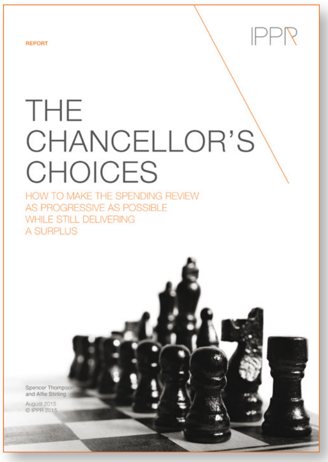
THE CHANCELLOR’S CHOICES
HOW TO MAKE THE SPENDING REVIEW AS PROGRESSIVE AS POSSIBLE WHILE STILL DELIVERING A SURPLUS

SUMMARY OF RECOMMENDATIONS



The chancellor made clear in the July budget that he wanted to make progressive choices in the 2015 spending review. This report shows, through detailed analysis of the figures, that he could choose to protect social care, expand free childcare, protect education for 16–19-year-olds, support young people into work, and invest in housing, science, energy efficiency and the northern powerhouse – while still reaching a surplus in 2019/20.

It also demonstrates that the chancellor could choose to avoid destructive 40 per cent cuts to other public services, such as the police and the courts, by doing two things. First, he could target a slightly lower surplus than the £10 billion he is currently aiming for in 2019/20. Second, he could make modest extensions to three of the tax changes he announced at the July budget: slightly reducing tax relief for the pensions of the richest; aligning capital gains tax for high earners with the new dividend tax rate; and bringing the insurance premium tax closer to the rate of VAT.

The recommendations presented in this report would, if adopted, make government spending more preventative, integrated and devolved, while boosting employment and economic growth. They would also, crucially, leave the UK as well prepared as possible (within the constraints of the government’s fiscal rules) for the economic, demographic and social challenges of the 2020s.

To download the full report as a PDF, or to read it online, visit http://www.ippr.org/publications/the-chancellors-choices

Spending review recommendations

All costs are in 2015/16 prices unless otherwise stated.

Local government social care

Funding for the revenue support grant, the public health grant and the Better Care Fund should held constant in cash terms over the spending review period, in order to ensure that rising demands on the social care system do not cut too deeply into local governments’ ability to fund other services.
Cost: rising to £1.8 billion per year (by 2019/20)

Childcare

The government should introduce an entitlement to 15 hours of holiday childcare for an additional 10 weeks of the year, targeted at 2–4-year-olds in families that fall within the poorest 40 per cent of the income distribution. This is in addition to the existing commitment to extend the number of free hours of childcare available to three- and four-year-olds to 30 hours for 38 weeks of the year.
Cost: £550 million per year from 2017/18

16–19 education

The government should protect 16–19 education on a flat cash-per-pupil basis over the spending review period.
Cost: rising to £970 million per year (by 2019/20)

Youth guarantee

The government should guarantee a job for six months, paid at the minimum wage, for all under-25s who have claimed jobseeker's allowance for more than nine months.
Cost: £280 million in its first year (2017/18), £110 million thereafter

A troubled lives programme

The government should establish a programme to join up services around severely excluded adults who use both homelessness and drug and alcohol services. This should be supported through real-terms protection of the homelessness and public health grants to local authorities, and the creation of a £100-million-per-year pot to fund bonus payments to local authorities that achieve a negotiated set of area-based outcomes.
Additional cost: £100 million per year from 2016/17

Housebuilding

From 2018/19, the government should triple the budget of the Homes and Communities Agency, with the aim of grant-funding the building of approximately 50,000 social rent homes per year.
Cost: £2.2 billion per year from 2018/19

Transport investment

Within the Department for Transport's capital budget, resource should be found to finance the 'One North' package of integrated investment in road and rail capacity in the north of England, and to put it on course for completion in 2030.
Cost: £1.1 billion per year (from 2018/19 at the latest), reallocated within the Department for Transport capital budget

'Help to Heat'

The government should accelerate investment in energy efficiency measures for low-income households, upgrading a third-of-a-million homes per year with the objective of upgrading all low-income households by 2030.
Cost: £1 billion per year from 2018/19

Science

The science budget should be protected in flat cash terms over the spending review period.
Cost: rising to £910 million per year (by 2019/20)

Recommendations to reduce the impact of the spending review on unprotected departments

Reducing the planned surplus

The government should target a £7 billion cash surplus in 2019/20, and a cash deficit in 2018/19 that is £2 billion higher than is currently planned. This would be consistent with the government's fiscal mandate, and **allow extra spending of £1.9 billion in 2018/19 and £2.8 billion in 2019/20**.

THE CHANCELLOR'S CHOICES
SUMMARY OF RECOMMENDATIONS

Capital gains tax
The higher rate of capital gains tax should be aligned with the dividend tax rate for higher-rate taxpayers, **raising £500 million**.

Insurance premium tax
The tax rate on insurance premiums should be raised to 13 per cent, as part of a longer-term plan to align this rate with VAT, **raising £1.5 billion**.

Pensions reform
The government should continue to tackle imbalances in the tax treatment of pensions, aiming to raise a further **£3 billion** from measures such as capping the tax-free lump sum and reducing the earnings threshold after which the pension contributions annual allowance is tapered away.