



If we are to be able to deliver the radical changes proposed in this manifesto as well as restoring the health of the public finances, we must be honest with people about how these policies will be paid for.

credible and responsible finances

stabilising Britain's finances to deliver our promises

If we are to be able to deliver the radical changes proposed in this manifesto as well as restoring the health of the public finances, we must be honest about how these policies will be paid for. That is why here we have set out how our tax package will be funded, where we intend to increase spending and where we intend to make savings.

The savings we have identified far outweigh the amount of spending we are proposing, and it is these savings which will be used to start to reduce the deficit. All the savings we have identified are either instead of or additional to proposals the Government has already made. It is our working assumption that we will start to reduce the deficit from 2011-12 onwards.

The savings identified below are only the start of a program to tackle the deficit and in government we will go further, holding a comprehensive review of all government spending, on which we will consult fully with the public. This will identify the remaining savings which will need to be made to balance the Government's books. The comprehensive review will not reverse or undermine any of the spending commitments we make in this manifesto.

Over and above our planned new levy on the profits of banks, we will seek to eliminate the deficit through spending cuts. If, in order to protect fairness, sufficient cuts could not be found, tax rises would be a last resort. While it will be impossible to remove the Government's tax rises while the deficit is so huge, the increase in National Insurance Contributions is a damaging tax on jobs and an unfair tax on employees, so when resources allow we will seek to reverse it.

restoring honesty and transparency

Following the election of a Liberal Democrat Government an emergency budget and interim spending review will be held no later than the end of June 2010.

This budget and spending review will have four purposes:

- To put in place the necessary tax changes in order to raise the personal allowance to £10,000 for the start of financial year 2011-12.
- To put in place cuts which could be realised within the financial year, such as scrapping the Child Trust Fund or restricting tax credits, to release money for our job and infrastructure package.
- Subject to our five economic tests being met, to put into place cuts for 2011-12 identified in our manifesto.
- To confirm the departmental spending shifts necessary to deliver our core manifesto commitments.

We will establish a Council on Financial Stability, involving representatives of all political parties, the Governor of the Bank of England and the Chair of the Financial Services Authority. This group will agree the timeframe and scale of a deficit reduction plan to set the framework, though not the detail, for the Comprehensive Spending Review and seek to promote it externally and domestically. Any agreement will be without prejudice to parties retaining and advocating distinctive views on a wide range of issues, such as fair taxes and spending priorities.

Throughout the summer and early autumn a Comprehensive Spending Review of all departments will be conducted with the objective of identifying the remaining cuts needed to, at a minimum, halve the deficit by 2013-14. A Strategic Security and Defence Review will form part of this spending review, working within the same financial and time constraints.

This review will focus particularly on savings that can be made across government – such as on pay, public sector pensions, IT provision – and on low priority spending. It will not reverse or undermine any of the spending commitments that we make in the manifesto.

In education, that means that additional funding for schools through the Pupil Premium will continue to be delivered throughout the next Parliament. Instead of ring-fencing education, we are doing better than that by bringing in new money to fund the Pupil Premium.

Similarly, in health, our first priority will continue to be to increase spending in some parts of the NHS by cutting waste in others.

The cross-government economies needed to reduce the deficit such as on pay, pensions and IT procurement will affect all departments, so it would simply be dishonest to say that entire departmental budgets can be ring-fenced from cuts. For example, it is only because we refuse to ring-fence departments from the search for savings that we have been able to identify the funds for the Pupil Premium.

The results of this spending review will be widely consulted on with the public sector and general public throughout the end of 2010 and beginning of 2011. Based on this consultation a full spending review up to 2013-14 would be published alongside the 2011 budget.

tax proposals

£m in projected 2011-12 prices	
Costs of proposals	
1 Raise the Personal Allowance to £10,000 per person	16,795
Total	16,795
Revenue generated from proposals	
Closing tax loopholes and cutting reliefs that benefit the wealthiest	
2 Reform capital gains tax	1,920
3 Restrict pension tax relief to the basic rate	5,455
4 A 1% levy on the value of properties over £2m	1,710
Green taxation	
5 Switching from Air Passenger Duty to a Per Plane Duty	3,060
6 A higher per mile duty charge for non lifeline domestic flights	255
Anti avoidance measures	
7 Income tax and National Insurance Contributions	2,415
8 Corporation tax	1,460
9 Stamp duty	750
Total	17,025
Contingency fund	230

Figures have been rounded to the nearest £5m

spending proposals

	£m (in predicted nominal terms) ¹				
	2010-11	2011-12	2012-13	2013-14	2014-15
Spending proposals					
1 Jobs and infrastructure package <i>including</i> : ²					
1a <i>Eco cash back scheme</i>	335	0	0	0	0
1b <i>Investing in wind energy and other renewables</i>	420	0	0	0	0
1c <i>Insulating public buildings</i>	400	0	0	0	0
1d <i>Bringing empty homes back into use</i>	1,165	0	0	0	0
1e <i>Tackling youth unemployment</i>	660	95	0	0	0
1d <i>Bus scrappage scheme</i>	140	0	0	0	0
2 Introducing a pupil premium ³	0	2,500	2,540	2,590	2,640
3 Scrapping UK Tuition Fees ³	600	685	740	1,570	1,765
4 Restore the Pension earnings link	0	0	320	325	330
5 Recruit 3,000 more police officers ⁴	5	50	95	140	185
6 A pay rise and better homes for our troops	0	420	425	430	440
Total spending	3,730	3,745	4,115	5,050	5,360

savings proposals

		£m (in predicted nominal terms) ¹				
		2010-11	2011-12	2012-13	2013-14	2014-15
Helping people fairly						
7	Reform Tax Credits	640	1,305	1,300	1,310	1,315
8	Reform Winter Fuel Payments	300	145	60	-15	-70
9	Scale back the Homebuy programme in England ³	250	255	260	265	270
10	Refocus Train to Gain project in England ³	325	335	340	345	350
11	End Gov't contributions to the Child Trust Fund	395	545	555	565	580
12	Introduce a levy on bank profits	2,005	2,205	2,430	2,670	2,940
13	Cut Ministry of Defence admin and top brass	0	205	420	440	460
14	Cutting the economic costs of mental health problems ³	0	425	500	575	605
15	Cash limit on public sector pay rises of £400 for 2 years ⁵	0	1,705	3,460	3,525	3,600
Decentralising UK Government³						
16	Abolish the UK Government office for the regions	0	90	90	90	95
17	Reform English Regional Development Agencies	0	600	610	620	635
18	Cut bureaucracy of UK Local Government inspection	0	860	870	890	905
19	End top down UK Education/Families initiatives	0	335	340	350	355
Creating a freer society						
20	Scrap ID cards	50	80	110	155	155
21	Scrap Biometric Passports	220	405	425	400	380
22	Scrap Intercept Modernisation Programme	0	200	200	200	200
23	Abolish UK Contact Point ⁴	0	45	45	50	50
24	Maintain the current school leaving age in England ³	0	0	35	35	70

	£m (in predicted nominal terms) ¹				
	2010-11	2011-12	2012-13	2013-14	2014-15
Creating a more cost effective Government					
25 Commercialise UKT&I	0	135	135	140	140
26 Scrap Eurofighter tranche 3B	0	0	510	510	510
27 Cut UK Education quangos and administration	0	415	410	420	430
28 Prison reform in England and Wales ⁴	0	795	735	675	845
29 Scrap civil service bonuses	0	155	155	160	160
30 Cut use of consultants in the public sector	0	180	180	185	190
31 Cut Quangos across government	0	225	225	230	235
32 Cut the costs of politics	0	610	620	635	645
Net change in devolved administrations budgets⁶					
33 The Scottish Parliament ⁷	240	-120	-120	-30	-25
34 The National Assembly for Wales	140	-15	-15	30	40
35 The Northern Ireland Assembly	80	-50	-45	-15	-15
Total savings	3,730	12,430	15,205	15,435	16,050
Net increase to public sector spending	0	-8,680	-11,090	-10,385	-10,685

Note: Totals may not sum due to rounding

Note: the policy details of the England-only savings and spending are covered in the UK Liberal Democrat manifesto

¹ All numbers are rounded to the nearest £5m

² The job package with the exception of part of 1e are for England only Barnett consequences for the remainder are accounted for in line 33 to 35

³ Costs and savings are for England, Barnett consequences for the devolved administrations are accounted for in line 33 to 35

⁴ Costs and savings are for England and Wales only, Barnett consequences are accounted for in line 33 and 35

⁵ This proposal is an alternative to the Government's proposal to cap public sector pay at 1%

⁶ Scottish and Welsh Liberal Democrats have set out their own budget plans for Scotland and Wales

⁷ As set out in the manifesto a Liberal Democrats Government would resolve the disputes and anomalies between the UK and Scottish Government over the Registers of Scotland and the Scottish element of the Fossil Fuel Levy, with the consequence of adding up to £250m to the resources controlled by the Scottish Government in 2011-12