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@TheIFS

Spending on public services

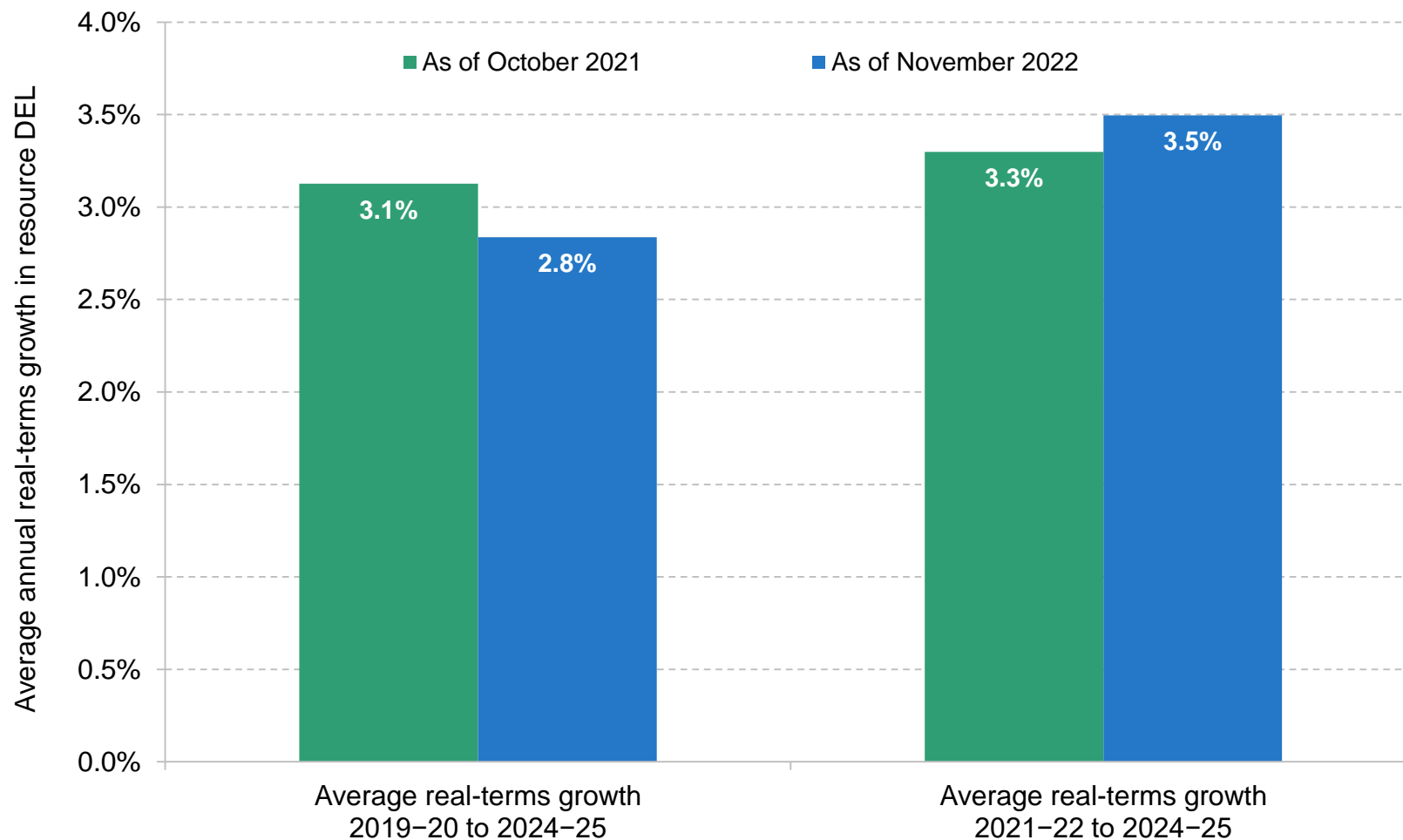


Economic
and Social
Research Council

The short-term picture

- Detailed departmental settlements run to 2024–25
 - Fixed in cash terms at last year's Spending Review
- Overall generosity of those plans hasn't shifted much (on paper)

Limited changes to generosity of Spending Review settlements



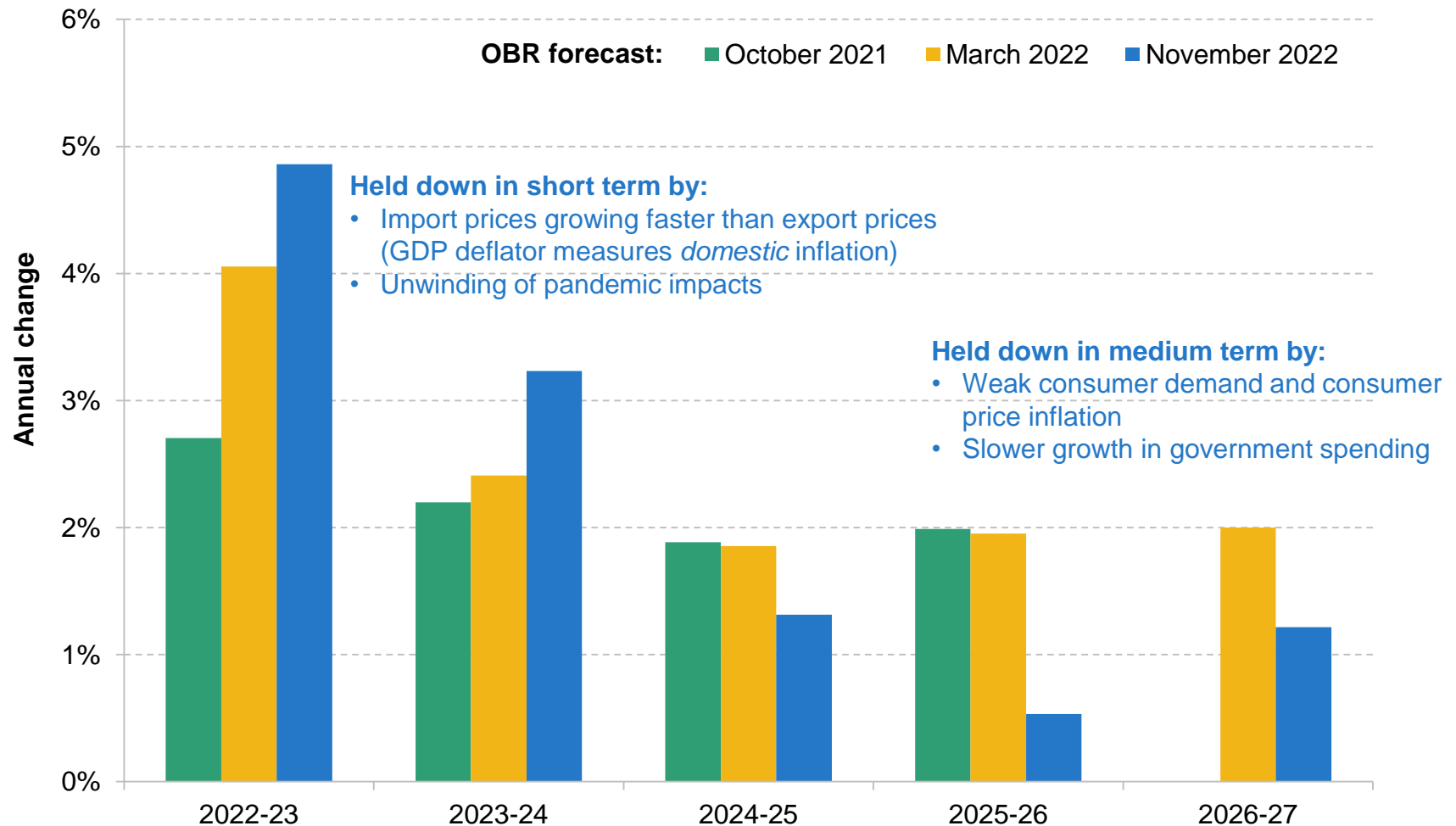
Source: Author's calculations using HM Treasury, Spending Review 2021 and Autumn Statement 2022, and OBR October 2021 and November 2022 EFO.

The short-term picture

- Detailed departmental settlements run to 2025–25
 - Fixed in cash terms at last year's Spending Review

- Overall generosity of those plans hasn't shifted much (on paper)
 1. Higher inflation in the near-term – but not that much higher – offset by lower inflation in medium-term

GDP deflator inflation higher in the short-term, lower in medium-term



Source: OBR October 2021, March 2022 and November 2022 EFO.

The short-term picture

- Detailed departmental settlements run to 2025–25
 - Fixed in cash terms at last year's Spending Review

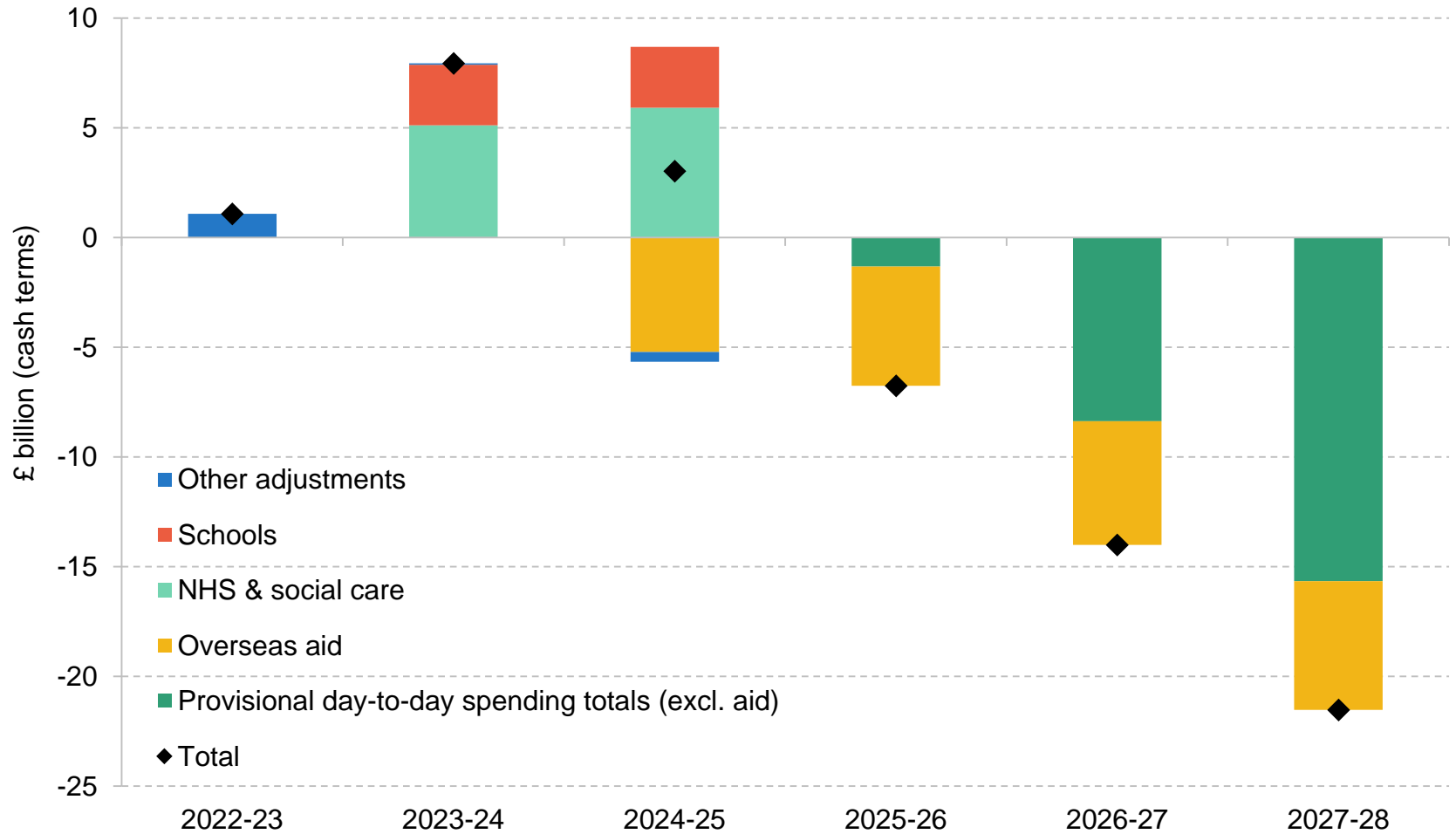
- Overall generosity of those plans hasn't shifted much (on paper)
 1. Higher inflation in the near-term – but not that much higher – and lower inflation in medium-term
 - GDP deflator unlikely to be a good measure of cost pressures on services, with particular challenges around pay awards
 2. Extra money for NHS, schools and local government
 - Local government a particular winner
 - Other budgets are left exposed to higher inflation (OBR estimates the inflation squeeze to be between £5 and £15 billion)
 3. Significant underspends in 2021–22 mean % increases are calculated relative to a lower starting point

Spending squeeze pencilled in for after 2025



- Spending plans were topped up in short-term, and cut back in the medium-term

Lord, make me squeeze public service budgets! But just not yet



Note: Overseas aid figures for 2025-26, 2026-27 and 2027-28 represent the estimated saving from maintaining ODA spending at 0.5% of GNI, rather than returning to 0.7% of GNI, as was implicit in pre-Autumn Statement plans. Source: Author's calculations using HM Treasury, Autumn Statement 2022, and OBR November 2022 EFO.

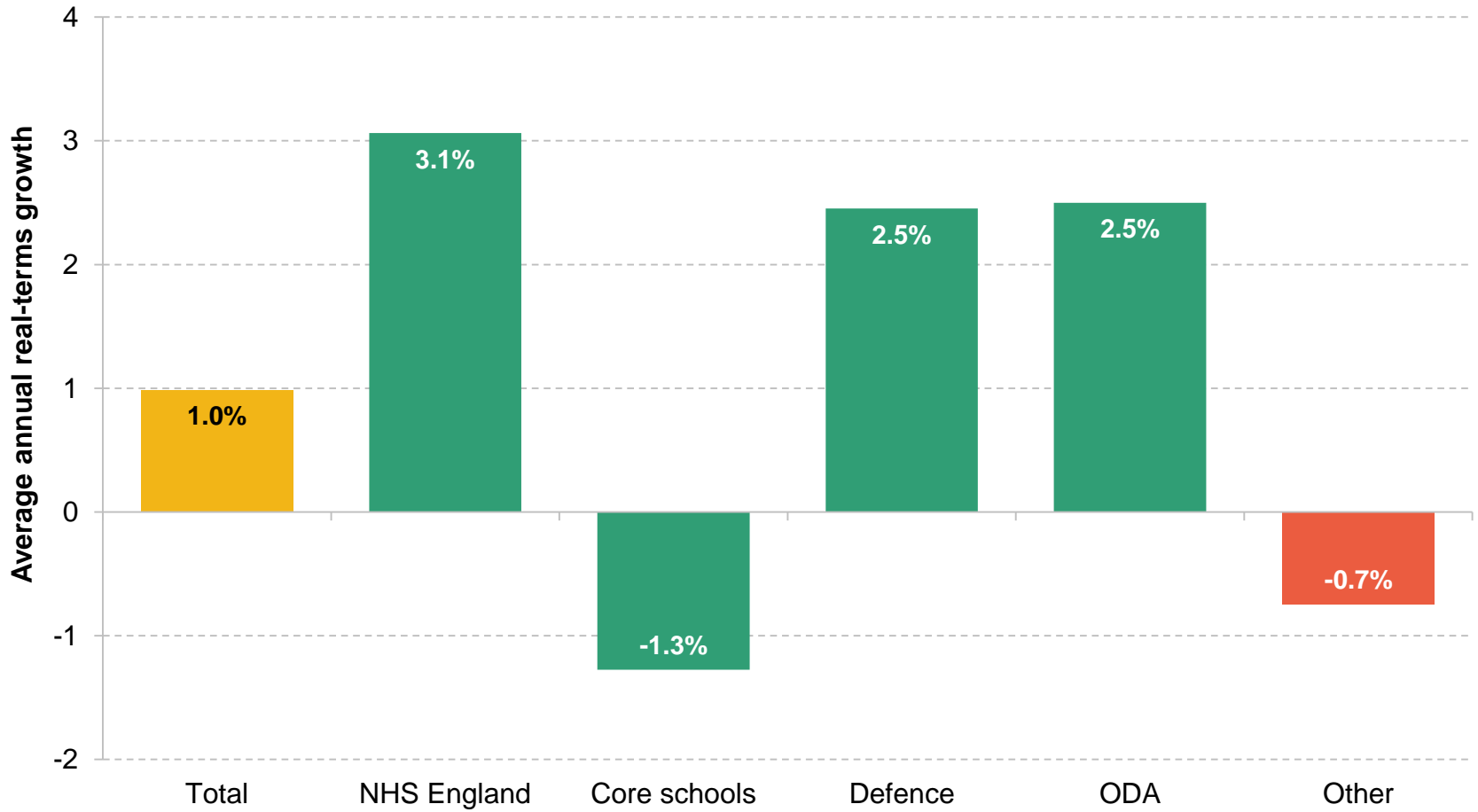
Spending squeeze pencilled in for after 2025



- Spending plans were topped up in short-term, and cut back in the medium-term
- Day-to-day departmental funding now set to grow by 1% p.a. in real-terms after 2025, versus 3.4% p.a. under previous plans
- 1% real growth on average likely means cuts for some areas

OBR analysis of implications for public services after 2025

Average real-terms growth implied by latest plans, 2024–25 to 2027–28



Source: OBR Economic and Fiscal Outlook, November 2022, Chart D.

What might an alternative set of plans look like?

One illustrative scenario:

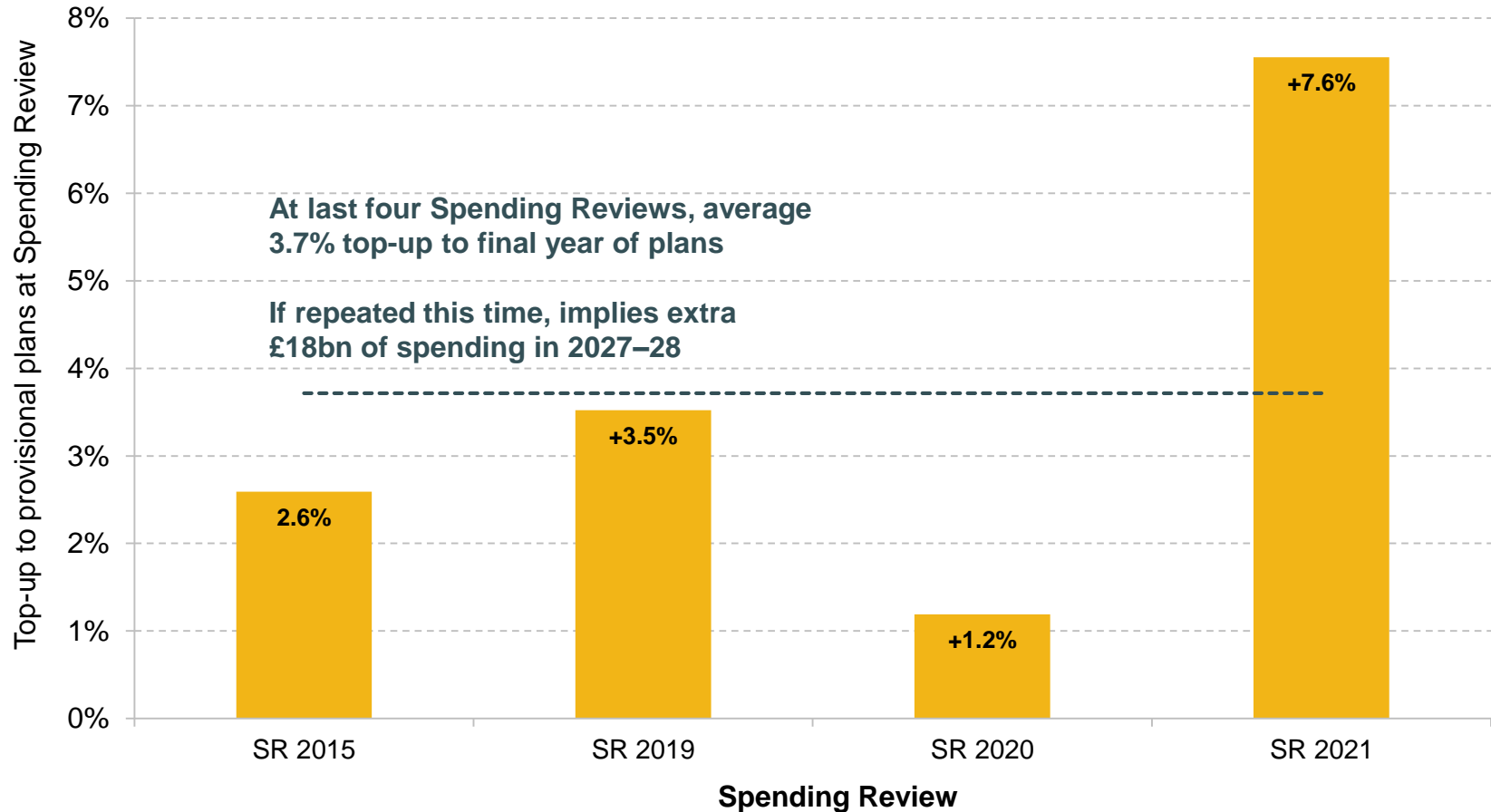
- NHS grows at long-run average rate (3.8%, vs. 3.1% in OBR scenario)
- Overall schools funding frozen in real terms (rather than falling by 1.3% per year in line with pupil numbers in OBR scenario)
- Defence rises towards 2.5% of GDP by 2030 (8% p.a. real growth)
- ODA held at 0.5% of GDP, and everything else frozen in real terms

Would require £17 billion of additional spending in 2027–28
(to avoid cuts of 3% p.a. to other budgets)

- Roughly what recent experience would suggest is likely...

Such a top-up would be in line with recent historical experience

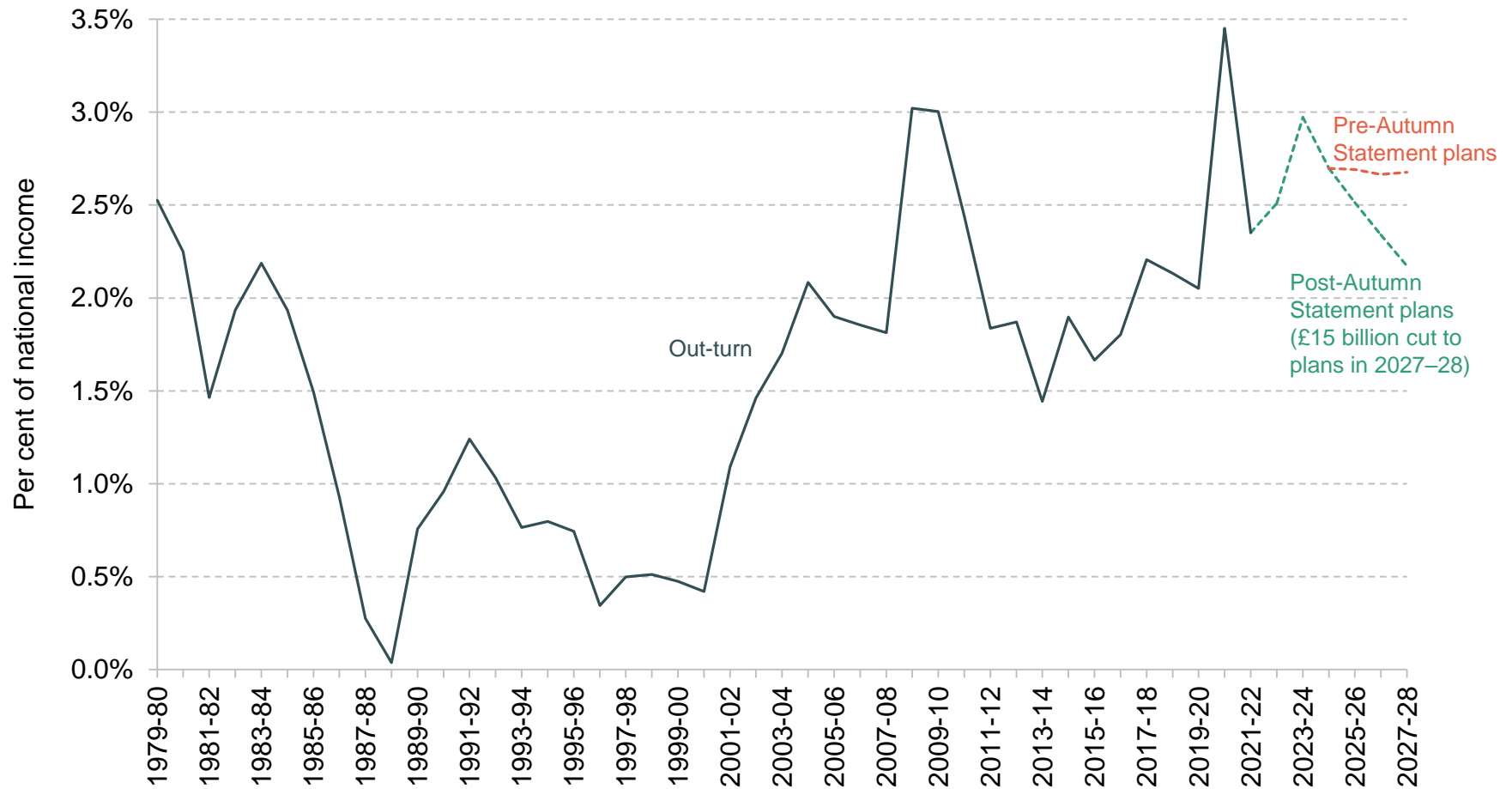
Change to plans for final year of Spending Review period, relative to provisional totals



Note: Figures represent the percentage change between the pre- and post-Spending Review totals for Public Sector Current Expenditure in Resource DEL (PSCE in RDEL), as defined by the OBR, with the exception of SR 2019, which is calculated with respect to the change in Resource DEL excluding depreciation.

The outlook for capital spending

Public Sector Net Investment as a per cent of national income



Source: Author's calculations using HM Treasury, Autumn Statement 2022, and OBR October 2021 and November 2022 EFO.

Summing up

- Extra money in the short-term for schools, NHS and local government – this will undoubtedly be welcome
 - Though still a possible disconnect between demands on public services and the resources available
- Spending plans post-2025 look implausibly tight
 - The hope is clearly that these never have to be implemented
 - Casts some doubt on credibility of public finance forecasts

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