



2010/25

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Budget speeches tend to be defined by key words or phrases; '*prudence*' or '*ending the cycle of boom and bust*' to give two recent examples, '*to change course now would be disastrous*' and '*popular capitalism*' two more distant examples from the notorious 1981 and 1986 Budgets under Mrs Thatcher.

There were perhaps three defining phrases in George Osborne's [emergency Budget](#) last week, though whether any will gain the sort of historical stature of those mentioned above is as yet unclear. The first was the now familiar anthem, '*we're all in this together*,' something that could be seen for example in the increase in VAT from next January, it will hit all shoppers out after Christmas. The second was '*Open for Business*,' and could be seen in the proposed corporation tax, the taking forward of plans to create a Green Investment Bank and the creation of a Regional Growth Fund "*to provide finance for regional capital projects over the next two years.*" And the third was "*this is the unavoidable Budget*" and could be seen in the projected £11bn savings from the welfare budget, a budget that had increased "*a staggering 45% from £132bn ten years ago to £192bn today*" and had thus reached a situation where something urgent needed to be done.

But deep in amongst these catchphrases was one sentence that may linger long in the minds of those with an interest in education. It ran like this, "*because the structural deficit is worse than we were told, my Budget today implies further reductions in departmental spending of £17bn by 2014/15.*" The speech went on to confirm that this would mean, "*an average real cut of around 25% over four years*" across spending departments.

With the government already committed to increase funds for the NHS and protect obligations to overseas aid, departments such as education fear they will be in the firing line. The Chancellor did recognise that education, along with defence, was a special case that needed protecting, certainly in the case of schools, but with the two education departments already facing cuts this year of £670m and £836m respectively, the prospect of further swingeing cuts is disturbing.

By the time inflation, efficiencies and potential growth have been factored in, the actual cuts in education may be nowhere near as deep as suggested but the difficulty is that for the moment, the precise figure is unknown. This is because this was a Budget for the margins rather than the details; the Chancellor was as he put it '*setting the envelopes for the forthcoming Spending Review.*'

What happens between now and the end of July is that individual spending depts like education will refine their priorities and align their spending accordingly, potentially for the next four years. In doing so they will be guided by the margins set by this Budget but also by the sorts of questions outlined by the Chancellor in his [Spending Review](#) documents a couple of weeks ago which are intended to re-evaluate the way in which services are provided generally. They will then submit these plans to the 'stop and search' process the Chancellor has already set up including challenge by groups of experts and being brought up in front of the Star Chamber of senior Ministers before finally being announced on 20 October this year as part of the completed Spending Review programme. So in effect, it's fingers crossed until October.

To put things in perspective, the 25% is an average figure across all non-protected departments and some departments are going to have to take bigger hits than others; welfare for instance has already been signalled out for such treatment. Also the Chancellor may have more headroom than at first appears. The Office for Budget Responsibility, whose updated figures on the economy were published alongside the Budget, reckon that unemployment will drop and the economy grow, slightly in each case but welcome to a Chancellor squinting for savings.

So in summary, this was a Budget that in the words of the Chancellor *was 'to pay for the past and plan for the future,'* that drew a deep 25% parallel across spending departments but added few specifics at this point. Such headline details as there were for the world of education include:

- The Chancellor is sticking broadly with his declared 80:20 ratio of savings to tax rises with 77% to come from cuts and 23% from tax increases
- Economic growth has been downgraded from the figures given in the last (March) Budget to 1.2% this year, 2.3% next year and then a broadly consistent 2.7% thereafter
- Unemployment is expected to peak this year at 8.1% and then drop steadily towards 6.1%; this is considered optimistic by some
- Inflation, based on the Consumer Price Index, will rise to 2.7% and then drop to a targeted 2.0%
- Government borrowing, currently at £149bn will drop to £116bn next year, £89bn by 2012/13 and £37bn by 2014/15. This is a sharper drop than that envisaged under Labour
- Public employees earning above £21,000 will be subject to a two-year pay freeze; before the election this had been set at one-year
- A two-year Regional Growth Fund will be set up with benefits and incentives targeted at regions outside southern and eastern England
- White Papers on encouraging growth in Scotland, Wales and Northern Ireland will be published
- £11bn worth of savings are to come from welfare and pensions; these will come from restrictions to a number of benefits including Sure Start
- The government will move more quickly than its predecessor to raise the pensionable age to 66 and will consult on the abolition of the compulsory default retirement age
- John Hutton will lead a review of public sector pensions with an interim report due as soon as September 2010
- Will Hutton will lead a review of pay differentials in the public sector so that the earnings ration between those at the top and those at the bottom is not bigger than x 20
- A White Paper on Local Employment Partnerships will be published this summer
- The government will consider the case for selling part of the student loan portfolio as well as consider the case for options for early repayment

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Budget June 2010

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