Central Government Spending Review 2013

Special Report

Prepared by Glenigan

A 4C Service

Spending Round 2015/16

Glenigan Comment

The Chancellor has given a welcome commitment to long term capital investment in the nation's infrastructure and built environment, whilst unveiling a renewed cuts in general public sector spending.

However the Government will need to look to the private sector to deliver much of this investment Although some key departmental capital budgets are being increased in 2015/16, overall departmental capital expenditure will total £48.3 billion in 2015/16, a mere 1.3% rise in real terms.

A particular bright spot is a 6% rise in the Department of Transport's Capital budget to £9.5 billion which is intended to deliver new road projects as well as supporting investment in the rail network. In addition the NHS capital budget is being broadly maintained at £4.7 billion.

Elsewhere the Government is looking to support the creation of a further 180 free schools, 20 university technical colleges and 20 new studio schools per year , starting in 2015/16. However, these projects will be funded from capital budget that is shrinking by almost 2% in real terms. The sharpest cut is to the Department for Communities and Local Government capital budget which is to fall by 36% to £3.1 billion, with the Government looking to private sector funding and higher rents to sustain investment in social housing provision.

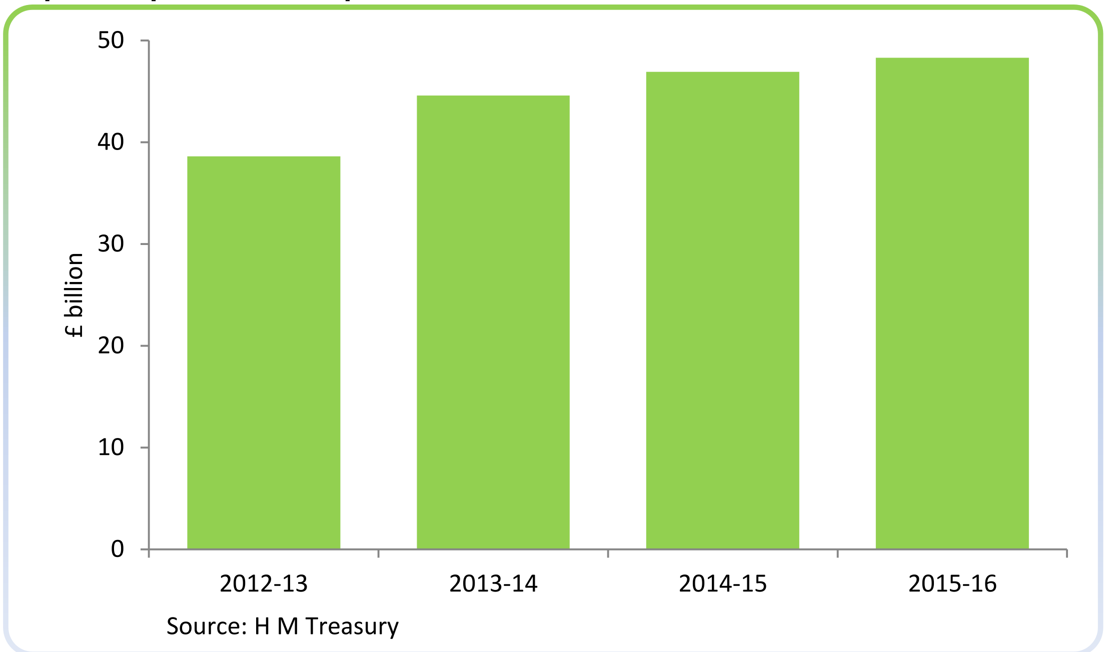
Glenigan research recently identified a £114 billion central government pipeline of potential construction projects, including a host of both infrastructure and building projects that could potentially have provided a major lift to construction activity over the next two years. Whilst most capital budgets have avoided the sharp cuts seen to departments' general expenditure, it will be essential that the promised funding is effectively deployed to ensure that as many of these projects move forward as planned.

Overall Expenditure

The Government claims it will reduce current spending by £11.5 billion in 2015-16. The reduction in current spending will in part be secured through £5 billion of efficiency gains including cutting administrative budgets, scaling back on non-priority projects and more effective procurement.

In addition to reducing the deficit, this will allow the Government to increase capital spending plans by £3 billion a year from 2015-16 and by £18 billion over the next Parliament.

Capital Departmental Expenditure Limits



The table below gives a breakdown of capital funding for the key Government departments.

Departmental Capital Budgets for Selected Government Departments

Capital DEL	2014-15 (£bn)	2015-16 (£bn)	Year on year growth in real terms (%)
Education	4.6	4.6	-1.7
Health	4.6	4.7	0.1
Transport	8.9	9.5	5.5
DCLG	4.8	3.1	-35.6
Business, Innovation and Skills	2.1	2.5	15.3
Total Capital DEL	46.9	48.3	1.3

Source: HM Treasury

Department for Education

Education capital spending will be frozen in the 2015-16 financial year at £4.6bn representing a 1.7% fall once inflation has been taken into account. Further support for new school building has been pledged with plans to building a further 180 new Free Schools, 20 new Studio Schools and 20 University Technical Colleges in each year of the next parliament. The commitment to new schools building bodes well for the sector and will contribute to the existing pipeline of refurbishment projects that the Priority Schools Building Programme will deliver.

Department for Health

The NHS capital budget will increase to £4.7bn in 2015-16 from £4.6bn in the final year of this parliament, representing a real terms increase of 0.1%. In terms of the service provision addition support of £2bn a year for social care aimed at the elderly and £1bn are expected to be saved via NHS procurement reform.

Department for Communities & Local Government

Further reductions are planned in both the DCLG capital and resource budgets. The capital budget is set to fall by 35% from 4.8 billion in 2014-15 to £3.1 billion in 2015-16. This total includes a £45 million capital fund for the Fire and Rescue Service alongside a £30 million resource fund from the local government settlement to encourage greater collaboration between the Fire Service and other emergency services.

However housing accounts for the vast majority of the capital budget, suggesting that central government funding for new social housing provision will contract sharply in 2015/16. Given the Government's stated desire to increase new housing supply, the funding reduction suggests that RSLs will be expected to meet the fund new developments through increased private sector borrowing backed by near market rents. The Government will set out its approach to affordable housing in *Investing in Britain's Future*.

Department for Transport

At £9.5 billion the Department for Transport capital budget is to be increased by 7% in cash terms. The Government estimates that this will equate to a 5.5% rise in real terms. As part of the settlement, the Government is setting long-term capital budgets for national roads, local roads, Transport for London and High Speed 2. Further details will be set out in *Investing in Britain's Future*.

Business, Innovation & Skills

The BIS capital budget is to rise by £400 million to £2.5 billion in 2015/16. However, this includes £300 million for financial transactions and £1.1 billion for capital spending on science, suggesting that that the remaining £1.1 billion will be available to support investment in further and higher education.