



The UK Government Comprehensive Spending Review:

20 October 2010

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The biggest programme of
spending cuts in the UK for
decades...



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Background

In the June 2010 publication from HM Treasury¹, “*The Spending Review Framework*” it said that reducing the budget deficit is the most urgent issue facing Britain. Last year, the latest Public Sector Net Borrowing forecast was the largest in Britain's peacetime history. The March Budget forecast the UK deficit to be 11 per cent of GDP this year. According to the International Monetary Fund (IMF), the UK has the highest budget deficit in the G7 and G20, and its latest forecasts project that public sector debt will double between 2007 and 2015, to around 90 per cent of GDP.

The Government has committed to a significant acceleration in the reduction of the structural deficit over the course of the Parliament. This is necessary to show the world that Britain can live within its means, thereby rebuilding confidence in the economy and protecting jobs. The Government is committed to carrying out Britain's unavoidable deficit reduction plan in a way that strengthens and unites the country. The Spending Review will be guided by the principles of freedom, fairness and responsibility, in order to demonstrate, in the Government's words “that we are all in this together”.

The Government has made clear that the bulk of the deficit reduction will be achieved through reductions in spending rather than increased taxes. Ensuring that taxpayers' money is well spent is the fair and responsible way to reduce the deficit. This is consistent with international best practice: IMF research suggests that spending reductions are more likely to deliver a successful fiscal consolidation and better economic performance.

Spending Review

The Chancellor of the Exchequer George Osborne set out the Government's four-year public spending plans in the Spending Review at 12:30pm on Wednesday 20 October 2010.

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 over several years for each department. It is then up to departments to decide how best to manage and distribute this spending within their areas of responsibility.

In addition to setting departmental budgets, the 2010 Spending Review will also examine 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 important 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.

This Spending Review maps out the Government's spending plans for the next Parliament – setting departmental budgets for the years 2011-12 to 2014-15 – but it is not just about cutting spending and setting budgets: it is a complete re-evaluation of the Government's role in providing public services. The Spending Review looks at what services the Government should be providing and how to get more for less.

On the HM Treasury website, you can use a map or list of regions to see what action the Government has already been taking in your region: www.hm-treasury.gov.uk/spend_sr2010_regions.htm

Useful Links

- HMT's introductory guide to the Spending Review: www.hm-treasury.gov.uk/spend_spendingreview_introduction.htm
- Find out more about how the Government is using your ideas in the Spending Review: www.hm-treasury.gov.uk/spend_spendingchallenge.htm



Statement on Strategic Defence and Security Review

On 19 October 2010, the Prime Minister made a Statement on the Strategic Defence and Security Review to the House of Commons.

Summary of what he said:

- This is not simply a cost-saving exercise to get to grips with the biggest budget deficit in post-war history it is about taking the right decisions to protect our national security in the years ahead. Over four years the defence budget will rise in cash terms and fall by only 8 percent.
- This Review is about how we project power and influence in a rapidly changing world. Whilst we are the sixth largest economy in the world, even after this Review we expect to continue with the fourth largest military budget in the world.
- We have a unique network of alliances and relationships with the United States as a member of the EU and NATO and as a permanent member of the UN Security Council. Our national interest requires our full and active engagement in world affairs.
- There is no cut in the support for our forces in Afghanistan. The changes to the Ministry of Defence that result from the Spending Review will not affect this funding.
- This Review has been very different from those before it - it has looked at all elements of national security, home and abroad, together, not just defence on its own.

Read the full speech: www.number10.gov.uk/news/statements-and-articles/2010/10/sdsr-55912

Quick Overview

Government Department	Key Responsibilities	What's being cut
Business, Innovation & Skills	Business and enterprise support, running higher and further education, promoting scientific research and regional development	Annual cut of 7.1% Administration costs to be cut by £400m with 24 quangos axed. The Train to Gain programme to be axed. Reform of student tuition fees building on Browne review. The science budget to be frozen - in cash terms - rather than cut.
Cabinet Office	Co-ordinates much of the activity of central government	£55m cut in budget. Support for citizenship and "big society" projects. Cabinet Office officials to move into Treasury. Reform of Civil List funding for Royal Household.
Communities and Local Government	Planning, housing, working with councils, community relations	7.1% annual cut in council budgets. Ring-fencing of local authority grants to end. Reform of social housing but aim is to build 150,000 new affordable homes.
Culture, Media and Sport	The arts, broadcasting, creative industries, licensing and gambling, libraries, museums and galleries, the National Lottery, sport and tourism	Administration costs cut by 41% - 19 quangos to go. 15% cuts in core programmes but free museum entry to remain. BBC licence fee to be frozen for next six years - equivalent to 16% savings over the period.
Defence	Britain's armed forces, including training, deployment and equipment	The Ministry of Defence budget is to be cut by 8%.The RAF and RN 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 axed while the planned Nimrod spy planes will be cancelled. Key spending decision on Trident to be delayed until 2016.
Education	Pre-school, schools, family, youth crime policy, Ofsted inspections, apprenticeships	Education had been asked to prepare plans for cuts of between 10% and 20%. This would come to between £5.71bn and £11.42bn. Schools in England are to get a real-terms increase in funding.
Energy and Climate Change	Energy policy (including renewables), reducing damage to climate (including keeping to emissions targets)	5% annual budget cut. £200m funding for wind power development. £1bn for green investment bank.
Environment, Food and Rural Affairs	Food and farming, the countryside, wildlife and pets, sustainable development	8% annual cut but more money for flood defence.
Foreign Office	Promoting the UK abroad, diplomacy, consular services	24% cut in funding over four years. Reduction in Whitehall-based diplomats.
Health	Hospitals, GPs, health improvement, social care, dentistry, eye care	The NHS will enjoy a real-terms increase in funding every year, fulfilling a Conservative election pledge. £2bn in extra funding for social care by 2014-15.
Home Office	Policing, anti-terror operations, crime prevention, immigration, passports	Overall budget to fall 6% a year. Police budgets to be cut 4% a year. Aim to maintain "visibility and availability" of officers on beat.
International development	Aid to poorer countries, including poverty alleviation and redevelopment projects	The overseas aid budget is to be protected from cuts but not the department's other costs. Budget to rise to £11.5bn over four years to meet UN aid commitment. Aid to China and Russia to stop and reduction in administration costs.
Justice	Courts system, prisons, probation, elections	Budget to fall by 6% a year. Plans for new 1,500-capacity prison to be dropped but £1.3bn capital investment in prisons. Law Officers' Department budget to be cut by 24%. Cut in Crown Prosecution Service administration costs.
Northern Ireland/Scotland/Wales	Policy devolved from the UK government	The devolved administrations have been asked to make savings of £704m, but have an option to defer them this year. The first ministers of Scotland, Wales and Northern Ireland have issued a joint statement saying cuts are "too fast and too deep" and should be phased in over a longer period.
Transport	Roads, rail, aviation, shipping	£30bn in capital spending, including £500m for Tyne and Wear Metro. Crossrail project to go ahead. Rise in regulated cap on rail fares to 3% above RPI from 2012.
Treasury	Deciding Whitehall budgets, HM Revenue and Customs, taxation, Royal Mint	33% cut in budget. Bank levy to become permanent. £900m to tackle tax evasion. £1.5bn in compensation to Equitable Life policyholders hit by its near collapse.15% cut in Revenue and Customs.
Work and Pensions	Benefits, pensions, Jobcentre Plus	Retirement age for men and women to rise from 65 to 66 by 2020 - four years earlier than planned - saving £5bn a year. Reform of public sector pensions to save £1.8bn by 2015. £7bn in further welfare savings through a new time limit to incapacity benefit claimants and changes to jobseeker's allowance, housing benefit, council tax benefit, pension credit and family tax credits. Withdrawal of child benefits to higher-rate taxpayers confirmed but no further changes. Winter fuel allowance, free bus passes and TV licences for 75 year-olds protected. £2bn investment in new universal credit.



Source of Information

This publication summarises the many proposals on the Government's Spending Review announced by the Chancellor of the Exchequer on 20 October 2010. The information is derived from the many press releases issued by the Government immediately after the Chancellor delivered his speech. Given the timescales involved in producing this publication only hours after the press releases became available, it is only a summary based on the press releases sourced by us on the day. Accordingly, it is possible that there may be some proposals that are not covered here.

The Chancellor's Statement

The Chancellor opened his speech saying:
"Today is the day when Britain steps back from the brink"

Overview²

- Next year, expenditure will be £651bn, said the Chancellor. It will rise steadily to £693bn by 2014/15. "It takes time to turn around the debt super tanker," he added.
- Mr Osborne says debt interest payments will be lower by £1bn in 2012, £1.8bn in 2013 and £3bn in 2014, a total of £5bn over the course of the Spending Review.
- The Government will double its promised savings in Whitehall from £3bn to £6bn. Redundancies are inevitable.
- The core Cabinet Office budget will be reduced by £55m by 2014/15, says the Chancellor.
- The Treasury will see its overall budget reduced by 33% and the department's building will be shared with part of the Cabinet Office.
- Terms for existing social housing tenants and their rent will be unchanged, with new tenants offered intermediate rents at around 80% of the market rent. The chancellor forecasts this will allow the building of up to 150,000 new affordable homes over four years.
- Overseas aid will be "protected from cuts but not from scrutiny", said the Chancellor.
- Mr Osborne says the settlement will see police spending fall by 4% each year. Cutting costs and scrapping bureaucracy will free up more officers to work in frontline roles, he said.
- Reform is one of the guiding principles of this Spending Review and so too is fairness, said Mr Osborne. "There is nothing fair about running huge budget deficits," he added.
- Mr Osborne says he completely understands the public's anger at banks which, he says, were "so poorly regulated". He says the Government does not want to "let banks off" their responsibility but must avoid driving them abroad, given the numbers they employ.
- Legislation to introduce a permanent tax levy on banks will be published on 21 October 2010, said the Chancellor.
- The state pension age will reach 66 in 2020, four years earlier than planned, said the Chancellor.
- Never again will those who worked hard all their lives "be insulted with a state pension increase of just 75p". There must be an increase in employee contributions to pension funds, said Mr Osborne.
- The Department for Work and Pensions must find savings from the £200bn benefit bill on top of those identified in the Budget, the Chancellor said.
- A new universal credit will replace benefits and tax credits over the next two parliaments, said the Chancellor.
- The Chancellor said total health spending will rise each year over and above inflation from £104bn this year to £114bn over the next four years.
- Equitable Life policy-holders will receive an aggregate total payout in the region of £1.5bn, the Chancellor announced. The scheme will start making payments next year.
- The Chancellor said that funding for adult apprenticeships will increase, helping an extra 75,000 people by the end of the Spending Review period.
- Rejecting the idea of a graduate tax, Mr Osborne said that universities play a key role and that while the business department will save 7.5% per year, the science budget will be protected at £4.6bn per year.
- The Chancellor paved the way for rail ticket price increases by lifting the cap on regulated fares to RPI plus 3% for the three years from 2012. This, he said, will help pay for new rolling stock and improved passenger conditions.
- In transport, £30bn will be invested over the next four years, said Mr Osborne. This includes £14bn on new rail maintenance projects.
- Mr Osborne spelled out the terms of the agreement with the BBC, which will see the licence fee frozen for six years.
- The Department of Culture, Media and Sport budget will come down to £1.1bn by 2014/15, said Mr Osborne. Administrative costs must be reduced by 41%, although free entry to museums and galleries will remain.
- A "green" investment bank will be set up using £1bn of funding, says Mr Osborne. But funding for the Department for Energy and Climate Change will fall by an average 5% a year and the Department for the Environment, Food and Rural Affairs, must save an average 8% a year.
- Sure Start services will be protected in cash terms, said Mr Osborne, who adds that 15 free hours of early education and care for all disadvantaged two-year-olds will be introduced.
- The schools budget will rise from £35bn to £39bn and spending per-pupil will not fall, said the Chancellor. He also spelled out plans for a "pupil premium" for those from poorer backgrounds.

Spending Review documents published

Immediately after the Chancellor finished his speech, the Government published several detailed documents. They contain the detailed text and figures behind the CSR announcements. You can click on the following links for the documents:

- [The Spending Review - complete report](#)
- [Summary of the Spending Review](#)
- [The Spending Review and equalities](#)
- [The Funding Policy](#)
- [The Policy costing](#)
- [The Data sources](#)

A chapter-by-chapter breakdown of the main report is available at:
www.direct.gov.uk/en/NI1/Newsroom/SpendingReview/DG_191682

An easy-to-browse version of the Spending Review 2010 document (requires Adobe Flash) is available on the HM Treasury (HMT) website at:
www.hm-treasury.gov.uk/spend_sr2010_easyread.htm

Glossary of Terms

HMT's new glossary of terms³ helps you to understand phrases and terminology commonly used in connection with the Spending Review.

- **Act of Parliament** - An Act of Parliament creates a new law or changes an existing law.
- **Annually Managed Expenditure (AME)** - Government spending on programmes which are typically volatile and demand-led, and which are therefore not subject to firm multi-year limits in the same way as DEL. The biggest single element is social security spending. Other items include tax credits, Local Authority Self Financed Expenditure, and debt interest.
- **Appreciation** - An increase in the value of an asset. Is also used for currency to describe the value of one currency rising in relation to another.
- **Asset** - Anything of positive economic value that can be owned or controlled.
- **Bank Rate** - The main interest rate at which the Bank of England lends money to financial institutions. This interest rate in turn affects the rates that commercial financial institutions offer their customers for loans and deposits.

It is set each month by the Bank of England's Monetary Policy Committee (MPC).⁴

- **Bank of England (BoE)** - The Bank of England is the central bank of the United Kingdom. It is independent of the Government and has two core purposes: monetary stability and financial stability. Since 1997 the Bank has had statutory responsibility for setting the UK's official interest rate.
- **Bill** - A Bill is a draft law. To become an Act of Parliament (in other words, a law) a Bill must be approved by a majority in the House of Commons and House of Lords, and formally agreed to by the reigning monarch (known as Royal Assent).
- **Bond** - A certificate of debt issued by a government or corporation in order to raise money - a bond is essentially an IOU. A bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. In the UK, government bonds are called 'gilts'. In the US they are called 'Treasury securities'.
- **Budget (The)** - The Budget is an economic report presented by the Treasury to Parliament. In this report the Chancellor can review taxes and spending plans. Many of the measures announced in the Budget are implemented in a Finance Bill.
- **Budget Responsibility Committee (BRC)** - The BRC leads the work of the Office for Budget Responsibility. They are supported by a small team of economists and public finance experts in HM Treasury.
- **Building Societies** - Financial institutions that are privately owned and where customers have a right to vote on decisions made by the society (a system called mutual ownership). Building Societies typically offer a range of services but specialise in providing mortgages.
- **Capital** - Assets that can be invested, saved, or used as funding. Capital may be financial (e.g. money), physical (e.g. machinery) or intangible (e.g. intellectual property).
- **Capital expenditure** - Money spent on building, purchasing or upgrading physical assets (i.e. infrastructure, buildings, machinery etc.)
- **Capital Gain** - Amount by which an asset's selling price exceeds its initial purchase price.
- **Capital Gains Tax (CGT)** - A tax on profits gained from selling or disposing of an asset. Individuals are entitled to an annual tax-free allowance called the Annual Exempt Amount. This means that they will only pay CGT on profits



that exceed the allowance for the tax year. In addition, entrepreneurs are entitled to a reduced CGT rate of 10% up to a lifetime limit of £5 million of entrepreneurial gains.

- **Central Bank** - A banking institution that regulates all of the currency supplies in an economy. A central bank acts as banker to the government and lender of last resort to commercial banks. In the UK the central bank is the Bank of England.
- **Claimant Count** - The number of people claiming unemployment-related benefits. Since October 1996 this has been defined in the UK as the number of people claiming JobSeeker's Allowance.
- **Consumer Price Index (CPI)** - A measure of inflation. The CPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The CPI is the main UK measure of inflation for macroeconomic purposes and forms the basis for the Government's inflation target.
- **Corporation Tax** - A tax on the profits made by companies.
- **Credit Crunch** - Situation where banks across the economy significantly reduce lending to each other due to falling confidence that loans will be repaid. This restricts the flow of money around the economy. It can result in less credit being available for consumers and businesses, resulting in an increase in the cost of obtaining credit.
- **Debt (public sector debt)** - The total amount of money owed by the public sector. This is roughly the sum of all budget deficits.
- **Deficit (or budget deficit)** - The amount by which government spending exceeds government income during a specified period of time (usually a year). The budget deficit can be split into two key elements:
 1. *the cyclical deficit* – this occurs as a result of a downturn in economic activity when tax receipts fall and spending on social security increases. It can be subsequently eliminated by a period of economic growth; and
 2. *the structural deficit* – this occurs when government spending exceeds tax receipts. A government can run a structural deficit even if the economy is growing strongly. Consequently, it can only be tackled by reducing government spending or raising taxes.
- **Deflation** - A persistent fall in the general price level of goods and services.
- **Demand** - The need/desire for a product or service, backed by the ability to purchase.
- **Departmental Expenditure Limits (DEL)** - The total spending limits for Government departments over a fixed period of time, excluding demand led and exceptionally volatile items. DELs are planned and set at Spending Reviews. This is split between resource and capital budgets.
- **Depreciation** - A decrease in the value of an asset. Is also used for currency: when the value of one currency falls in relation to another.
- **Developing Countries** - A term generally used to describe countries that have a low national income.
- **Economic and Financial Affairs Council (ECOFIN)** - A Council composed of the Economics and Finance Ministers of all 27 European Union member states. ECOFIN discuss and reach agreement on how to take forward a number of economic and financial issues that affect the whole of the European Union.
- **Economic Growth** - Typically refers to an increase in a nation's capacity to produce goods and services.
- **Equities** - Another term for shares. An equity is a document entitling the holder to be one of the owners of a company.
- **Exchange Rate** - The rate at which one currency can be exchanged for another.
- **Expenditure** - A payment or the promise of a future payment. Also one of the ways to measure a country's GDP.
- **Exports** - Goods and services sold to other countries.
- **Finance Bill** - The annual Finance Bill encompasses changes to be made to tax law for the year. Its formal description is 'a Bill to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with finance.' The Finance Bill puts into law the measures announced in the Budget.
- **Financial Services Authority (FSA)** - An independent institution that has regulated the financial services industry in the UK since 2001.
- **Fiscal Policy** - The use of government spending and tax policy to affect changes in the economy.
- **G7** - A group of seven major industrialized countries: Canada, France, Germany, Italy, Japan, the UK and the U.S. The Finance Ministers of each of these countries attend regular G7 meetings to discuss economic policy issues.

- **G20** - A group of finance ministers and central bank governors from 20 economies. The G20 is a forum for cooperation on key issues in the global economy.
- **Gross Domestic Product (GDP)** - GDP is a measure of economic activity. It is the sum of all goods and services produced by a country over a given time period (usually a year). A rise in GDP shows the economy is growing, whilst falling GDP means the economy is contracting. GDP can be measured in three ways:
 1. Income (the value of the income generated mostly in terms of profits and wages);
 2. Output (the value of the goods and services produced); and
 3. Expenditure (the value of the goods and services purchased).
- **Imports** - Goods and services bought from other countries.
- **Income Tax** - A tax on personal income, i.e. wages or salary. The level of Income Tax an individual pays depends on their level of income – higher earners pay higher rates of Income Tax. However, nearly everyone who lives in the UK is entitled to an Income Tax Personal Allowance. This sets the amount of income you can receive each tax year without having to pay tax on it.
- **Inflation** - A rise in the general price level of goods and services. Often measured over a 12 month period.
- **Interest Rate** - A cost that is charged by a person or organisation that lends money to another. Usually expressed as a percentage.
- **International Monetary Fund (IMF)** - The International Monetary Fund (IMF) is an organisation of 186 countries. It promotes global monetary cooperation, financial stability, international trade, employment and sustainable economic growth.
- **Liquidity** - Liquidity refers to the ease with which something can be converted to cash with little or no loss of value.
- **Macroeconomics** - The study of overall economic headlines e.g. inflation, trade, output and the level of employment.
- **Microeconomics** - The study of how economic resources are allocated in and between parts of the economy, including individuals and households.
- **Monetary Policy** - The regulation of money supply and interest rates by a central bank, such as the Bank of England, to achieve economic objectives.
- **Monetary Policy Committee (MPC)** - A committee of nine experts which meets each month to set the official Bank of England interest rate (known as Bank Rate). The MPC is independent of Government.
- **National Debt** - The total amount of debt owed by a government, raised through borrowing from individuals and institutions. It is the sum total of all previously incurred deficits that have not been paid.
- **National Income** - The sum of all the wages, salaries, profits, interest payments, rents and other forms of earnings received within a given period of time. One of the ways to measure GDP.
- **National Insurance Contributions (NICs)** - National Insurance is a government-operated social security scheme. It is funded by compulsory contributions by employers, employees and the self-employed. Contributions increase according to the level of earnings (or profit, in the case of the self-employed). NICs pay for contributory benefits, including the State Pension. A proportion of NICs are also used to help fund the National Health Service. Individuals stop paying NICs when they reach State Pension age or are no longer working. Various National Insurance credits are available to maintain entitlements where an individual is not able to work and there is also an option to pay voluntary contributions where credits are not available
- **Nationalisation** - The act of bringing a privately owned asset such as a company or property under state control.
- **Office for Budget Responsibility (OBR)** - A newly created office that produces an independent assessment of the public finances and the economy for each Budget.
- **Organisation for Economic Co-operation and Development (OECD)** - The OECD provides a forum where governments compare policy experiences, cooperate on common issues, identify good practice and coordinate domestic and international policies.
- **Output** - The goods and services produced as a result of economic activity. One of the ways to measure GDP.
- **Parliament** - Parliament examines what the Government is doing, makes new laws and debates the issues of the day. The business of Parliament takes place in two Houses: the House of Commons and the House of Lords. Both Houses hold debates in which Members discuss government policy, current issues, and debate and pass legislation.

- **Pension Tax Relief** - The Government provides tax relief on individual and employer contributions to registered pension schemes, up to specified limits. Investment growth within registered pension schemes is exempt from income and capital gains tax.
- **Private Sector** - The part of a nation's economy which is not owned by the government.
- **Privatisation** - The process of transferring a government-owned asset such as a company or property to the private sector.
- **Public Expenditure Committee (PEX Committee)** - A Committee of senior cabinet ministers appointed to advise the Government on decisions to be taken in the Spending Review. Also referred to as the Star Chamber.
- **Public Finances** - The Government's accounts, including tax receipts, expenditure, borrowing and debt.
- **Public Sector** - The part of the nation's economy that is owned by the Government.
- **Quantitative Easing (QE)** - A process whereby the central bank injects money directly into the economy in order to stimulate bank lending and control inflation.
- **Recession** - The commonly accepted definition of a recession in the UK is two or more consecutive quarters (a period of three months) of contraction in national GDP.
- **Resource Spending** - Current government expenditure, such as staff pay, running costs, procurement and grants.
- **Retail Price Index (RPI)** - The RPI is a measure of inflation. The RPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The RPI is similar in nature to the Consumer Price Index (CPI) however there are differences in calculation and in the basket of goods covered. In particular the RPI includes mortgage interest payments and housing depreciation whereas CPI does not.
- **Shares** - Another term for equities. A share is a document entitling the holder to be one of the owners of a company.
- **Shareholders** - People and institutions that own shares.
- **Small Profits Rate (SPR)⁵** - A lower rate of Corporation Tax paid by companies, which have profits below £300,000.
- **Spending Envelope** - The overall level of public spending. This is set out as part of the Budget and allocated to pay for all areas of Government activity as part of the Spending Review.
- **Spending Review** - Spending Reviews set firm and fixed multi-year budgets for government departments. They outline the improvements that the public can expect from government spending.
- **Sustainable Growth** - Economic growth that can continue over the long-term without damage to the environment or the exhaustion of non-renewable resources.
- **Treasury (The)** - The Treasury is the United Kingdom's economics and finance ministry. It is the Government department responsible for formulating and implementing the Government's financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.
- **Unemployment** - The number of individuals actively seeking work who are currently without a job. Unemployment is expressed as a percentage of the total available work force.
- **Value Added Tax (VAT)** - VAT is a tax that is charged on goods or services. It is levied at each stage in the chain of production and distribution. However, smaller businesses do not have to register for VAT and when VAT-registered businesses buy goods or services they can generally reclaim the VAT that they have paid on them. Therefore VAT principally affects consumers. This is with the exception of certain goods that are taxed at 0%, including food, books, newspapers and children's shoes and clothes. Domestic fuel and power is taxed at 5%.
- **World Bank** - The World Bank is a source of financial and technical assistance to developing countries. It can provide loans and grants for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture and environmental and natural resource management. The World Bank is owned by 186 member countries.
- **Yield** - The annual income provided by an investment as a percentage of its price.



The "Spending Envelope"

The overall level of public spending for the four years from 2011/12 to 2014/15 was set out in the June 2010 Budget. This is often referred to as the spending envelope.

Further Information

This guide is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

If you would like to receive further information about this subject or other publications, please call us – see our contact details on the next page.

References and Acknowledgement

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¹ See: www.hm-treasury.gov.uk/d/spending_review_framework_080610.pdf

² Sourced from BBC News, 20/10/2010

³ The glossary of terms is now available at: www.hm-treasury.gov.uk/spend_glossary_terms.htm

⁴ Bank Rate is also referred to as the 'base rate'. The term 'Bank Rate' refers solely to the rate set by the Bank of England. In other countries, central banks use different terminology for their main interest rate.

⁵ Formerly known as the Small Companies' Rate. HMRC's Tax Rewrite Project changed the name in the Corporation Tax Act 2010 to better describe the target of the tax rate, i.e. those companies with small profits, regardless of company size. The name change came into effect from 1 April 2010.

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Contact: JASON HOLDEN

Telephone Number: 0845 652 2350

Fax Number: 0870 432 0247

Email: advice@holdenassociates.co.uk

Website: www.holdenassociates.co.uk

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