A Guide to the

Spending Review 2010

Spending Review 2010

The Chancellor sets out his cost savings for the next four years

The Chancellor of the Exchequer, George Osborne, delivered the 'Spending Review 2010' on 20 October, using his speech to announce the key headlines of the Spending Review – with one of the stand-out figures being a further £7bn cut in welfare spending.

The Chancellor says the main Whitehall departments will make cost savings of £6bn in how they are run over the next four years and the Office for Budget Responsibility forecasts that 490,000 public sector jobs will go over the four years of the Spending Review period. Most will be through natural turnover, although there will be 'some redundancies'.

The Spending Review is a Treasury-led process to allocate resources across all government departments, according to the government's priorities. Spending Reviews set firm and fixed spending budgets and it is then up to each department to decide how best to manage and distribute this spending within their areas of responsibility.

In addition to setting departmental budgets, 'Spending Review 2010' also examines non-departmental spending that cannot be firmly fixed over a period of several years, including social security, tax credits, some elements of local authority spending and spending financed from the proceeds of the National Lottery.

Spending Reviews have been an integral part of governmental planning since the late 1990s. Prior to their introduction, departmental budgets were set on a year-by-year basis, which made multi-year planning more difficult.

'Spending Review 2010' covers the four years from 2011/12 to 2014/15.

KEY POINTS AT-A-GLANCE

The key points from The Chancellor of the Exchequer, George Osborne's 'Spending Review 2010':

- About 490,000 public sector jobs likely to be lost
- Average 19 per cent four-year cut in departmental budgets
- Structural deficit to be eliminated by 2015
- £7bn in additional welfare budget cuts
- Police funding cut by 4 per cent a 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 permanent

"The Spending Review is a Treasury-led process to allocate resources across all government departments, according to the government's priorities. Spending Reviews set firm and fixed spending budgets and it is then up to each department to decide how best to manage and distribute this spending within their areas of responsibility."

Department spending

Finances set between 2011 and 2015 based on government figures

Current spending includes items such as salaries, hospital medicines, and school text books. Capital spending includes assets such as school buildings, roads and bridges.

Business, Innovation and Skills

Annual budget: £21.2bn
Sending Review 2010 cut: Current spending down 25 per cent; capital spending down 52 per cent

Administration costs to be cut by £400m with 24 quangos being disbanded. Train to Gain programme to cease. University teaching budget to be cut by 40 per cent and further education budget to fall by 25 per cent. The science budget to be frozen - in cash terms - rather than cut as had been feared. Funding for 75,000 adult apprenticeships a year.

Cabinet Office

Annual budget: £2.6bn
Sending Review 2010 cut: Current spending up 28 per cent; capital spending down 28 per cent.

Support for citizenship and "big society" projects. Cabinet Office officials to move into Treasury. Civil List cash funding for Royal Household to be frozen next year. New system of funding for Royal Household from 2013.

Communities and Local Government

Annual budget: £33.6bn
Sending Review 2010 cut: Local Government - current spending down 27 per cent; capital spending down 100 per cent: Communities - current spending down 51 per cent; capital spending down 74 per cent

Councils will see a 7.1 per cent annual fall in their budgets. But ring-fencing of local authority revenue grants will end and councils will have freedom to borrow against their assets. Funding for social housing to be cut by more than 60 per cent, with new tenants having to pay higher rents. But the government hopes these changes will free up funds to build 150,000 new affordable homes over the next four years.

Culture, Media and Sport

Annual budget: £2bn
Sending Review 2010 cut: Current spending down 24 per cent; capital spending down 32 per cent

Administration costs to be cut 41 per cent while core arts programmes will see a 15 per cent fall in funding. Free museum entry to remain in place. BBC licence fee to be frozen for next six years. Corporation will also fund World Service and BBC Monitoring. Adds up to equivalent of 16 per cent savings over the period.

Defence

Annual budget: £46.1bn
Sending Review 2010 cut: Current spending down 7.5 per cent; capital spending down 7.5 per cent

The Royal Air Force and Royal Navy will lose 5,000 jobs each, the Army 7,000 and the Ministry of Defence 25,000 civilian staff. The Harrier jump jets and the Ark Royal aircraft carrier are being taken out of service while the planned Nimrod spy planes will be cancelled. Key spending decision on Trident to be delayed until 2016.

Education

Annual budget: £57.6bn
Sending Review 2010 cut: Current spending down 3.4 per cent; capital spending down 60 per cent

Five quangos to be abolished. But direct funding to schools in England is to be protected. Their budget will rise 0.1 per cent in real terms each year, taking funding from £35bn to £39bn. But spending on school buildings to fall 60 per cent. Confirmed £2.5bn "pupil premium" for teaching for disadvantaged pupils. Educational Maintenance Allowances to be replaced. Sure Start budget to be protected in cash terms.

Energy and Climate Change

Annual budget: £3.1bn
Sending Review 2010 cut: Current spending down 18 per cent; capital spending up 41 per cent

Plan for tidal barrage on the Severn estuary cancelled. But £200m funding for wind power development and £1bn for green investment bank.

Environment, Food and Rural Affairs

Annual budget: £2.9bn
Sending Review 2010 cut: Current spending down 29 per cent; capital spending down 34 per cent. Investment to continue in flood defences - £2bn over period to 2015.

Foreign Office

Annual budget: £2.2bn
Sending Review 2010 cut: Current spending down 24 per cent; Capital spending down 55 per cent. Number of Whitehall-based diplomats reduced.

Health

Annual budget: £106.4bn
Sending Review 2010 cut: Current spending up 1.3 per cent; capital spending down 17 per cent

The NHS in England budget to increase by 0.4 per cent over the next four years. New cancer drug fund to be provided. But £20bn in efficiency and productivity savings sought in NHS by the end of the parliament. An extra £2bn for social care by 2014/15.

Home Office

Annual budget: £10.2bn
Sending Review 2010 cut: Current spending down 23 per cent; capital spending down 49 per cent

Police budget cut by 4 per cent a year, focused on bureaucracy rather than manpower. Aim to maintain "visibility and availability" of officers on beat. UK Border Agency budget to fall 20 per cent. Counter-intelligence budget to fall 10 per cent.

International Development

Annual budget: £7.7bn
Sending Review 2010 cut: Current spending up 36 per cent; capital spending up 20 per cent

The overseas aid budget is to be protected from cuts but not the department's other costs. Budget to rise to £11.6bn over four years to meet UN aid commitment. But aid to China and Russia is to stop and there will be a reduction in administration costs.

Justice

Annual budget: £9.7bn
Sending Review 2010 cut: Current spending down 23 per cent; capital spending down 50 per cent

Plan for new 1,500-place prison to be cancelled. 3,000 fewer prison places expected by 2015. £1.3bn capital investment in prison estate.

Northern Ireland/Scotland/Wales

Annual budget: £55.5bn
Sending Review 2010 cut: Scotland's block grant to fall by 6.8 per cent by 2014/5. Central funding for Wales is to be cut by 7.5 per cent - the Welsh Assembly Government says its budget will be cut by £1.8bn in real terms over four years. Northern Ireland funding to be reduced by 6.9 per cent over four years.

Transport

Annual budget: £13.6bn
Sending Review 2010 cut: Current spending down 21 per cent; capital spending down 11 per cent

£30bn set aside for capital spending, including £500m for Tyne and Wear Metro and Tees Valley bus network. Crossrail project to go ahead in London. Rise in regulated cap on rail fares to 3 per cent above inflation for three years from 2012.

Treasury

Annual budget: £4.4bn
Sending Review 2010 cut: Current spending to be cut by 33 per cent, capital spending to be cut by 30 per cent.

Bank levy to be made permanent. £900m to target tax evasion. £1.5bn in compensation to Equitable Life policyholders after it's near collapse. 15 per cent cut in funding for Revenue and Customs.

Work and Pensions

Annual budget: £9bn in departmental spending
Separate welfare and pensions budget: £192bn

The State pension age for men is to start rising from 65 in 2018 - six years earlier than planned - and reaching 66 by 2020. Rise in retirement age for women to accelerate, also reaching 66 by 2020. The measures combined will save £5bn a year. Reform of public sector pensions to save £1.8bn by 2015, with employees likely to contribute more. Winter fuel allowance, free bus passes and TV licences for 75-year-olds protected. Cuts to child benefit for higher rate taxpayers to generate £2.5bn. £2bn investment in new universal credit. Weekly child element on child tax credit to rise by £30 in 2012 and £50 by 2012.

Sending Review 2010 cut: A further £7bn in welfare savings planned on top of £11bn already announced. A new 12-month time limit on the employment and support allowance could see an estimated 200,000 claimants moved onto jobseekers allowance and see their support reduced. Proposed 10 per cent cut in council tax benefit budget. Under-35s only able to claim housing benefit for a room rather than a whole property. Maximum savings award in pension credit to be frozen for four years. Increased working hours threshold for working tax credits for couples with children. New total benefits cap per family.

Your questions answered

Finances set between 2011 and 2015 based on government figures

How could the announcements made by the Chancellor of the Exchequer, George Osborne, during the 'Spending Review 2010' affect your finances over the next four years? We answer your questions.

Q: Why are the 'Spending Review 2010' cuts necessary?

A: The government says the cuts are necessary to reduce the record deficit. The Chancellor of the Exchequer, George Osborne, says the UK's public debt interest repayments now total £120m a day, or £43bn a year. The government says the cuts will allow it to reduce the public debt and reduce debt interest payments by £5bn a year by 2014.

Q: What is the total cost saving announced across government departments?

A: The Chancellor of the Exchequer, George Osborne, announced that the main Whitehall departments will make cost savings of £6bn in how they are run over the next four years. He says the Office for Budget Responsibility forecasts that 490,000 public sector jobs will be shed over the four years of the Spending Review period. Most will be through natural turnover, although there will be 'some redundancies'.

Q: How will individual budgets be reduced across departments?

A: Over the next four years, departments will have their budgets cut by 19 per cent on average. The Foreign Office will see its budget reduced by 24 per cent. The Home Office will be subject to cuts of 6 per cent, with police spending falling by 4 per cent each year. The budget at HM Revenue and Customs will also reduce by 15 per cent.

Q: What are the potential impacts on welfare payments?

A: The government says it will save an extra £7bn from the figures set out in the June budget. A big saving for the government is a time limit on Employment and Support Allowance. This is a payment to people whose ability to work is limited by disability or illness. Payment will be limited to one year for those who are able to do some work and whose payment is based on their National Insurance contributions. This allowance has been replacing incapacity benefit.

From 2013, child benefit will be withdrawn from families in which one or both parents are higher rate taxpayers – earning more than £44,000 a year. If both parents earn less than £44,000, they will continue to receive child benefit. But families with one main earner on, for example, £45,000, will see their benefit stopped. This is estimated to save £2.5bn.

Other changes include making couples with children work at least 24 hours a week between them in order to be eligible for working tax credit. And the percentage of childcare claimable under the family element of working tax credit will be reduced from 80 per cent to 70 per cent, saving a further £400m.

Universal benefits for pensioners, such as free eye tests, free prescription charges, free bus passes, and free TV licences for the over 75s, will remain. Winter Fuel Payments will remain as budgeted for by the previous government.

In the longer term, the government plans to introduce 'universal benefit', which would replace the current system of Jobseeker's Allowance, income support and employment support allowance with a single benefit in an attempt to simplify the system. The Chancellor stated that setting this up would initially cost about £2bn.

Q: Will the state pension age be changed?

A: The state pension age for both men and women will rise to 66 by 2020. The Chancellor says this will save more than £5bn a year. The government argues that the change is vital because of the UK's ageing population.

Q: Is the NHS budget being increased?

A: The health budget in England will rise by £10bn to £114bn by 2014, but that only amounts to 0.1 per cent annual rises once inflation is taken into account. The rises will be more than off-set by increasing demands from factors such as obesity, the ageing population and the cost of new drugs.

Q: Will school spending really be protected?

A: The Treasury has said that the schools budget will go up by 0.1 per cent in real terms each year. This is a rise of £3.6bn in cash terms, but means less than £200m on top of inflation by 2015, even though the new budget will include a yearly £2.5bn pupil premium for schools with disadvantaged pupils.

Schools will still be expected to make £1bn of 'procurement and back office' savings, and teachers will face a pay freeze. And even though the overall budget will increase, some schools may still face budget cuts, depending on the way the pupil premium and the reallocated pots of national funding are distributed.

In addition, schools will be subject to a 60 per cent cut in capital spending across the DfE, and there will be a 7 per cent cut each year for local authorities, which provide peripheral services, such as transport for children with special educational needs or after-school clubs.

Q: What are the effects on social housing?

A: New tenants will face higher rents at 80 per cent of the market rate, though current tenants will see no change. Rents are also expected to rise for new tenants of council housing.

Q: How will banks be targeted?

A: Lenders will face a permanent bank levy, the purpose of which is to encourage the banks to take fewer risks in how they fund themselves and which will be placed on that part of a bank's balance sheet that regulators and HM Revenue and Customs believe poses a systemic risk. This levy differs from the previous announcement of a 'one-off bonus tax'.

Q: What was the impact on transport?

A: £30bn will be invested in new transport projects over the next four years. Schemes that will go ahead include a new suspension bridge over the River Mersey at Runcorn, an upgrade to the Tyne & Wear Metro and confirmation that the Crossrail project will continue in London.

Many rail passengers will see a rise in ticket prices following the announcement that caps on regulated rail fares, essentially those within peak hours, will rise to 3 per cent above the RPI rate of inflation for three years from 2012.

The business guide

Businesses will receive at least £150m in government funding to help them access loans and equity investments over the next four years. The additional funding will ensure that the small firm's loan guarantee scheme, called the 'Enterprise Finance Guarantee', will continue for four years.

Further monies will be made available to 'small businesses with growth potential', the Treasury said. This may signal further funding for the Enterprise Capital Funds scheme or even possible public involvement in the high street banks' proposed £1.5bn Business Growth Fund.

Planned Regional Growth Fund (RGF) increased from £1bn to £1.4bn but it will be invested over three years rather than two. The money will be available for bids from the soon-to-be-established Local Enterprise Partnerships to fund local economic development projects. It replaces, in part, the £1.4bn annual funding of the nine English regional development agencies. Eight of these will cease from 2012.

Reform of the way European Regional Development Funding is developed in England, linking it wherever possible with the Regional Growth Fund to maximise impact.

Up to £200m a year available by 2014 to fund an 'elite network of research and development intensive technology and innovation centres'.

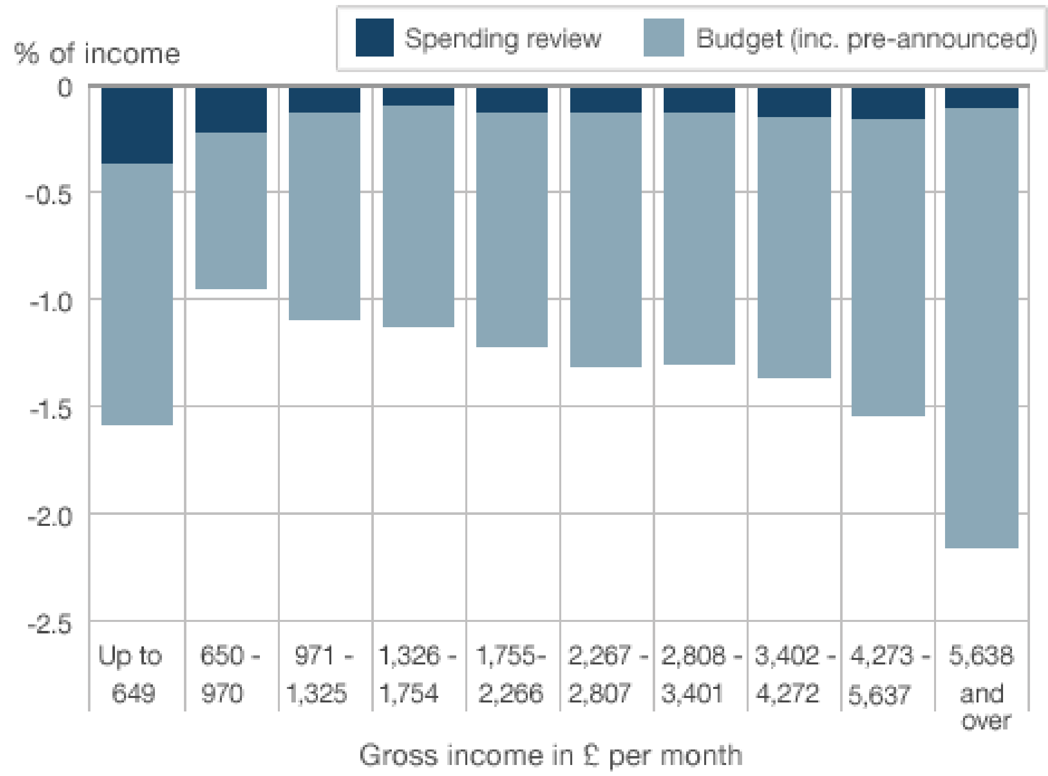
Closure of the £1bn Train to Gain workplace training scheme – to be replaced by an alternative small and medium-sized business scheme.

£4.6bn science budget ring-fenced so that, if efficiency savings are made, spending will remain flat before inflation.

£150m Higher Education Innovation Fund – designed to stimulate knowledge transfer between universities and business – to be overhauled.

The Business Department overall has to cut its budget by 25 per cent, made up of 40 per cent savings from changes to university teaching funding and an average 16 per cent savings from other areas, such as business support.

Impact of spending review by income group - 2012 - 2013



Source: HM Treasury/ONS

SPENDING REVIEW 2010

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Spending Review 2010 statement

What the Chancellor of the Exchequer had to say...the full speech

Mr Speaker.

Today's the day when Britain steps back from the brink.

When we confront the bills from a decade of debt.

A day of rebuilding when we set out a four-year plan to put our public services and welfare state on a sustainable footing – for the long term.

So that they can do their job – providing for families, protecting the vulnerable and underpinning a competitive economy.

It is a hard road, but it leads to a better future.

We are going to bring the years of ever-rising borrowing to an end.

We are going to ensure, like every solvent household in the country:

that what we buy, we can afford;

that the bills we incur, we have the income to meet;

and that we do not saddle our children with the interest on the interest on the interest of the debts we were not ourselves prepared to pay.

Tackling this budget deficit is unavoidable.

The decisions about how we do it are not.

There are choices. And today we make them.

Investment in the future rather than the bills of past failure. That is our choice.

We have chosen to spend on the country's most important priorities – the health care of our people, the education of our young, our nation's security and the infrastructure that supports our economic growth.

We have chosen to cut the waste and reform the welfare system that our country can no longer afford.

For this is the context of this Spending Review.

We have, at £109 billion pounds, the largest structural budget deficit in Europe.

This at a time when the whole world is concerned about high deficits and our economic stability depends on allaying those concerns. We are paying, at a rate of £120 million a day, £43 billion a year in debt interest.

This at a time when we all know that that money would far better serve the needs of own citizens than those of the foreign creditors we borrow from.

And we have inherited from the previous government plans – if you can call them that – that envisaged our national debt ratio still rising in the year 2014.

Not a single penny of savings had been identified.

Indeed, they were plans that envisaged the Chancellor of the Exchequer standing here in 2014 presenting a spending review that still had years of cutting public spending ahead of it.

And that is why last year the IMF warned this country to accelerate the reduction in the deficit.

That is why the OECD, the Governor of the Bank of England, the CBI all agreed with them.

The action we have taken since May has taken Britain out of the financial danger zone:

The immediate reductions to in-year spending to buy us a breathing space in the sovereign debt storm;

The creation of an independent Office for Budget Responsibility to bring honesty back to official forecasts.

And I can confirm to the House that the OBR, and its new chair Robert Chote, have audited all of the annually managed expenditure savings in today's statements.

The emergency Budget in June was the moment when fiscal credibility was restored. Our market interest rates fell to near record lows. Our country's credit rating was affirmed.

The IMF went from issuing warnings to calling our Budget "essential".

Now we must implement some of the key decisions required by that Budget.

To back down now and abandon our plans would be the road to economic ruin.

We will stick to the course.

We will secure our country's stability.

We will not take Britain back to the brink of bankruptcy.

Mr Speaker, in the Budget I set out the tax increases we were prepared to make, including on capital gains at the higher rate, pension relief on the largest contributions and, for the first time, a permanent levy on banks.

We also had to increase VAT, where fortunately we were able to benefit from the preparatory work of the previous Government.

But I made it clear that spending reductions rather than tax rises needed to make up the bulk of the consolidation.

That is what the leading international evidence suggested worked best.

So I set out spending totals for the coming years, and announced some £11 billion of welfare savings that would help achieve them.

I also set out a new fiscal mandate for the public finances.

To eliminate the structural deficit by balancing the cyclically-adjusted current budget over five years, by 2015/16.

And we set a target of national debt falling as a proportion of national income by that same year.

We explained how, for reasons of caution, we will achieve both these objectives a year earlier in 2014/15.

I can confirm that the spending plans I set out today achieve a balanced structural current budget and falling national debt on that same timetable.

I can further confirm that the current spending totals I set out in the Budget for each of the next four years are the same as the current spending totals I set out today.

They have not changed.

Next year, current expenditure will be £651 billion, then £665 billion the year after, £679 billion the year after that, before reaching £693 billion in 2014/15.

The House will note that current spending is rising not falling over this period.

This is partly because, even with the measures we take today, debt interest payments continue to grow in these years.

Debt interest payments will reach £63 billion in 2014/15.

For it takes time to turn around the debt supertanker.

But I can now report to the House that against the plans we inherited, one of the departments which suffers the greatest cut today and at the steepest rate is the Department for Debt Interest.

Debt interest payments will be lower by £1 billion in 2012, then £1.8 billion in 2013 and £3 billion in 2014 – a total of £5 billion over the course of this Spending Review.

That is the equivalent to 16 new hospitals or the annual salaries of 100,000 teachers.

At the Budget I also set out my plans for capital spending over the next four years.

I can now tell the House that capital spending will be £51 billion next year, then £49 billion, then £46 billion, and £47 billion in 2014/15.

This is about £2 billion a year higher than I set out in the Budget.

Given the contractual obligations we inherited from the last government, doing anything else would have meant cutting projects which would clearly enhance the economic infrastructure of this country.

And this has no direct impact on whether we meet the fiscal mandate or the year in which the debt ratio starts falling.

So total public expenditure – capital and current – over the coming years will be £702 billion next year, then £713 billion, £724 billion and £740 billion in 2014/15.

In real terms, public spending will be at the same level as in 2008.

Our public services and our welfare system will be put on a sustainable, long term footing.

And we will make sure that the financial catastrophe that happened under the previous government never ever happens again.

Mr Speaker, let me turn now to the spending decisions and the three principles I propose to apply to the choices we have to make.

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

Second, fairness – that we are all in this together and all must make a contribution.

Fairness means creating a welfare system that helps the vulnerable, supports people into work, and is also affordable for the working families who pay for it from their taxes.

Fairness also means that across the entire deficit reduction plan, those with the broadest shoulders should bear the greatest burden. Those with the most should pay the most, including our banks.

Third, growth – that when money is short we should ruthlessly prioritise those areas of public spending which are most likely to support economic growth, including investments in our transport and green energy infrastructure, our science base and the skills and education of citizens.

Let me explain now how principles have guided our specific decisions.

First, Mr Speaker, reform.

I believe the public sector needs to change to support the aspirations and expectations of today's population, rather than the aspirations and expectations of the 1950s.

So the Spending Review is underpinned by a far-reaching programme of public service reform.

We saw over the last decade that more money without reform was a recipe for failure.

Less money without reform would be worse.

And we are not prepared to accept that.

So we have begun by squeezing every last penny we can find out of waste and administration costs.

Our ambition in this review was to find £3 billion of savings from the administrative budgets of central government departments.

With the help of the Green Review, and the work done by my RHF the Minister for the Cabinet Office, I can tell the House that we have gone further than we thought possible in cutting back-office costs.

Quangos will be abolished.

Services will be integrated.

Assets will be sold.

And the administrative budgets of every main government department cut by a third.

The result is this.

We promised £3 billion of Whitehall savings, we will deliver £6 billion.

Of course, there is understandable concern about the reduction in the total public sector headcount that will result from the measures in the Spending Review.

We believe the best estimate remains the one set out by the independent Office for Budget Responsibility.

They have forecast a reduction in headcount of 490,000 over the Spending Review Period.

Let's be clear. That's over four years, not overnight.

Much of it will be achieved through natural turnover, by leaving posts unfilled as they become vacant.

Estimates suggest a turnover rate of over 8% in the public sector.

But yes, there will be some redundancies – up to the decisions of individual employers in the public sector – that is unavoidable when the country has run out of money.

We feel responsible for every individual who works for the government, and we will always do everything we can to help them find alternative work.

In fact, in the last three months alone the economy created 178,000 jobs.

So we should remember that unless we deal with this record budget deficit decisively many more jobs will be in danger – in both the private and the public sector.

The Cabinet Office and the Treasury will oversee the programme of Whitehall savings.

Both departments will lead by example.

The core Cabinet Office budget will be reduced by £55 million by 2014/15.

Additional allocations will be provided to fund electoral reform, support the Big Society, establish community organisers and launch the pilots for the National Citizen Service – which will give young people for the first time a right of passage to citizenship.

In recognition of the challenges faced by the voluntary and community sector, I am establishing a one year £100 million transition fund to help those facing real hardship.

The Treasury will see its overall budget reduced by 33 per cent – and we will share the department's enormously expensive PFI building, that my predecessor-but-one signed up to, by moving part of the Cabinet Office into the same premises.

The Chancellor is also a Royal Trustee and I want to say something briefly about the Civil List.

As I outlined at the Budget, the ten year settlement expired this year and no provision for a new settlement had been made when we entered office.

Her Majesty graciously agreed to a one year cash freeze in the Civil List for next year.

Going forward, she has also agreed that total Royal Household spending will fall by 14 per cent in 2012/13 while grants to the Household will be frozen in cash terms.

In order to support the costs of the historic Diamond Jubilee, which the whole country is looking forward to celebrating, there will be a temporary additional facility of £1 million.

After that the Royal Household will receive a new sovereign support grant linked to a portion of the revenue of the Crown Estate, so that my successors do not have to return to the issue so often.

Mr Speaker, central to this review is reshaping our public services.

First, there needs to be a dramatic shift in the balance of power from the central to the local.

A policy of rising burdens, regulations, targets, assessments and guidance has undermined local democracy and stifled innovation.

We will completely reverse this.

We will give GPs power to buy local services, schools the freedom to reward good teachers, and communities the right to elect their police and crime commissioners.

Second, we should understand that all the services paid for by government do not have to be delivered by government.

We will expand the use of personal budgets for special education needs, children with disabilities and long term health conditions.

We will use new payment mechanisms for prisons, probation, and community health services.

And we will encourage new providers in adult social care, early years and road management.

For local government, the deficit we have inherited means an unavoidably challenging settlement.

There will be overall savings in funding to councils of 7.1 per cent a year for four years.

But to help councils, we propose a massive devolution of financial control.

Today I can confirm that ring-fencing of all local government revenue grants will end from April next year.

The only exception will be simplified schools grants and a public health grant.

Outside of schools, police and the fire service, the number of separate core grants that go to local authorities will be reduced from over 90 to fewer than 10.

Councils and their leaders will remain accountable – but they will no longer have to report on 4,700 local area agreement targets.

The Local Government settlement includes funding for next year's council tax freeze, to help families when their budgets too are tight.

We are also introducing Tax Increment Finance powers, allowing councils to fund key projects by borrowing against future increases in locally collected business rates.

Some in local government have concerns about the financing of social care.

I can announce that grant funding for social care will be increased by an additional £1 billion by the fourth year of the Spending Review.

And a further £1 billion for social care will be provided through the NHS to support joint working with councils – so that elderly people do not continue to fall through the crack between two systems.

That's a total of £2 billion additional funding for social care to protect the most vulnerable.

Mr Speaker, we will also reform our social housing system.

For it is currently failing to address the needs of the country.

Over ten years, more than half a million social rented properties were lost.

Waiting lists have shot up.

Families have been unable to move.

And while a generation ago only one in ten families in social housing had no-one working, this had risen to one in three by 2008/09.

We will ensure that, in future, social housing is more flexible.

The terms for existing social tenants and their rent levels will remain unchanged, new tenants will be offered intermediate rents at around 80 per cent of the market rent.

Alongside £4.4 billion of capital resources, this will enable us to build up to 150,000 new affordable homes over the next four years.

We will continue to improve the existing housing stock through the Decent Homes programme.

And we will reform the planning system so we put local people in charge, reduce burdens on builders and encourage more homes to be built, with a New Homes Bonus scheme.

Within an overall resource budget for the Department for Communities and Local Government that is being reduced to £1.1 billion over the period, priority will be given to protecting the Disabled Facilities Grants.

This will go alongside a £6 billion commitment over four years to the

Supporting People programme, which provides help with housing costs for thousands of the most vulnerable people in our communities.

And, in recognition of the important service provided by the Fire and Rescue Service, we have decided to limit their budget reductions in return for substantial operational reform.

Mr Speaker, let me turn now to reforms in our security and defence.

Yesterday my RHF the Prime Minister set out the conclusions of the Strategic and Defence Review.

He explained in detail how we will protect the British people, deliver on our international obligations and secure British influence around the world.

This Spending Review provides the resources to do just that.

The budget for the Ministry of Defence will reach £33.5 billion in 2014/15, a saving of 8 per cent over the period.

On top of this settlement, we will continue to provide out of the Reserve the resources that our forces in Afghanistan require.

As a Chancellor I believe strongly that if we ask our brave service men and women to risk their lives on our behalf in active combat, then we will give them all the tools they need to finish the job.

But Mr Speaker, our international influence and our commitment to the world are not only determined by our military capabilities.

Our diplomacy and development policy matter too.

Savings of 24% in the Foreign and Commonwealth Office budget will be achieved over the review period by a sharp reduction in the number of Whitehall-based diplomats and back office functions.

There will be a focus on helping British companies win exports and secure jobs at home, and with the help of the UKTI we will attract significant overseas investment to our shores.

I can also confirm that this Coalition Government will be the first British government in history, and the first major country in the world, to honour the United Nations commitment on international aid.

The Department for International Development's budget will rise to £11.5 billion over the next four years.

Overseas development will reach 0.7 per cent of national income in 2013.

This will halve the number of deaths caused by malaria.

It will save the lives of 50,000 women in pregnancy and 250,000 newborn babies.

Whether working behind the counter of a charity shop, or volunteering abroad, or contributing taxes to our aid budget, Britons can hold their heads up high and say – even in these difficult times, we will honour the promise we make to the very poorest in our world.

Our aid budget allows Britain to lead in the world. It may be protected from cuts but not from scrutiny.

I have agreed with my RHF the Development Secretary a plan of reform that reduces administration costs to half the global donor average, ends the aid programmes we inherited in China and Russia, focuses on conflict resolution, and creates an independent commission to assess the impact of the money we commit.

Mr Speaker, let me now turn to security at home.

Protecting the citizen is a primary duty of government.

Our police put themselves in harm's way to make the rest of us safe – and we owe them our gratitude.

But no public service can be immune from reform.

Her Majesty's Inspector of Constabulary found in his recent report that significant savings could be made to police budgets without affecting the quality of front line policing.

And Tom Winsor is leading a review of terms and conditions which will report on how the police service can manage its resources to serve the public even more cost-effectively.

Using independent forecasts for the precept, the settlement I am proposing today will see police spending falling by 4 per cent each year.

By cutting costs and scrapping bureaucracy we are saving hundreds of thousands of man hours – our aim is to avoid any reduction in the visibility and availability of police in our streets.

Our new National Security Strategy judges terrorism to be one of the highest risks facing this country.

Therefore I am prioritising counter terrorism over the review period, both in the Home Office Budget and the Single Intelligence Account.

We have been assured this will maintain our operational capabilities against both Al Qaida and its affiliates and against Northern Irish terrorist threats.

This will enable us to meet the terrorist threat and protect the Olympic Games in 2012.

Overall, the Home Office budget will find savings of an average of 6 per cent a year.

The Ministry of Justice's budget will reach £7 billion by the end of the four year period – with average savings of 6 per cent a year.

A Green Paper will set out proposals to reform sentencing, intervene earlier to give treatment to mentally ill offenders, and use voluntary and private providers to reduce reoffending.

£1.3 billion of capital will also be provided over the period to maintain the existing prison estate and fund essential new-build projects – but plans for a new fifteen hundred place prison will be deferred.

The Law Officers Department will reduce its budget by a total of 24 per cent over the period, with the Crown Prosecution Service greatly reducing its inflated cost base.

Reforms will also be required to streamline the criminal justice system, close under-used courts and reduce the legal aid bill.

We need fair access to justice, but provided at a fair cost for the taxpayer.

Mr Speaker, all the reforms I have spoken of – to Whitehall and the way services are provided, to local government, to our defence and security and justice system – will improve both the value for money for taxpayers and the service provided to the public.

Next month, each government department will publish a business plan setting out its reform plans for the next four years – so their priorities are clear and the public can hold them to account.

Reform is one of the guiding principles of this Spending Review.

So too is fairness.

Let's be clear.

There is nothing fair about running huge budget deficits, and burdening

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future generations with the debts we ourselves are not prepared to pay.

How ironic that it was the last Labour Prime Minister himself who once observed that the "public finances must be sustainable over the long term. If they are not then it is the poor … that will suffer most.

That's why we are restoring order to our public finances before that is allowed to happen.

A fair government deals with the deficit decisively.

That is what we are doing today.

And a fair government makes 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.

Mr Speaker, I completely understand the public's anger that the banks that were so appalling regulated over the last decade, and whose near collapse wrought such damage on the economy, should now be contemplating paying high bonuses.

We are overhauling the system of regulation we inherited so that the Bank of England, with its clout and reputation, is put in charge.

We have set up the Independent Commission on Banking to look at the structure of the industry – and next year we will receive its report.

And today we set out very clearly, for all to take note of, our objective in taxing the banking industry going forward.

We neither want to let banks off making their fair contribution, nor do we want to drive them abroad.

Many hundreds of thousands of jobs across the whole United Kingdom depend on Britain being a competitive place for financial services.

Our aim will be to extract the maximum sustainable tax revenues from financial services.

We will assess what those maximum revenues could be – not just in one year, but over a period of years.

We have already decided – in the face of opposition from the previous government – to introduce a permanent levy on banks.

The legislation will be published tomorrow.

Once fully effective, the permanent levy will raise more net each year and every year for the Exchequer than the one-year bonus tax did last year – and I note that the previous Chancellor now admits that it failed to curb behaviour and was not sustainable.

However, that is not enough.

We want the banks to pay not just by the letter of the tax law, but by its spirit.

A year ago, the previous government announced in a fanfare that it would require banks to sign up by the Code of Practice on Taxation.

Mr Speaker, I have asked the Revenue how many of our leading 15 banks actually signed up.

The answer is four. Four out of fifteen.

That's what happened when they were in office. All talk and no action.

So I have instructed the Revenue to work with the banking sector to ensure the remaining banks have implemented the Code of Practice by the end of next month.

We will also need to address the situation under the last government where the gap between the taxes owed and the taxes paid grew considerably.

So in this Spending Review, while the HM Revenue and Customs budget will be expected to find resource savings of 15 per cent through the better use of new technology, greater efficiency and better IT contracts – we will be spending £900 million more on targeting tax evasion and fraud.

This additional £900 million is expected to help us collect a missing £7 billion in tax revenues.

Nor will fraud in the welfare system be tolerated anymore.

We estimate that £5 billion is being lost this way each year.

£5 billion that others have to work long hours to pay in their taxes.

This week we published our plans to step up the fight to catch benefit cheats, and to deploy uncompromising penalties when they are.

That brings me to the wider welfare budget.

A civilised country provides for families, protects the most vulnerable, helps those who look for work, and supports those in retirement.

That is why one of the first acts of this coalition government was to re-link the basic state pension to earnings, and guarantee a rise each year by earnings, inflation or 2.5% – whichever was higher.

Never again will those who worked hard all their lives be insulted with a state pension increase of just 75 pence.

But this guarantee of a decent income in retirement has to be paid for at a time when people are living much longer than anyone predicted.

We should celebrate that fact, but also confront it.

Lord Turner's Report on pensions, commissioned by the last government, acknowledged that a more generous state pension had to be funded by an increase in the pension age.

Even since its publication, life expectancy has risen further than it predicted.

Before the summer we launched a review on increasing the state pension age, and that has now concluded.

As a result, I can today announce that the state pension age for men and women will reach 66 by the year 2020.

This will involve a gradual increase in the State Pension Age from 65 to 66, starting in 2018.

And it will mean an acceleration of the increase in the female pension age already underway since this April.

From 2016 the rate of increase will be three months in every four rather than the current plan of one month in every two.

Raising the State Pension Age is what many countries are now doing, and will by the end of the next Parliament save over £5 billion a year – money which will be used to provide a more generous basic state pension as we manage demographic pressures.

Earlier this month, we also received the interim report from John Hutton's Public Service Pension Commission.

I am sure the whole House will want to thank John for this excellent and independent piece of work.

I welcome his findings – and I hope it will form the basis of a new deal, that balances the legitimate expectations of hard working public servants for a decent income in retirement with the equally legitimate demands of hard-working taxpayers that they do not pay unfairly for it.

The elements of this new pension deal are clear.

We should accept that public service pensions continue to provide a form of defined benefit, and that there is no race to bottom of pension provision.

We want public service pensions to be a gold standard.

At the same time, we should accept that they must be affordable.

When these public service pension schemes were established in the 1950s, taxpayers made half the contributions.

Today they make up two-thirds of contributions, and the unfunded bill is set to rise to £33 billion by 2015/16.

So I think we should accept, as John Hutton does, that there has to be an increase in employee contributions, although I also agree with John that this should be staggered and progressive.

That means the lower paid – and those in the armed forces – are protected and the highest paid public servants, who get the largest benefits, pay the highest contributions.

We will await the full Commission Report next spring before coming to any conclusions on the exact nature of the defined benefit and progressive contribution rise.

We will also launch a consultation on the Fair Deal policy.

But we will carry out, as the interim report suggests, a full public consultation now on the appropriate discount rate used to set contributions to these pensions.

From the perspective of filling the hole in the public finances, we will seek changes that deliver an additional £1.8 billion of savings per year in the cost of public service pensions by 2014/15 – over and above the plans left to us by the last government.

It is also clear that the current final-salary pension terms for MPs are not sustainable and we anticipate that the current scheme will have to end.

We will make a further statement following the publication of Lord Huttons' findings.

The welfare system is also there to help people of a working age when they lose their job, have a disability, start a family and need help with low pay.

But the truth – as everyone knows – is that the welfare system is failing many millions of our fellow citizens.

People find themselves trapped in an incomprehensible out-of-work benefit system for their entire lifetimes, because it simply does not pay to work.

This robs them of their aspirations and opportunities.

And it costs the rest of the country a fortune.

Welfare spending now accounts for one third of all public spending.

Benefit bills have soared by 45 per cent under the previous government.

In some cases, the benefit bill of a single out-of-work family have amounted to the tax bills of 16 working families put together.

This is totally unsustainable and unfair.

The last government promised reform and flunked it.

We will deliver.

My RHF the Work and Pensions Secretary is setting out proposals, with my support, to replace all working age benefits and tax credits with a single, simple Universal Credit.

The guiding rule will be this: it will always pay to work.

Those who get work will be better off than those who don't.

It represents the greatest reform to our welfare state for a generation

It will be introduced over the next two Parliaments, at a pace that ensures we get this right.

I have set aside more than £2 billion over this spending review of resources to make this happen.

And it will go alongside our new Work Programme, which we are also funding today.

Drawing on the skills of the voluntary sector and private providers, the Work Programme will provide intensive help to those looking for work – and support for those who could look for work but currently lack the confidence or skills to try.

The Department for Work and Pensions will make savings to help deliver these schemes, by increasing the use of digital applications and reducing overheads.

We will also be seeking substantial savings from the rest of the £200 billion benefit bill, on top of those already identified in the Budget.

As I said in June, the more we could save on welfare costs – the more we can continue other, more productive areas of government spending.

And in the massive public consultation we conducted over the summer, the overwhelming message we received was that the British people think it is fair to reform welfare bills in order to protect important public services.

So today I announce these further welfare savings.

We will time limit contributory Employment and Support Allowance for those in the Work Related Activity Group to one year.

This is double the length of time than for contributory Jobseeker's Allowance.

We will increase the age threshold for the shared room rate in housing benefit from 25 to 35, so that housing benefit rules reflect the housing expectations of people of a similar age not on benefits.

We will give local authorities greater flexibility to manage council tax together with direct control over Council Tax benefit, within an overall budget that will be reduced by 10% from April 2013.

We will align the rules for the mobility and care elements of Disability Living Allowance paid to people in residential care, generating savings but enabling us to continue with this important benefit.

We will freeze the maximum Savings Credit award in Pension Credit for four years, thereby limiting the spread of means-testing up the income distribution.

On tax credits:

We will further control the cost of tax credits by freezing the basic and 30 hour elements for three years;

We will change the Working Tax Credit eligibility rules so that couples with children must work 24 hours per week between them;

And we will return the childcare element of the Working Tax Credit to its previous 70 per cent level.

We will also introduce a new cap on benefits.

No family that doesn't work will receive more in benefits than the average family that does go out to work.

That is a tough, but fair deal.

Of course, those in receipt of Disability Living Allowance, Working Tax Credit or the War Widows Pension will be excluded.

Taken together, all these welfare measures I have outlined will save the country £7 billion a year.

But Mr Speaker, we want to ensure that low income families with children are protected from the adverse effect from these essential savings.

Because this Government is committed to ending child poverty.

I can announce today that I am increasing the child element of the Child Tax Credit by a further £30 in 2011/12 and £50 in 2012/13 above indexation.

This will mean annual increases of £180 and then £110 above the level promised by the last government.

This will provide support to 4 million lower income families – and I can confirm that using the same model we inherited, the Spending Review has no measurable impact on child poverty over the next two years.

While we await the conclusions from the report by the RHM for Birkenhead.

Let me turn now to the universal benefits.

Mr Speaker, I have taken the difficult decision to remove child benefit from families with a higher rate taxpayer.

I wish it were otherwise – but I simply cannot ask those watching this earning just £15,000 or £30,000 to go on paying the child benefit of those earning £50,000 or £100,000.

The debts of the last Labour Government, and the need to make sure the better off in society also make a fair contribution, make this choice unavoidable.

And it also means that no further changes to child benefit are required.

Child benefit will continue to paid in the normal way to the great majority of the population, from birth until a child leaves full time education at the age of 18 or even 19.

We can afford to do this because, according to the latest independent estimates from the Office for Budget Responsibility, removing child benefit from higher rate taxpayers saves Britain £2.5 billion a year.

We also keep the universal benefits for pensioners, in recognition of the fact many have worked hard and saved all their lives.

Free eye tests;

free prescription charges;

free bus passes;

free TV licenses for the over 75s;

and Winter Fuel Payments will remain exactly as budgeted for by the previous Government – as promised.

I am also turning the temporary increase in the Cold Weather Payments introduced by the last government into a permanent increase.

In my view higher Cold Weather Payments should be for life, not just for elections.

And so too are the promises we make on the National Health Service.

The NHS is an intrinsic part of the fabric of our country.

It is the embodiment of a fair society.

This Coalition Government made a commitment to protect the NHS, and increase health spending every year.

Today we honour that commitment in full.

Total health spending will rise each year over and above inflation.

This year we are spending £104 billion on health care, capital and current combined.

By the end of four years, we will be spending £114 billion.

We can afford this in part because of the decisions on welfare I have just announced.

And also because we have made tough decisions in other parts of the government budget.

But to govern is to choose. And we have chosen the NHS.

That does not mean we are letting the health department off the need to drive forward real reform and savings from waste and inefficiency.

Productivity in the health service fell steadily over the last ten years, and that must not continue.

By 2014, we are aiming to save up to £20 billion a year by demanding better value for money.

But the money we save will be reinvested in our nation's health care.

As the independent forecasts we published in the Budget show, we need to make these savings to deal with our ageing population and the rising costs of new medical treatments.

But there are also new services we can offer.

A new cancer drug fund will be provided.

Spending on health research will be protected and we will prioritise work on treatment for dementia.

We will expand access to psychological therapies for the young, elderly and those with mental illness.

We will fund new hospital schemes, including the St Helier, the Royal Oldham and the West Cumberland.

For health spending, as for other spending announcements, there will be consequential allocations for Scotland, Wales and Northern Ireland.

The Barnett formula will be applied in the usual way.

That means that the increase in health spending and the relative protection of education spending will feed through to the devolved resource budgets.

It means that that all three nations will actually see cash rises in their budget, albeit rises below the rate of inflation.

For Scotland, the resource budget will rise to £25.4 billion in 2014/15.

For Wales, it will rise to £13.5 billion.

And for Northern Ireland, it will rise to £9.5 billion.

In Scotland, we are proceeding with the implementation of the Calman reforms.

In Wales, we will consider with the Assembly Government the proposals in the final Holtham report, consistent with the Calman work being taken forward in Scotland.

In Northern Ireland, the collapse of the Presbyterian Mutual Society has caused great hardship. And people have been left without their money for too long.

I confirm today that we will provide the Northern Ireland Executive with £25 million in cash, and a £175 million loan, to help those who have lost their life savings.

We will also help those across the United Kingdom who have lost money as a result of the collapse of Equitable Life.

For ten years the Equitable Life policyholders have fought for justice.

For ten years the last government dithered and delayed and denied them that justice.

It is time to right the wrong to many many thousands of people, who did the right thing, who saved for their future, tried not to depend on the state – and then were innocent victims of a terrible failure of regulation.

So let me make it clear.

I accept the findings of the Parliamentary Ombudsman in full.

I have read the advice of Sir John Chadwick, and I thank him for it, but I do not agree with the level of compensation his analysis suggested.

I agree with the Ombudsman that the relative loss suffered is the difference between what policyholders actually received from their policies, and what they would have received elsewhere.

The Parliamentary Ombudsman herself recognised that a balance had to be struck between being fair to policyholders and fair to taxpayers, particularly when many budgets and benefits are being cut.

But money we pay out has to come from general public expenditure.

I have decided that the fair amount to pay out in total is in the region of £1.5 billion, two thirds of which will be found in this Spending Review period.

Those who had With Profits Annuities are particularly hard hit, as they were retired and were unable to move their savings elsewhere. As a result, the Government will cover the cost of the total relative loss suffered by these deserving people.

The scheme will start making payments next year.

Mr Speaker, these measures and our welfare reforms mean:

It will always pay to work;

Benefit savings will help us protect key public services like the NHS;

There is help for those who have saved and lost everything.

These are fair decisions, consistent with the second principle of this Spending Review.

The third and final principle centres on growth [and promoting a private sector recovery.

By restoring macroeconomic stability we have brought certainty to businesses.

By cutting business taxes we are giving business the freedom to compete.

And today's review builds on these steps – because even when money is short we should prioritise those areas of public spending which are most likely to support economic growth.

That is what we are doing in the Department for Business, Innovation and Skills.

Administration will be cut by £400 million. 24 quangos will be cut.

Lower-priority programmes like Train to Gain will be abolished.

Adult learners and employers will have to contribute more to further education.

This means that today I can announce the largest ever financial investment in adult apprenticeships.

An increase of over 50 per cent on the previous government, helping 75,000 new apprentices a year by the end of the Spending Review period.

We will maintain and invest in the Post Office Network, and protect community post offices.

We will come forward with our detailed response to Lord Browne's report on higher education funding and student finance, including our plans to provide financial support to encourage those from the poorest households stay in education.

Our universities are jewels in our economic crown, and it is clear that if we want to keep our place near the top of the world league tables then we need to reform our system of funding and reject – as, to be fair, many opposite do – the unworkable idea of a pure graduate tax.

Clearly better-off graduates will have to pay more – and this will enable us to reduce considerably the contribution that general taxpayers have to make to the education of those who will probably end up earning much more them.

Overall, average annual savings of 7.1 per cent will be found from the Department for Business budget – the minimum it was asked to find.

Within those savings, however, the Secretary of State and I have decided to protect the science budget.

Britain is a world leader in scientific research. And that is vital to our future economic success.

That is why I am proposing that we do not cut the cash going to the science budget. It will be protected at £4.6 billion a year.

Building on the Wakeham Review of science spending, we have found that within the science budget significant savings of £324 million can be found through efficiency.

If these are implemented, then with this relatively protected settlement I am confident that our country's scientific output can increase over the next four years.

We will also:

invest £220 million in the UK centre for Medical Research and Innovation at St Pancras;

fund the molecular biology lab in Cambridge;

the Animal Health Institute in Pilbright;

and the Diamond synchrotron in Oxford.

Research and technological innovation will also help us with one of the greatest scientific challenges of our times – climate change – and it will support new jobs in low-carbon industries.

So today, even in these straightened times, we commit public capital funding of up to £1 billion to one of the world's first commercial scale carbon capture and storage demonstration projects.

We will also invest over £200 million in the development of off-shore wind technology and manufacturing at port sites.

Yesterday, protestors scaled the Treasury urging us to proceed with our idea for a Green Investment Bank.

Mr Speaker, it's the first time anyone has protested in favour of a bank.

We will go ahead.

I have set aside in this Spending Review £1 billion of funding for the Bank, but I hope much more will be raised from the private sector and the proceeds of future government asset sales.

The aim of all these investment is for Britain to be a leader of the new green economy. Creating jobs, saving energy costs, reducing carbon emissions.

We will also introduce incentives to help families reduce their bills.

We will introduce a funded Renewable Heat Incentive.

Our Green Deal will encourage home energy efficiency at no upfront cost to homeowners and allow us to phase out the Warm Front programme.

Overall, the total resource

settlement for the Department for Energy and Climate Change will fall by an average 5 per cent a year – but there will be a large increase in capital spending, partly to meet unavoidable commitments on nuclear decommissioning.

DEFRA will deliver resource savings of an average 8 per cent a year – but we will fund a major improvement in our flood defences and coastal erosion management, that will provide better protection for 145,000 homes.

Britain's arts, heritage and sport all have enormous value in their own right.

But our rich and varied cultural life is also one of our country's greatest economic assets.

The resource budget for the Department of Culture, Media and Sport will come down to £1.1 billion by 2014/15.

Administrative costs are being reduced by 41 per cent. 19 quangos will be abolished or reformed.

All of this is being done so we can limit four year reductions to 15 per cent in core programmes like our national museums, the frontline funding provided to our arts and Sport England's Whole Sport plans.

We will complete the new world-class building extensions for the Tate Gallery and British Museum in London.

The Secretary of State will provide details of further projects shortly.

I can also announce today that in order that our nation's culture and heritage remains available to all, we will continue to fund free entry to museums and galleries.

There is ongoing provision of the £9.3 billion of public funding for a safe and successful Olympic and Paralympic Games in London in 2012.

And we have also approached the BBC to ensure that they too make their contributions, as a publicly funded organisation, to savings during this Spending Review.

I am pleased to confirm that this week we have struck a deal.

The BBC will take from the government the responsibility for funding the BBC World Service and BBC Monitor, as well as part-funding S4C.

This amounts to some £340 million of savings a year for the Exchequer by 2014/15.

To ensure that the cost of these new obligations is not passed on to the license fee payer, the BBC has agreed a funding deal for the full duration of its Charter Review.

The licence fee will be frozen for the next six years.

This deal helps almost every family and is equivalent to a 16 per cent saving in the BBC budget over the period, similar to the savings in other major cultural institutions.

The BBC also agreed to reduce its on-line spend and make no further encroachments into local media markets, to protect local newspapers and independent local radio and TV.

And they will contribute to the £530 million we will spend over the next four years to bring super-fast broadband to rural parts of our country that the private sector will take longer to reach.

Pilots will go ahead in the Highlands and Islands, North Yorkshire, Cumbria and Herefordshire.

All of this will help encourage the growth of our creative industries as a key part of the new economy we are seeking to build.

Mr Speaker, after our defence requirements are met, the Department for Transport will receive the largest capital settlement.

Over the next four years we will invest over £30 billion in transport projects, more than was invested during the past four years.

£14 billion of that will fund maintenance and investment on our railways.

Direct bus subsidies will be reduced, but statutory concessionary fares will remain.

The cap on regulated rail fares will rise to RPI +3 per cent for the three years from 2012, but that will help this country afford new rolling stock as well and improve passenger conditions.

The Secretary of State will set out how more of the transport money will be allocated next week.

But I want to tell the House today about some of the projects that will go ahead.

For let's remember that even after these tough spending settlements the country is still going to be spending over £700 billion a year.

So in Yorkshire and Humber, capacity on the M62 will be expanded, £90 million will be spent to improve rail platforms across various towns and cities and we will also improve line speeds across the Pennines.

In the North East, £500 million will be spent refurbishing the Tyne & Wear metro and Tees Valley bus network.

In the North West, we will invest in rail electrification between Manchester, Liverpool, Preston and Blackpool and we will provide funding for a new suspension bridge over the Mersey at Runcorn.

Rail and roads are devolved to the Scottish executive, as are roads in Wales – but I can tell the House that major rail investments around Cardiff, Barry and Newport will go ahead.

In the East Midlands the M1 and A46 will be improved.

In the West Midlands, we will extend the Midland Metro and completely redevelop Birmingham New Street station.

In the South West, we will fund improvements on the M5 and M4, and the new transport scheme for Weymouth.

In the East of England, colleagues will be delighted to know that the A11 to Norwich will be upgraded.

Around London, we will widen the M25 between ten different junctions and complete the improvement to the A3 at Hindhead.

And in London, on top of the Olympics, a major investment in our capital city's transport infrastructure will take place.

Crossrail will go ahead and key Tube lines will be upgraded for the twenty first century.

This is nothing like the complete list.

So yes, we are saving money and putting the state on a more sustainable footing, but even then we will still be spending tens of billions of pounds on Britain's future infrastructure.

Next week we will also set out our national infrastructure plan – so that private money is also put to work in building for this country the economic infrastructure our businesses need.

Our regional growth fund will also help us do that.

As promised, a billion pounds has been found for the fund over the next two years.

Money designed to lever in private investment in areas of our country where it has been too absent over the last decade. And I can announce today that I am providing close to half a billion pounds extra in the third year for the regional growth fund.

Long term investment in the capacity of our transport, our science, our green energy will all help move Britain from its decade long dependence on one sector of the economy in one part of the country – and the ruin that led to.

But the most important ingredient a twenty-first century economy needs is well educated children, who believe in themselves and aspire to a better life whatever their background or disadvantages.

In June, after the Budget, when the Chief Secretary and I turned our attention to how to allocate spending between government departments, we set ourselves a goal.

We wanted to see if it was possible – even when spending was being cut – to find more resources for our schools and for the early years education of our children.

I can tell the House that we have succeeded.

It has meant other departments taking bigger cuts.

But I believe strongly that this is the right choice for our country's future.

There will be a real increase in the money for schools, not just next year or the year after – as the last government once promised – but for each of the next four years.

The schools budget will rise from £35 billion to £39 billion.

Even as pupil numbers greatly increase, we will ensure the cash funding per pupil does not fall.

We will also sweep away all the different ways in which money is ring-fenced so that schools can decide how to spend their money as they see best.

We will also introduce a new £2.5 billion pupil premium that supports the education of disadvantaged children, and which will provide a real incentive to good schools to take pupils from poorer backgrounds.

This pupil premium is at the heart of the Coalition Agreement and it is at the heart of our commitment to reform, fairness and economic growth.

Parents, teachers and community groups will be supported if they wish to establish free schools.

We will fund an increase in places for 16 to 19 year olds, and raise the participation age to 18 by the end of the Parliament – and that enables us to replace education maintenance allowances with more targeted support.

And we will also provide support for the early years of our children.

The increased entitlement to 15 hours a week free education for all three and four year olds – introduced under this government – will continue.

Sure Start services will be protected in cash terms, and the programme will be refocused on its original purpose.

And we will help them further by introducing for the first time 15 free hours of early education and care for all disadvantaged two year olds.

So these children have a chance in life and are ready, like the rest of their class mates, for school.

Overall, the Department for Education will be required to find resource savings of only 1 per cent a year.

Central administration will be cut by a third and five quangos will go.

The capital budget will have to bear its share of the reductions.

As the House will know we've had to phase out the hopelessly inefficient and overcommitted Building Schools for the Future programme.

But £15.8 billion will be spent to maintain the school estate and rebuild and refurbish 600 schools.

I repeat – the resource money for schools, the money that goes to the classroom – on the broadest definition, including all the main grants, will go up in real terms every year.

It is a real investment in the future of our children and in the future growth in our economy too.

Mr Speaker.

Let me conclude.

The decisions we have taken today bring sanity to our public finances and stability to our economy.

They deal 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 investments in the economic infrastructure of our economy.

I have also announced real reductions in waste and reforms to welfare. And though this we will reshape public services to meet the challenges of our times.

Mr Speaker, during the process of this Spending Review I have received many submissions…

… including one from the party opposite that the average cut for unprotected departments should be set at 20 per cent over the coming four years…

…rather than the 25 per cent that I anticipated in my June Budget.

I have examined this proposal carefully and I have consulted the published documents of my predecessor the RHG for Edinburgh South West.

And because of our tough but fair decisions to reform welfare, and the savings we've made on debt interest…

… I am pleased to tell the House it has been possible – and the average saving in departmental budgets will be lower than the previous Government implied in its March Budget.

Instead of cuts of 20 per cent there will be cuts of 19 per cent over four years.

So I thank them for their input and look forward to their support.

Mr Speaker, this Coalition Government faced the worst economic inheritance in modern history. The debts we were left threatened every job and public service in the country.

But we have put the national interest first. Made the tough choices.

Protected health and schools and investment in growth.

Reformed welfare and cut waste.

Made sure that we are all in this together.

And taken our country back from the brink of bankruptcy.

A stronger Britain starts here.

And I commend this statement to the House.

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