Public services spending

Soumaya Keynes
The changing size of the state (coalition plans)

TME in 2019-20 at 2000-01 % GDP

Percentage of national income (%)

TME (% GDP, LH axis)

© Institute for Fiscal Studies
The changing size of the state (coalition plans)

Public services spending in 2019-20 at 1998-99 % GDP

TME (% GDP, LH axis)
Public services spending (% GDP, LH axis)
Departmental spending

Real departmental spending (index 2015-16 = 100)


Outturn, plans up to 2015-16
Autumn Statement 2014
Budget 2015

9.7% cut 2010-11 to 2015-16
AS2014: 14.1% cut 2015-16 to 2019-20
B2014: 7.2% cut 2015-16 to 2019-20
£30bn of cuts by 2017-18?

- Coalition plans imply a £30.5bn cut to TME less debt interest between 2015-16 and 2017-18
- George Osborne has said that he would achieve this in a different way to coalition plans
  - £12bn/£5bn/£13bn of welfare cuts/tax avoidance measures/DEL cuts
- Coalition plans imply £34.6bn of DEL cuts up to 2017-18
  - Other areas of spending are rising over the period
  - So £12bn of welfare cuts and £5bn of tax avoidance would require closer to £18bn of DEL cuts
- Liberal Democrats want £9bn smaller tightening, £12bn tax rises, £3.5bn welfare cuts, leaving roughly £10bn of DEL cuts
- Labour: profile less clear, rolling mandate currently requires current balance in 2017-18, but 2018-19 by post-election budget
Departmental spending up to 2019-20

- Budget plans imply 0.3% GDP surplus and assume no further tax/social security changes
  - Assume implement Simon Stevens’ recommendations for NHS spend
  - Assume ODA increases with GDP
  - Assume protect cash schools spend per pupil (in line with Conservative pledge)
Departmental spending

Real change in departmental spending since 2015-16 (%)

- Total DEL
- Protected DEL
- Unprotected DEL

Protected departments include NHS England, schools and Official Development Assistance
Departmental spending 2015-16 to 2019-20

<table>
<thead>
<tr>
<th>Coalition policies</th>
<th>Total DEL</th>
<th>'Protected' areas</th>
<th>'Unprotected' areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16 to 2019-20</td>
<td>-26.0</td>
<td>4.7</td>
<td>-30.8</td>
</tr>
</tbody>
</table>

Total departments’ % change

-7.2%

Unprotected departments’ % change

-15.7%
Cuts up to 2019-20?

- Budget plans imply 0.3% GDP surplus and assume no further tax/social security changes
  - Assume implement Simon Stevens’ recommendations for NHS spend
  - Assume ODA increases with GDP
  - Assume protect cash schools spend per pupil

- Conservatives committed to budget balance in next parliament
  - Aspiration for £12bn social security cuts (largely unspecified)
  - Proposed personal tax cuts of around £6bn
  - Excluding £5bn of avoidance (no details given and other parties would implement)
Departmental spending 2015-16 to 2019-20

- Total DEL
- 'Protected' areas
- 'Unprotected' areas

### Coalition policies
- Real £bn change 2015-16 to 2019-20
- Total departments’ % change: -7.2%
- Unprotected departments’ % change: -15.7%

### Conservatives’ scenario
- Real £bn change 2015-16 to 2019-20
- Total departments’ % change: -3.7%
- Unprotected departments’ % change: -3.7%

### Conservatives’ scenario + MOD 2% GDP
- Real £bn change 2015-16 to 2019-20
- Total departments’ % change: -16.3%
- Unprotected departments’ % change: -9.4%
Policies beyond 2015-16

- Budget plans imply 0.3% GDP surplus and assume no further tax/social security changes
  - Assume implement Simon Stevens’ recommendations for NHS spend
  - Assume ODA increases with GDP
  - Assume protect cash schools spend per pupil

- Conservatives committed to budget balance in next parliament
  - Aspiration for £12bn social security cuts (largely unspecified)
  - Proposed personal tax cuts of around £6bn

- Labour committed to current budget balance by end of parliament
  - Net tax and benefit takeaway £1.2bn (mansion tax)
  - Protection for entire education budget
Departmental spending 2015-16 to 2019-20

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Total DEL</th>
<th>'Protected' areas</th>
<th>'Unprotected' areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coalition policies</td>
<td>-26.0</td>
<td>-13.6</td>
<td>-15.7%</td>
</tr>
<tr>
<td>Conservatives' scenario</td>
<td>-18.3</td>
<td>-13.6</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Conservatives' scenario + MOD 2% GDP</td>
<td>-26.6</td>
<td>13.0</td>
<td>16.3%</td>
</tr>
<tr>
<td>Labour scenario</td>
<td>9.2</td>
<td>5.0</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Unprotected departments' % change

-7.2% -15.7% -3.7% -9.4% -3.7% -16.3% +2.5% +2.4%
Departmental spending

Real departmental spending (index 2015-16 = 100)

- Outturn
- Allocated between departments
- Budget 2015 forecasts
Pressures on departments

- Ending contracting out increases public sector employer NICs (£3.7bn)
- Higher contributions to public service pension schemes (£1.1bn)
- Dilnot social care funding (£1.0bn)
- Tax-free childcare (£0.8bn)
- Mental health funding (£0.3bn)

- Public sector wage pressures as private sector wages start to increase
- Pressures of a growing and ageing population on demand for public services
Summary

• Coalition plans imply £26bn cut from departments
  – £40bn cut to 2018-19 followed by an increase
  – Compares to £39.0bn 2010-11 to 2015-16
• Reversed plan to cut departmental spending in 2019-20, leading to a ‘roller-coaster’ profile
  – But real terms increases would always have started at some point
• Conservatives could cut by less: £13.6bn to 2019-20
• Labour could *increase* departmental spending by £9.2bn up to 2019-20
• Borrowing and therefore debt would fall by end of parliament under all three main UK parties, but fastest under Conservatives
Public services spending
Soumaya Keynes