



## Public Finances

*The financial crisis has hurt Britain's finances badly. Not only has the taxpayer had to foot the bill for a massive bank bail out, but tax revenues from the City and inflated housing market have also fallen dramatically. There is a budget deficit of £167bn – of which almost £70bn is structural – meaning it will not be eliminated by future economic growth. Quite simply as a country we are spending more than we can afford. If we are to create a stable economy and ensure that we do not saddle future generations with debt we must balance the books. Liberal Democrats believe that politicians have got to be straight with people about the tough choices ahead. Not only must waste be eliminated but we must also be bold about finding big areas of spending that can be cut completely. That way we can control borrowing, protect services people rely on most and still use some savings to invest in building a fair future for everyone.*

**Tough Choices.** We have made tough choices about what commitments are still affordable. Following the election of a Liberal Democrat Government we will establish a Council for Financial Stability; involving representatives of all parties, the Governor of the Bank of England and the head of the FSA. This group would agree the timeframe and scale of a deficit reduction plan and seek to promote it externally and domestically. Its remit will be limited to the economic issues: timing and scale of deficit reduction. It will not seek agreement on the political questions of the balance between spending and tax rises and what specific spending items or taxes should be increased or decreased.

**Emergency budget for change.** We will also hold an emergency budget and interim spending review by no later than the end of June 2010. This budget and spending review will 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. We will 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 the economy being strong enough, we will put into place the cuts for 2011-12 identified in our manifesto and confirm the departmental spending shifts necessary to deliver our core manifesto commitments.

**A comprehensive spending review.** 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 as set out by the Council for Financial Stability. Preliminary results of the spending review will be widely consulted on with the public sector and general public during the end of 2010 and beginning of 2011. Based on this consultation a full spending review up to 2013-14 will be published in the 2011 budget.

**Identified savings.** Through taking tough choices as well as introducing efficiency changes and reducing bureaucracy across government, we have identified savings. We will set a £400 pay rise cap for all public sector workers, initially for two years, ensuring the lowest paid are eligible for the biggest percentage rise. We will end government payments into Child Trust Funds. A banking levy will be introduced so banks pay for the financial support they have received, until they can be split up to insulate retail banking from investment risks. We will scrap ID cards and the next generation of biometric passports and cancel Eurofighter Tranche 3b. There will be a scale back of the HomeBuy

schemes, with reforms of prisons and cut backs on the burdensome regulation of local authorities creating real savings.

**Long-term vision.** In the longer term, as part of a comprehensive spending review involving wide consultation, we will identify additional savings which can be used to further pay down the deficit. There will be no like-for-like replacement of Trident nuclear missiles, which could cost £100bn, and we will hold a full defence review to establish the best alternative for Britain's security. We will reform Public Sector Pensions with an independent review to agree a settlement that is fair for all taxpayers as well as for public servants. Better government IT procurement, investigating the potential of different approaches such as cloud computing and open source software, will bring long-term savings. We will conduct a wholesale review of value for money in the public sector based on the findings of the National Audit Office and Parliament's Public Accounts Committee.