What does the Budget mean for public services?

Ben Zaranko

IFS Spring Budget 2020 briefing

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Economic and Social Research Council

WiFi Network: The Building Centre (Open Network)

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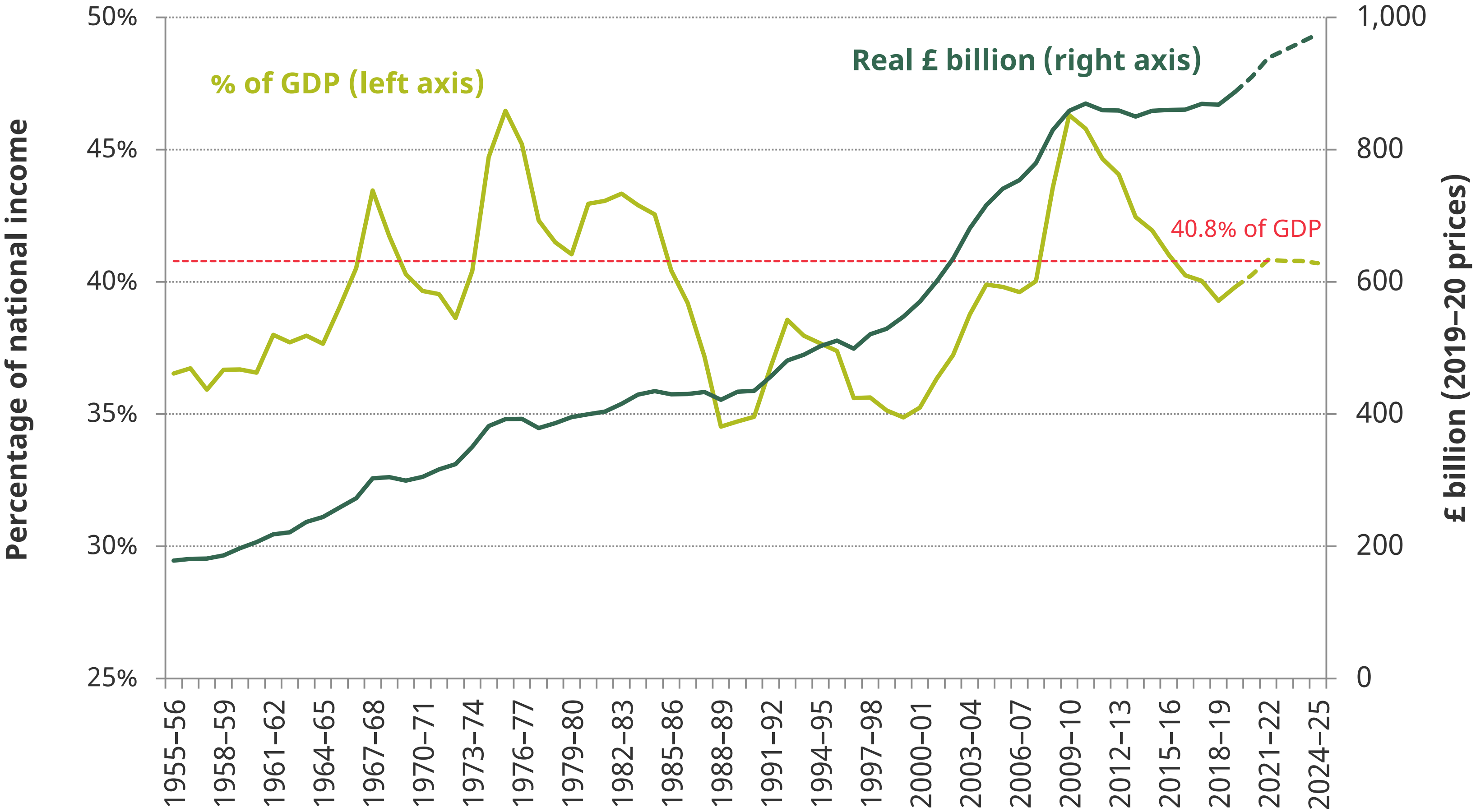
Budget spending announcements

The Chancellor set his overall Spending Review ‘envelope’

- SR 2020 will conclude in the summer, not alongside the autumn Budget
  - resource (day-to-day) budgets: three years from 2021–22 to 2023–24
  - capital (investment) budgets: four years from 2021–22 to 2024–25
  - other spending (e.g. social security spending) not in scope

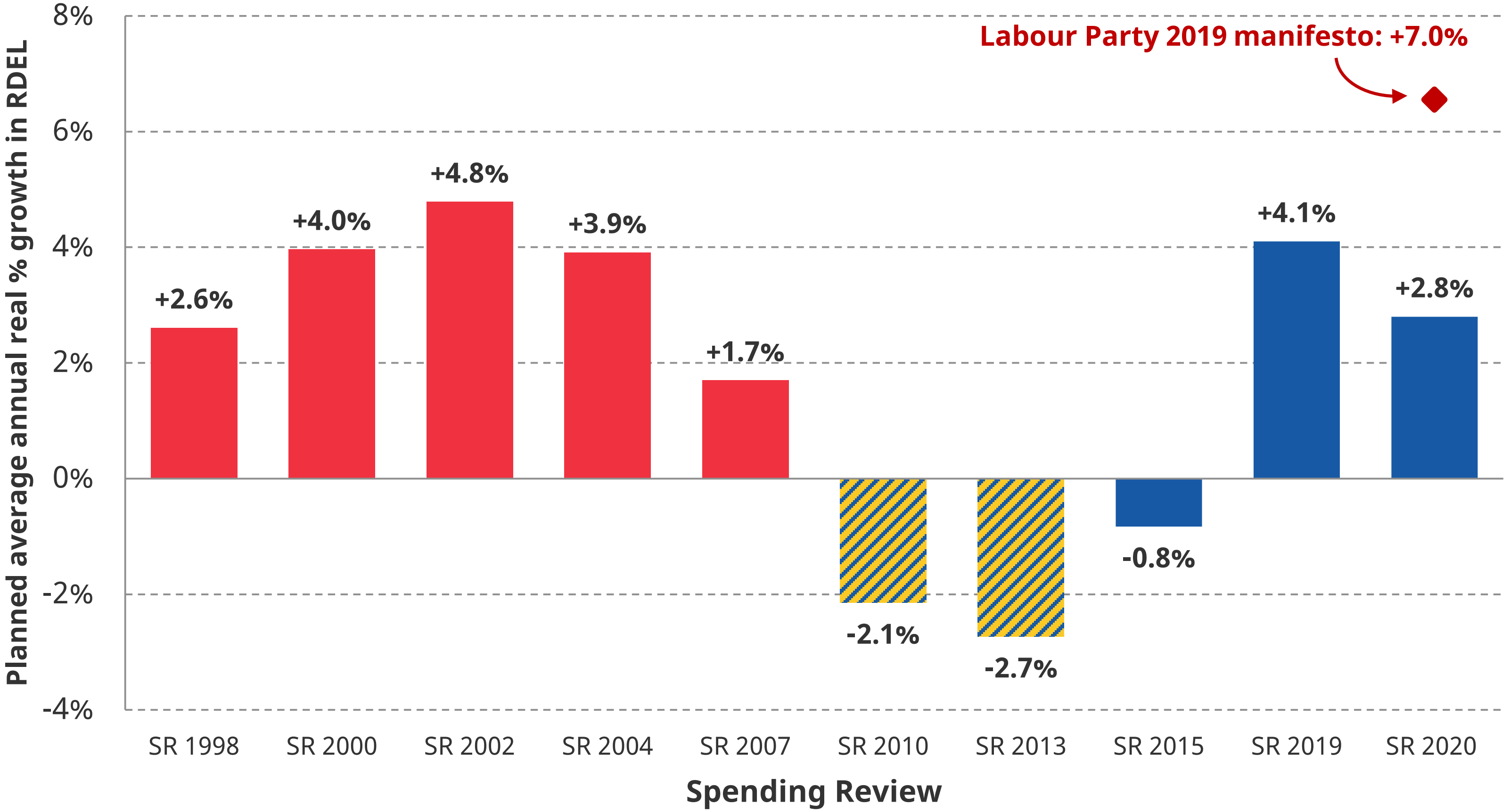
Big promises on investment

The big picture: the size of the state is set to stabilise after 2022–23, at above the pre-crisis level



Source: Author's calculations using OBR Public Finances Databank.

The Chancellor announced that day-to-day spending on public services will grow by 2.8% per year in real-terms between 2020–21 and 2023–24



Note: Figures denote the *planned* average annual real growth rate in day-to-day spending on public services (Resource Departmental Expenditure Limits excluding depreciation). Labour figure is average increase between 2019–20 and 2023–24 implied by their manifesto commitments. Source: Author's calculations using HM Treasury Spending Review (various), HM Treasury Budget 2020, OBR's March 2020 Economic and Fiscal Outlook, Labour party 2019 election manifesto.

Spending Review plans are front-loaded

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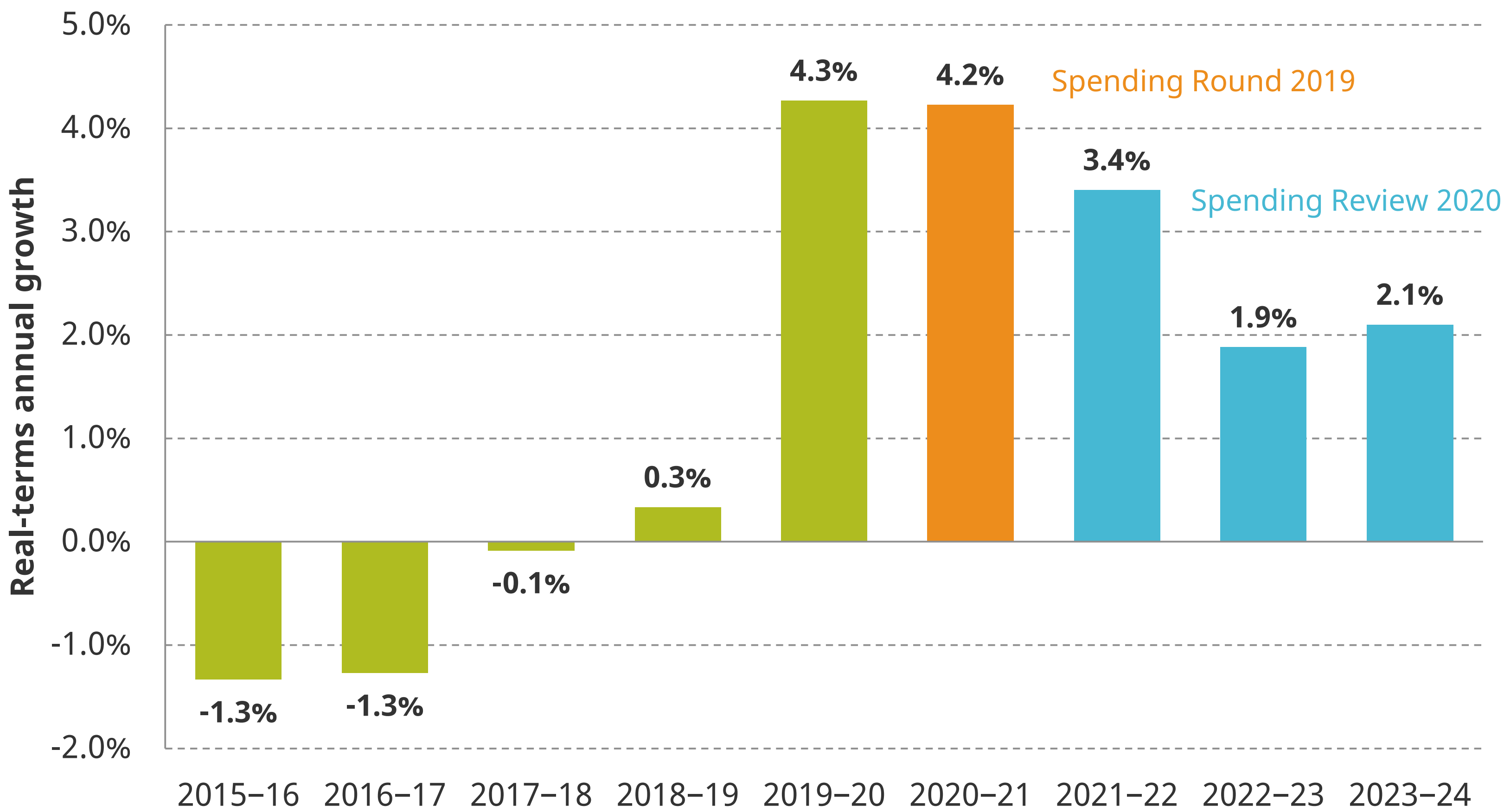
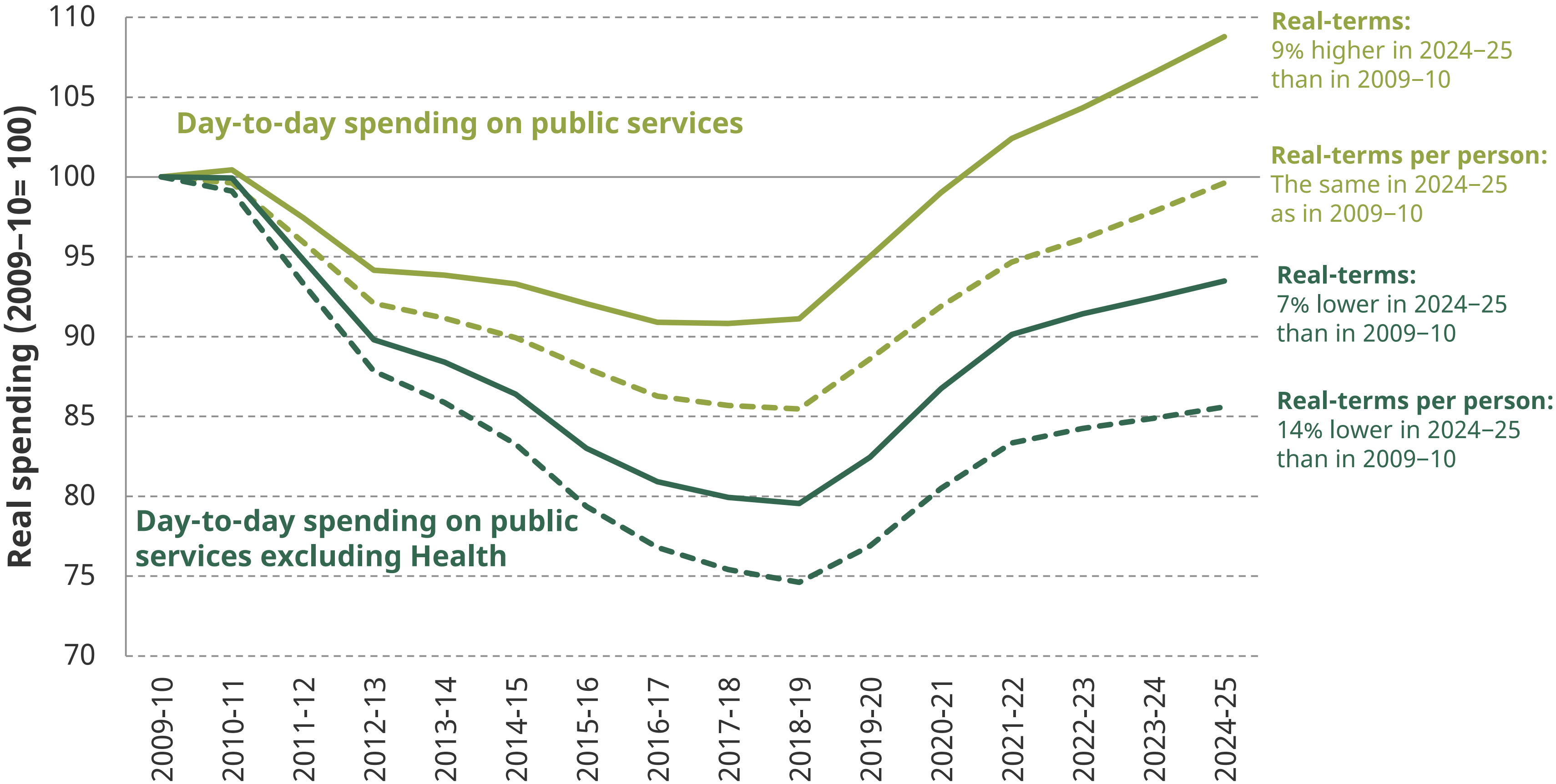


Note: Figures denote real annual growth in Public Sector Current Expenditure in Resource DEL (PSCE in RDEL) adjusted for historic discontinuities, relative to the previous financial year. Source: OBR Economic and Fiscal Outlook, March 2020, supplementary expenditure tables.

The raw figures suggest that real-terms public service spending per person will return to its 2010 level by 2025



Note: All figures denote public sector current expenditure in resource DEL (PSCE in RDEL), adjusted for historic discontinuities.
Source: Author’s calculations using OBR Economic and Fiscal Outlook March 2020 and various HM Treasury Public Expenditure Statistical Analyses.

The raw figures do not tell the full story, however

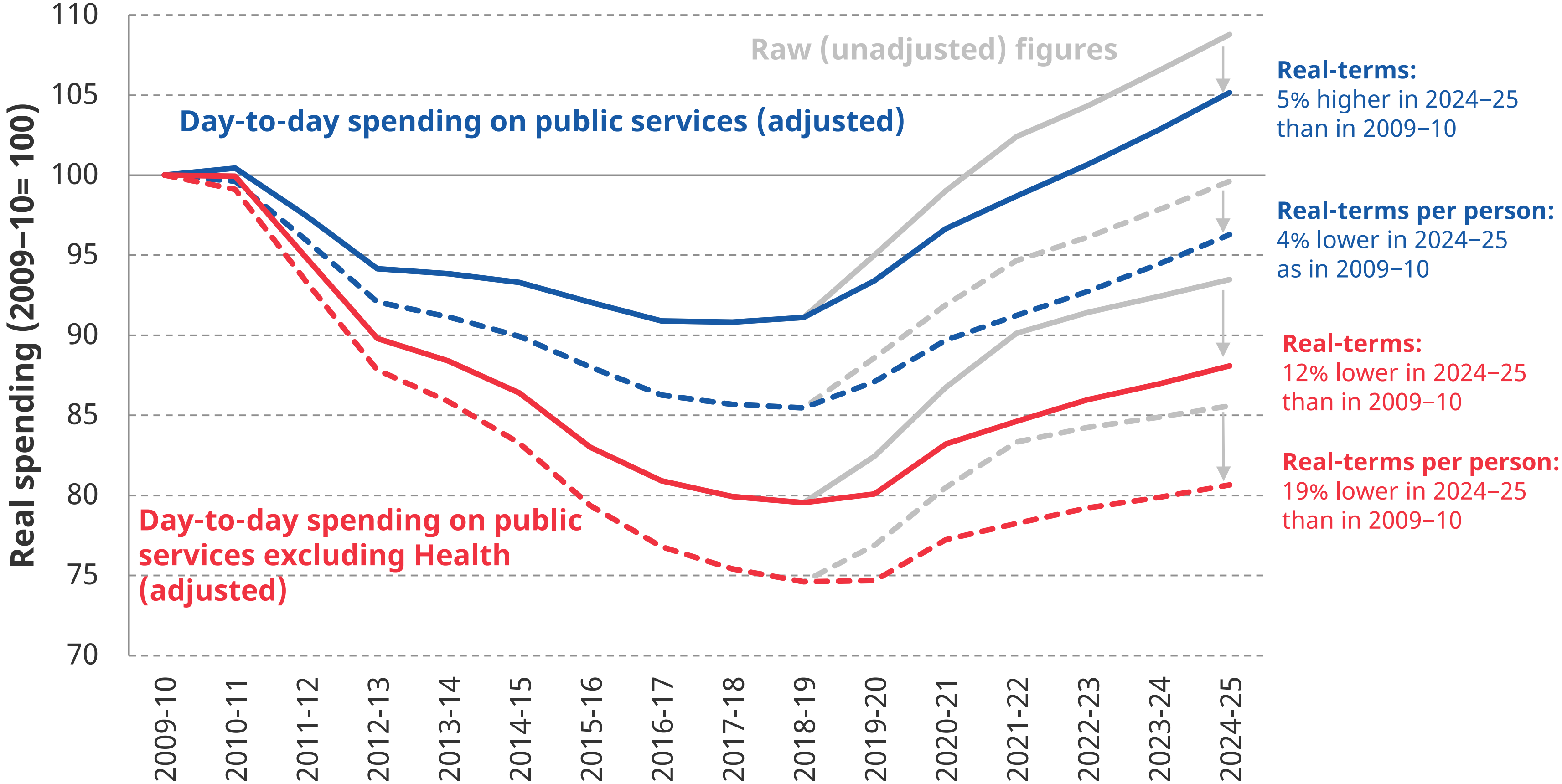
The nominal RDEL total in 2023–24 is part-funded by £11.3 billion of direct savings from EU contributions we will no longer pay

- But the EU would have been expected to undertake approx. £7–8 billion of day-to-day spending in that year either in the UK or on our behalf (e.g. on overseas aid)
- If the Government replaced all of that spending, this would come out of the DEL settlement
  - so approx. £7–8 billion of spending in 2023–24 would not be 'new' money or available to allocate to other public services; including it overstates the 'true' generosity of the settlement

Raw figures from 2019–20 onwards also include approx. £5.5 billion extra spending per year in relation to a change in employer pension contributions

We adjust for these actors to obtain a more consistent series over time

On this adjusted measure, day-to-day spending per person will not return to its 2010 level by 2025



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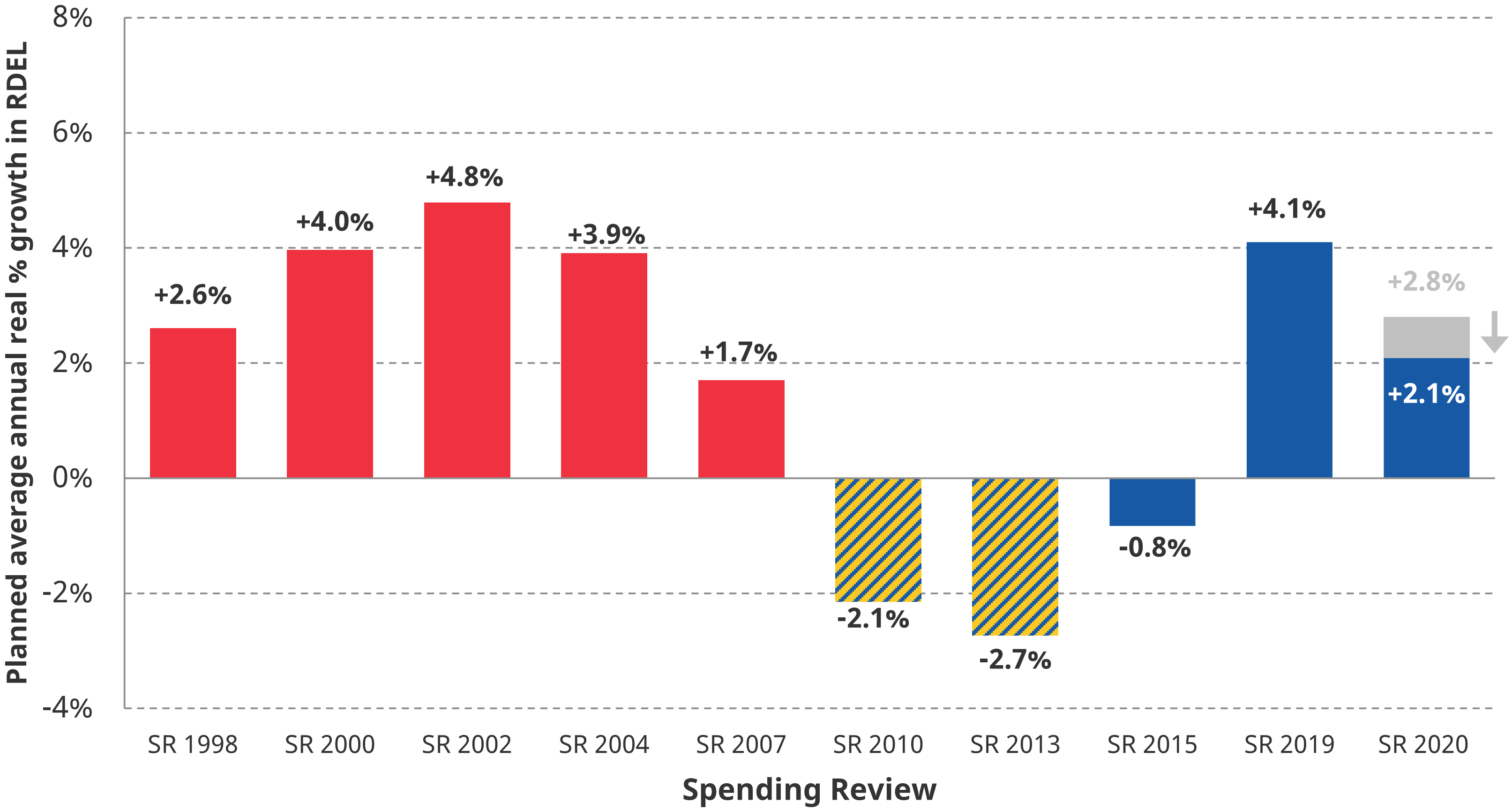
Source: Author's calculations using HM Treasury Budget 2020, OBR Economic and Fiscal Outlook (March 2020 and March 2019), various HM Treasury Public Expenditure Statistical Analyses, Spending Round 2019, Department for International Development Statistics 2018.

Our adjusted figures imply that day-to-day spending on public services will in fact grow by 2.1% per year in real-terms between 2020–21 and 2023–24



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No spending department is facing a real-terms cut between this year and next

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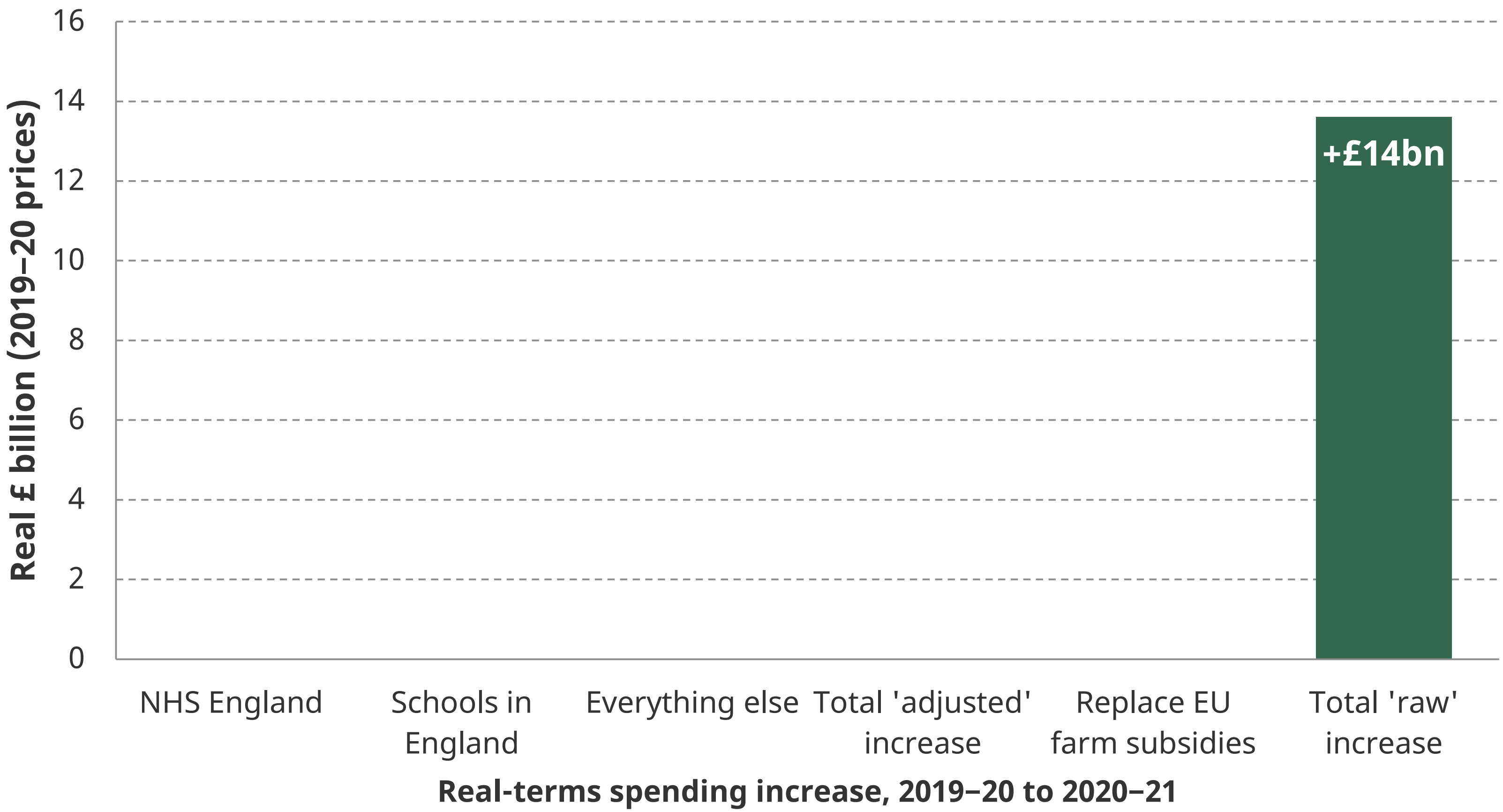

Note: Total increase denotes the real-terms increase in public sector current expenditure in resource DEL (PSCE in RDEL), adjusted for historical discontinuities. Source: Author's calculations using HM Treasury Budget 2020, OBR Economic and Fiscal Outlook March 2020, various HM Treasury Public Expenditure Statistical Analyses, Spending Round 2019.

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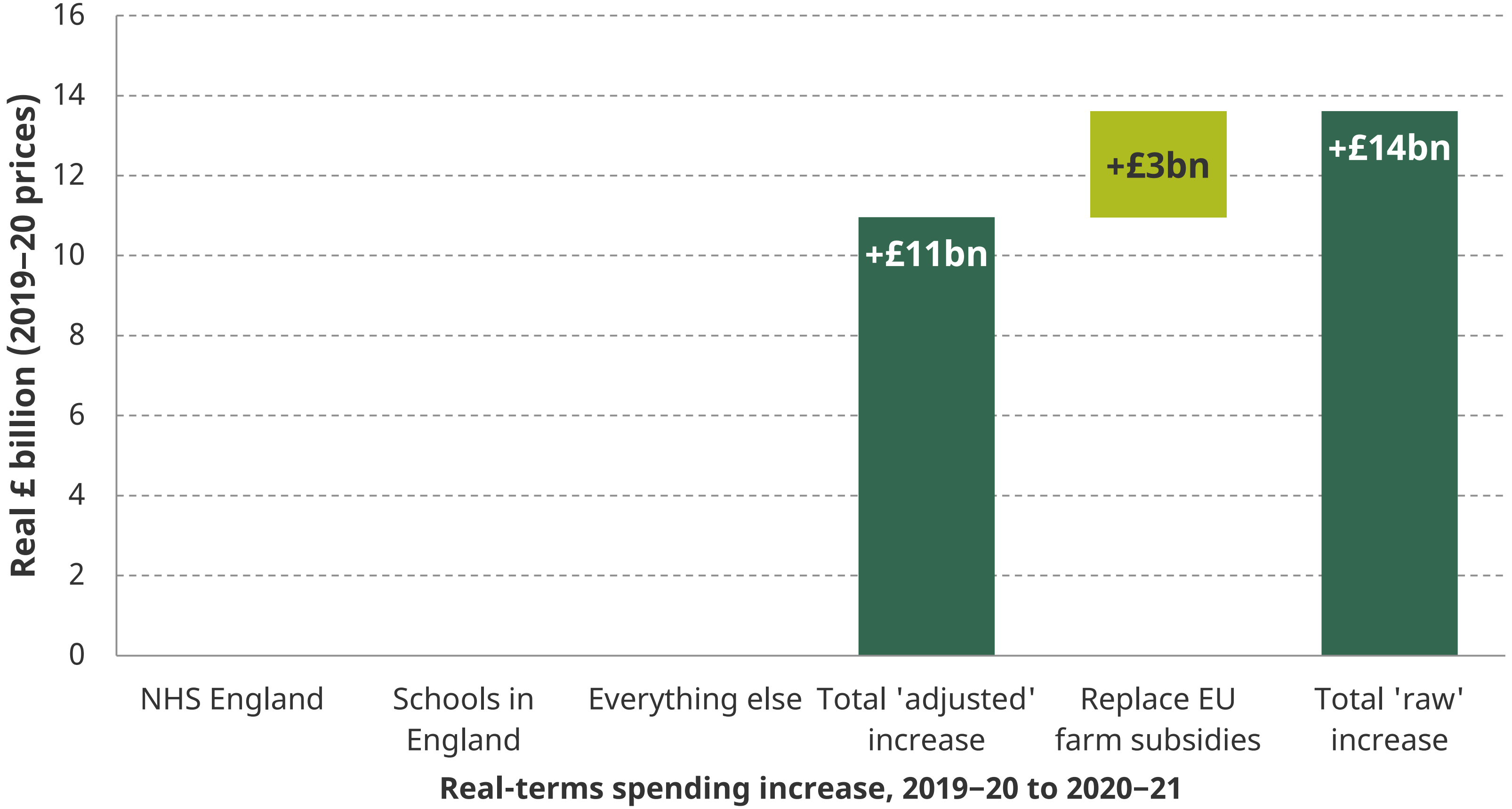

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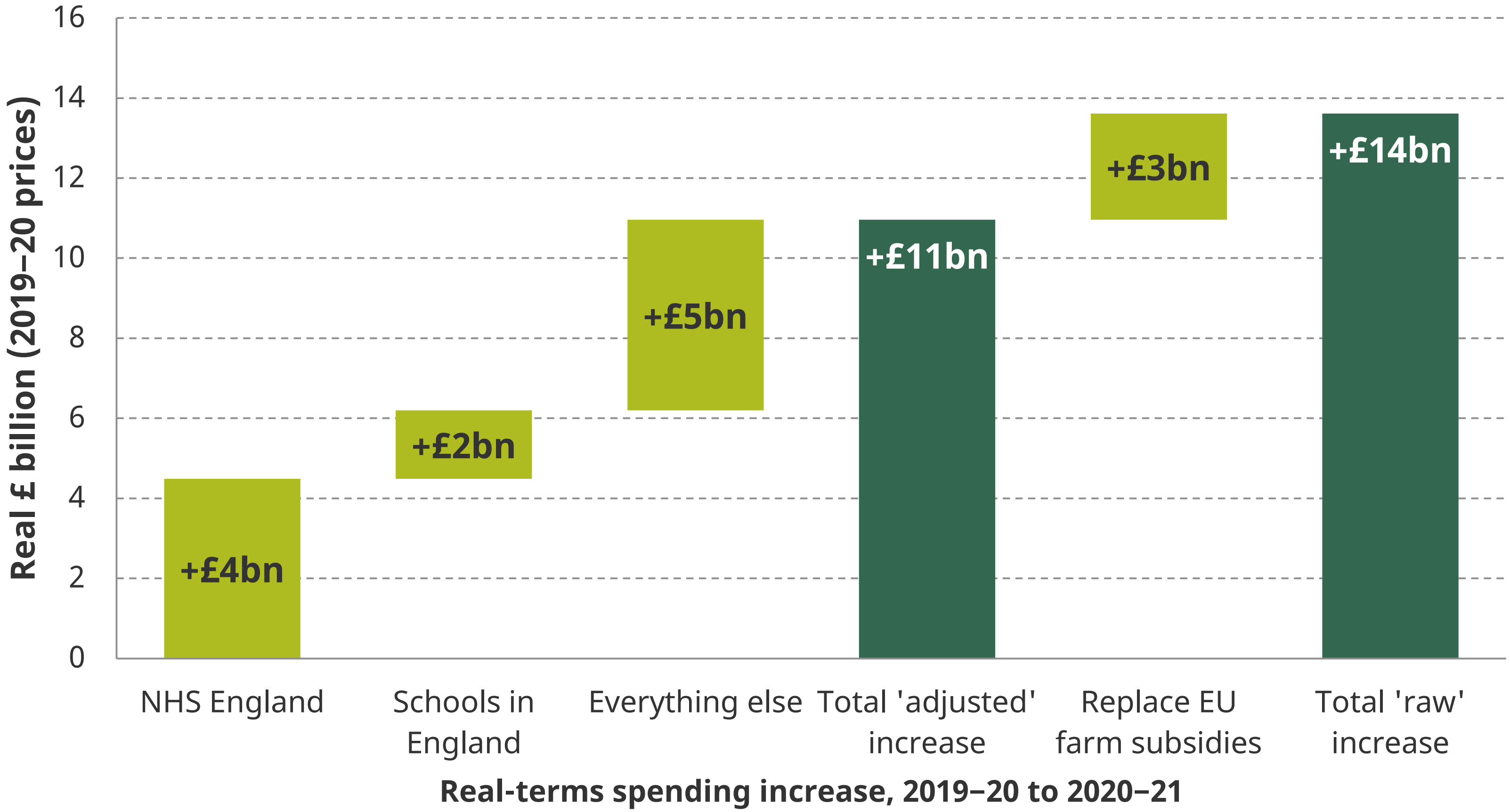

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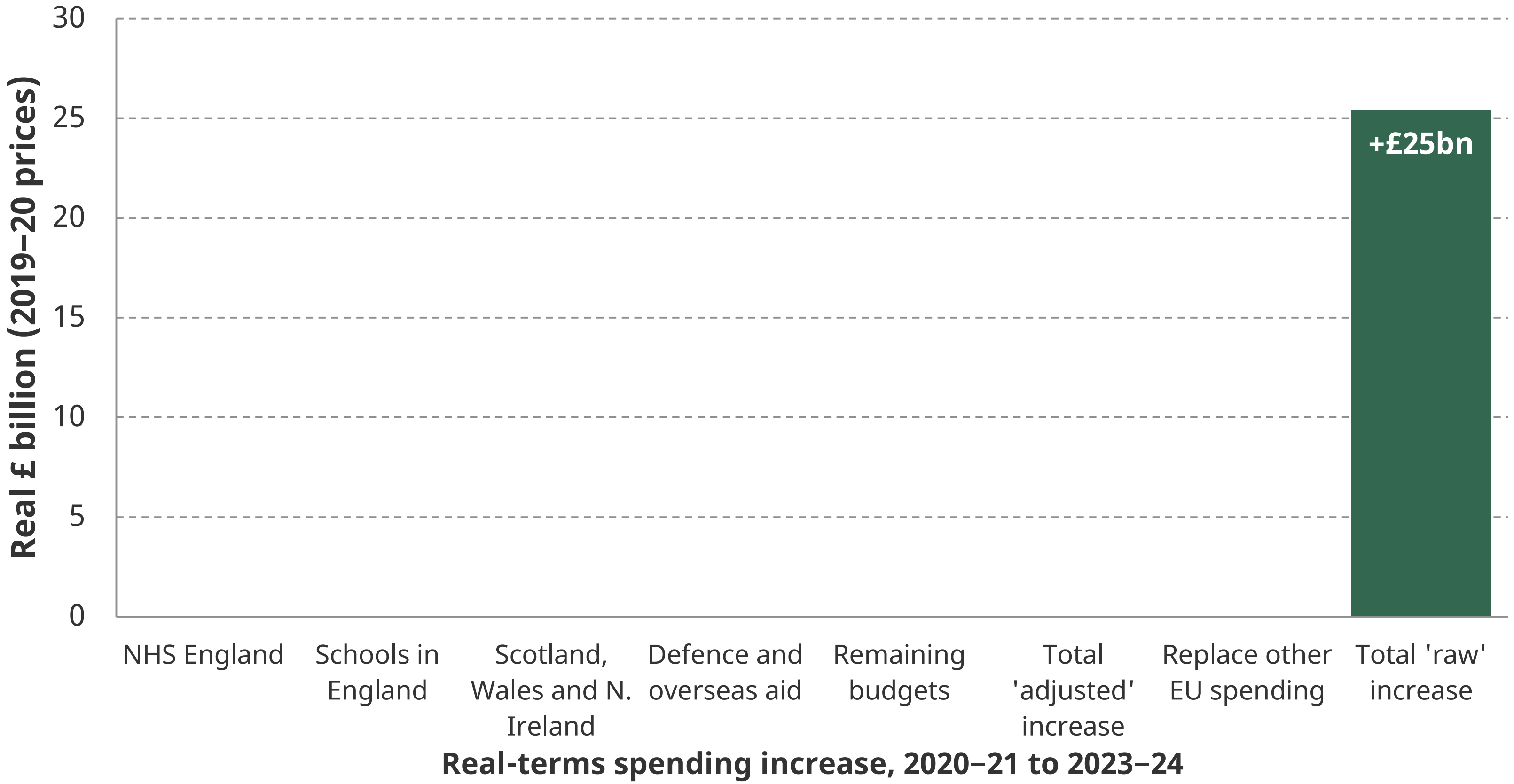
Spending settlements outside of Health still look extremely tight over the next Spending Review period



Note: Total ‘raw’ increase denotes the real-terms increase in public sector current expenditure in resource DEL (PSCE in RDEL), adjusted for historical discontinuities. Total ‘adjusted’ increase also adjusts for estimated resource spending previously done by the EU, that reflects a transfer from AME to DEL rather than a genuine increase in departmental budgets. Scotland, Wales and N. Ireland refers to Barnett consequential of NHS and schools spending only. Source: Author’s calculations using HM Treasury Budget 2020, OBR Economic and Fiscal Outlook (March 2020 and March 2019), various HM Treasury Public Expenditure Statistical Analyses, Spending Round 2019, Department for International Development Statistics 2018.

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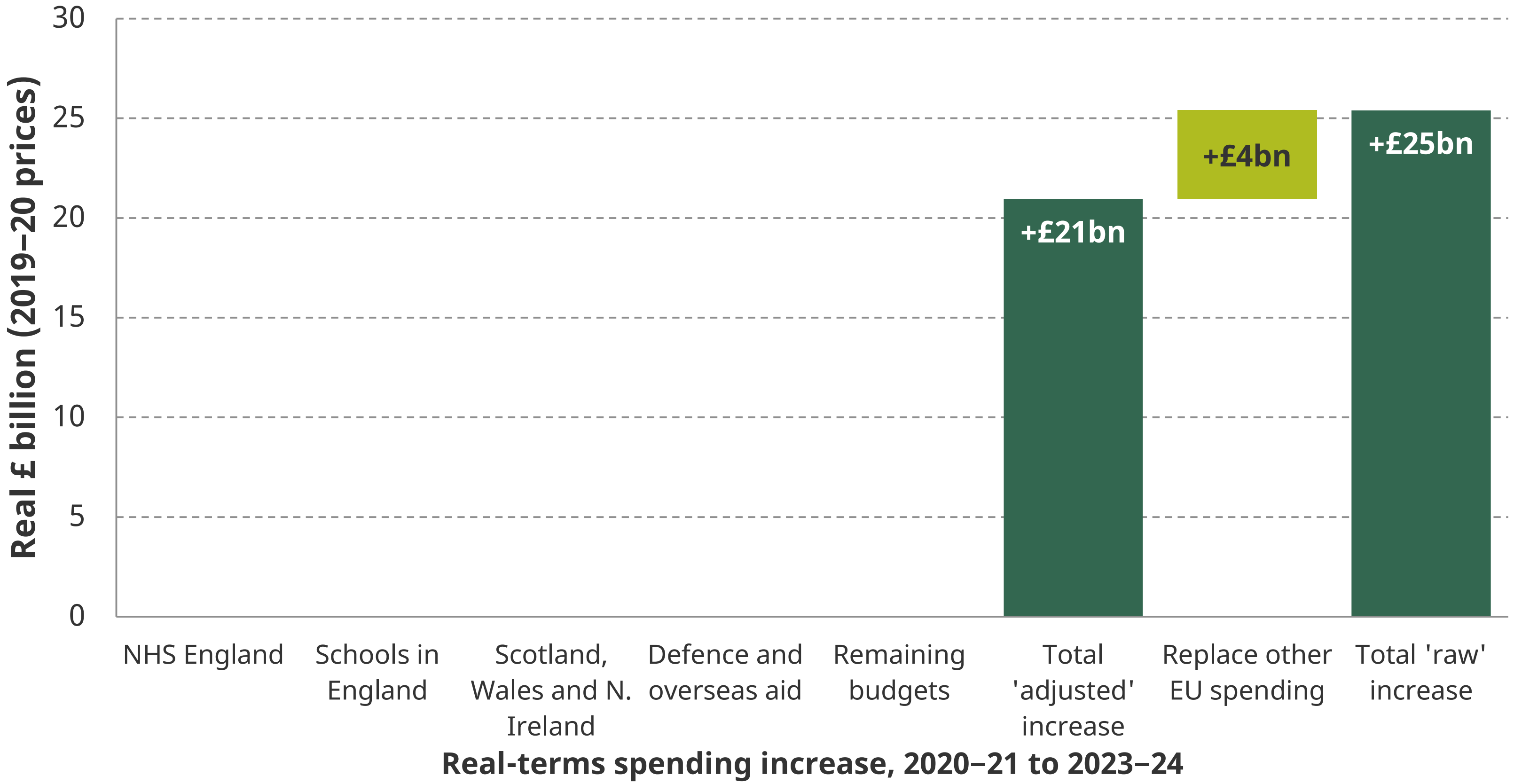

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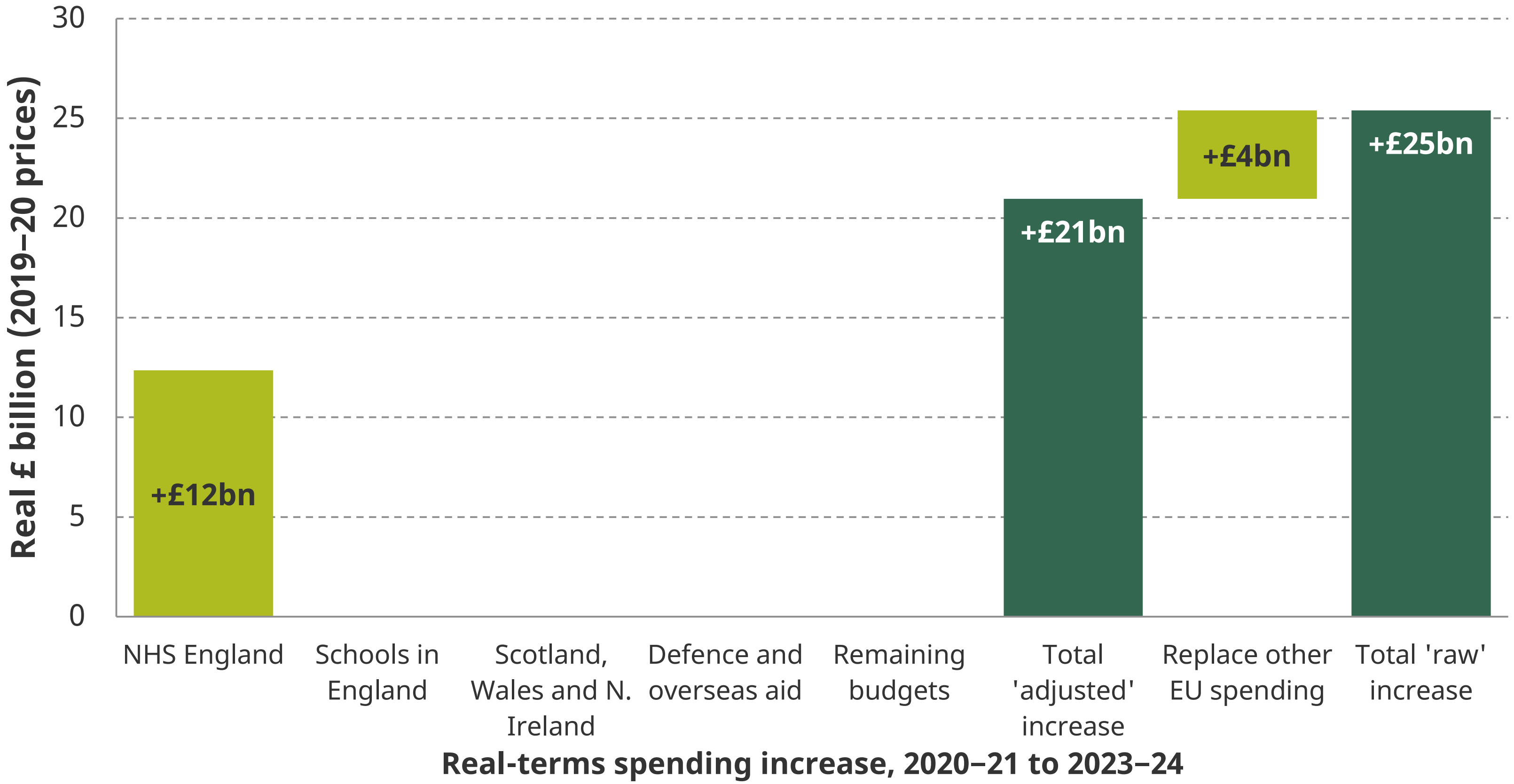

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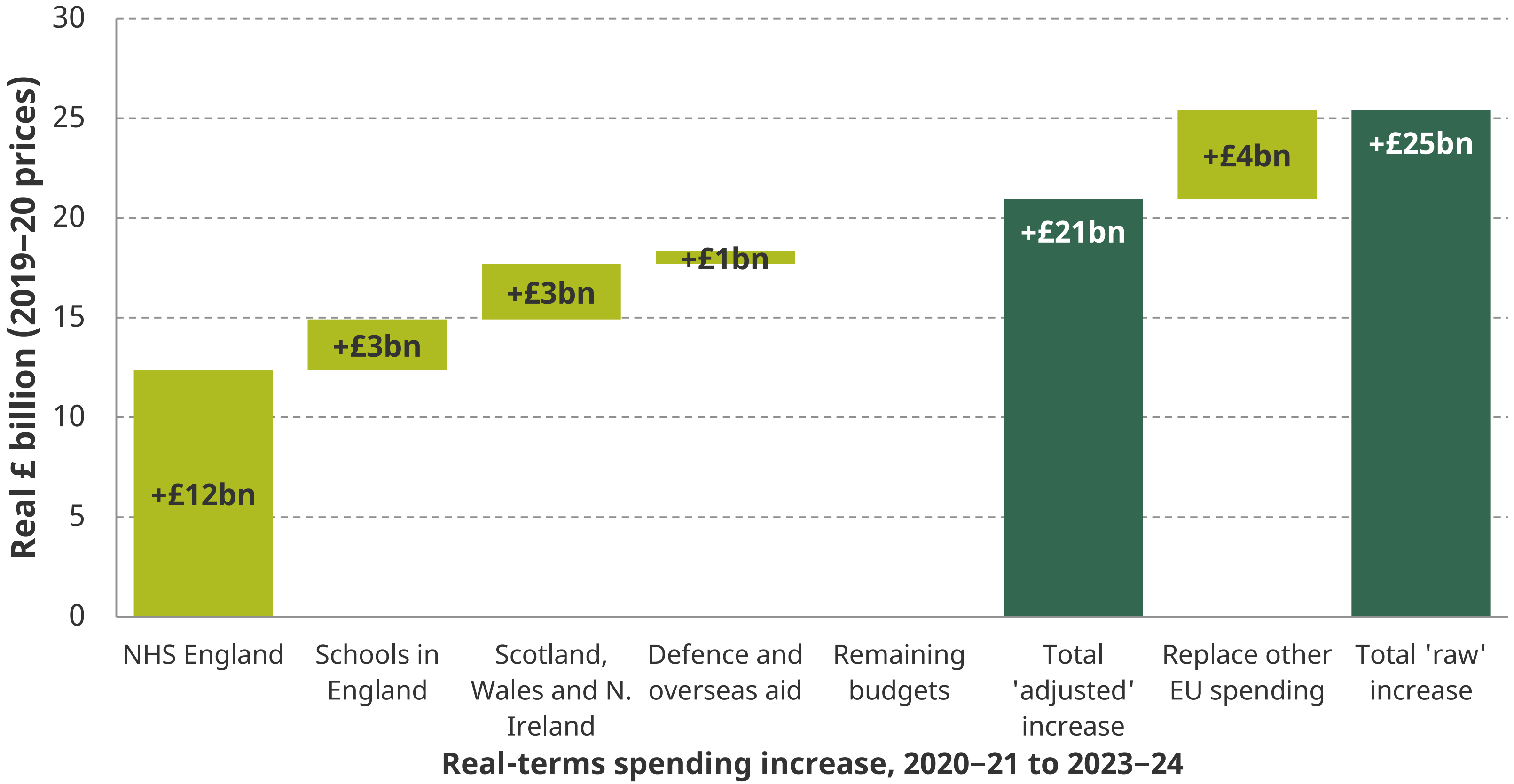

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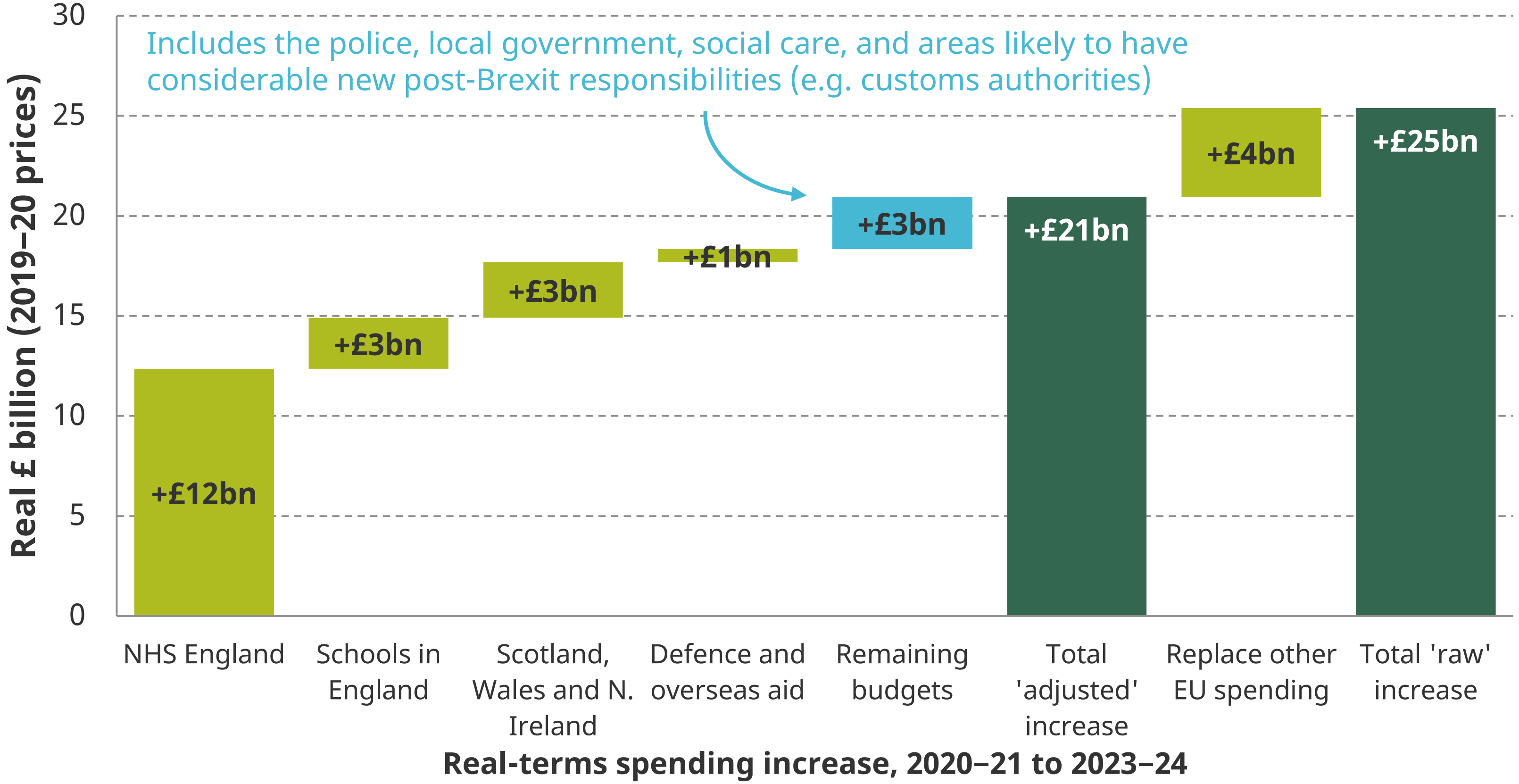

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Day-to-day public service spending: a summary

The Chancellor announced 2.8% annual real increase over the SR 2020 period

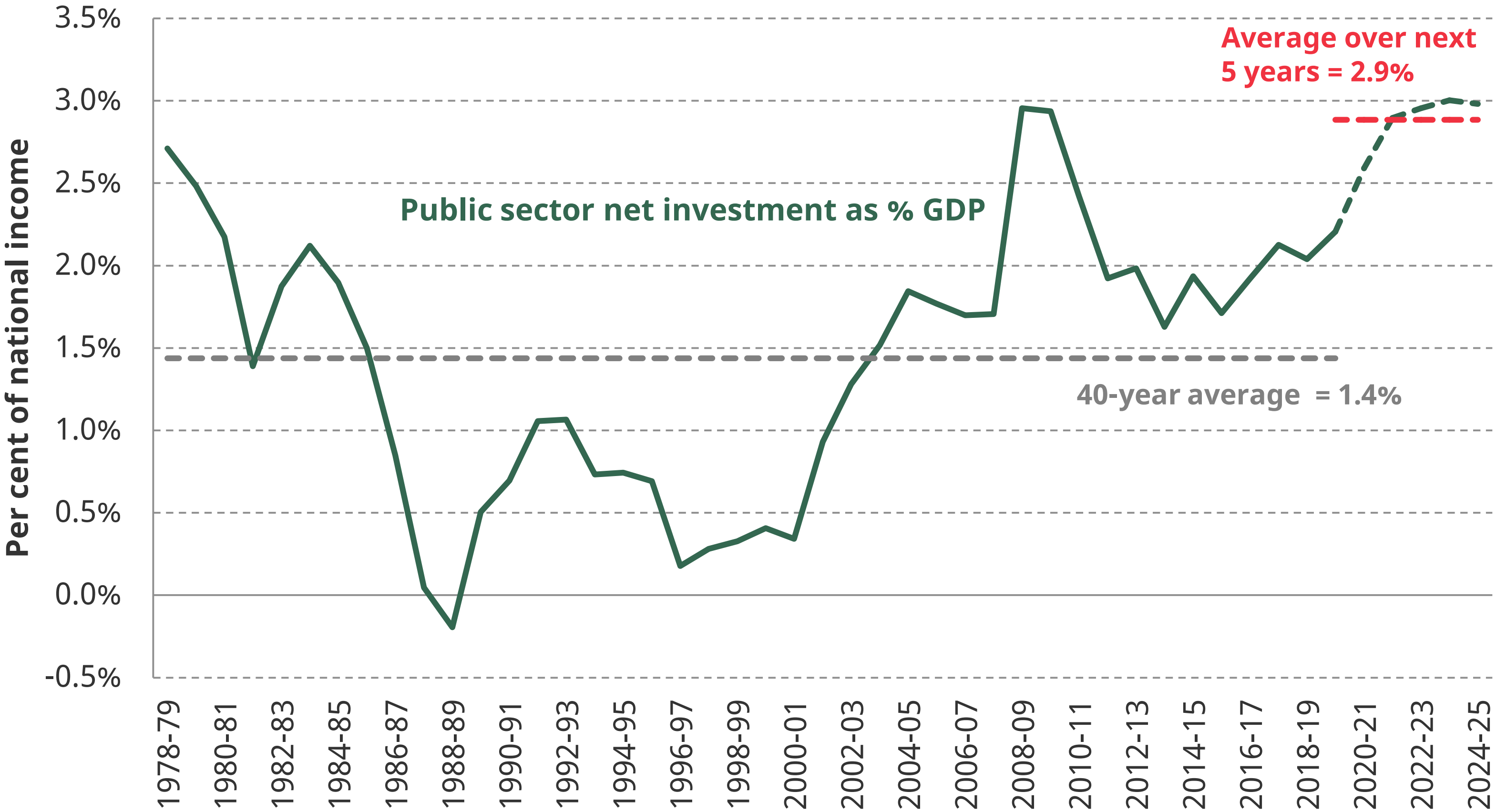
- But much of the increase will simply be to cover new post-Brexit responsibilities
- The settlement is less generous than it seems

On a consistent basis, budgets are set to grow by approx. 2.1% per year

Over the SR period, areas outside of NHS, schools, defence and overseas aid are facing tight settlements

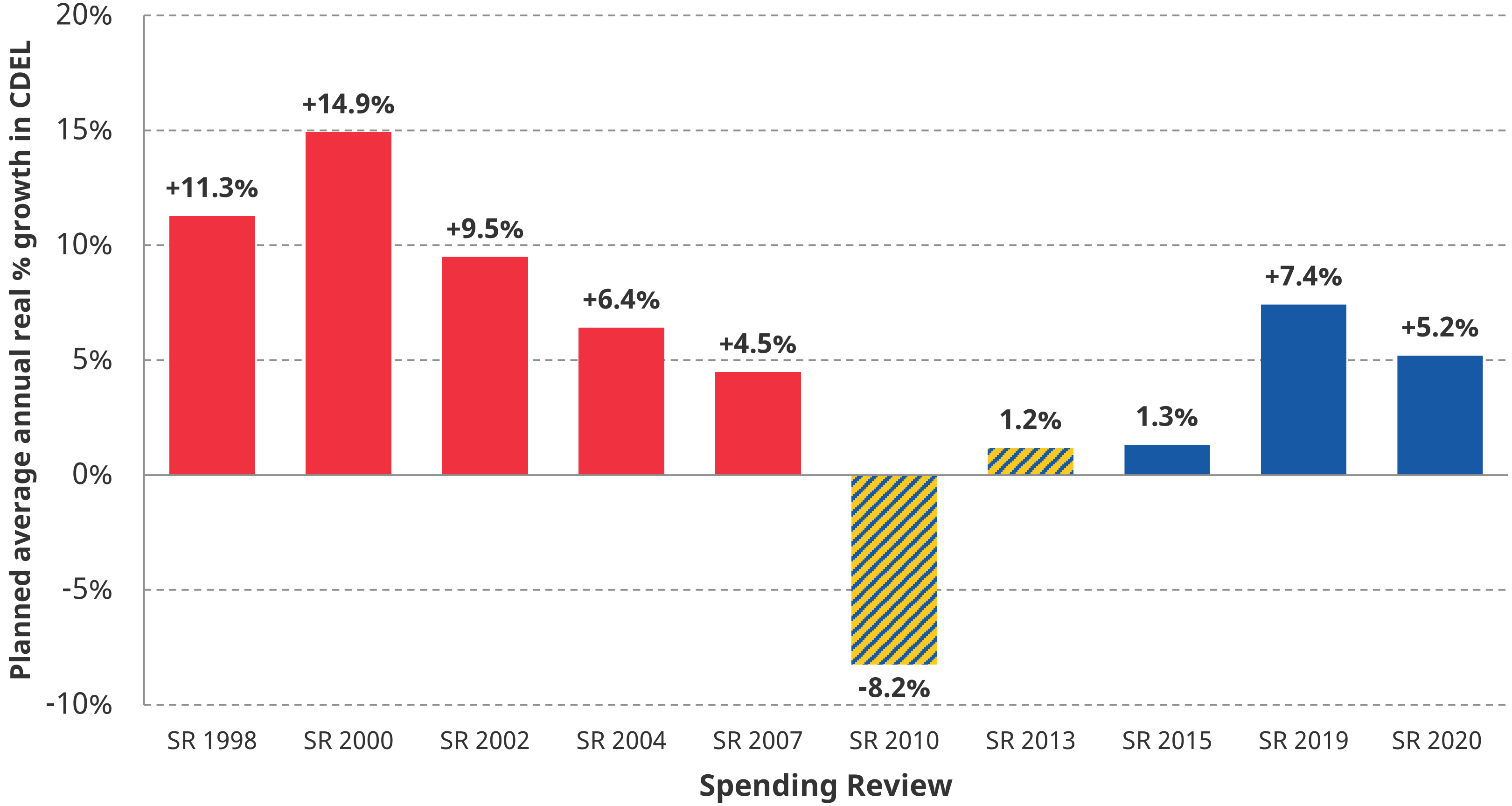
- Extra money for priority areas like police or social care, plus post-Brexit spending pressures on (e.g.) immigration and customs → possible cuts elsewhere
- …unless the Chancellor finds the money to make top-ups later in the year

Government investment spending over the next 5 years is planned to average 2.9% of GDP, versus an average of 1.4% over the past 40 years



Source: IFS calculations using OBR public finances databank. Forecasts for PSNI do not incorporate any assumed underspend.

Capital spending by departments is planned to grow by 5.2% per year in real-terms between 2020–21 and 2024–25



Note: Figures denote the *planned* average annual real growth rate in departments' capital budgets (Capital Departmental Expenditure Limits). SR 2020 figure does not account for the OBR's assumed underspend; the figure once assumed underspends are accounted for is 3.9% per year.
Source: Author's calculations using HM Treasury Spending Review (various), HM Treasury Budget 2020 and OBR's March 2020 Economic and Fiscal Outlook.

The challenge: delivering investment on this scale

Treasury plans to increase departments' capital budgets by 5.2% per year over the 4 year period from 2020–21 to 2024–25

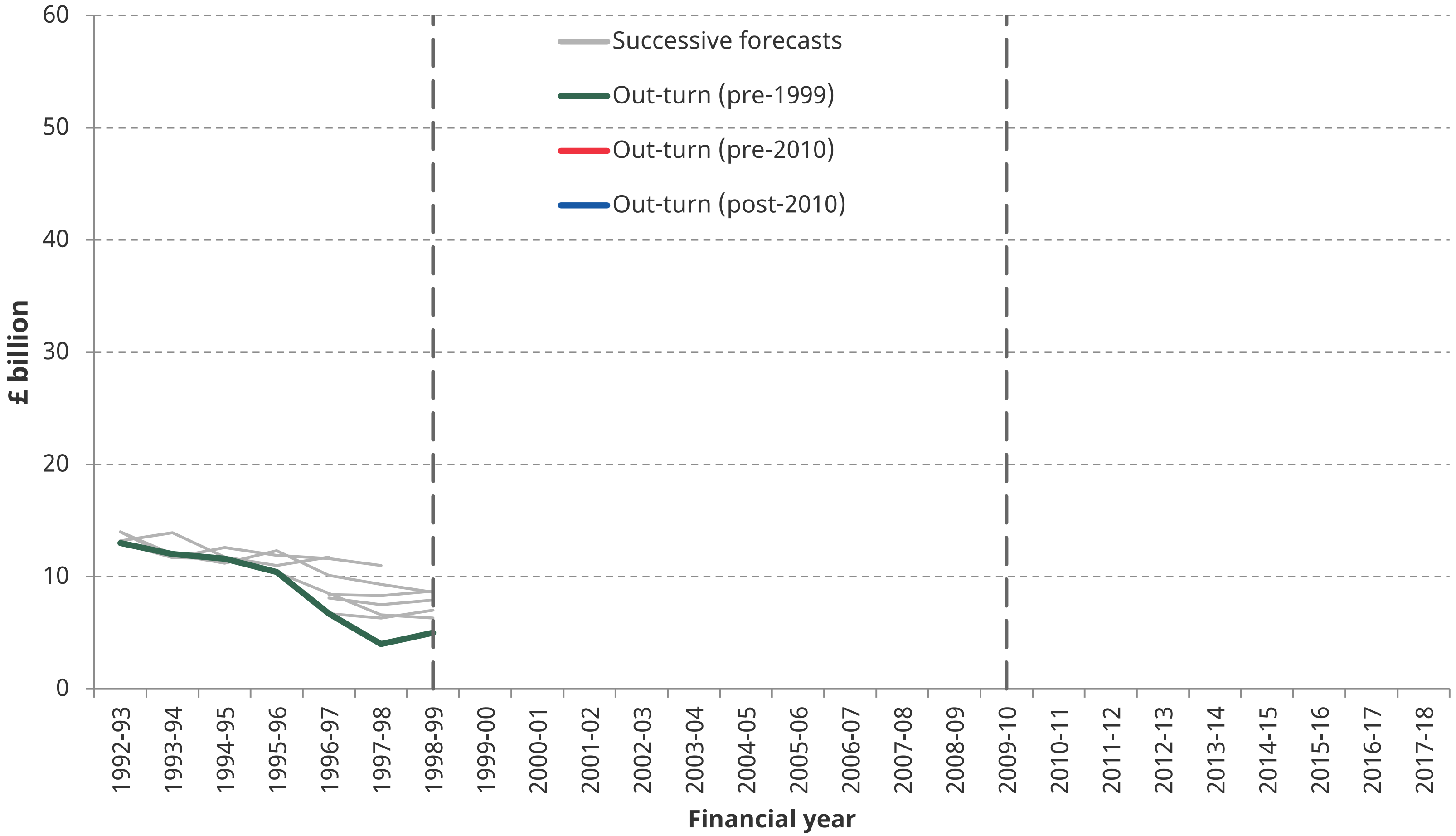
The OBR assumes that 8% of total capital budget will go unspent each year

- Departmental capital spending is ultimately expected to grow by 3.3% per year, rather than 5.2% per year, as a result
- Plans are front-loaded: likely to exacerbate underspending in the near term
  - 13.0% growth in first year of SR plans versus 1.4% growth in final year

Promising big on investment is one thing; delivering big is another

- Over-optimism on timelines, lack of sufficient civil service expertise, shortages of suitably skilled construction workers all pose challenges

The government tends to undershoot its capital spending plans: no reason to think this time is different



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Source: Author's calculations and Crawford, Johnson and Zaranko (2018), *'The planning and control of UK public expenditure, 1993-2015'*, IFS Report R147.

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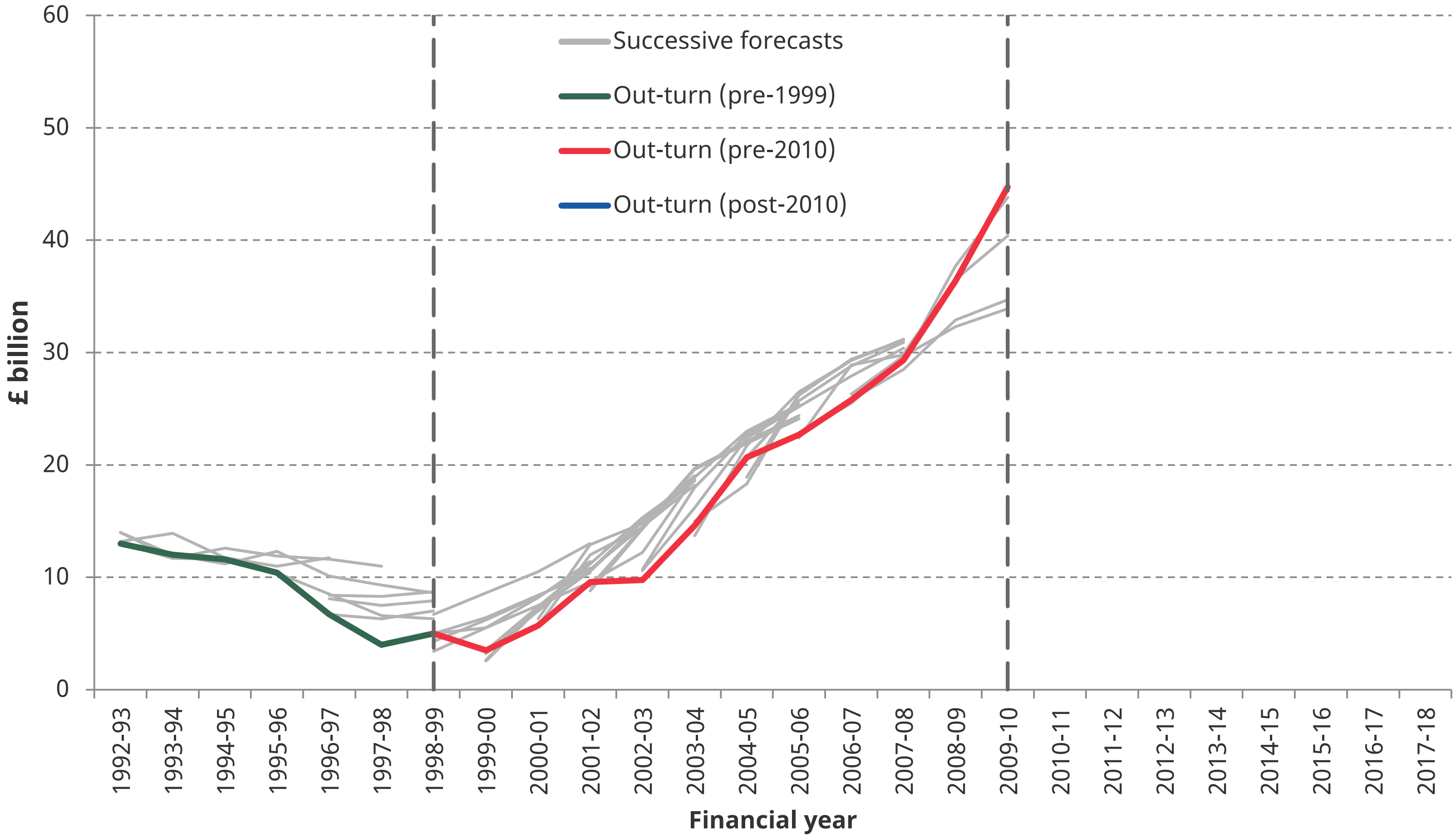

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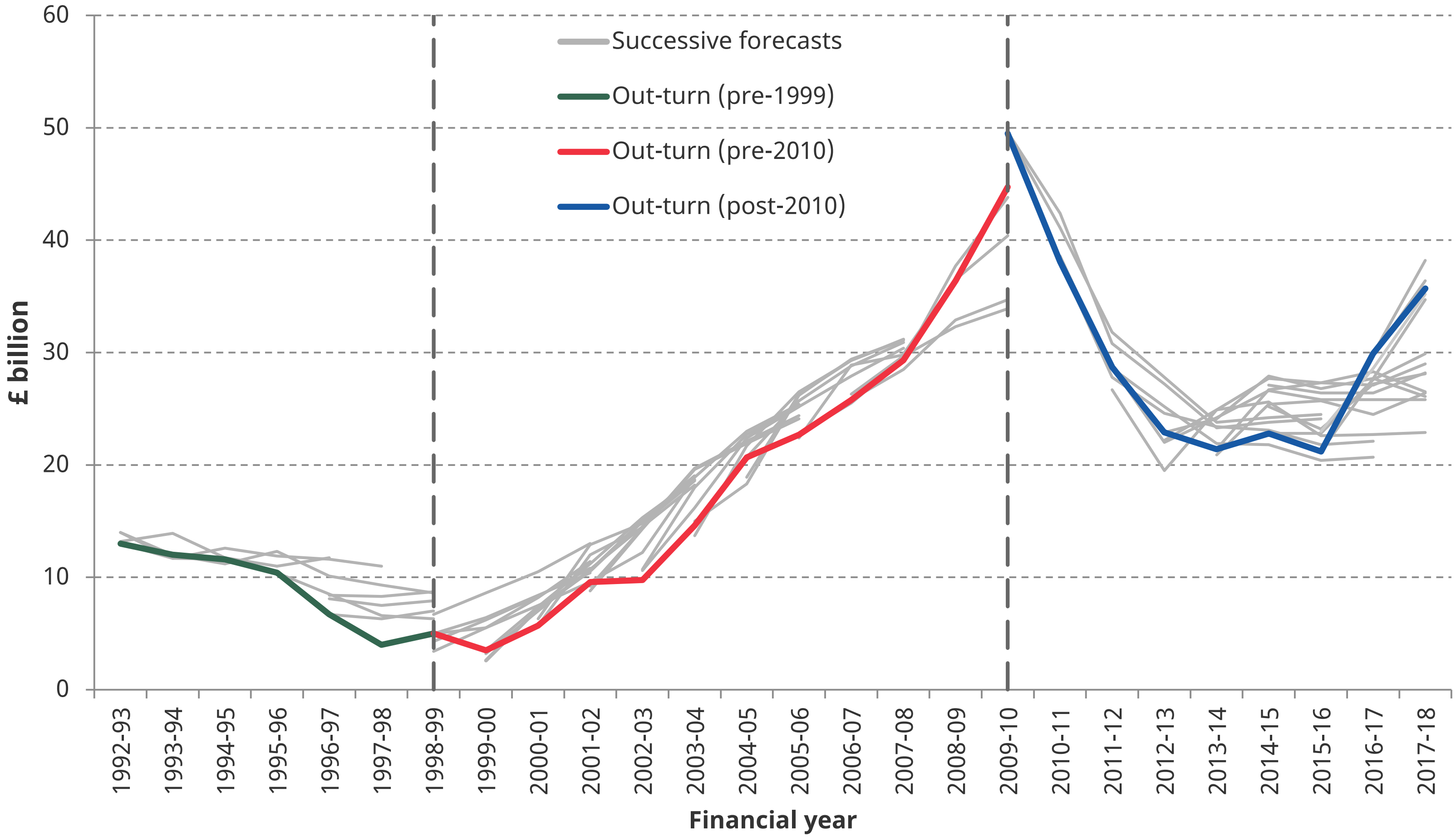

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‘Levelling up’

The Chancellor announced a review of the rules that govern which investment projects receive funding

- Explicitly placing greater weight on regional equity would be one way of rebalancing government investment away from London and the S. East
- But we shouldn’t expect regional differences to disappear entirely
  - financial returns to investment still likely to be greater in densely populated, highly productive areas

Levelling up needs to be about more than just investment

- Complex, deep-rooted regional inequalities will take time to address

Final thoughts

The Chancellor's Spending Review envelope is less generous than it appear at first glance

- Part of the funding increase required just to replace EU spending
- Some areas are likely to face tight settlements
- Setting an overall ceiling in advance a useful negotiating tool for the Treasury
  - but Chancellors have continually "re-opened the envelope"

The scale of the government's ambition on investment spending is striking

- Defining challenge for this Government will be delivering on these promises

Spring Budget 2020: IFS Analysis

The Building Centre, London

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