 October 2010, p 36.

¹² ‘Chancellor spills out austerity gamble’, *Financial Times*, 20 October 2010.

¹³ IoD press release, ‘[Spending Review sets out correct path, says IOD](#)’, 20 October 2010.

The Confederation of British Industry (CBI) agreed that “the Chancellor has got the strategic direction of this Spending Review right”.¹⁴ The CBI welcomed the extra £2bn a year on capital spending and the focus on areas that support growth, such as transport, infrastructure, education and science, and the low-carbon economy. Richard Lambert, the CBI Director-General, noted that: “The spending cuts, though painful, are essential to balance the UK’s books and build its future prosperity”. Both the CBI and the IoD urged the Government to undertake fundamental reform of the public sector to increase productivity and deliver savings.

The response from the Federation of Small Businesses (FSB) was more cautious. The FSB said that its members understood the need for cuts to be made to reduce the public sector deficit. However, the FSB described support for small business growth as a “missing link” in the Government’s deficit reduction programme.¹⁵ It called for the Government to put in place a Small Business Programme for Growth which would create more businesses and encourage small firms to grow and innovate.

Consumer spending figures published on 25 October suggested that household spending declined in the run-up to the Spending Review. Based on data collected between 13 and 18 October, Markit’s Household Finance Index, which measures monthly changes in household spending, saving and debt levels, reported that consumer spending had fallen at the fastest rate for nine months.¹⁶ 45 per cent of respondents expected their household finances to worsen in the year ahead. Tim Moore, an economist at Markit, said that the data showed that households were increasingly worried about their future finances in the lead-up to the Spending Review. He commented that:

Low levels of household confidence are clearly a concern for short-term economic growth prospects... With people adjusting their own spending in response to anxiety about future finances, the wider economy may be set for an extended soft patch before we see the long term gains from deficit reduction and benefits to the private sector of a leaner government.¹⁷

However, the FTSE 100 closed at 5,741 at the end of the week in which the results of the Spending Review were announced, “a near six-month high”, according to the *Sunday Times*.¹⁸ It reported that “many stocks were, in fact, boosted by the Spending Review, because the news for many sectors was not as bad as feared”, citing the examples of the transport operators First Group and National Express, which might benefit from the Spending Review commitment to investment in transport infrastructure.

The Office for National Statistics published figures on 26 October showing that GDP had grown by 0.8 per cent in the previous three months.¹⁹ Although growth was slower than in the previous quarter, this figure was double the 0.4 per cent growth that many city analysts had been expecting, and was the strongest third quarter growth figure in a decade.²⁰ On the same day, credit rating agency Standard & Poor’s affirmed the UK’s

¹⁴ CBI press release, ‘[CBI’s full reaction to government’s Spending Review](#)’, 20 October 2010.

¹⁵ FSB press release, ‘[FSB response to the Chancellor’s Comprehensive Spending Review](#)’, 20 October 2010.

¹⁶ Markit News Release, ‘[Household Finance Index \(HFI\)—United Kingdom: Widespread gloom among UK households as fiscal cuts take shape](#)’, 25 October 2010.

¹⁷ *Ibid.*

¹⁸ Nina Montagu-Smith, ‘Shares to profit from the pain’, *Sunday Times*, 24 October 2010.

¹⁹ ONS, ‘[Gross domestic product preliminary estimate—3rd Quarter 2010](#)’, 26 October 2010.

²⁰ Stephanie Flanders, ‘[Good news on GDP](#)’, Stephanomics blog, BBC News website, 26 October 2010.

'AAA' rating and revised the outlook on the UK to 'stable' from 'negative'. Standard & Poor's announced:

In our opinion, the decisions reached by the United Kingdom Coalition Government in its 2010 Spending Review reduce risks to the Government's implementation of its June 2010 fiscal consolidation program.

Moreover, the Coalition parties have shown a high degree of cohesion in putting the UK's public finances onto what we view to be a more sustainable footing.

We have accordingly revised the outlook on the United Kingdom to stable from negative.²¹

The Chancellor described this as "a big vote of confidence in the UK, and a vote of confidence in the coalition government's economic policies".²² However, Alan Johnson argued that the figures "show that momentum remains from Labour's support for the economy. The risk going forward is that the government has a plan to cut one million jobs, but no plan to support the private sector in replacing them".²³

The Prime Minister made a speech to the CBI's annual conference on 25 October outlining how measures announced in the Spending Review would contribute to the Government's strategy for economic growth and provide the stability needed to encourage investment.²⁴ The CBI welcomed Mr Cameron's "understanding that only business will create growth".²⁵

3.2 Reforming Public Services

Public sector unions have been highly critical of the cuts to departmental budgets, and have questioned how departments will be able to continue to provide public services with less money and a smaller workforce. The Public and Commercial Services Union (PCS) said that the cuts to departmental budgets would "devastate" government departments and the public sector job cuts would "throw a generation of people on the scrapheap".²⁶ It warned that even cuts to back office functions would affect front-line services as "it is not possible to provide the service or carry out the function of the department or organisation without the support services".²⁷ Furthermore, it argued that mass public sector job cuts will have a harmful effect on the economy as an increase in unemployment would lead to increased benefit payouts, lost tax revenue and decreased consumer spending.²⁸ PCS argues that the Government "is not doing this [making cuts to the welfare state] because the country is on the verge of economic collapse, it is doing it because it is ideologically opposed to public services and the welfare state, and committed to handing over more of our public assets to big business".²⁹ In its opinion the Government should be creating new jobs by investing in public services, rather than

²¹ Standard & Poor's press release, '[United Kingdom outlook revised to stable; 'AAA' ratings confirmed](#)', 26 October 2010.

²² Nicholas Watt and Philip Inman, '[George Osborne declares economy back on track after GDP increase](#)', *Guardian*, 26 October 2010.

²³ *Ibid.*

²⁴ David Cameron, '[Speech to the CBI Annual Conference](#)', 25 October 2010.

²⁵ CBI press release, '[CBI reacts to Prime Minister's speech to CBI conference](#)', 25 October 2010.

²⁶ PCS, '[CSR Impact Analysis](#)', 22 October 2010, and PCS press release, '[Generation will be thrown on the scrapheap by massive cuts](#)', 20 October 2010.

²⁷ PCS, '[CSR Impact Analysis](#)', 22 October 2010.

²⁸ PCS, '[There is an alternative: The case against cuts in public spending](#)', www.pcs.org.uk.

²⁹ *Ibid.*

cutting them. UNISON similarly called into question the rationale behind the cuts and condemned the public sector job losses.³⁰

The overall reduction in revenue grants to local authorities will be 26 per cent, and local authorities will see forecast reductions of around 30 per cent in overall capital expenditure.³¹ Baroness Eaton, Chair of the Local Government Association (LGA), responded to the cuts by saying that:

We can't escape the truth that the cuts outlined in the Spending Review yesterday will hit people hard. The Spending Review does leave councils facing some of the biggest cuts in the public sector. With no option but to inevitably, although reluctantly, cut frontline services that people rely on.

These cuts will hurt. We know this means there will be fewer libraries, more pot holes going unrepaired, parks shutting earlier and youth clubs closing.

... Our estimate is up to 100,000 jobs in local authorities will go. That's one in ten of the workforce. Of course we'll try and do this as flexibly and sympathetically as we can... But there will be job losses where real people dedicated in their profession won't be there any more.³²

However, Baroness Eaton welcomed the ending of ring-fencing of local government revenue grants, increased funding for adult social care and greater control over council tax benefit.

Some commentators argued that the Coalition had used the Spending Review as a pretext for redefining the role of the state and consequently reducing the size of the public sector. For example, responding to the Spending Review statement in the House of Lords, Lord Eatwell, Labour's Treasury spokesman, said that "The truth is that the scale of today's cuts has nothing to do with the overall fiscal position", but that rather "It is about an ideological commitment to cut the size of the public sector".³³ Similarly, the Nobel prize-winning economist Paul Krugman wrote:

The British Government's plan is bold, say the pundits—and so it is. But it boldly goes in exactly the wrong direction. It would cut government employment by about 490,000 workers—the equivalent of almost three million layoffs in the United States—at a time when the private sector is in no position to provide alternative employment. It would slash spending at a time when private demand isn't at all ready to take up the slack.

Why is the British Government doing this? The real reason has a lot to do with ideology: the Tories are using the deficit as an excuse to downsize the welfare state. But the official rationale is that there is no alternative.³⁴

The *Daily Telegraph* described the Spending Review as: "the fruit of the first systematic attempt since the late Seventies to construct a coherent and comprehensive

³⁰ UNISON, [Spending Review: Further Analysis](#), 25 October 2010, pp 2–3.

³¹ HM Treasury, [Spending Review 2010. press notices](#), 20 October 2010.

³² Baroness Eaton, [Speech on 'The 2010 Spending Review: Facing the Future' conference](#) at Local Government House, 21 October 2010.

³³ HL *Hansard*, 20 October 2010, col 849.

³⁴ Paul Krugman, ['British Fashion Victims'](#), *New York Times*, 21 October 2010.

Conservative theory of the state, society and the citizen”.³⁵ However, other commentators dismissed the idea that the cuts were primarily motivated by an ideological commitment to reduce the size of the state. An article in the *Guardian* commented that:

The charge that this is an ideologically focused Thatcher 2.0 Government does not stack up. A Thatcherite would emphatically want to cut the public services, not protect them; would ringfence defence and law and order rather than health and education; and would make personal tax cuts a central priority in any deficit strategy. But that is not Osborne’s or David Cameron’s agenda.

When they say they are driven by necessity not ideology, the Prime Minister and Chancellor appear to mean it. On the left, this claim is barely even listened to or, if heard, is dismissed with contempt.³⁶

The *Economist* concluded that “despite occasional attempts to devolve power in line with Mr Cameron’s “Big Society”, the state will still fundamentally be the same shape, trying to do virtually all the same things”.³⁷

3.3 Building a Fairer Society

3.3.1 Distributional Impact

There has been much debate over the distributional impact of the Spending Review. In his Commons statement, the Chancellor announced that:

A fair Government make[s] sure that those with the broadest shoulders bear the greatest burden. The distributional analysis published today shows that those on the highest incomes will contribute more towards this entire fiscal consolidation, not just in cash terms, but also as a proportion of their income and consumption of public services combined.³⁸

Annex B of the *Spending Review 2010* document and Section 5 of the House of Commons Library Note on *The Outcome of the 2010 Spending Review* present the Treasury’s analysis with charts showing the distributional impact across different income groups of cuts to tax, tax credits and benefits and cuts in public spending. Readers are advised to consult these for further detail.

The Institute for Fiscal Studies (IFS) agreed with some of the Treasury’s analysis:

The Treasury’s modelling shows that the benefit measures announced yesterday will hit those in the bottom half of the income distribution more as a share of their income than those in the top half. We agree with this assessment. The Treasury also claimed that overall the tax and benefit measures yet to be implemented are progressive—in particular due to the tax increases announced by Mr Darling³⁹ that the new Government is choosing to implement.⁴⁰

³⁵ Matthew D’Ancona, ‘[George’s review is a bible for the new generation of Tories](#)’, *Sunday Telegraph*, 24 October 2010, p 22.

³⁶ Martin Kettle, ‘[Comment: Too clever by half, Osborne put his message before facts](#)’, *Guardian*, 22 October 2010, p 39.

³⁷ ‘[Ouch!](#)’, *Economist*, 21 October 2010.

³⁸ HC *Hansard*, 20 October 2010, col 955.

³⁹ Increases in National Insurance and the 50p rate of income tax.

⁴⁰ Carl Emmerson, [opening remarks at IFS briefing on the October 2010 Spending Review](#), 21 October 2010.

However, the IFS believed it was possible to make estimates for some measures that the Treasury had excluded from its modelling. Using its own model, the IFS maintained that “our analysis continues to show that, with the notable exception of the richest 2 per cent, the tax and benefit components of the fiscal consolidation are, overall, being implemented in a regressive way”.⁴¹

The IFS praised the Treasury for attempting to model the distributional impact of some of the cuts to public services—a complicated exercise to undertake because of the difficulties of working out the value of public services to households in different income groups. Carl Emmerson, acting Director of the IFS, noted:

The results are very sensitive to the assumptions that are made. But for what it is worth the Treasury’s analysis shows that those cuts to the public services announced yesterday that they were able to model will impact on those in the bottom half of the income distribution more than the top. So the Treasury’s analysis shows both the welfare cuts and public service cuts announced yesterday being regressive.⁴²

While the IFS presented its analysis of whether measures in the Spending Review were progressive or regressive, it did not judge whether these effects should be labelled fair or unfair. “Fairness will always be in the eye of the beholder,” said Mr Emmerson.⁴³

The Deputy Prime Minister, Nick Clegg, described the IFS analysis as “distorted and a complete nonsense”.⁴⁴ He argued that the IFS work “took no proper account of public spending inputs, or the potential for some spending, such as the pupil premium, to improve social mobility”.

Stephanie Flanders, the BBC’s economics editor, summed up the debate on her blog as follows:

First, both [the Government and the IFS] agree that the tax and spending changes the Government has introduced since June have been regressive, in the traditional sense that the bottom fifth of the population take a greater hit, relative to income, than the top.

... If you buy the Government’s line, the changes are not regressive in the narrow sense that the top 2 per cent of earners pay the most as a share of their income. But they are still regressive across the vast majority of the income scale.

Second, both sides agree that tax and benefit changes cannot be the end of the story, when nearly half of the reduction in the structural borrowing by 2014–15 will come through cuts in public services.

This is where things get fiendishly complicated. But let me cut to the chase: it comes down to whether you measure the impact of spending cuts on individuals as a share of their income, or as a share of the overall benefits they receive from the state.

⁴¹ *Ibid.*

⁴² *Ibid.*

⁴³ *Ibid.*

⁴⁴ Patrick Wintour and Nicholas Watt, ‘[Clegg accuses IFS of ‘distorted nonsense’](#)’, *Guardian*, 22 October 2010.

... the idea is that the bits of the state that have been hardest hit—like Higher Education—are often the parts that richer households use the most. Most of the subsidy for the poorest students has been protected. (Oddly, the same logic wasn't applied to child benefit and education maintenance allowances: middle class 16 year olds will keep their benefit, but their poorer peers will have lost their allowances.)

That is why the Treasury thinks the spending cuts will be fairly evenly spread in their impact, with the poorest taking a smaller hit than the rich—though they still need Labour's tax rises to say that the top fifth are hurting the most.

Is that a reasonable definition of fairness? I guess it depends on whether you think everything really is relative—or whether the absolute starting point also matters, when you're considering how badly a family will be hit.⁴⁵

The TUC and UNISON commissioned analysis which they said showed that the public spending cuts would be regressive owing to “deep cuts to services which are disproportionately used by the poorest households—such as social housing and social care”. The TUC/UNISON analysis of the impact of the Spending Review on different kinds of family found that lone parents will be hit the hardest, losing services worth 18.4 per cent of their income on average (£3,121 a year), followed by single pensioners who would lose services worth 11.1 per cent of their income on average (£1,305 a year).⁴⁶

3.3.2 Women

It is not only with regard to the distributional impact that the fairness of the Spending Review has been questioned. Some analysts have argued that the Spending Review has an unfair gender impact, as many of the measures will fall disproportionately on women. Ceri Goddard, Chief Executive of the Fawcett Society, a campaign group for equality between men and women, said that:

Of the half a million public sector workers facing unemployment, more than two thirds will be women. This is because 65 per cent of public sector workers are women, and more women work in the low paid, low grade and insecure work most likely to be hit. This comes on top of the 1 million women already unemployed in the UK—last month, 75 per cent more women signed on to unemployment benefit than men.

The £18 bn a year cuts to the welfare budget, as outlined today and in the recent emergency budget will also see women bear the brunt as benefits typically make up one fifth of women's income as opposed to one tenth of men's. Taking Housing Benefit as just one example—a million more women claim this than men, and many of these will be lone parents facing poverty.

Targeting local government is tantamount to singling out women for the hit—75 per cent of local government workers are women; cumulative cuts of 28 per cent in the budget for this sector will have a disastrous impact on women as both employees and service users.

Rolling back public services hits women particularly hard not only because they tend to use services more frequently and more intensively than men, but also

⁴⁵ Stephanie Flanders, '[Fairness and the recovery: two verdicts for Mr Osborne](#)', Stephanomics blog, BBC News website, 22 October 2010.

⁴⁶ UNISON, '[Spending Review: Further Analysis](#)', 25 October 2010, pp 3–4.

because of their sizable caring responsibilities. Slashing at this aspect of the welfare state does more than reduce the support many women rely on, it also increases the burden they carry—many women with caring responsibilities for children and elderly relatives will find it harder to manage as the help they've thus far relied on dries up.⁴⁷

3.3.3 Disabled People

Concerns have also been raised that there will be a disproportionate impact on disabled people. In its analysis of the Spending Review, UNISON noted that:

Cuts to non-statutory services will inevitably reduce the quality of life for disabled people and make them even more dependent on others, including charity and family/friends. The proposal to shift more people from Employment and Support Allowance to Job Seekers Allowance will mean more poverty at a time when employers are even more unlikely to take on the additional costs associated with adjustments for disabled job applicants—12 months unemployment for a disabled person is not unusual.⁴⁸

3.3.4 Regional Impact

There has also been some commentary on the way that the Spending Review will have a disproportionate impact in different parts of the United Kingdom, in terms of a North-South and urban-rural divide in England, and in terms of the different levels of cuts to the budgets of the devolved administrations. Researchers from the Institute for Public Policy Research (IPPR) have argued that in terms of jobs, welfare, capital investment and public services, the results of the Spending Review will make the North-South divide in England “significantly worse”.⁴⁹ They argue that the Spending Review will create a greater imbalance between the North and the South as a result of five reinforcing factors:

1. Greater proportional job losses in the public and private sectors compared to other regions;
2. A larger proportion of people already out of work, who are more likely to be reliant on the welfare benefits and public services that are being cut;
3. A larger proportion of people claiming Incapacity Benefit/Employment Support Allowance and lone parent benefits, many of whom will be required to actively seek work as a result of welfare reforms, adding further to the competition for jobs;
4. A weaker private sector, that is less ready to take up the slack in unemployment and where the ratio of job vacancies to jobseekers is already higher than most other areas;
5. Significantly lower public investment compared to other regions.⁵⁰

A report by the property company Savills reportedly suggests that the Spending Review will have a greater effect on housing markets in the North. Savills “suggests that prices

⁴⁷ Fawcett Society press release, ‘[Fawcett’s initial response to the CSR](#)’, 20 October 2010.

⁴⁸ UNISON, [Spending Review: Further Analysis](#), 25 October 2010, p 5.

⁴⁹ Ed Cox and Katie Schumecker, [Well North of Fair—The Implications of the Spending Review for the North of England](#), IPPR, October 2010, p 1.

⁵⁰ *Ibid.*, p 10.

in Southern England will recover faster than those in the North, Wales and Northern Ireland because of higher wages in the South, more cash buyers, and the lower proportion of the workforce in the public sector. Only 17 per cent of people in the South East are employed by the state, compared with 24 per cent in the North East”.⁵¹

The *Guardian* claimed that its analysis showed that “urban areas will bear the brunt of the spending cuts announced this week with every major English city facing a triple whammy of the biggest job losses, council cuts and benefit withdrawals”.⁵² It said that its analysis “also suggests that not only will the rural-urban divide widen, but that the worst hit areas are also largely Labour strongholds, with wealthier rural—and traditionally Tory—constituencies suffering relatively little”. Tony Travers, director of the Greater London Group at the London School of Economics, told the *Guardian* that:

London will suffer dramatically from the housing benefit changes, but will be better able to cope with the public sector job losses because there are more private sector jobs available.

Rural areas will be less affected by benefit changes because rents tend to be lower.⁵³

Mr Travers argued that moving dozens of grants that were previously ring-fenced for specific policy areas into local authorities’ central funding pots “could shift more money from poor urban areas, which previously qualified, to the rest of the country”.

Both the Scottish Government and the Welsh Assembly Government issued statements declaring that the cuts announced in the Spending Review were too fast and too deep.⁵⁴ The Welsh Assembly Government went further by asserting that Wales would be disproportionately affected:

The UK Government has said repeatedly that it wants to ensure that the Spending Review does not hit any part of the UK disproportionately. But, in fact, these cuts will hit Wales particularly hard and the UK Government has done absolutely nothing to mitigate this.

The Spending Review means that Wales will receive the biggest cuts in its budget in at least a generation, and bigger than the reduction in any of the other Devolved Administrations’ budgets.

... The UK Government had an opportunity partly to mitigate the impact of the Spending Review on Wales by taking action to address the persistent underfunding demonstrated by the independent Holtham Commission.⁵⁵ The UK Government have chosen not to act. We look forward to the UK Government’s consideration, with the Assembly Government, of the compelling recommendations contained in the Final Report of the Holtham Commission, as

⁵¹ James Charles, ‘How will your region fare in the property downturn?’, *Sunday Times*, 24 October 2010, p 7.

⁵² Polly Curtis, ‘[Spending cuts likely to leave cities facing triple whammy](#)’, *Guardian*, 23 October 2010.

⁵³ *Ibid.*

⁵⁴ Scottish Government press release, ‘[Comprehensive Spending Review](#)’, 20 October 2010.

⁵⁵ The [Holtham Commission](#) is an independent commission established by the Welsh Assembly Government to review the funding and finance of the Welsh Assembly Government.

we continue to be underfunded—to the tune of more than £1bn over the next four years.⁵⁶

Northern Ireland's resource block grant will be reduced by 6.9 per cent in real terms, which is a smaller cut than that made to Wales's grant (7.5 per cent), but larger than Scotland's (6.8 per cent).⁵⁷ However, Northern Ireland's First Minister and Deputy First Minister have expressed concerns about the 40 per cent cut in Northern Ireland's capital budget given the UK Government's earlier commitments on capital investment, and about how funding cuts would impact on the devolution of policing and justice in Northern Ireland.⁵⁸ The UK Government's position is that "Northern Ireland is still on course to invest £18bn by 2017–18 as set out in its Investment Strategy".⁵⁹

4. Public Opinion Polls

A number of opinion polls conducted since the Spending Review have attempted to quantify the public's reaction. According to a *Guardian*/ICM poll published on 25 October:

There is clear evidence that the public mood is shifting against cuts.

More people now oppose coalition plans for cuts than support them. Some 48 per cent of all voters say the cuts go too far, 36 per cent think the balance is right and 8 per cent want them to go further.

Public backing for cuts has fallen steadily since July, when a total of 55 per cent thought the balance was either right or cuts should go further. In September, the figure was 47 per cent. Opposition to the scale of cuts has risen from 38 per cent in July to 43 per cent in September and 48 per cent now.

Understandably, poorer voters are most alarmed. While 50 per cent of AB voters agree with the scale of cuts or want even more, 54 per cent of DEs oppose them. Public sector workers are also much more hostile than private ones: 58 per cent of public workers think the cuts go too far against only 43 per cent of private ones.

After last week's dispute between the Treasury and the independent Institute of Fiscal Studies about the impact of cuts, most voters agree that the poor will be hit disproportionately. While 52 per cent think the cuts will be unfair, only 44 per cent agree with the Treasury that it has done a good job of sharing out the pain.⁶⁰

⁵⁶ Welsh Assembly Government press release, '[Further reaction to the UK Government's Spending Review](#)', 21 October 2010.

⁵⁷ Angela McGowan, '[Stakes high as Osborne places UK's biggest bet](#)', *Belfast Telegraph*, 22 October 2010.

⁵⁸ '[Osborne's Spending Review axe falls on Northern Ireland](#)', *Belfast Telegraph*, 21 October 2010; '[NI leaders seek urgent meeting with Cameron over cuts](#)', BBC News website, 22 October 2010.

⁵⁹ HM Treasury press release, '[Spending Review 2010—Northern Ireland](#)', 20 October 2010.

⁶⁰ Julian Glover, '[Guardian/ICM poll: Cuts seen as unfair but Tories three points ahead](#)', *Guardian*, 25 October 2010.

Nevertheless, the *Guardian* noted that: “The striking thing about today’s *Guardian*/ICM poll is how little has changed [in terms of level of support for the three main parties] since the official announcement of the spending cuts”.⁶¹

The findings of a Populus poll for the *Times* suggested:

A wider failure by David Cameron’s Government to convince voters the Spending Review was both fair and necessary.

Some 58 per cent think the effects will be unfair, with 20 per cent of voters becoming more pessimistic since June. The largest switch is amongst Lib Dem voters.

A majority also now think that the coalition is cutting more than it needs to, with 12 per cent changing their mind on this issue since June. Only a third think that the Government has succeeded in protecting the most vulnerable in society.

Asked to rank who will be worst affected, voters believe the unemployed, armed forces, disabled and commuters are being hit hardest and the rich and the banks hit least. Three quarters think their standard of living will get worse, while two thirds think the coalition will put up taxes.

There are some indications that the coalition managed to ready the public for the difficult decisions, however. Almost half, 44 per cent, are optimistic about the economy and its impact on their personal finances over the next year, a 5 point improvement since June.⁶²

This poll also found that just over half (51 per cent) of respondents thought that the influence of the Liberal Democrats within the coalition had resulted in fairer spending decisions.

A poll conducted by professional services firm KPMG and Ipsos MORI found that the majority of the British public believe that it is necessary to cut spending on public services to reduce the deficit, although the reaction to specific proposals contained in the Spending Review was mixed:

Overall, public acceptance that cuts are needed continues to increase. Two in three people agree that there is a need to cut spending on public services (59 per cent) compared to a third who disagree (32 per cent), giving a net agreement of +27 percentage points. This compares to net agreement in September of +20, and continues the growing acceptance of the need for cuts seen over the last few months.

However, the public is evenly split on whether the government has made the right or wrong decisions in its Spending Review about where to cut (41 per cent think it has made the right decisions, 38 per cent the wrong decisions), and one in five don’t know (21 per cent). Those who voted Conservative at the general election are most likely to think the Government has made the right decisions (67 per cent), while Labour voters are least likely to agree (21 per cent). Over two in five people who voted Liberal Democrat in the May general election agree with the Government’s overall spending decisions (44 per cent).

⁶¹ Julian Glover, ‘[Voters say cuts go too far, but back coalition—for now](#)’, *Guardian*, 25 October 2010.

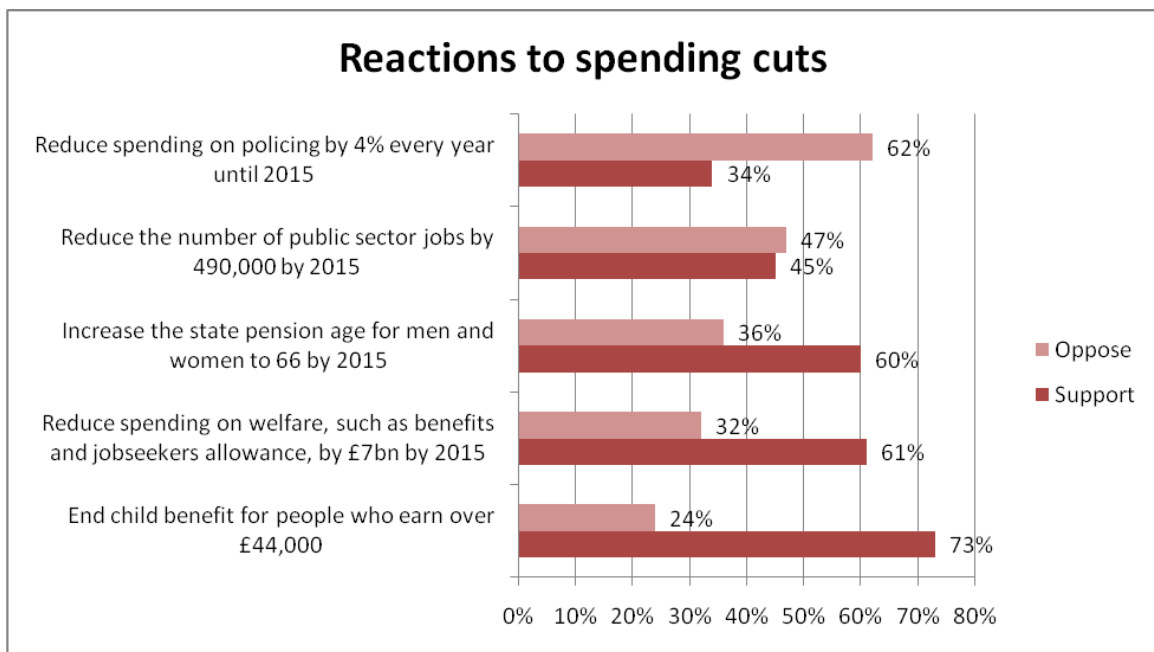
⁶² Sam Coates, ‘Tories lose poll lead for first time since 2007’, *Times*, 25 October 2010.

Confidence that the Government’s policies will improve the state of the economy in the long term has dropped significantly since before the Spending Review, although is still much higher than any during the Labour administration since mid-2005. Almost half think the Coalition’s policies will improve the state of the economy (48 per cent), compared to 39 per cent who disagree. This compares to 57 per cent who agreed in September and 61 per cent who agreed in June.

Long-term confidence in the future of public services is lower than confidence in the economy, and has also dropped since September. Two in five agree that the government will improve public services in the long-term (39 per cent), while half disagree (49 per cent). In September, the public were evenly split (45 per cent each).

Many people remain concerned about the speed of the cuts. Two-thirds of the public would prefer that spending is cut more slowly to reduce the impact on public services (68 per cent) than think it is important to cut spending quickly (27 per cent). This is broadly in line with findings since the election.⁶³

The chart below shows the findings of the KPMG/Ipsos MORI poll with regard to the level of support for specific announcements made in the Spending Review:



According to an opinion poll carried out for the *Independent*, “Six out of 10 people (59 per cent) believe the cuts the Chancellor announced in his Government-wide Spending Review on Wednesday are unfair because they will hit the poorest people, while 36 per cent disagree”.⁶⁴ The survey also noted a marked difference between supporters of the two Coalition partners—34 per cent of those who voted Conservative in the general election thought that the cuts were unfair, while that figure rose to 59 per cent of Liberal Democrat voters. Amongst Labour voters, 80 per cent thought the cuts were unfair.

⁶³ KPMG/Ipsos MORI, [CSR Reaction Poll](#), published 21 October 2010.

⁶⁴ Andrew Grice, ‘Voters reject claims of fairness as majority say cuts hit poorest hardest’, *Independent*, 23 October 2010, pp 12–13.

5. Treasury Select Committee Inquiry

The House of Commons Treasury Select Committee has announced that it is launching an inquiry into the Spending Review. The Committee's Chairman, Andrew Tyrie, said:

Parliament and the public need to be reassured that these very difficult decisions about cuts to jobs and services are being made the fairest possible way.

... The inquiry will be the most wide-ranging the Committee has undertaken on a Spending Review. We will be scrutinising in particular precisely how the Treasury and the star-chamber determined departmental settlements and the impact of ring-fencing on this process.⁶⁵

Evidence sessions are scheduled to take place between 28 October and 4 November.

⁶⁵ Treasury Committee press release, '[Committee launches inquiry into the Comprehensive Spending Review](#)', 20 October 2010.

Annex: Links to Think Tank Responses

The list below gives links to the initial responses of a number of think tanks to the Spending Review, in the form of press releases, briefings and blog posts, which may be of interest for further background reading.

Adam Smith Institute

[Spending Review: This is just the beginning](#) (20 October 2010)

Centre for Social Justice

[Centre for Social Justice responds to the CSR](#) (20 October 2010)

Demos

[Next generation says cut slower](#) (20 October 2010)

Fabian Society—Next Left Blog

[It's regressive George](#) (20 October 2010)

Institute for Fiscal Studies (IFS)

[Spending Review 2010 analysis](#) (21 October 2010)

Institute for Public Policy Research (IPPR)

[IPPR Director Nick Pearce responds to the Chancellor's Spending Review](#) (20 October 2010)

Policy Exchange

[The Spending Review: Policy Exchange's response](#) (20 October 2010)

New Economics Foundation

[Spending review: NEF response](#) (20 October 2010)

New Local Government Network

[Central grants for councils could be hit by over half following Spending Review](#) (20 October 2010)

ResPublica

[The Comprehensive Spending Review: The Disraeli Room Debate so far](#) (20 October 2010)

Social Market Foundation

[Rhetoric doesn't match reality for working parents following cuts announced by the Chancellor](#) (20 October 2010)

Taxpayers' Alliance

[Spending Review 2010 Briefing](#) (20 October 2010)

Work Foundation

[Spending review sets some of the right priorities for growth](#) (20 October 2010)

