



26 November 2020

Ben Zaranko

@TheIFS

Spending on public services: cuts to come?

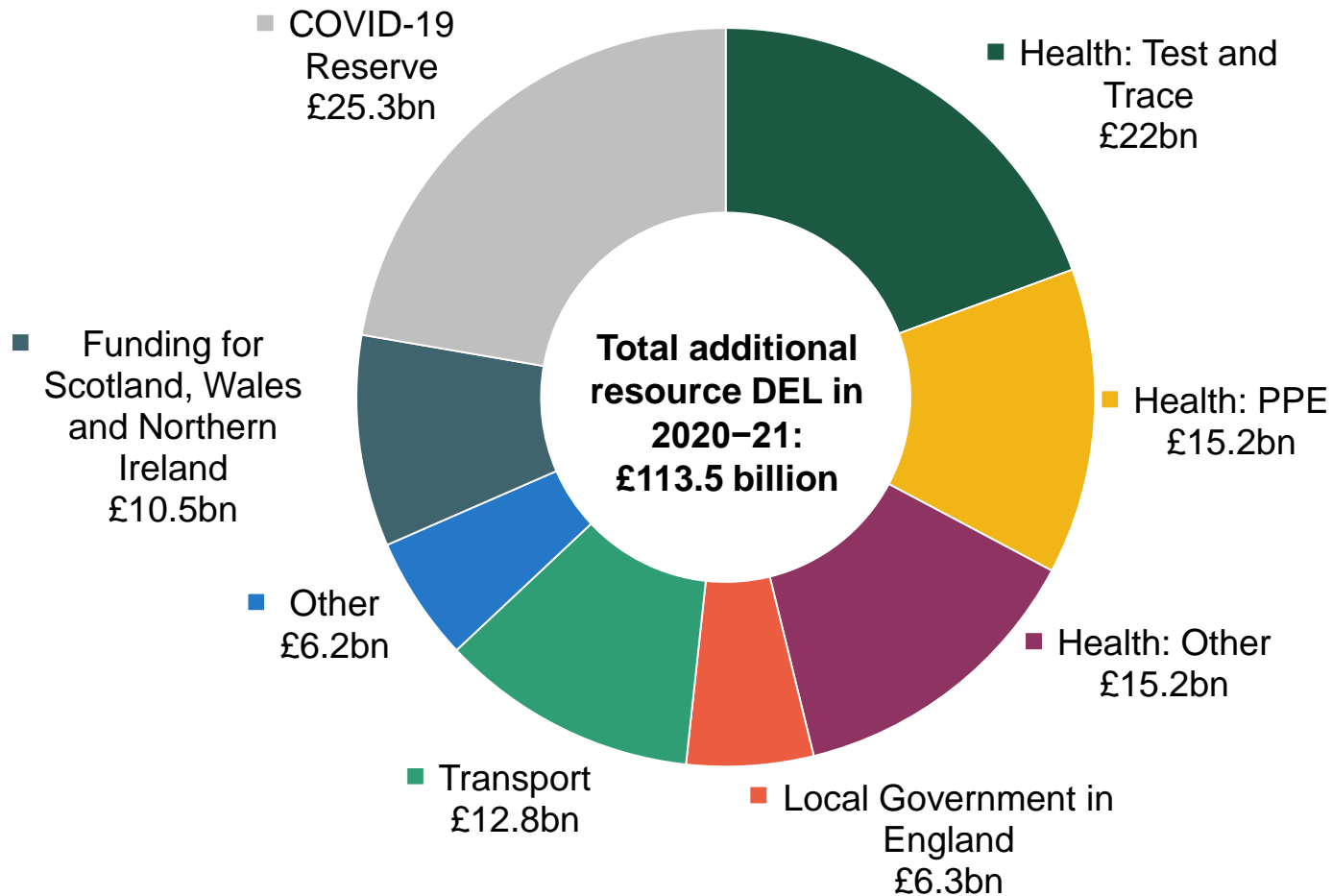


Economic
and Social
Research Council

Public service spending: what happened?

- More funding for public services in response to COVID-19
 - £113 billion this year and £55 billion next year

An eye-watering £113 billion of COVID funding for public services this year

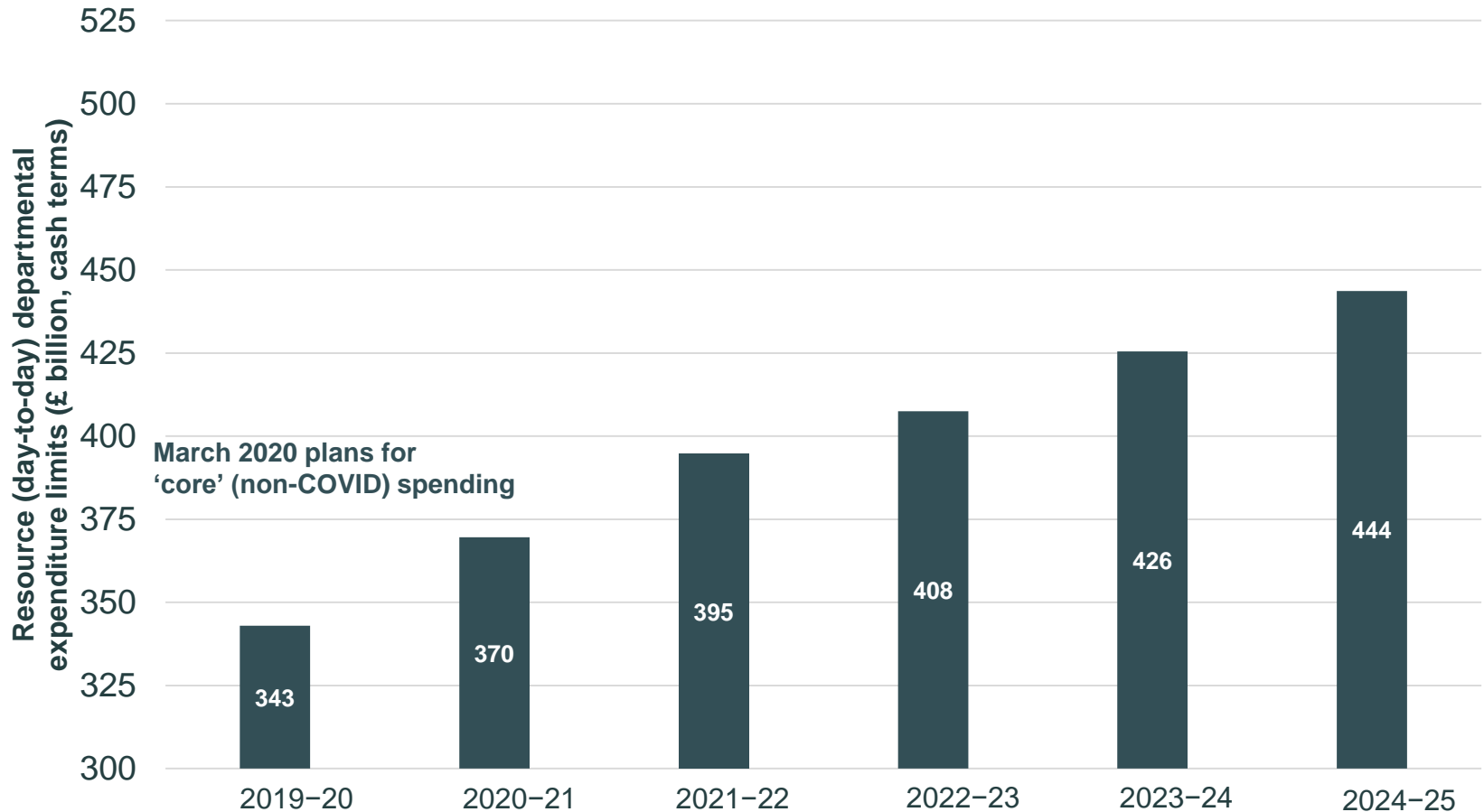


Source: HM Treasury, Spending Review 2020

Public service spending: what happened?

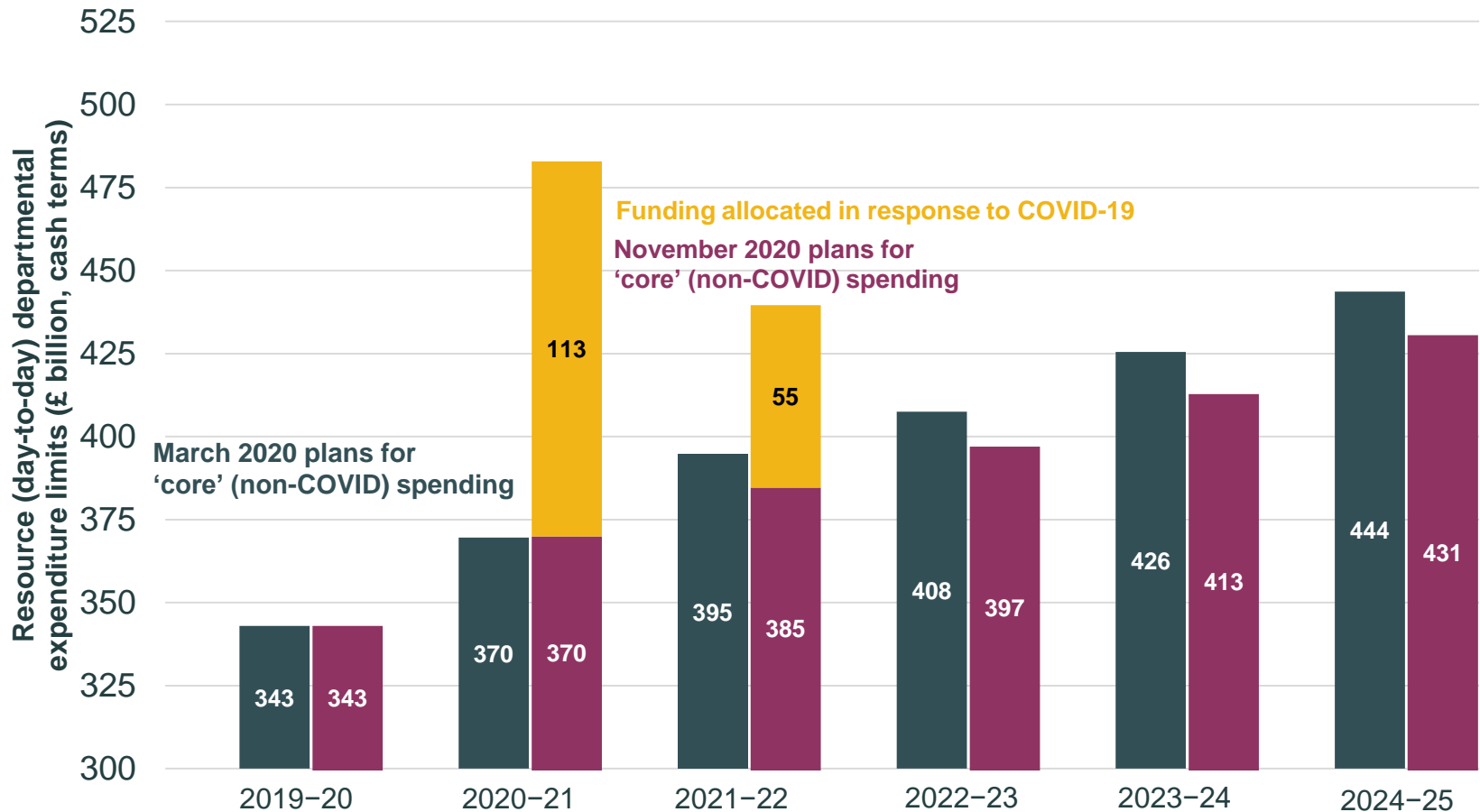
- More funding for public services in response to COVID-19
 - £113 billion of this year and £55 billion next year
- But sizeable cuts to resource (day-to-day) funding for ‘core’ services next year and beyond, relative to what was previously planned
 - £10 billion cut from March plans for non-COVID spending in 2021–22
 - Rising to £13 billion by the end of the Parliament

Changes to plans for day-to-day public service spending



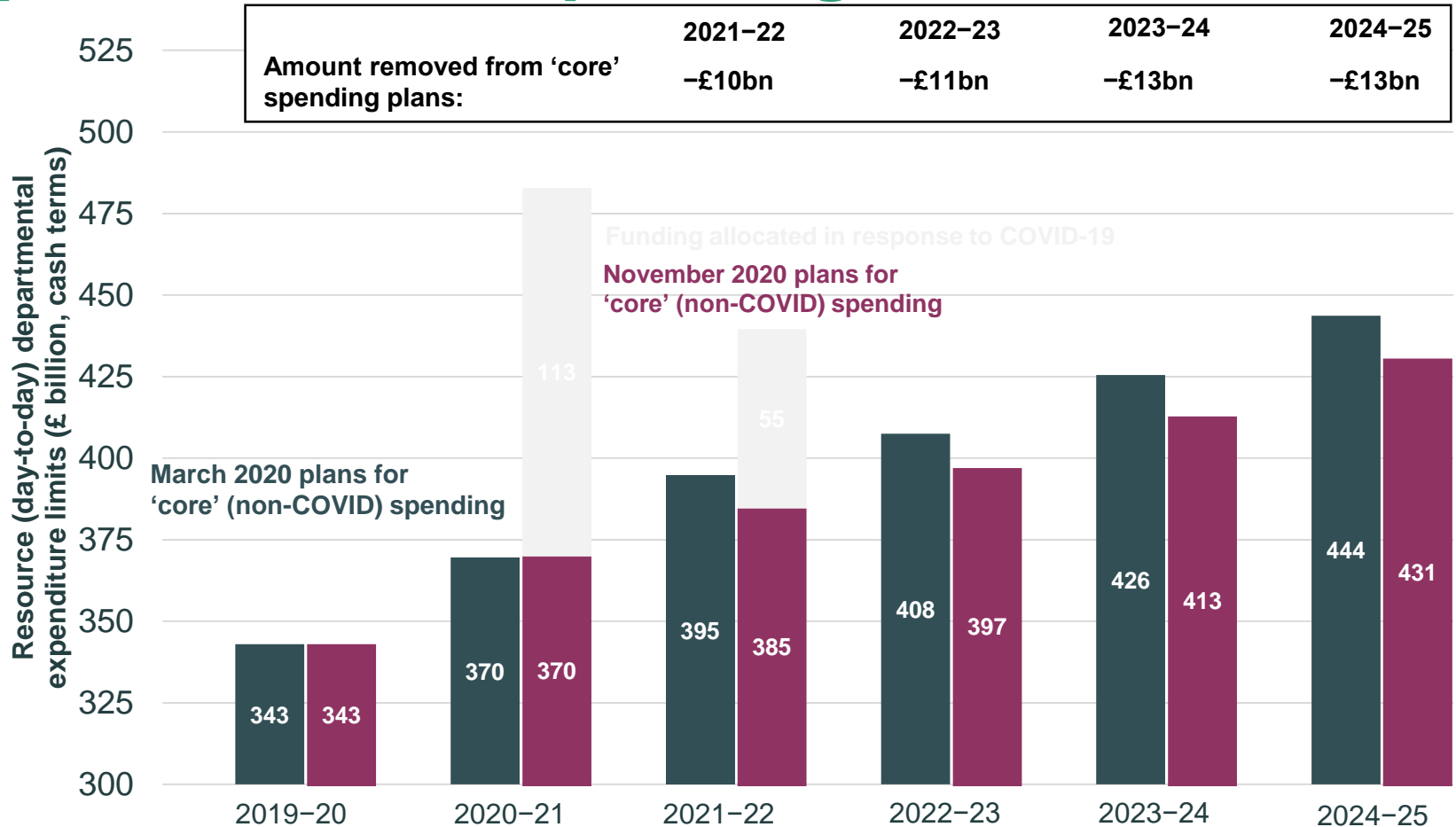
Source: Author's calculations using HM Treasury Budget 2020, HM Treasury Spending Review 2020, and OBR Economic and Fiscal Outlook November 2020. Adjusted for the reclassification of the Scottish Block Grant Adjustment.

Changes to plans for day-to-day public service spending



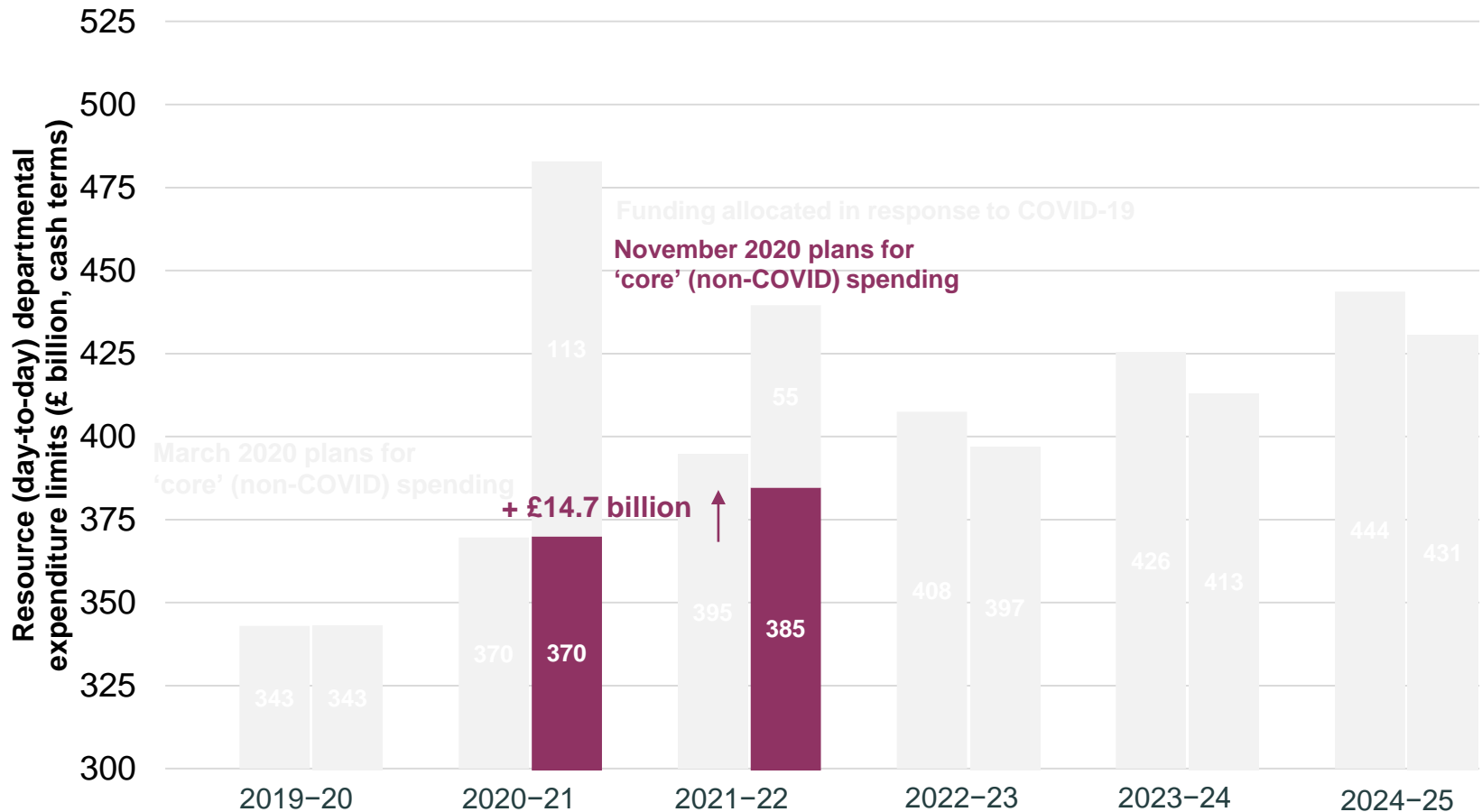
Source: Author's calculations using HM Treasury Budget 2020, HM Treasury Spending Review 2020, and OBR Economic and Fiscal Outlook November 2020. Adjusted for the reclassification of the Scottish Block Grant Adjustment.

Changes to plans for day-to-day public service spending



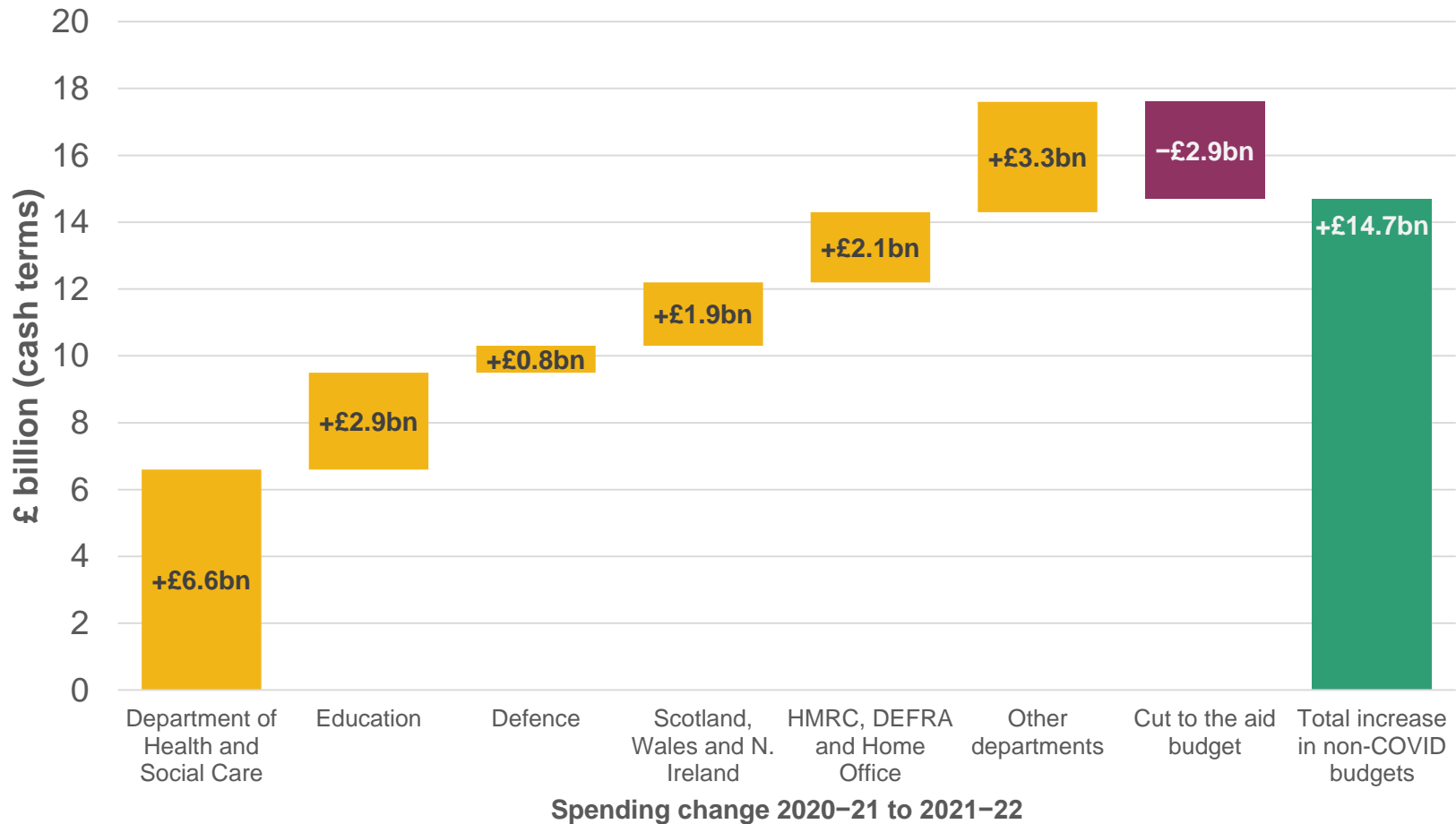
Source: Author's calculations using HM Treasury Budget 2020, HM Treasury Spending Review 2020, and OBR Economic and Fiscal Outlook November 2020. Adjusted for the reclassification of the Scottish Block Grant Adjustment.

Changes to plans for day-to-day public service spending



Source: Author's calculations using HM Treasury Budget 2020, HM Treasury Spending Review 2020, and OBR Economic and Fiscal Outlook November 2020. Adjusted for the reclassification of the Scottish Block Grant Adjustment.

Where is the £14.7 billion going?



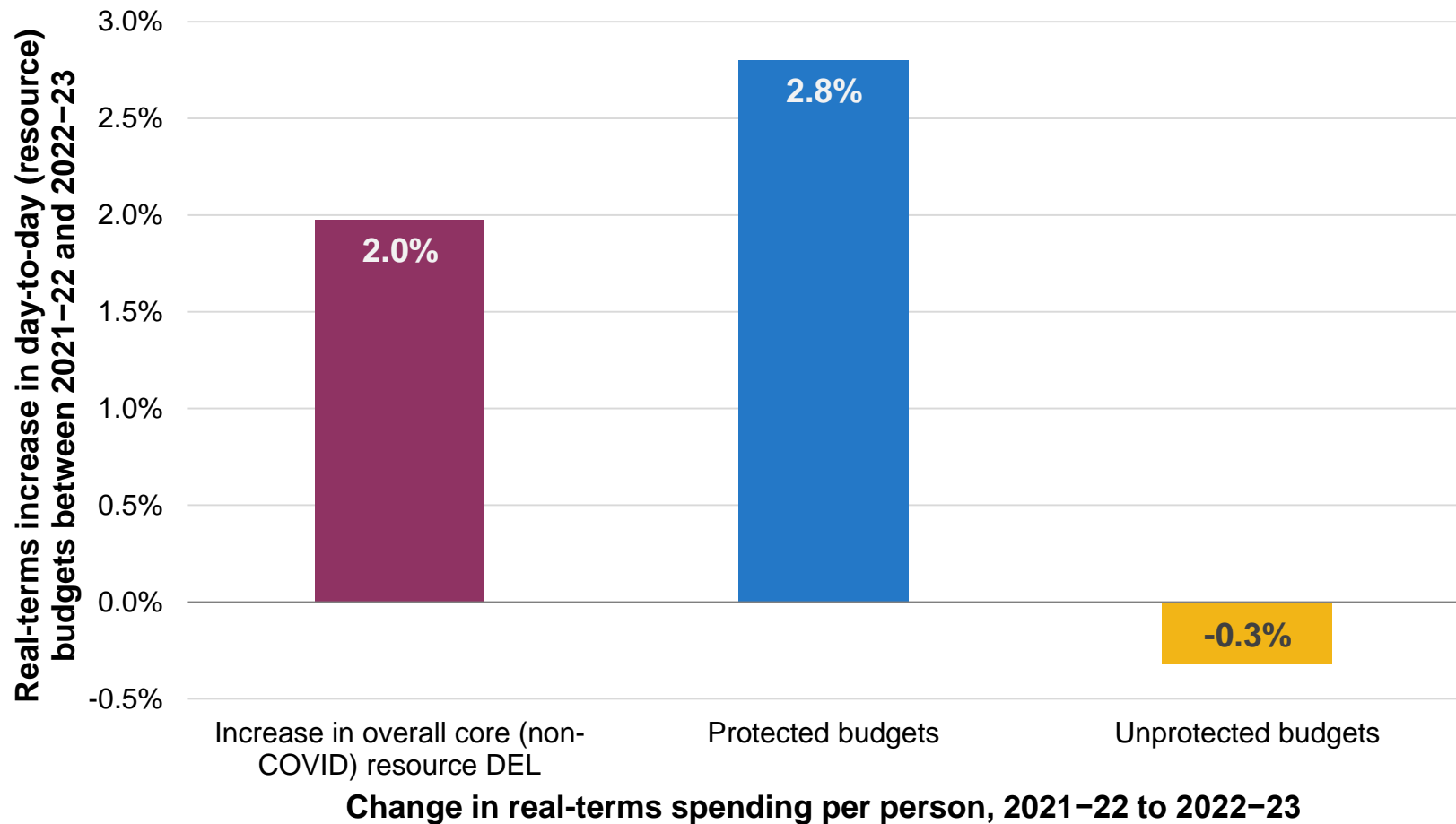
Source: Author's calculations using HM Treasury Spending Review 2020.

- £2.2 billion increase in ‘core’ funding for councils next year
 - ~75% of this comes from increases in council tax (of up to 5%)
 - Richer areas can gain more from council tax increases
 - Council tax base not well-matched to social care needs
- More than £3 billion of COVID support (in various forms)
- Combined, around £5.5 billion of extra funding next year (relative to pre-COVID baseline for 2020–21)
 - Nowhere near enough to reverse the cuts made since 2010

What about after next year?

- The government has made several multi-year commitments
 - NHS England, schools in England, Defence
 - **Together:** £223bn (57%) of the £397bn available for 2022–23
 - Plus associated funding for Scotland, Wales and N. Ireland
- Aid spending reduced from 0.7% to 0.5% of national income next year – but set to increase in line with the economy after that
- Implies very tight settlements for remaining public services
 - **Remember:** outside of Health, real-terms public service spending was cut by 19% (24% per person) over the decade to 2019–20

Unprotected budgets are facing a squeeze after next year

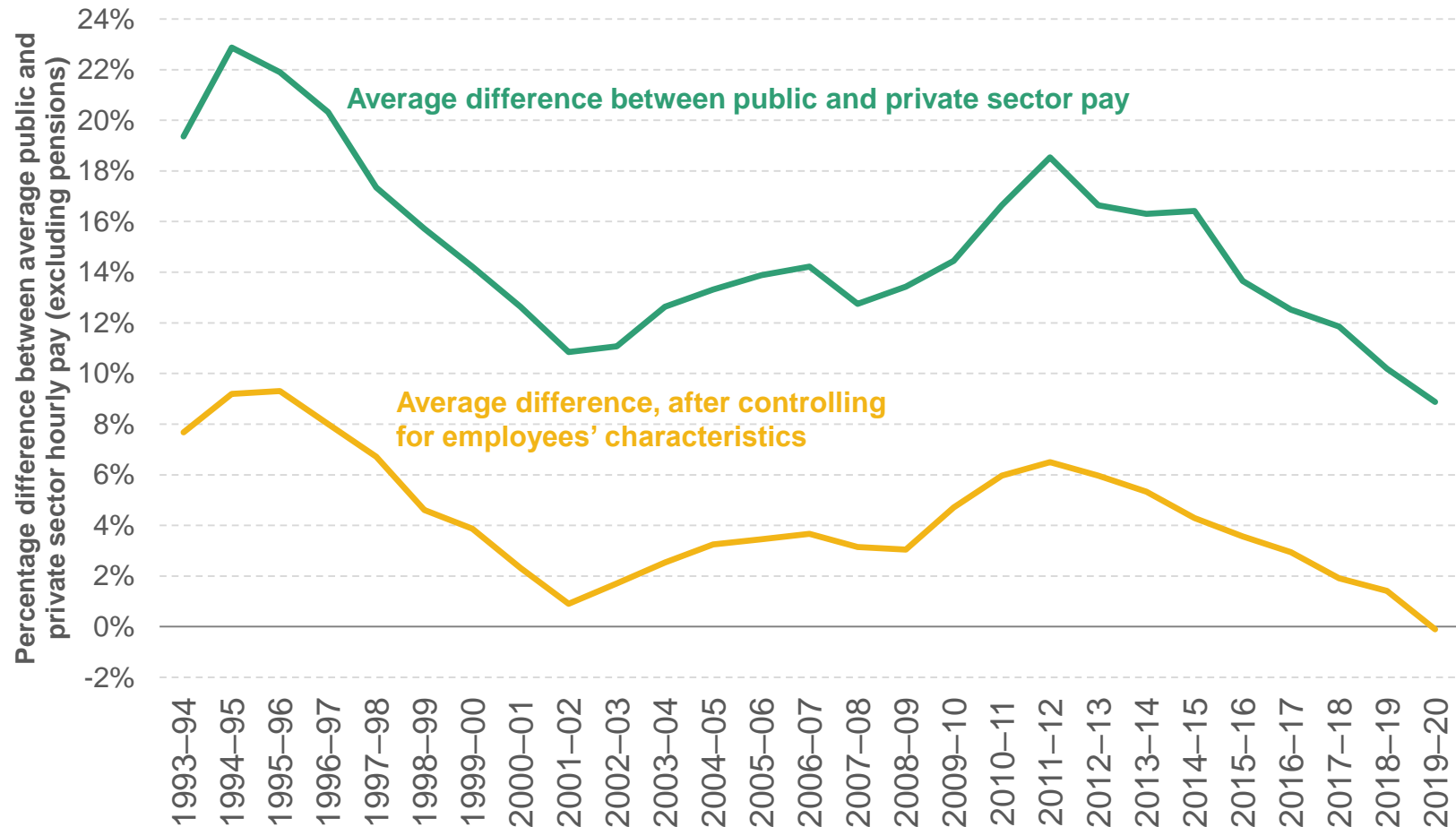


Note: Figures are for HM Treasury definition of core resource DEL (excluding depreciation) per capita. Protected budgets include: NHS England; schools in England; the Barnett consequential of increases in NHS and schools spending for Scotland, Wales and Northern Ireland; Ministry of Defence; and estimated ODA RDEL.
Source: Author's calculations using HM Treasury Spending Review 2020 and OBR Economic and Fiscal Outlook, November 2020.

Public sector pay freeze

- Public sector pay frozen in cash terms next year
 - Exemptions: lower earners (<£24k p.a.) and all NHS workers
 - Result: less than ½ public sector workforce affected by freeze
 - Probably saves only between £1 and £2 billion
- The £250 pay rise for lower earners appears to apply to **all** of those earning less than £24,000 per year, whether full-time or part-time
 - If indeed the case, this has some perverse features, e.g.
 - Part-time teacher on £20k p.a. get £250; full-time teacher on £30k p.a. gets nothing
 - Full-time teaching assistant on £20k p.a. gets the same £250 pay rise as their colleague who only works 2 days a week

This comes on the back of a previous decade of pay restraint

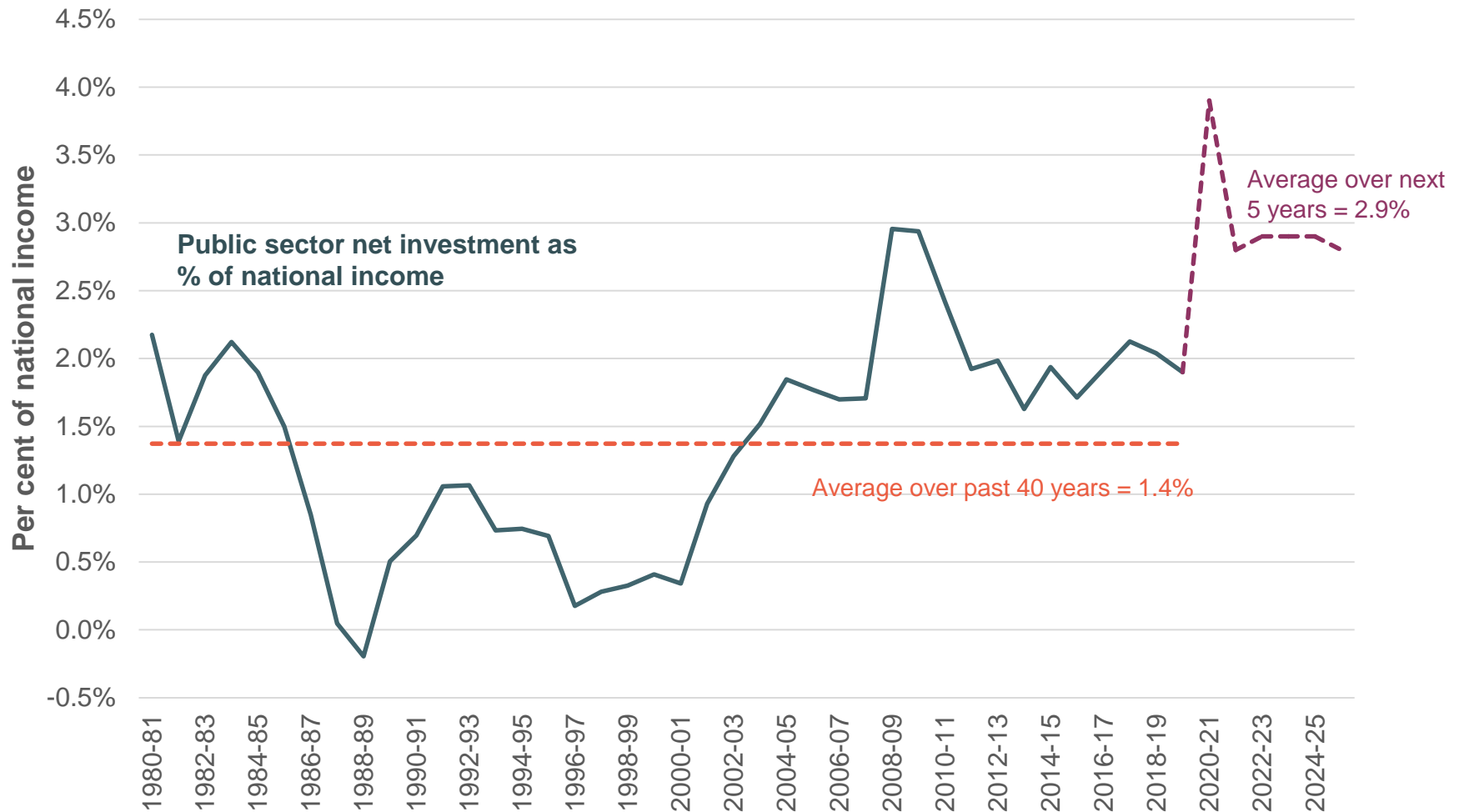


Note: Figures show are for hourly pay (excluding pensions). Difference controlling for workers' characteristics controls for differences in age, education, experience and region, all interacted with sex, following the same methodology as in Cribb, Emmerson and Sibiet (2014). Source: Author's calculations using Labour Force Survey.

Investment spending

- Capital spending plans left largely unchanged
 - Allocation of the large sums that had already been announced

Public sector net investment



Source: Author's calculations using OBR Public Finances Databank and Economic and Fiscal Outlook November 2020.

- Capital spending plans left largely unchanged
 - Allocation of the large sums that had already been announced
- National Infrastructure Strategy: focus on transition to net zero and addressing regional imbalances
 - e.g. Cross Rail 2 cancelled; *“frees up investment to raise the performance of public transport networks in the regional cities”*
- Review of the Green Book to place greater weight on alignment with the government’s strategic objectives (e.g. ‘levelling up’)
- Numerous announcements on regional funding
 - Lack of clarity on new UK Shared Prosperity Fund
 - A new ‘Levelling Up Fund’: modest in size; managed centrally; adds to rather than simplifies the schemes already in place

Final thoughts

- Key decision: plans for non-COVID public service spending reduced by £10bn next year, relative to March plans
 - Relatively austere totals pencilled in for the remainder of this Parliament – can we really expect them to be stuck to?
 - e.g. do we really expect the NHS to revert to pre-COVID spending plans after next year?

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk

