Intergenerational Fairness and the Spending Review 2010

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Executive summary

Context

- The UK is facing a fiscal crisis, caused in part by the banking bailout but exacerbated over the long-term by the cost of population ageing. However, ageing is an opportunity as well as a challenge.
- The Government expects departments to cut 25-40% from their budgets by 2014/15, although some departments will be protected to some extent (notably the Department of Health), and cuts in benefits expenditure may relieve some of this pressure.
- There is cross-party (and international) consensus on the need to reduce budget deficits. Yet there is disagreement on the pace and extent of cuts necessary. The Government argues that intergenerational fairness dictates government debt is cleared as soon as possible, although there is disagreement on the meaning of intergenerational fairness.

Principles

"The Spending Review should impact fairly across different generations."

- The Spending Review will only be fair if there is broad equality in the treatment of different age groups.
- It is essential that the Spending Review does not impact negatively on intergenerational relations, which means that the perceptions of different age groups should be a key consideration.

"The Spending Review should not exacerbate the causes of poverty in later life."

- Where the Government has the ability to alleviate the causes of poverty in later life, the Spending Review should not unduly undermine this capacity.
- Unemployment, under-employment, a poor education and an inability to save for a pension are associated with poverty in later life, so it is vital that cuts do not impact on policies which address these problems.
- The Spending Review should avoid regressive taxes, particularly where they affect older people more than other groups, and not undermine efforts to increase take-up of income-related benefits.
- Ill-health and caring responsibilities undermine individuals' ability to remain in employment in later life; addressing these issues must be a priority for the government.

“The Spending Review should not undermine the drivers of increased longevity”

- Increased longevity is one of society’s greatest achievements; it is crucial that we allow future generations to benefit from the longevity dividend.
- This means that health promotion, tackling health inequalities, and the built environment should be government priorities. These areas have a demonstrable impact on life expectancy.

Assessment of potential cuts

- DWP’s support for employment, mainly through JobCentre Plus, is a crucial means by which individuals can gain employment opportunities, to help mitigate the possibility of poverty and ill-health in later life.
- Today’s pensioners will not lose out from already-announced changes to the indexation of state pensions, but this may mean that the pensions of future generations are less valuable.
- Pension Credit should protect the income of the poorest pensioners, but take-up is too low; the Spending Review must therefore not undermine efforts to increase take-up.
- While the case for reforming the Winter Fuel Payment is strong, the benefit is a vital source of income for many older people. If the benefit is reformed, the pensioners’ incomes must be protected.
- CLG has already faced significant cuts. Further cuts through the Spending Review risks deepening the crisis in social care funding. Care is already being 'rationed' by local authorities.
- Cutting spending on housing ignores a convincing 'invest to save' argument. Good housing has a positive impact on health and well-being in later life.
- The Government has vowed to provide real-terms increases for health spending. However, it will be necessary to increase health spending far beyond the rate of inflation to meet growing demands for and costs of health provision (and to combat the probability that NHS money will be used to fund social care in the short-term).
- While older people tend to utilise a greater proportion of NHS resources, there is wide public acceptance for this situation; it therefore does not undermine intergenerational fairness.
- Protecting, and increasing, spending on preventative health could help to alleviate the causes of ill-health in later life, and help to tackle health inequalities, while saving money in other areas of health expenditure.

- Cuts in funding for universities and skills development could undermine individuals' employability across the lifecourse.
- Further cuts in the BIS budget may also lead to reduced funding for advice services, which are crucial (especially for older people) during a period of economic hardship.
- The evidence on the importance of primary and secondary education on life chances is compelling: better educated people are wealthier and healthier, and their education is a significant determining factor.
- The Government has promised to spare the Department for Education the most brutal cuts, and to focus on capital rather than resource budgets. However, support for teaching assistants is likely to be reduced or withdrawn, and there is a clear need for more investment in early years education.
- There is evidence that the natural environment is an important factor in increased longevity. Cuts to policies designed to tackle climate change may undermine this over the long-term.
- The Spending Review may also see support for the Warm Front scheme withdrawn, which would have a detrimental impact on the poorest households, particularly pensioners. However, the Government's 'green deal' may be a cost-effective way of improving the energy efficiency of homes while achieving climate change targets.

Opinion survey

- Whilst the majority of individuals felt that their generation would be hardest hit by spending cuts, six in ten said that they thought that spending cuts would hit older people more than other generations.
- 65% believe that job creation should take precedence over reducing Government debt.
- Four in five over-65s think that spending on their age group should be protected – and so did over seven in ten 16-24 year olds.
- Whilst a quarter of 16-24 year olds would target pensions for cuts, just 15% of over-65s agree.
- Counter-intuitively, younger people were more likely (one third of 16-24 year olds) to target education for cuts than older people (one in five aged over 65).

Recommendations

- Evidence on the variable impact of cuts across generations should be a key factor in determining which items of public expenditure to cut.
- Maintaining and increasing employment should be the Government's main priority. It is unlikely that this priority will be compatible with significant cuts to employment support, education, and training. Spending on education at all stages of life should be protected as far as possible.
- The value of pensioner benefits must be maintained over the long-term; today's pensioners may be protected, but avoiding later-life poverty for future generations means that the value of the state pension must continue to increase at the rate stipulated by the previous Government. If benefits such as Winter Fuel Payments are to be reformed, this should not undermine the income of the poorest pensioners.
- Health spending should increase far beyond the rate of inflation, in order to manage population spending. Spending on preventative health, with a focus on addressing health inequalities, should be a priority - and more effort should be made to establish its cost-effectiveness.
- The social care funding crisis needs to be resolved. At the very least, the Spending Review must not deepen this crisis.
- The Government must not unduly reduce spending in areas where there exists a convincing 'invest to save' argument, such as housing. To do this would mean sacrificing long-term savings for the sake of short-term cashflow problems.
- The Government needs to work much harder to counteract perceptions of intergenerational unfairness.

Introduction

Radically reducing the budget deficit over the next four years (that is, between April 2011 and the end of the current Parliament) was the central commitment made as part of the coalition agreement between the Conservatives and the Liberal Democrats. The Prime Minister and the Chancellor have maintained consistently that this will be achieved primarily by cuts in public expenditure; around 80% of deficit reduction will be achieved by cuts to public services and benefits, with the remaining 20% achieved through tax rises.

Detailed plans will be laid out in the Treasury's Spending Review in late October. Inevitably, the cuts will place an enormous burden on public sector service providers, as government departments are forced to abolish or scale back financial support for hundreds of programmes and agencies. The welfare state is also likely to be significantly reduced, in terms of expenditure.

The Government is legally obliged to consider the impact of cuts across five equality strands (gender, ethnicity, disability, sexual orientation, and age) - as the Treasury was reminded recently by Theresa May, in her capacity as Minister for Equalities.[1] The Government has also vowed to protect the most vulnerable members of society, including the least well-off.

Various experts and stakeholders have begun to assess the distributional impact of fiscal consolidation. The first wave of cuts - announced in the emergency budget in June - have been found to be regressive by the Institute for Fiscal Studies. This is due to the greater reliance of low-income households on welfare benefits (Browne & Levell, 2010). The analysis was disputed by the Government, however, which argued that, economically, the Government's plans would benefit the poorest households by restoring economic growth and therefore providing employment opportunities over the long-term.

The BBC commissioned Experian to examine which areas of England would be hardest hit by spending cuts. They found that the North would generally fare worse than the South, due to a greater reliance on the public sector in Northern towns (the North-East will be the most affected region, with the South-East least affected) (BBC, 2010).

Age UK (2010b) analysis has shown that the Government's plans will impact negatively on older people. Alongside households containing children, pensioner households will be most affected by cuts to benefits and services, due to a greater reliance on the public spending, and the fact that older people tend to be poorer.

Understanding the welfare impacts on older people is important to understanding whether the planned cuts uphold intergenerational fairness - a value which the Chancellor has stipulated is central to his thinking on the Spending Review. However, in assessing intergenerational fairness, this report is not principally concerned with the differential quantitative impacts on different age groups. Although this is an important element of intergenerational fairness - particularly in terms of generating positive intergenerational

[1] See www.disabledgo.com/blog/2010/08/minister-warned-chancellor-of-spending-cuts-equality-duty/

relations, in reality people at different stages of the lifecourse have varied relationship with the public sector and the welfare state. Intergenerational fairness could therefore mean many different things. George Osborne, for instance, classifies everyone alive today as a single generation; by reducing government borrowing he is protecting future generations of taxpayers.

This report therefore explores the extent to which potential cuts may impact on intergenerational fairness. It develops a set of principles designed to ensure fairness in an ageing society, and considers how they may be jeopardised by proposed reductions in public spending. It will not seek to offer clinical conclusions on how different age groups will be affected, but in contrast to the research noted above, it will not simply aggregate the impact of cuts in, for instance, education spending, but rather look at how specific instances of departmental spending contributes to achieving the principles we set out.

The first section of the report outlines the context of the Spending Review. The second section outlines the principles ILC-UK believes are vital to ensuring cuts are as fair as possible in an ageing society. The third section looks at cuts proposed across six key government departments on the basis of these cuts. The fourth section presents findings from an opinion survey designed to examine the potential impact of the Spending Review on intergenerational relations. The final section offers ILC-UK's conclusions and recommendations.

1. Context

In this section we briefly outline the context in which the Spending Review will occur. It looks first at the fiscal circumstances facing the UK, and then at the Spending Review process. Finally at the political context, including the objectives and values the Coalition Government is seeking to uphold.

Fiscal crisis

In 2009/10, the budget deficit was £155 billion; equivalent to 11% of GDP. Total public spending stood at 47.5% of GDP. The Government's intention is to reduce public spending to below 40% by 2015/16. According to the Government's plans, the deficit will be reduced to £37 billion by 2014/15 (the Labour Government's plans would have reduced the deficit to £74 billion by the same time).

The deficit has been caused, for the most part, by the previous Government's bailout of the banking sector. Estimates of total costs vary, given the complexity of the support involved. Taking into account, recapitalisation, asset protection, and the provision of alternative liquidity, the value of the financial sector interventions have been estimated at around £1.4 trillion (i.e. £1400 billion), or in other words, 100% of the UK's GDP.[2] Of course, this does not take into account the amount which the Government may ultimately be able to recoup.

In addition to the short-term impact of the banking bailout, many experts have argued that population ageing has created a fiscal crisis, which will be felt over the long-term. The Treasury expects age-related spending to rise from 20.4% of GDP in 2008, to 24.1% by 2020 and to 26.1% by 2030 (2020 Public Services Trust, 2010). Treasury projections assume other spending will fall accordingly, but nevertheless, considering that the proportion of society of working age will decline, the ageing society is bound to place significant pressure on the public finances. Many experts believe, in fact, that these figures are fairly conservative – the fiscal impact of ageing could be much higher, especially if we consider growing demand for care services as people live longer (see Glennerster, 2010).

There is no exact science on how we should seek to minimise these costs. Obviously, however, ensuring that people are healthier, and wealthier, as they enter old age would contribute to making the cost of ageing more manageable. Moreover, Robert Butler and Michael Hodin (2010) argue that '[t]here is solid evidence that aging [sic.] can be treated as an unprecedented opportunity for investment in economic growth'. Generally speaking, older societies are richer societies; if we can fully unlock the potential of an older workforce, faster economic growth could counteract the fiscal impact.

[2] See http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a0_DlDun684Q

Spending Review process

Unlike the Spending Reviews undertaken by the Labour Government, the 2010 Spending Review will review Annual Managed Expenditure (AME) as well as Departmental Expenditure Limits (DEL). DEL refers to spending controlled by departments, and as such Spending Reviews generally review departmental spending. AME generally refers to benefit expenditure (and also includes public sector pensions). Policies are managed by departments, but expenditure is demand-led, and therefore the Exchequer bears the fiscal risk, so benefit levels are usually decided by Chancellors at Budgets and Pre-Budget Reports. The Spending Review is expected to demand cuts of between 25-40% in DEL - yet pressure on departmental budgets could be alleviated if departments (particularly the Department for Work and Pensions) can achieve reductions in AME expenditure.

The Treasury has developed a series of criteria by which departments should evaluate their programmes:

- Is the activity essential to meet government priorities?
- Does the Government need to fund this activity?
- Does the activity provide substantial economic value?
- Can the activity be targeted to those most in need?
- How can the activity be provided at a lower cost?
- How can the activity be provided more effectively?
- Can the activity be provided by a non-state provider or by citizens, wholly, or in partnership?
- Can non-state providers be paid to carry out the activity according to the results they achieve?
- Can local bodies, as opposed to central government, provide the activity?

Decision-making will be led, ultimately, by the Public Expenditure Committee (the so-called Star Chamber), a sub-Committee of the Cabinet. In addition to signing off departmental budgets, the Committee will lead in particular on cross-cutting issues such as public sector pay, and strategic issues such as the reform of the welfare state.

As Secretaries of State 'settle' their department's budgets, they may be considered to join the Committee so that they can adjudicate on other departments. Findings from the Spending Review, and therefore departmental budgets from 2011/12 to 2014/15, will be announced in Parliament by the Chancellor on 20th October 2010.

A number of other reviews are taking place concurrently to the Spending Review. The most relevant here include the review on the affordability of public sector pensions[3], the

[3] See http://blog.ilcuk.org.uk/2010/10/07/hutton-review-showing-promise-but-must-try-harder/

commission on long-term care funding, and the review of state pension age. Conclusions (or initial findings if these reviews remain ongoing) will be taken into account during the Spending Review process.

Political context

The Government has argued that the Spending Review will uphold the values of freedom, fairness and responsibility. In response to the charge that fiscal consolidation will produce regressive results, George Osborne has argued that 'not living beyond your means is fundamentally progressive'. He is referring to the public sector, but the implication for individuals is also clear.[4] The Treasury's (2010) outline of the Spending Review framework also argues that the review will produce fair outcomes. It is unfair, the document says, to spend more on servicing government debt than education. It adds that borrowing is only deferred taxation – key to the Government's argument on intergenerational fairness, which will be explored further in the next section. Of course, borrowing can be interpreted as deferred taxation, but it is not necessarily deferred tax rises.

The Guardian commentator Julian Glover – well-connected within the Coalition Government – has argued that the Government is embarking upon spending cuts for ideological as well as fiscal reasons. In a 2010 article titled 'Yes, the coalition wants to smash the state. That's good', he states that '[t]his is an ideological Government with a plan for a smaller, less centralised and more liberal state… Much of what the Government must do to balance the books it would have wanted to do even if they were in balance'.

Whether the Spending Review will be driven by ideology or necessity, there is broad agreement internationally on the need to reduce public expenditure. There are, however, certainly debates within the UK on whether the Government's strategy is correct. Economists Robert Skidelsky and Michael Kennedy (2010) have denounced the cuts, arguing that cuts in public expenditure will harm the economy, and that government borrowing is not the economic evil it is depicted as by the Government. Labour leadership candidate Ed Balls argued strongly that the budget deficit should not be reduced as quickly as planned by the Government – going against the plans drawn up by Gordon Brown and Alistair Darling before the election, and the majority of his fellow leadership candidates.[5] And although Bank of England governor Mervyn King has offered consistent support to fiscal consolidation, other members of the Bank's monetary policy committee have expressed disquiet about the likely social and economic impact of spending cuts.[6]

Although reducing the deficit is the Coalition Government's main priority, it has promised to protect spending on health and international development. The Government has guaranteed that health spending will rise in real terms in each year of the current Parliament, and that overseas aid will reach 0.7% of GDP by 2013 (in line with multilateral

[4] See http://www.guardian.co.uk/politics/2010/aug/17/george-osborne-spending-cuts-progressive-society
[5] See http://www.independent.co.uk/news/uk/politics/ed-balls-government-cuts-economically-unsafe-2063758.html
[6] See http://www.leftfootforward.org/2010/08/george-osborne-leading-economists-intergenerational-fairness/

commitments). It is widely expected that these promises will lead to the Department of Health (DH) and Department for International Development budgets being protected in the Spending Review. However, there is some confusion over the health promise, given the Conservative Party's pre-election argument that the Government's health policies would aim to improve health in a broader sense rather than simply provide medical care, and the possibility that more health spending will be used to pay for social care. David Cameron has also said that spending on defence, education and infrastructure will be a Government priority, although the relevant departments will still see their budgets cut, and that the Spending Review process will seek to minimise negative impacts for the most vulnerable groups and concentrate on cutting waste.[7]

[7] See http://www.number10.gov.uk/news/statements-and-articles/2010/08/pms-article-for-sunday-times-on-spending-review-54390

2. Principles

Determining what is fair in an ageing society is not an exact science. Ensuring that all societal groups benefit or suffer equally from any instance of public expenditure is extremely difficult given that the nature of the population is changing, and people's needs and expectations change over the lifecourse. As such, ILC-UK offers the following three principles as a guide to understanding and evaluating the impact of the Spending Review in an ageing society:

The Spending Review should

1. impact fairly across different generations;
2. not exacerbate the causes of poverty in later life;
3. not undermine the drivers of increased longevity.

Each of these principles will be discussed further below. Together, however, they represent a relationship between citizens and the state which is both desirable and attainable in an ageing society. Intergenerational fairness is crucial to building consensus on how to manage population ageing. Moreover, while society should seek to address poverty among people at all stages of life, addressing the causes of later-life poverty (at whatever age they are experienced) will be vital as the old-age dependency ratio increases dramatically over coming decades. Finally, we should seek to ensure that all generations continue to enjoy the longevity dividend. Spending cuts may be necessary but the radical increase in life expectancy is one of the great achievements of the post-war era, and we have a duty to ensure future generations are able to share this achievement.

Intergenerational fairness

As discussed in the Introduction, George Osborne has justified cutting public expenditure in order to reduce the deficit, on the basis of intergenerational fairness (which he defines as future generations not yet alive). He has the agreement, it seems, of Labour peer Paul Myners, who was a Treasury minister in the previous Government.[8] Some, however, have questioned the economics behind Osborne's reasoning. Others have questioned whether it is fair to today's taxpayers to spare future generations of any liability for the deficit, simply because they have been misfortunate enough to experience a worldwide financial crisis.[9]

What is certainly open to question is the Government's definition of intergenerational fairness. Osborne refers to people alive today as a single generation; spending cuts enable fairness to future generations not yet alive. Yet intergenerational fairness surely involves a recognition that government decisions impact on different age groups in different ways. Although defining when generations begin and end is fraught with difficulty, a standard definition of 'generation' dictates that we consider that today's UK population is

[8] See www.hm-treasury.gov.uk/press_37_10.htm
[9] See http://www.leftfootforward.org/2010/08/george-osborne-leading-economists-intergenerational-fairness/

made up of more than one generation. Experiences of childhood, employment, the welfare state, culture, retirement, etc., change over time; Osborne's definition of intergenerational fairness is therefore insufficient. In order to determine whether the Spending Review upholds intergenerational fairness, we need to see how different age groups alive today are differentially affected.

In this vein, the BBC's economics editor Stephanie Flanders (2010) agrees that plans for the Spending Review hugely reduce the debt burden on future generations of taxpayers. However, she disagrees that means intergenerational fairness is being upheld. She argues, in fact, that today's young people will be the main victims of the spending cuts. The Government has vowed to protect pensioner benefits, and health spending - which is more likely to be utilised by older people (albeit due to the onset of chronic disease rather than age *per se*), while education spending and support for jobs is under greater threat. Alex Barker (2010) of the Financial Times makes a similar argument. He bemoans the fact that today's older people will suffer less than today's younger people, despite being far wealthier as a generational cohort.

There is some evidence that Flanders and Barker have overstated their case. As noted in the Introduction, the Institute for Fiscal Studies has shown that the benefits cuts announced in the emergency budget are regressive. They also showed that pensioners will be made worse off, disproportionately to other age groups - although this is largely because of the higher incidence of pensioners among lower income deciles (Browne & Levell, 2010).

Age UK's (2010b) analysis of expected departmental cuts has shown that pensioners will suffer due to the Spending Review. They compared the impacts on three groups: pensioner households, working-age households with children, and working-age households without children. Working-age households with children were the biggest losers across all income deciles. This is principally due to cuts in education being modelled as impacting directly on children. However, across almost all income deciles, pensioner households were bigger losers than working-age households without children. This does not apply to the lowest two income deciles, but given the higher incidence of pensioners among low-income groups, and the likely highly regressive impact of the cuts, this hardly a cause for celebration for the poorest pensioner households.

Clearly, to claim that intergenerational fairness means protecting future generations is too simplistic. Of course, this does not mean there is a lack of intergenerational fairness simply because older people lose out more than some other age groups - such analysis may be telling us that older people have received more than their 'fair share' of public expenditure in recent years. In addition, Age UK's own analysis shows that children lose at least as much as pensioners. However, it is also certainly the case that different generations have different needs and expectations from the public sector. In the case of older people, even if they were deemed to be excessively protected from spending cuts, we may still be able to conclude that they have been unfairly treated, because they have far fewer opportunities to increase their income to replace the benefits or services they have lost. Some groups

may lose more initially, but in theory, they will gain more once the economy recovers.

This discussion demonstrates that intergenerational fairness is a broad and nebulous concept. ILC-UK upholds that **the Spending Review will only be fair if there is broad equality in the treatment of different age groups**. However, this principle depends fundamentally on a recognition that needs and expectations differ across generations - which is why ILC-UK's **lifecourse approach** is important to evaluating intergenerational fairness. To some extent, the further two principles explored below epitomise a lifecourse approach. Furthermore, intergenerational fairness is a question of perception as well as quantitative equality, to ensure that the Spending Review does not harm **intergenerational relations**. This is why this report includes findings from an opinion survey (see section 4).

Causes of poverty in later life

By withdrawing services and benefits for low-income groups, it is likely that the Spending Review will increase poverty levels in the UK, at least in the short-term. ILC-UK is more concerned with the long-term impacts, which cannot necessarily be appreciated by considering the immediate impact on income or value of services withdrawn. ILC-UK believes that the Spending Review, more specifically, should seek to avoid exacerbating the causes of poverty in later life. This will involve pensioner incomes, but also experiences and events occurring earlier in life that lead to low incomes for pensioners.

By conventional measurement, pensioner poverty fell by nearly a third in the ten years to 2007/08. However, it still stands at around 2 million, and there has been relative stability in the pensioner poverty figures since 2005.[10] The Coalition Government has made addressing poverty a key priority, including pensioner poverty, with Secretary of State for Work and Pensions Iain Duncan Smith placing greater emphasis on the causes of poverty.[11]

The causes of poverty in later life are complex, and disputed, and there are many determinants of poverty which we cannot expect any government to be responsible for. One of the key difficulties is determining which experiences, events and characteristics are indicators of poverty in later life, and which have a causal impact. Assigning causality to associations will inevitably involve an element of subjectivity, and this report is not well-placed to adjudicate in this regard. However, ILC-UK maintains that **where the Government has recognised abilities to alleviate causes of poverty in later life, the Spending Review should not unduly undermine this capacity.**

The experience of poverty during working-age, and indeed childhood, is strongly associated with poverty in later life. As such, the causes of poverty earlier in life are relevant to poverty in later life. **Unemployment and under-employment** are therefore

[10] See http://www.statistics.gov.uk/pensiontrends/ and http://www.dwp.gov.uk/newsroom/press-releases/2010/may-2010/dwp067-10-200510.shtml
[11] See http://www.guardian.co.uk/politics/2010/may/26/iain-duncan-smith-interview-welfare and http://www.ilcuk.org.uk/record.jsp?type=publication&ID=68

significant causes of poverty in later life. Lack of engagement in the labour market not only undermines income, but also leads to a lack of social capital, which has knock-on effects over the lifecourse (EAPN, 2010). In this vein, in a report for the Joseph Rowntree Foundation on the material resources of older people, Vanessa Burholt and Gill Windle (2006) argue strongly that a **poor education** can lead directly to poverty in later life. We should also consider the status of specific equality groups, with disabled people, lone parents, ethnic minorities and women more likely to be poorer.

Burholt and Windle's research therefore argues that cycles of poverty are important. Poverty in later life is a difficult scenario to avoid if poverty is experienced earlier in life. However, there are clearly more specific links between low-income during working life and pensioner poverty. For instance, low-income thwarts **the individual's ability to save and invest for their retirement**. This could mean the ability to buy a house or build up savings, but also refers specifically to pensions saving. Up to half of the UK population has no pension pot beyond the state pension, and latest figures show that 62.9% of private sector workers are not saving into a pension plan.[12] The **accessibility and generosity of occupational pensions for low-earners** are therefore key concerns. The provision of financial advice is a related part of this issue.

Obviously, the **tax and benefits** systems have an important and direct impact on poverty, although we cannot expect the welfare state to entirely ameliorate circumstances created earlier in life. Pension Credit has lifted many pensioners out of poverty since its introduction in 2003, although its impact has now stalled due to **low take-up levels** (Work and Pensions Select Committee, 2009). We should also be concerned about **regressive taxes**; taxes like VAT and other indirect taxes harm the poorest the most, and particularly pensioners, who spend (rather than save) a greater proportion of their income.

Burholt and Windle's research is also clear that **ill-health** has a significant impact on poverty in later life. This is almost certainly related to the fact that ill-health creates difficulties for labour market engagement. Similar can be said about people with **caring responsibilities** (see Arskey, 2005). There is a specific issue around people who leave the labour market later in life, but before retirement (Bardasi & Jenkins, 2002). They may be forced to use much of their financial resources in their 50s and early-60s, and therefore be unable to save during a potentially crucial period in their work history. Ill-health and caring responsibilities clearly increase this risk. According to Elena Bardasi and Stephen Jenkins (2002), working less in the years before retirement has a significant impact on people from low-skilled occupations. As such, **employment support for older people** must be a priority.

Drivers of longevity

Increased longevity is one of the main reasons that the UK has an ageing population. The

[12] See http://news.bbc.co.uk/1/hi/business/8068728.stm and http://www.guardian.co.uk/business/2010/apr/11/private-sector-pensions-retirement-planning

increase in life expectancy, although a challenge to the state and public expenditure, is one of the great achievements of the postwar era. ILC-UK believes the drivers of this achievement should be protected and nurtured so that today's young people and future generations can enjoy and build upon this achievement. Therefore, **the Spending Review should not produce cuts in public spending which undermine increased longevity**.

Life expectancy at birth increased by 11 years between 1950 and 2008. The increase is partly due to reductions in infant mortality, but healthier outcomes over the lifecourse have also contributed significantly. Between 1980 and 2000, three years was added to the life expectancy of a 60 year-old male (Mayhew, 2010).

This report is not the place to dwell upon debates about the causes of increased longevity across the population, and whether morbidity has expanded or been compressed. It is safe to say, however, that **healthier people live longer lives, and many people today enjoy good health for much longer**. The key to such trends has been the postponement of chronic, disabling illnesses such as strokes, and more effective treatments for diseases like cancer. Life expectancy in the UK increased by almost a decade in the first 50 years of the NHS.[13]

There has been worrying evidence produced recently, however, about the (growing) inequality between affluent and deprived areas, as documented in a report by the National Audit Office (2010). In fact, **inequalities in life expectancy are greater than at any point since the 1920s** (see Berry, 2010a). The Marmot report on health inequalities in England (Marmot et al, 2010), highlighted what it called a 'social gradient in health': a strong correlation between health status and social circumstances such as level of education, occupation, employment status, and housing conditions, which impact not only life expectancy but years spent in good health. The report showed that people living in the poorest neighbourhoods in England die seven years earlier and experience seventeen fewer years of good health than their wealthy counterparts. Clearly, wealth has an impact on life expectancy. Society's increasing affluence in the post-war era has contributed to increasing longevity in general, but not eliminated inequality. Therefore, many of the factors discussed above, in relation to poverty in later life, are relevant to ensuring that every generation shares in the longevity dividend.

Increasing longevity is not, however, simply about addressing poverty. The NAO report argued that there needs to be a much more pro-active agenda on **health promotion**. This would involve earlier medical intervention in relation to conditions such as high blood pressure, but also more generally a greater involvement by primary carers in ensuring that people live healthier lifestyles. This is potentially of great economic value given the burden that chronic diseases place on the NHS budget, so preventing or delaying the onset of chronic disease could save money as well as improving lives.

The natural environment also has an impact on longevity. Several studies have demonstrated the impact of phenomena such as pollution and natural resource depletion

[13] See http://www.timesonline.co.uk/tol/life_and_style/health/features/article580784.ece

on health and morbidity (see Mariani et al, 2009; Varvarigos, 2010). Similar can be said about **the built environment**. A poor built environment may create a barrier to active ageing, therefore undermining health for older people. This applies in particular to housing: Poor housing has a demonstrable impact on health.[14]

[14] See http://www.careandrepair-england-hhhl.org.uk/hhhlleaflet.pdf and http://www.jrf.org.uk/focus-issue/cuts-spending-and-society

3. Assessment of potential cuts

This section presents ILC-UK's analysis of the impact of potential cuts on the principles outlined in the previous section. It considers, broadly, the Department for Work and Pensions (DWP), the Department of Communities and Local Government (CLG), the Department of Health (DH), the Department for Business, Innovation and Skills (BIS), the Department for Education (DfE), and the Department for Energy and Climate Change (DECC). It should be noted that some of these departments manage policy and expenditure related to the UK in general, and some only to England. We appreciate that this analysis is not exhaustive and by necessity does not include the impact of all potential spending cuts on the principles set out above.

Department for Work and Pensions

DWP has by some distance the largest overall budget of any government department. This is due to the fact that it administers the majority of the benefits available to most of the main client groups of the welfare state: pensioners, families, disabled people, carers, and people with low incomes and/or looking for work.[15] As such, it has received a significant amount of attention throughout the Spending Review process.

DWP actually has a relatively small DEL. In 2010/11 its departmental budget is around £10 billion. A cut of 25% would mean cuts of around £2.5 billion. It is difficult to know how cuts at this level may be achieved, especially given that DWP has already cut £0.5 billion from its budget in May 2010 as part of the Coalition Government's emergency budget. This included around £200 million in efficiencies, and around £320 million from employment programmes, including the Future Jobs Fund.[16] It is unclear whether further administrative efficiencies are possible or sensible in the short-term. The Future Jobs Fund was enacted by the Labour Government in 2009, explicitly as part of the fiscal stimulus which all parties agree should now be withdrawn. Yet given the direct and indirect importance of employment in earlier life to avoiding poverty and ill-health in later life, the loss of any financial support for work is worrying. However, the Government has argued that the Future Jobs Fund had not achieved its goals. Indeed, in April 2010 the Labour Government was unable to provide details of how successful it had been when DWP ministers were asked in the House of Commons.[17]

The majority of DWP's budget is spent on employment support (including associated staff and administration costs). Jobcentre Plus receives around 40% of DWP's budget, and a further quarter is spent on employment support by other means.[18] ILC-UK believes that further cuts would be undesirable. In fact, DWP has recently announced plans to organise its employment support programmes into a single framework called the Work Programme,

[15] This sub-section will also refer, however, to benefits administered by HM Revenue and Customs, where necessary.
[16] See http://www.hm-treasury.gov.uk/d/press_04_10.pdf
[17] See http://www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100406/text/100406w0010.htm
[18] See http://www.dwp.gov.uk/docs/business-plan2009-2010.pdf

with more emphasis on delivery by the private and voluntary sectors. One of its main objectives is to reduce expenditure on out-of-work benefits over the long-term, but if the Government is serious about moving people off benefits and into employment, it is difficult to see how further cuts to employment support could be justifiable.

DWP's 2010/11 benefits expenditure stands at over £150 billion, dwarfing its departmental budget. Much of DWP's DEL, in fact, is spent on administering its AME expenditure on welfare benefits. Changes announced in the emergency budget have already reduced benefit expenditure by around £11 billion (most of which relates to DWP expenditure) by 2014/15, but it is widely expected that the Treasury will insist on further savings - although media claims of a Whitehall 'turf war' between the departments have been denied.[19]

The cuts already announced impact primarily on Housing Benefit and Mortgage Interest Benefit payments. They will generally result in lower benefit payments to low-income groups. Changes to Housing Benefit will mean, ultimately, families in receipt of the benefit of the benefit will have fewer funds available to fund rent payments - this may result in people residing in poorer housing. The interest rate used to calculate Mortgage Interest Payments for people leaving the labour market has been almost halved. The Government argues that this is to bring it closer to the Bank of England average (although the benefit rate will not automatically track the Bank's average), but nevertheless it will almost certainly result in some low-income households becoming unable to continue mortgage repayments. Owning one's own home is a key source of welfare for many older people in retirement, and depends fundamentally on investment earlier in the lifecourse.

The Labour Government sought to incentivise work through the benefits system, by introducing a system of tax credits. Tax credits now account for around £25 billion of benefit expenditure (administered by HM Revenue and Customs (HMRC) rather than DWP). Evidence shows that tax credits have been successful in reducing poverty among workless households, and it seems unlikely there will be significant cuts. However, the think-tank Institute of Public Policy Research has found that in-work poverty has become a significant problem for low-income households (Gottfried & Lawton, 2010). IPPR argues, therefore, that to combat this phenomenon the Government needs to introduce (among other things) a personalised tax credit allowance, to allow both members of a couple to earn a wage without unduly reducing household benefit income. This would provide greater incentives to work, and lift more families out of poverty - but would significantly increase benefits expenditure. It remains to be seen what impact plans for a single out-of-work benefit will have on tax credits and other income-related support.[20]

One of the most relevant areas of DWP spending for this report is, of course, pensioner benefits. Crucially, this is not an area which impacts only on today's older people. The Government has announced that the Basic State Pension (BSP) will now be protected by a 'triple guarantee' indexation of inflation, average earnings growth, or 2.5%. However, the Government has also announced that all benefits will now use CPI rather than RPI as a

[19] See http://www.24dash.com/news/central_government/2010-09-13-Osborne-denies-Treasury-turf-war-with-DWP-over-welfare-cuts
[20] See http://www.bbc.co.uk/news/uk-politics-10807098

measure of inflation - CPI is generally lower than RPI, and therefore this change is one of the main reasons the IFS has defined the emergency budget reforms as regressive, because it will erode the value of benefits over time. This will also have a huge impact on occupational pensions, including public sector pensions. The operation of the triple guarantee will protect the value of the BSP in this regard. However, no such guarantee exists for the State Second Pension (S2P). The previous Government introduced reforms designed to make the State Pension more accessible, generous and progressive over time - yet this depended crucially on S2P. S2P will become more generous for low-earners, but if uprated by CPI rather than RPI, probably not as generous as originally envisaged. Today's pensioners will hardly be affected, because few qualify for significant amounts of S2P, but future generations of pensioners are likely to lose out. The same applies to the likely decision to accelerate the increase in the state pension age. Today's pensioners will be protected, and it should be remembered that the numbers of years of National Insurance contributions needed to qualify for a full BSP has been great reduced, but future generations of pensioners will receive less State Pension over their retirement as a result.

Of course, the poorest pensioners will remain protected by Pension Credit, which will continue to rise in line with earnings. The Spending Review is unlikely to alter the availability and level of Pension Credit. However, the main problem regarding Pension Credit is its relatively low take-up level (around 65-70%). This is the main immediate reason for the persistence of pensioner poverty. Although there are credible concerns over the savings disincentive created by Pension Credit, reducing poverty among today's pensioners depends on increasing take-up. Yet given that it would cost several billion pounds to increase take-up of Pension Credit, perhaps through automatic payments, the Government is extremely unlikely to pursue this agenda in the foreseeable future. However, it could focus its efforts on increasing take-up of the guarantee element of Pension Credit, which has a higher impact on poverty, and where there are far fewer eligible non-recipients. It should be noted that the flagship element of the Labour Government's plan to increase private pensions saving over the lifecourse - auto-enrolment into an occupational scheme with a minimum employer contribution - is also under review. However, significant change is not expected as a result. ILC-UK believes it is vital that the Government incentivises individuals to save more for their retirement.

The pensioner benefit most likely to be cut through the Spending Review process is the Winter Fuel Payment (WFP). Households containing someone above female state pension age currently receive £250 per year, and households containing someone aged above 80 receive £400 per year. The Government has vowed to protect the WFP (and free TV licenses for those aged over 75), but has not gone as far as guaranteeing that it will be maintained at its current level. Indeed, it is extremely likely to be cut, especially for new recipients.[21] There is some justification for reducing WFP, or restricting eligibility for the payment. Although cold weather is linked to increasing mortality rates among older people, WFP is not linked to fuel costs, and there is little evidence that it has a significant impact

[21] See http://www.telegraph.co.uk/news/newstopics/politics/7951203/Winter-fuel-payment-cuts-to-hit-millions-of-pensioners.html

on excess winter deaths. The bulk of the £2.7 billion annual expenditure does not go to households in fuel poverty (Brinkley & Less, 2010). However, in reality WFP is a vital source of financial support for pensioner households - equivalent to nearly £8 per week on the State Pension for the 'oldest old'. ILC-UK would support measures to reform WFP, as long as pensioner incomes, particularly for the poorest pensioner households, were not reduced as a result.

Department of Communities and Local Government

In 2008/09, the Department of Communities and Local Government (CLG) spent £36.8 billion of which around £25 billion was spent on regional and local government, £7.3 billion on improving the supply and quality of housing, and £4.1 billion on other spending. In May 2010, CLG accepted 2010/11 cuts to their budget of £780 million (or 7.4%). This represented a higher percentage cut than any other government department.[22] Taking into accounts cuts in local authority spending announced by other departments, local authorities face a cut of over £1.6 billion, in 2010/11.

Age UK have been particularly vocal about the need to protect social care, which is funded by local authorities, predominantly through CLG. In the emergency budget, the Government stated its intention to protect the funding for grants and funding streams for adult social care and the main programme funding for Supporting People (although the budget for administration of Supporting People was cut). In the context of our principles around intergenerational fairness, tackling poverty and enabling longevity, the adequate funding of care is essential. Care represents one of the main reasons people retire early (Berry, 2010b) and thus has an impact on pensioner poverty. If care is not adequately funded by the state, there will be an even more significant burden on future generations to deliver care privately. In the past decade, when the NHS budget has doubled in real terms, social care budgets have increased by only 50% (Berry, 2010c). This has effectively led to further rationing of care services. Age UK have predicted a £1.2 billion ‘black hole’ in care spending over the next two years. It is unlikely that the spending review will deliver funding for care which meets the likely demand (Berry 2010c).

This report is not the place to explore the issues around the funding of care. But it is undoubtedly true that cuts to social care could have a negative impact on the principles we have outlined. It is essential that the Government's Commission on Social Care Funding comes up with solutions to paying for care sooner rather than later, if a deepening crisis is to be averted.

In September 2010, the BBC reported that the CLG had come to agreement with the Treasury on its resource spending. They suggested that cuts will be focused on the housing and regeneration budget, rather than direct grants to local authorities. Whilst the Supporting People budget (around £2 billion) was largely protected in announcements

[22] See http://www.communities.gov.uk/news/newsroom/1611369

made in May, there are fears that this is likely to see cuts in the Spending Review[23]. In August 2010, the Guardian reported that if the Supporting People budget was cut by as much as 40%, over 400,000 people could see their support reduced.[24] The National Housing Federation argued that these cuts could be self-defeating as evidence suggests that this spending offers a significant return on investment. They argue that the £1.6 billion spent a year on housing-related support through the programme produced savings of more than £3.4 billion for the Treasury. [25]

Alongside potential cuts to Supporting People, other housing support is likely to be reduced in the Spending Review. The Disabled Facilities Grant assists disabled people to live as comfortably and independently as possible in their own homes. It would again be counterproductive if cuts to this budget resulted in higher numbers of individuals needing to move into residential care accommodation.

In the context of all housing and care support, ILC-UK believes that there is a significant 'invest to save' argument. Investing in housing is important for all generations. If Government support falls in this area, something which seems inevitable, it will be vital to find alternative ways of protecting and investing in both private and social housing stock.

Department of Health

The Coalition Government has promised to protect the Department of Health's budget, which is around £110 billion, the vast majority of which is spent on the National Health Service (NHS).[26] In fact, spending on the NHS will rise in real terms for each year of the current Parliament.[27] It is important to understand, however, that increases in healthcare costs far outstrip inflation, so the NHS budget has to increase just to stand still. This means that even real terms increases in spending may not be enough to avoid the need for cost savings. Health spending is not therefore entirely unproblematic from the perspective of this report.

Some commentators have claimed that protecting health spending is unfair precisely because intergenerational fairness is the guiding principle of the Spending Review; older people use the NHS far more than other age groups.[28] However, ILC-UK believes this argument is unfair and short-sighted. Older people make greater use of the NHS because the likelihood of developing chronic diseases that cost the NHS a great deal, such as cardiovascular disease, diabetes, and musculoskeletal conditions like arthritis, increases with age. Furthermore, even real-terms increases will not shield the NHS from the enormous pressure on expenditure created by population ageing. In 2002 Derek Wanless' landmark review of health spending in England reported that the NHS budget would need

[23] See http://www.bbc.co.uk/news/uk-politics-11400220
[24] See http://www.guardian.co.uk/society/2010/aug/20/housing-vulnerable-people
[25] See http://www.guardian.co.uk/society/2010/aug/20/housing-vulnerable-people
[26] This section refers to England only, given that health policy in Scotland, Wales and Northern Ireland is controlled by devolved authorities.
[27] See http://blogs.ft.com/westminster/2010/05/cameron-drops-pledge-to-raise-nhs-spending-in-real-terms/
[28] See http://blogs.ft.com/westminster/2010/06/cameron-fair-pain-for-all-except-the-elderly/

to rise to £126 billion by 2013/14.[29] In this context, protecting the DH budget is not quite what it seems. Indeed, DH has already been asked to find £20 billion in efficiency savings by 2014, in order to cope with the increasing costs associated with an ageing population, the rising price of drugs, and lifestyle changes, some of which are leading to earlier onset of chronic diseases. Some DH programmes have already been adandoned as a result.[30] It may be necessary to introduce control mechanisms so that cuts do not unduly impact on frontline services, but rather management and administration - but such measures would be hugely controversial within the NHS and not necessarily cost-effective.

One area of health spending under threat over the long-term may be free eye tests and prescriptions for pensioners. However, a survey commissioned by Age UK (2010a) shows that people across age groups are strongly supportive of this policy - the notion that older people need more health support as they get older is widely accepted by the public. Older people may receive more than other groups through health spending - but this does not necessarily undermine intergenerational fairness.

The Conservatives have promised to focus their efforts on public health rather than simply providing more hospital beds.[31] ILC-UK believes a preventative health agenda is extremely important to tackling ill-health among older people - one of the main causes of poverty in later life. It is a policy that must apply across the lifecourse. Moreover, this ambitious agenda need not create additional spending pressures; there is clear evidence that many early forms of early intervention are cost-effective, ultimately reducing the amount spent by the NHS on patient care. For example, analysis of the Partnership for Older People Projects (POPP; these were pilots funded by DH to develop services aimed at promoting older people's health, well-being and independence) by the Personal Social Services Research Unit found that the projects produced significant savings in NHS spending across several areas.

The Government has also recently announced plans to give more power to GPs to commission healthcare services for their patients (a change which could reduce NHS management costs).[32] Age UK (2010a) has argued that this presents an ideal opportunity to promote cost-effective preventative interventions - as long as the change reflects 'who the heaviest users of services are: frail older people with multiple needs, coming towards the end of their lives'. There is concern, however, that the eventual abolition of primary care trusts and strategic health authorities, which enables GPs to have more power over commissioning, will undermine resources dedicated to public health. The Government has responded that, for the first time, public health will have a dedicated place within local authority budgets - but has not yet offered detail on the level of funding that will be attached to the stipulation, if any.

In addition to the long-term threat to health spending created by population ageing, the Spending Review may present a significant short-term threat: transferring NHS funds to

[29] See http://www.publications.parliament.uk/pa/cm200910/cmselect/cmhealth/517/517we05.htm
[30] See http://www.bbc.co.uk/news/uk-politics-10924719
[31] See http://www.onmedica.com/newsArticle.aspx?id=21051b40-e56f-4274-b1c9-a397d8c8df55
[32] See http://www.guardian.co.uk/society/2010/jul/12/ministers-give-gps-more-power

the social care budgets of local authorities. The amount has been estimated at around £400 million per year.[33] The above section demonstrated that cuts to the DCLG budget could have a serious, detrimental impact on care services. Of course, the distinction between care and health is not always clear-cut. DH already commits significant resources to care, certainly if defined more broadly. The department funds all nursing services and 'continuing healthcare', both of which bridge the care/health gap. DH provides around £1.5 billion for personal social services - situated outside the NHS budget - and the Personal Expenses Allowance (PEA) for care home residents. Indeed, the Work and Pensions Select Committee (2009) has called for DH to raise the level at which the PEA is paid. It is vital that these areas of spending are protected, as well as the overall health budget. Yet it must be recognised that any reduction in NHS spending - which Age UK has said it would reluctantly support if funds were transferred to care, assuming no alternative funding was available - could impact negatively on all generations. The care system is, without question, in crisis. ILC-UK believes the Spending Review should not involve a trade-off between health and care, especially given that spending on one tends to benefit the other in the long run.

The NAO report on inequalities in life expectancy, discussed in the previous section, criticised DH for failing to prioritise tackling this problem. DH set itself a target on health inequalities in 2000 to close the life expectancy gap between affluent and deprived areas by 2010. Yet it did not produce a departmental strategy until 2003, and in fact did not embed the strategy until 2006; the NAO concluded that the target would therefore not be met. DH produced a Health Inequalities Intervention Tool in 2007 which identified key cost-effective interventions that would help to close the gap (such as increasing prescription of drugs to reduce cholesterol and blood pressure, and doubling provision for smoking cessation services), but they have not been rolled out on an adequate scale. If all members of society are to benefit from increased longevity, it is vital that the Spending Review process does not jeopardise this agenda further.

It is also worth mentioning proposed changes to drugs procurement in the NHS, designed to increase the availability and affordability of life-saving drugs. The Coalition Government is in the process of establishing a cancer drugs fund. This was a Conservative manifesto promise and featured in the coalition agreement, which stated that a cancer drug fund will be established to allow patients to have access to drugs their doctors think could help them, funded by savings from the NHS. The rationale behind the fund is the problem some cancer patients experience in getting expensive innovative drugs funded by their local NHS. The initial £50 million funding is ‘new’ money, that is, it has not been taken from an existing budget. The cancer drug fund will be established in April 2011 and will run until 2014, when a new system of value based pricing will be established. As such, the NHS white paper (DH, 2010) commits the Coalition Government to changing the current pharmaceutical price regulation scheme by introducing value based pricing from 2014. Value based pricing for pharmaceuticals means assessing whether the additional value a

[33] See http://www.hsj.co.uk/finance/4oom-nhs-funds-may-go-to-social-care/501970.article

drug brings in terms of its health benefits for the patient and society is greater than the health benefits brought by the treatments or services that will be displaced to fund it. It is not yet clear how value based pricing will be implemented in the NHS, but it is possible that such a system could lead to the funding of drugs that currently do not obtain NICE approval. However, these changes also risk politicising this extremely sensitive policy area, and undermining the work of the National Institute of Clinical Excellence.

Department for Business, Innovation and Skills

BIS was one of the main victims of the Government's initial post-election cuts. £836 million was cut from its 2010/11 budget (mainly from business grants and further education), which still stands at over £20 billion. However, it is likely that a further £5 billion will have to be cut. BIS' main area of spending is higher education. Research by Morten Blekesaune et al (2008) has demonstrated the beneificial impact of education over the lifecourse. Better educated people live longer and healthier lives, and are far less likely to be in poverty in later life. As such, education should be a priority for the Coalition Government and should be protected as far as possible during the Spending Review. While this applies most to early, primary and secondary education, as discussed below, the beneficial impact of higher education is nevertheless unequivocal.

Yet it is extremely likely that universities will face drastic reductions in central government funding as a result of the Spending Review. According to the BBC, universities have been told to expect cuts of 35% by 2014/15. Around £3bn could be saved by cutting the number of student places by a quarter, or raising fees proportionately. Around £1 billion could be saved by ending the Government's subsidy of student loans - but each of these options seems to imply a narrowing of opportunities for people from poorer backgrounds.[34] The Government is also considering a graduate tax which could, depending on how it was implemented, raise more money from graduates to reflect the economic value they derive from their degree. This option would not, however, resolve the short-term funding crisis, and in any case universities are divided over its efficacy, even though it would probably increase overall funding for higher education.[35]

There are fears within the research community that cuts to further education will undermine the capacity for the UK to be a world leader in research and development (R&D). Whilst the gross expenditure on research and development has grown since 2004, it is still lower than the previous Government's target of achieving 2.5% of GDP being spent on R&D by 2014. Government has conceded that this target is unlikely to be reached, arguing recently that ‘the ambition of spending 2.5% of GDP in R&D would require joint public and private investment to reach over £40 Billion in 2014. Joint public and private investment is currently £25.6 bn (1.79% of GDP)’ (BIS, 2010). It seems likely that funding for research is likely to decline as a result of the spending cuts. Given the

[34] See ttp://www.ft.com/cms/s/487ccbda-7f34-11df-84a3-00144feabdc0.html
[35] See http://www.bbc.co.uk/news/education-10668490

long-term economic importance of R&D, this could have a detrimental impact on future generations.

BIS is also largely responsible for the Government's skills agenda. The Skills and Funding Agency (SFA), a BIS quango, spends around £4 billion per year on further education and other providers of post-19 education. It also houses the Adult Advancement and Careers Service, which is one of the key organs support the extending working lives agenda. The SFA, alongside the Young People's Learning Agency (a DfE quango), replaced the Learning and Skills Council (LSC) earlier in 2010 after accusations of mismanagement within the LSC.[36] Yet the SFA's longevity is questionable: before the election the Conservative Party, led by David Willets (now a BIS minister), announced plans for a slimmed-down approach to skills funding.[37] According to the Financial Times, the SFA's flagship 'train to gain' scheme - which costs £1.4 billion - is a 'prime candidate' for the axe.[38] Of course, this report is not the place to debate the Coalition Government's approach to skills - it may be that the Government has identified more cost-effective ways of achieving equivalent or improved results. ILC-UK believes, however, that education and training over the lifecourse should be a government priority, and would therefore argue that any cuts produced solely to tackle the budget deficit are undesirable.

A further area of BIS spending is worth mentioning here. The Citizens Advice Bureau's (CAB's) national hub receives 75% of its annual budget from BIS (and local Bureaux depend on local authority funding). Having already faced a budget cut this year of 9%, the CAB could be at further risk through the Spending Review process - despite experiencing record demand for its services. The CAB and local CABx are vital sources of support for many older people - and have more recently been strongly involved in work on financial inclusion, which could contribute to people saving more for their own retirement.

Department for Education

The evidence on the importance of education to an individual's prospects over the lifecourse is compelling. ILC-UK believes therefore that intergenerational fairness, tackling poverty in later life, and supporting increased longevity depends on providing opportunities for all children to receive a decent education. Clearly, the Government is not unaware of the importance of education, and it seems likely that DfE will be spared the spectre of 25% cuts. Instead, the department is expected to cut around 10% - around £5.7 billion from its £57 billion budget.

Of course, the Government argues that cuts will not necessarily make schools less effective. The Conservative Party believes that its policy of 'free schools' will save on administration costs. Again, this report is not the place to debate education policy, and it may be the case that the Government can deliver quality education more effectively.

[36] See http://www.guardianpublic.co.uk/further-education-learning-skills-council
[37] See http://www.davidwilletts.co.uk/2008/07/23/building-skills-transforming-lives/
[38] See http://www.ft.com/cms/s/487ccbda-7f34-11df-84a3-00144feabdc0.html

However, it is unlikely that administrative efficiencies alone will deliver significant savings.[39]

Cuts are expected in DfE's capital budget, which expanded significantly under the previous Government as part of a rebuilding programme for primary and secondary schools. It had increased to over £8 billion in 2010/11. The centrepiece of this was Building Schools for the Future (BSF); upon taking office in May 2010, Secretary of State Michael Gove created a storm of controversy when he froze grants to many schools (whilst releasing inaccurate information about DfE's plans). Although there had been no plans to continue BSF beyond 2011, the Financial Times have reported that £3 billion could be saved from DfE's capital budget.[40]

Another area of education likely to be under threat is teaching assistants. The UK's 150,000 teaching assistants cost around £4 billion per year - and the Government has already cancelled grants available for teaching assistants to undergo training.[41] A review for DfE by Richard Handover reported in 2009 that up to 40,000 teaching assistant could be closed without impacting on outcomes - although Handover also argued that 30,000 teaching assistants should receive further training.

Education is particularly important during early years; children who fall behind their peers in their earliest years face disadvantages in education and employment for the rest of their lives (Hansen et al, 2010). Based on this evidence, the Labour Government introduced SureStart centres in order to aid child development. Funding is channelled through local authorities, and services provided by local centres were largely demand-led. There have been concerns from some stakeholders that funding for SureStart (around £1.7 billion) will be cut in the Spending Review.[42] Of course, the evidence on the effectiveness of SureStart is not incontrovertible. For instance, the National Audit Office (2006) has reported that SureStart centres are failing the most deprived families, because they do not undertake enough outreach work. Furthermore, Norman Glass (2005) - one of the Treasury officials centrally involved in establishing SureStart - criticised subsequent developments. He argued that the SureStart model had been effectively abandoned by 2005 due to funding cuts, the failure of integrated service provision, and the colonisation of SureStart by the welfare-to-work agenda (leading to an emphasis on childcare rather than child development).

However, while the evidence of SureStart's actual operations may be mixed, to some extent, the answer is surely not to reduce funding for early years interventions: the implications of any such cut are too grave. Indeed, the Coalition Government's poverty tsar, Frank Field MP, has called for SureStart funding to be protected, and for the services provided by the scheme to be significantly expanded.[43]

[39] See http://www.leftfootforward.org/2010/04/michael-gove-fails-the-schools-funding-test/
[40] See http://www.ft.com/cms/s/487ccbda-7f34-11df-84a3-00144feabdc0.html
[41] See http://www.independent.co.uk/news/education/education-news/gove-cuts-to-end-training-for-teaching-assistants-2019180.html
[42] See http://www.leftfootforward.org/2010/07/pupil-premium-may-come-from-sure-start-ema-budget/
[43] See http://www.ft.com/cms/s/0/4b98dc56-baac-11df-b73d-00144feab49a,dwp_uuid=ec12e25a-624a-11de-b1c9-00144feabdc0.html

Department of Energy and Climate Change

The previous section referred to evidence that deterioration in the natural environment can have a detrimental impact on health and longevity. As such, efforts to tackle climate change are vital to protect the achievement of population ageing. However, DECC is expected to make enormous budget cuts as part of the Spending Review, reaching 25% by 2014/15. Furthermore, given that over half of DECC's budget is spent on nuclear decommissioning - within which significant savings are inconceivable - this could mean cuts of around 50% to DECC expenditure on renewable energy programmes. One of the most interesting rumours is that DECC will be re-housed within the Treasury building - move designed primarily to reduce administrative costs, but could reflect the Government's economistic approach to energy policy.[44]

Significant cuts to the DECC budget were announced as part of the Coalition Government's emergency budget. Around £85m was cut from the 2010/11 budget, generally speaking from programmes designed to support green technology. Indeed, current DECC minister Charles Hendry has been critical of the previous Government's 'extremely generous' schemes.[45] Furthermore, the Government has refused to commit to new green taxes on the aviation industry which could help to fund further policy activism on climate change, as well as modify behaviour harmful to the natural environment.[46] However, DECC Secretary of State Chris Huhne has signalled that a significant rise in fuel duty may be imminent; while this may fund efforts to tackle climate change, its impact could be profoundly regressive, especially for older people who spend a greater proportion of their income on fuel.[47] Any such move could undermine support for reform of the Winter Fuel Payment, discussed above. The Government has also vowed to maintain Labour's planned Green Investment Bank - but as yet not released details on how it will be funded.[48]

DECC also funds the Warm Front scheme. While funding beyond 2011 has not been agreed, the scheme will cost around £350m in 2010/11. Warm Front provides heating and insulation improvements for low-income households, including pensioners in receipt of Pension Credit (in addition, all pensioners get a £300 rebate towards the cost of a new boiler). Warm Front was evaluated by Geoff Green and Jan Gilbertson (2008), who found that the scheme improved mental and physical health in older people, leading ultimately to longer lives. A value-for-money evaluation by the NAO (2009) agreed that the scheme had been largely effective, but argued that eligibility for the scheme through the receipt of income-related benefits meant that it was not sufficiently targeted on the fuel poor.

Therefore it would be undesirable for Warm Front to suffer significant cuts. However, cuts may take the form of changes to eligibility - which could make the scheme more focused on fuel poverty. The details will be crucial. In addition, the Government has promised a

[44] See http://www.guardian.co.uk/politics/2010/sep/21/chris-huhne-fights-treasury-attacks
[45] See http://www.touchstoneblog.org.uk/2010/09/carbon-diary-coalition-back-to-green-square-1/#more-10393
[46] See http://www.greenwisebusiness.co.uk/news/decc-and-defra-face-big-cuts-in-nongreen-budget-1558.aspx
[47] See http://www.dailymail.co.uk/news/article-1313786/Huhne-says-yes-22bn-green-tax-Petrol-soar-LibDem-ministers-drive.html
[48] See http://www.mrw.co.uk/news/budget-defra-and-decc-could-face-further-20-25-cuts/8601918.article

'green deal' whereby all homes could qualify for energy efficiency improvements without up-front payments. Costs will be funded through the savings made on future energy bills.[49] This scheme could alleviate cuts to Warm Front - again, however, the details will be crucial. Essentially, the green deal would be designed to facilitate energy efficiency improvement by economics means, at no (or far lower) cost to the individual and the state.

[49] See http://www.energysavingtrust.org.uk/Resources/Energy-saving-news/Policy/Green-Deal-to-create-250-000-jobs-by-2030

4. Opinion survey

Between 1st and 3rd October 2010, GfK NOP undertook a telephone survey, on behalf of ILC-UK, of 1000 nationally representative adults aged 16 or over, to gather their views on the potential impact of the spending cuts. The full results of this research will be presented in a separate ILC-UK report to be published before the spending review is announced on 20th October.

The survey finds that different age groups do prioritise different aspects of spending. It finds that most of us think that the spending review is likely to hit us more than other generations, but at the same time, six in ten think the spending cuts will hit older people more than others. Interestingly the survey also reveals that older people are more likely to want to defend pension spending than other age groups, and counter-intuitively, those aged 16-24 are more likely than the over-65s to want to target education for cuts.

There has been much talk in the media about the generational attitudes to spending cuts. Whilst it is not helpful to pitch one generation against another, it is clear that attitudes do vary by age. ILC-UK believes that if the Government is to sell the merits of the spending review to all generations, it is essential that no generation thinks they will be worse off than others.

The Spending Review and intergenerational fairness

The survey reveals that most people believe that their generation will be more affected by spending cuts than others. Almost seven in ten aged over 65 felt they would be most affected as did the same proportion of 25-34 year olds. 45-54 year olds and 55-64 year olds were slightly less likely than other age groups to thing they would be hit hardest (44% and 53% respectively) (see figure 1).Those in social classes D-E were more likely than others to think they would be more affected.

The survey also revealed that the oldest and youngest in society were most likely to think that the amount the Government spends on people of their age should be protected (see figure 2). Four in five over 65s think that spending on their age group should be protected as did over seven in ten 16-24 year olds.

However whilst on the one hand, the majority of individuals felt that their generation would be hardest hit by spending cuts, similar proportions (59%) also said that they thought that spending cuts would hit older people more than other generations.

Across all ages, the three sectors of government spending which the public state they would prioritise for cuts were: Out of work benefits (54%); Defence (44%) and Transport (63%). Those aged over 45 were slightly less likely than younger groups to want to target transport for cuts. And the over-65s were slightly less likely than other age groups to want to target cuts at defence or out-of-work benefits.

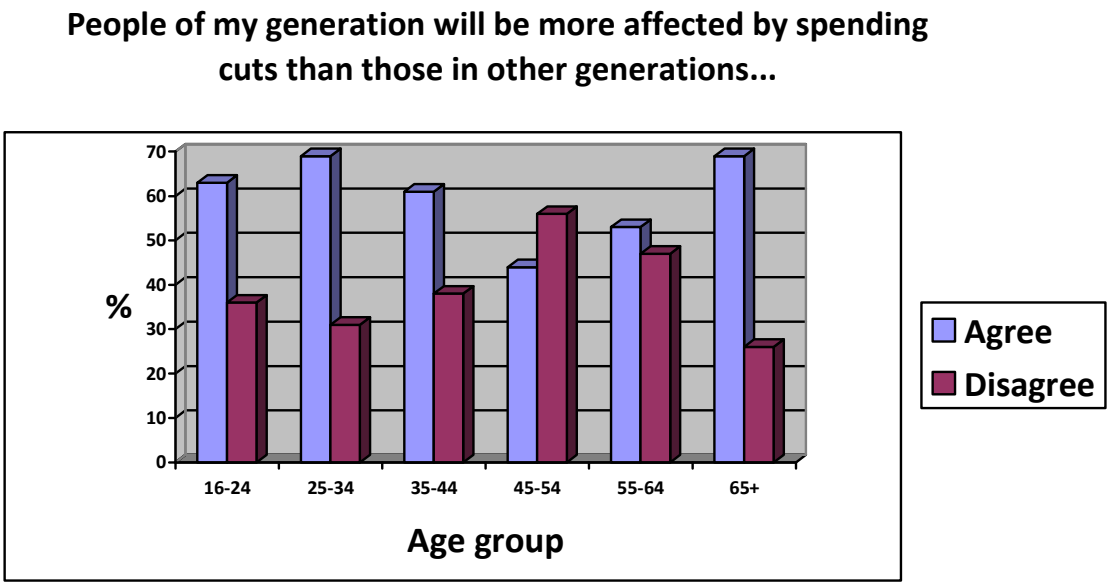

Fig 1: Different age groups' opinions on likely cross-generational impact of cuts (Source: GfK NOP polling)

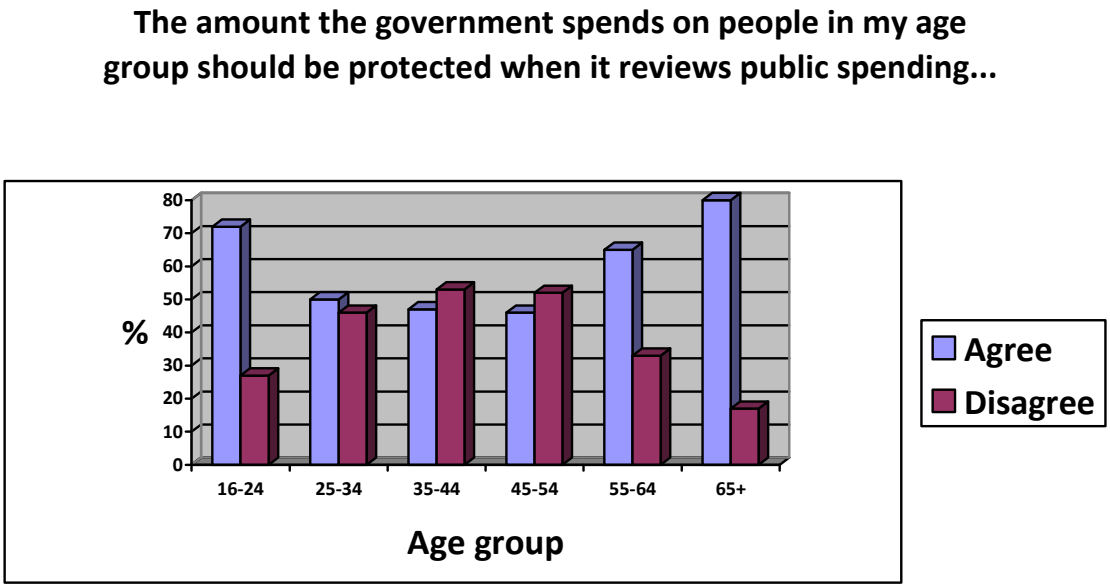

Fig 2: Different age groups' opinions on the level of protection from cuts they deserve (Source: GfK NOP polling)

Whilst a quarter of 16-24 year olds would target pensions for cuts, just 15% of over 65s agree. Yet interestingly, younger people were also more likely to want to target education for cuts. Almost a third of 16 to 24 year olds said they would target education compared to just over one in five aged over 65. All ages felt that it was more important to protect jobs over reducing government debt (65%) although younger people were more likely (73% of

16-24 year olds) than older to agree (64% of over 65s).

Overall, we can conclude that the Government's argument on intergenerational fairness does not enjoy wide acceptance. People of all age groups are worried about how the cuts will affect them, and most believe their generation will be hardest hit. In particular, the majority across all age groups reject the Chancellor's proposition that debt must be cut for the sake of future generations; they prefer, instead, to see the economic prospects of their own generations to be protected.

Conclusions and recommendations

This report has argued that the Spending Review should

1. impact fairly across different generations;
2. not exacerbate the causes of poverty in later life;
3. not undermine the drivers of increased longevity.

These principles could, of course, be interpreted in many different ways, and ILC-UK cannot claim to offer a definitive approach to the meaning of intergenerational fairness, the causes of poverty in later life, or the drivers of increased longevity. Furthermore, given that details on spending reductions have not yet been published, it is impossible to adjudicate conclusively on how the Spending Review may impact on the three principles. However, in this report we examine the main areas of public spending impacting on these principles, and assess the potential impact of likely cuts.

Poverty earlier in life is perhaps the main cause of poverty and ill-health in later life - and employment is the main way to combat poverty (although in-work poverty is a growing problem). As such, it is difficult to see how employment support, which makes up the majority of DWP's DEL budget, could be cut without undermining the principles outlined above. DWP spends far more through AME, that is, benefits. There is no official target for benefits cuts, but significant reductions in expenditure are likely. This could impact on pensioner poverty. ILC-UK believes the arguments on reforming the Winter Fuel Payment are credible - but ultimately WFP provides a valuable financial boost to many low-income pensioner households, so any money lost through WFP reform would have to be replaced. Changes to the indexation of the state pension - which have already been announced - will in theory reduce the value of state pensions over the long-term, albeit in a context in which the generosity and availability of state pensions is set to increase. Pension Credit will, of course, protect the poorest pensioners; take-up remains, however, far too low, and costly measures to increase take-up seem unlikely.

CLG has already faced significant cuts, in the Government's emergency budget. All local authorities have had to make cuts as a result, and further, significant cuts are almost certain to be announced in the Spending Review. The main victim is likely to be social care. Already, social care provided by local authorities is 'rationed' through the operation of strict eligibility criteria. Spending on housing is also likely to face significant cuts; ILC-UK believes, however, the positive knock-on effects of good housing means there is a convincing 'invest to save' argument in this policy area. Both care and housing are areas of expenditure which have a significant impact on the health and well-being of people in later life.

The Government has vowed to protect the Department of Health's budget, and indeed provide real-terms increases each year of the current Parliament. However, the impact of population ageing, and other spending pressures, means health spending will have to rise significantly above inflation simply to stand still over coming decades. It is likely that part of

the NHS budget will be used to plug the social care funding gap - this may be necessary for the sake of social care, but runs the risk of undermining efforts to, for instance, tackle health inequalities and prioritise public health. Some have claimed that spending on health is not fair to younger generations, because older people tend to utilise a disproportionate amount of NHS resources, and health benefits such as free prescriptions. However, there is widespread public support for this situation: people accept that older people need more health support as they get older. It may create intergenerational inequalities in some ways, but does not necessarily undermine intergenerational fairness. The report also argues that the preventative health agenda should be prioritised by DH; indeed, there is evidence that this agenda could prove extremely cost-effective, even in the short-term.

If employment is the key to avoiding poverty, then education and skills are crucial to securing high-quality employment. It is likely, however, that the Spending Review will produce substantial cuts to education and skills spending at all levels. Funds for universities will be significantly reduced, and it is likely that the 'train to gain' programme will be cut. The Government will argue, of course, that skills development can be achieved more cost-effectively, and this report is not the place to evaluate such judgements. Primary and secondary education spending will also be reduced. The focus of cuts seems to be capital spending: the Government will be building fewer new schools in the future, but not necessarily spending less on teachers and school's resources. However, funding for teaching assistants is likely to be significantly reduced. While education will be spared the most drastic cuts, any cuts to education and training services run the risk of preventing people acquiring the skills and qualifications necessary for success within the labour market, which is a crucial determinant of poverty and ill-health in later life.

Evidence that the natural environment impacts on longevity means that, over the long-term, cuts to efforts to tackle climate change may undermine increases in life expectancy. It should be noted however, again, that the Government claims to have identified more cost-effective ways of tackling climate change. Another area of energy spending under threat is Warm Front, which helps poorer households make their homes more energy efficient. There is clear evidence that Warm Front has been largely effective, and therefore should not be abolished unless there is evidence that its aims can be achieved as effectively by any potential alternative schemes.

The polling results summarised in the fourth main section show that people are worried about the impact of cuts on their generation. The majority across most age groups believe their generation will be hardest hit, and that their age group deserves protection during the Spending Review process. Clearly, the Government needs to work much harder to counteract perceptions of intergenerational unfairness.

Ensuring that the Spending Review does not undermine the principles outlined in this report will be a significant challenge for the Government. ILC-UK recommends that:

- Evidence on the variable impact of cuts across generations should be a key factor in determining which items of public expenditure to cut.

- Maintaining and increasing employment should be the Government's main priority. It is unlikely that this priority will be compatible with significant cuts to employment support, education, and training. Spending on education at all stages of life should be protected as far as possible.
- The value of pensioner benefits must be maintained over the long-term; today's pensioners may be protected, but avoiding later-life poverty for future generations means that the value of the state pension must continue to increase at the rate stipulated by the previous Government. If benefits such as Winter Fuel Payments are to be reformed, this should not undermine the income of the poorest pensioners.
- Health spending should increase far beyond the rate of inflation, in order to manage population spending. Spending on preventative health, with a focus on addressing health inequalities, should be a priority - and more effort should be made to establish its cost-effectiveness.
- The social care funding crisis needs to be resolved. At the very least, the Spending Review must not deepen this crisis.
- The Government must not unduly reduce spending in areas where there exists a convincing 'invest to save' argument, such as housing. To do this would mean sacrificing long-term savings for the sake of short-term cashflow problems.
- The Government needs to work much harder to counteract perceptions of intergenerational unfairness.

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