

Institute for Fiscal Studies



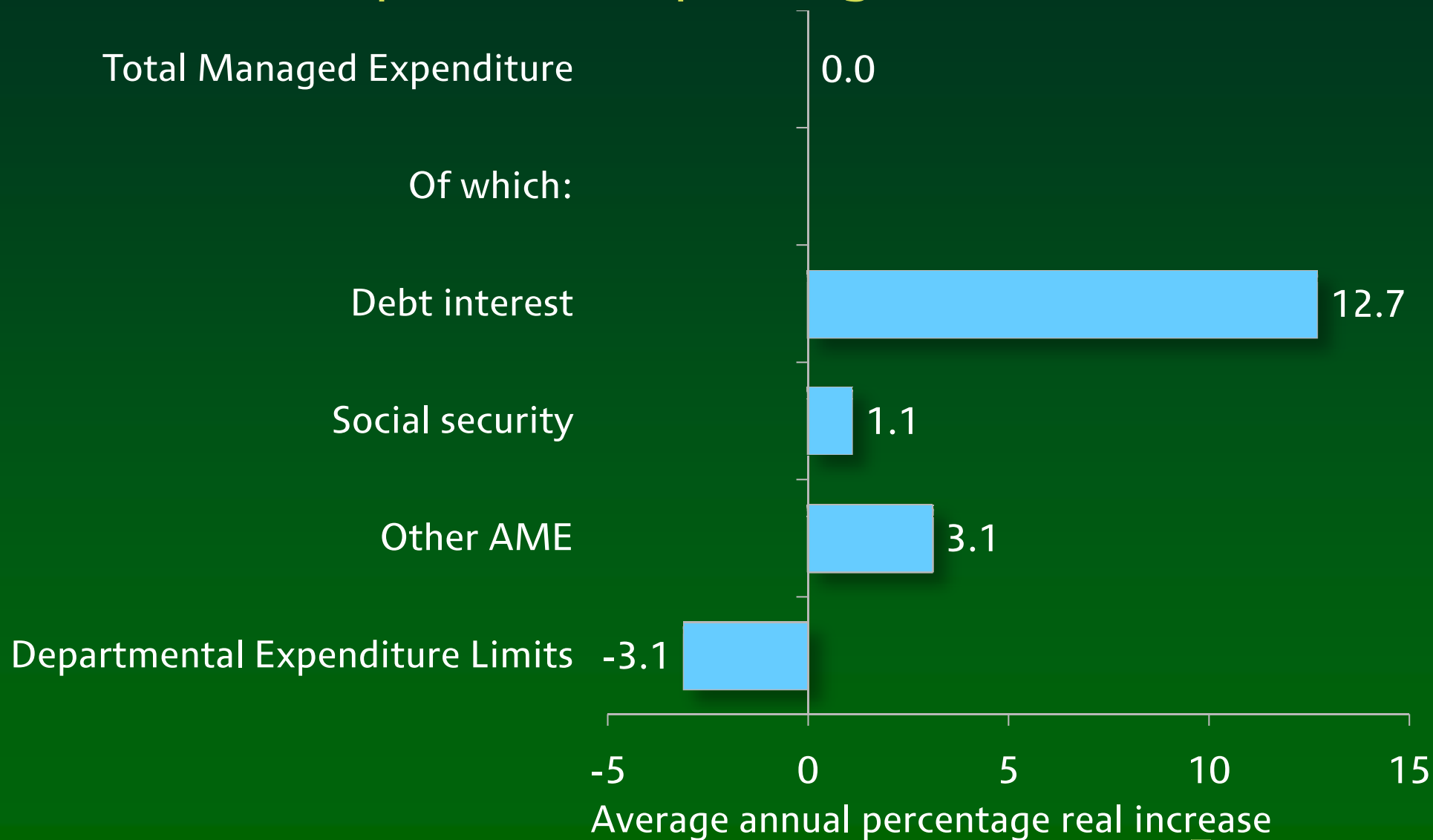
Public services: the axe comes soon

Carl Emmerson

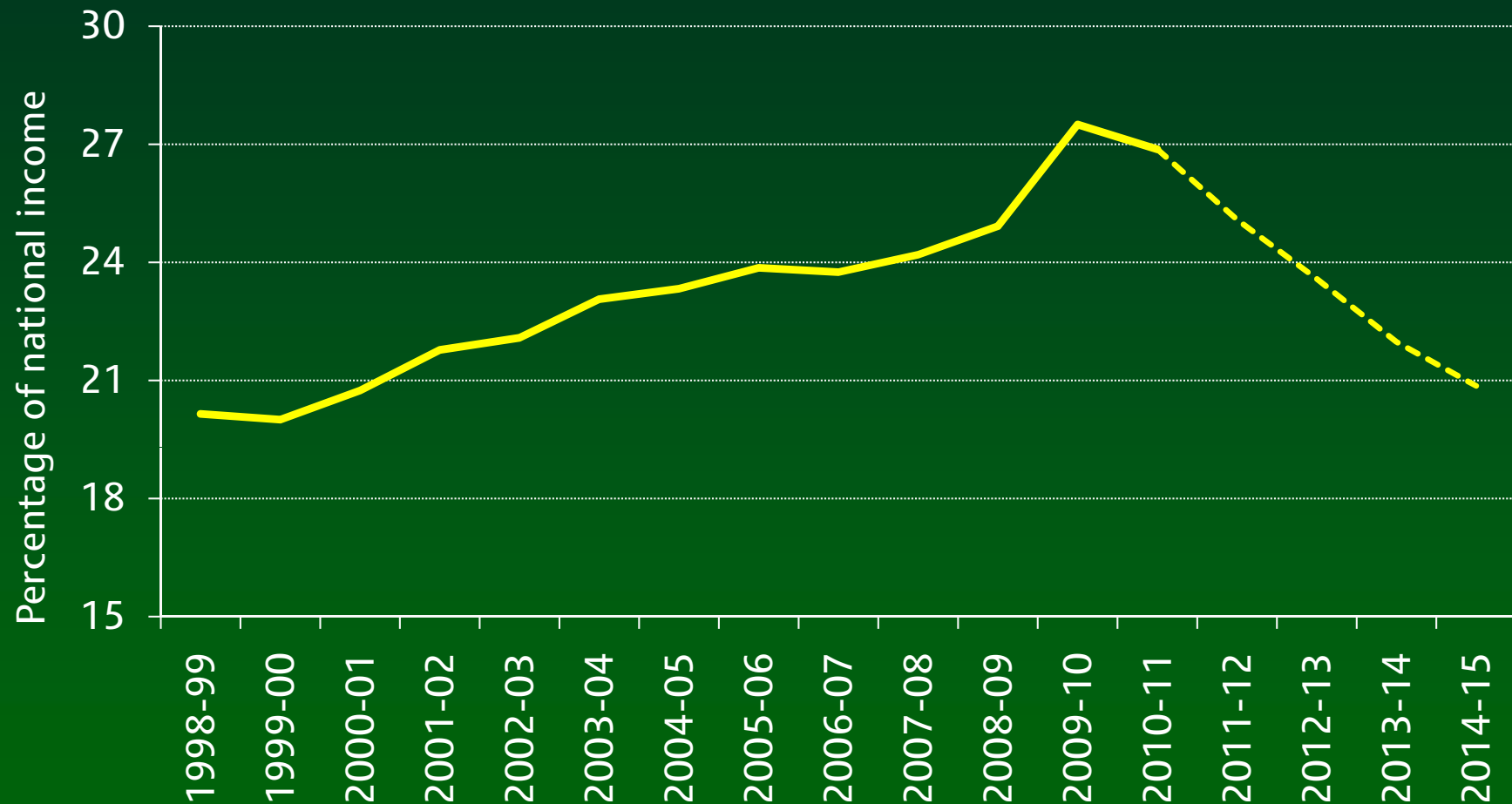
Public spending: summary

- Budget added to departmental spending in 2010–11
 - increased spending on higher education and roads
- Over four years from April 2011:
 - little change since Pre-Budget Report
 - additional spending in 2010–11 slightly increases cuts thereafter
 - current policies imply deep cuts to spending on public services
- Announced real cuts to public sector pay and axing of some lower value spending will help
 - additional contribution of efficiency savings less clear

Growth in components of spending: 2011–12 to 2014–15



Public services spending: back down the hill



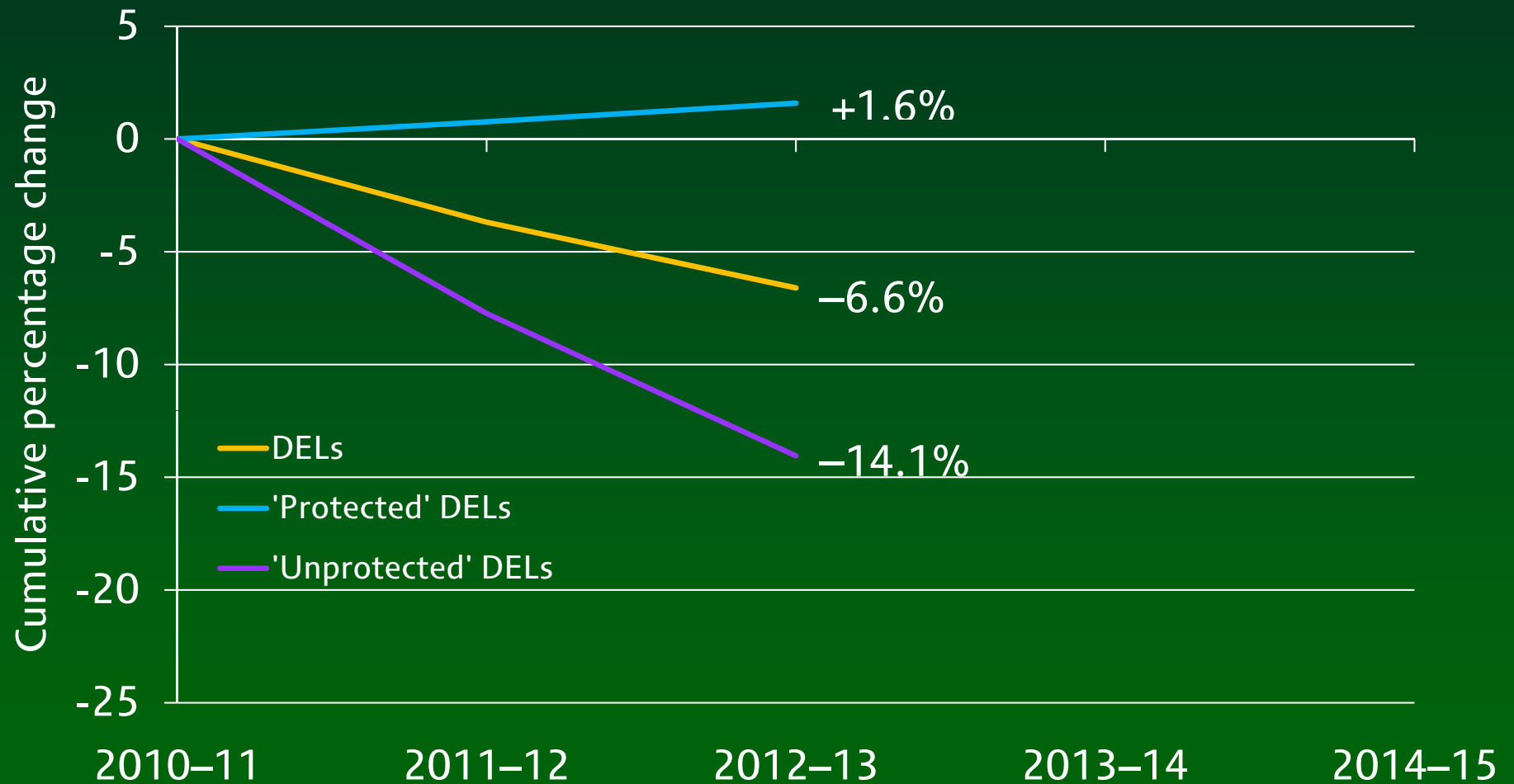
But some areas are to be ‘protected’...

- Overseas Development Assistance
 - meet 2013 target of spending 0.7% of Gross National Income

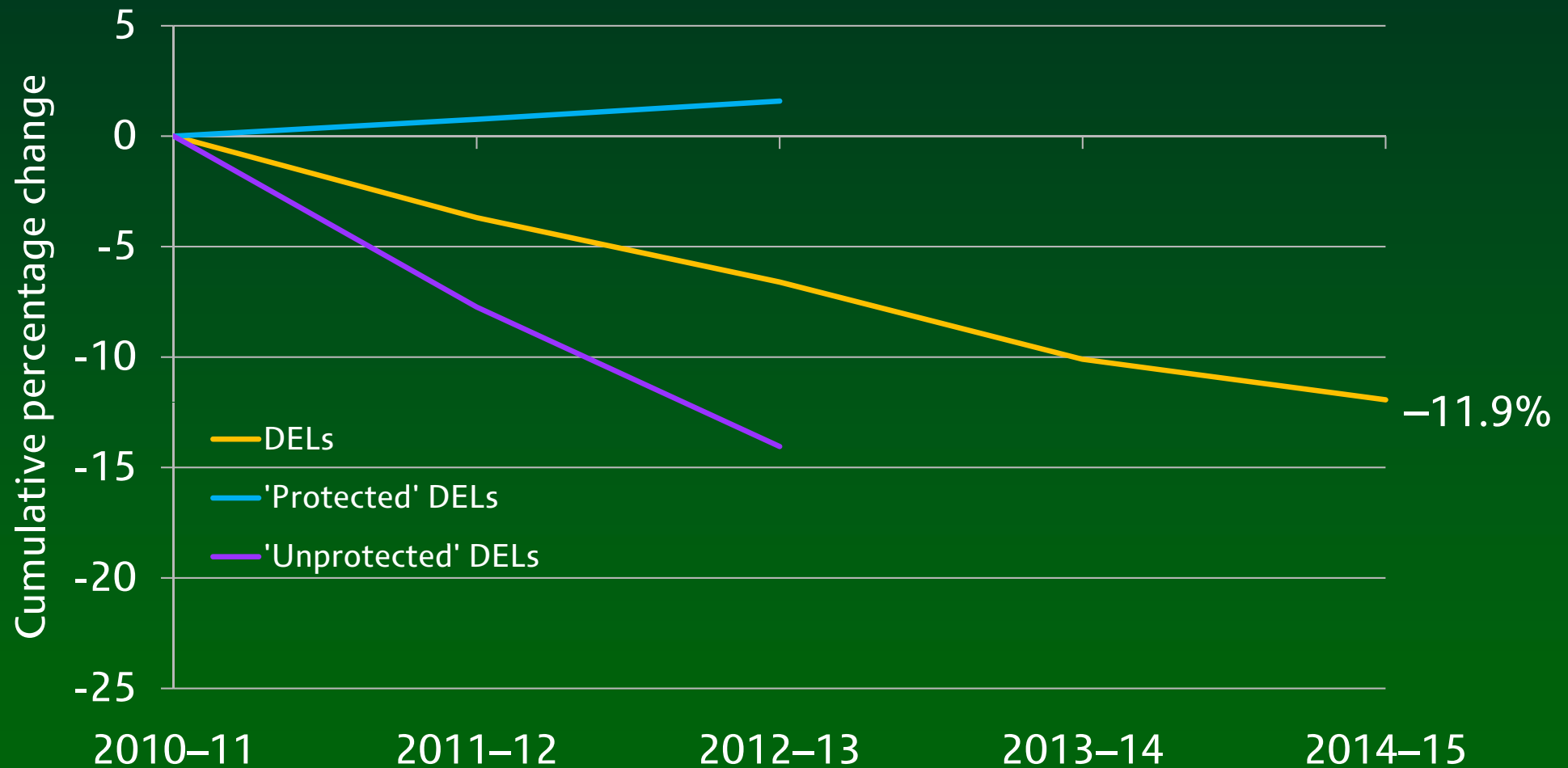
In 2011–12 and 2012–13:

- Health
 - real freeze in “front-line” NHS spending
- Education
 - 0.7% real increase in “front-line” schools spending
 - 0.9% real increase in “front-line” spending on 16-19 participation
 - real freeze in “front-line” spending on Sure Start
- Treasury still haven’t provided costings for these commitments

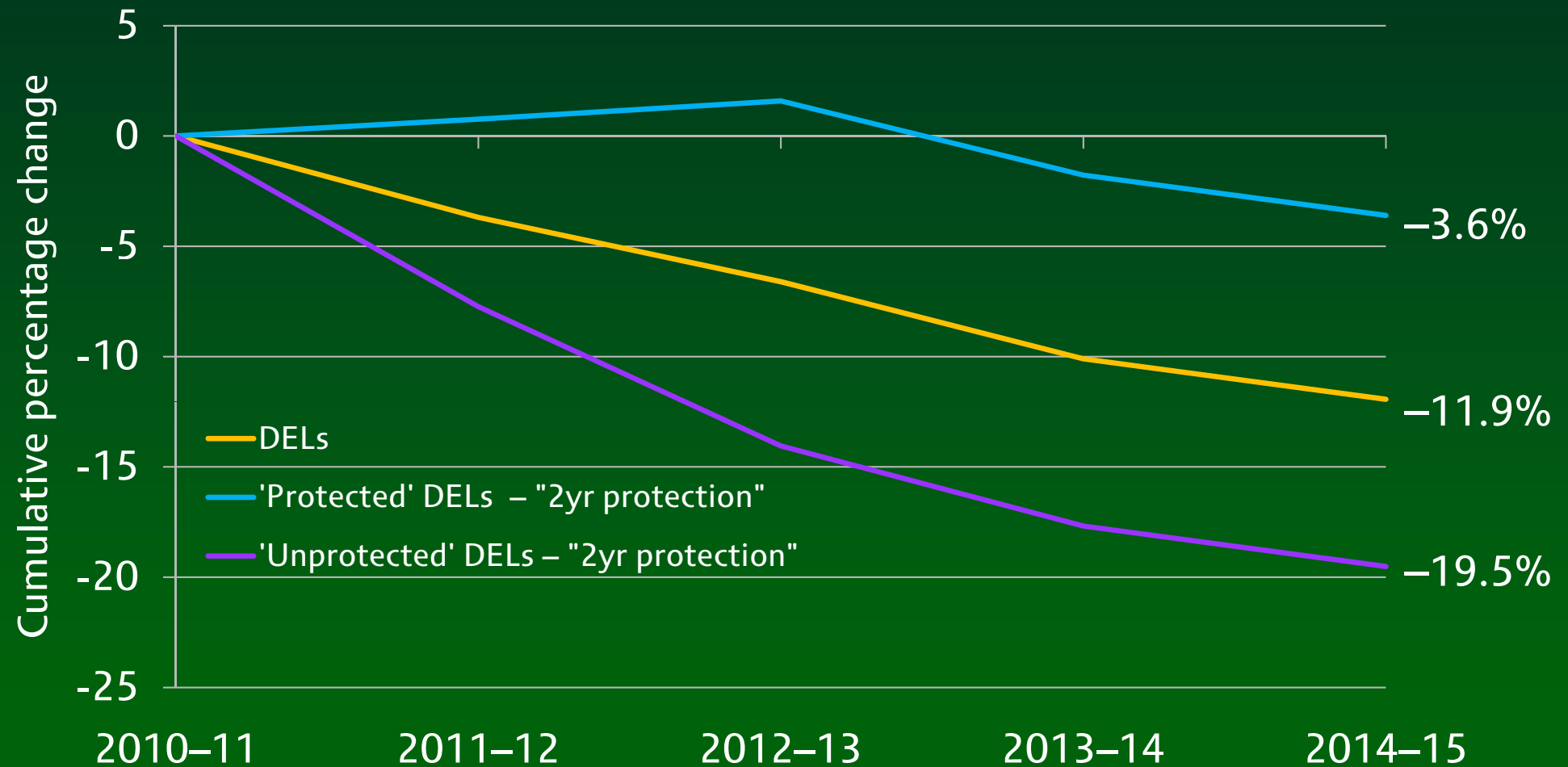
Cumulative spending changes to 2012–13



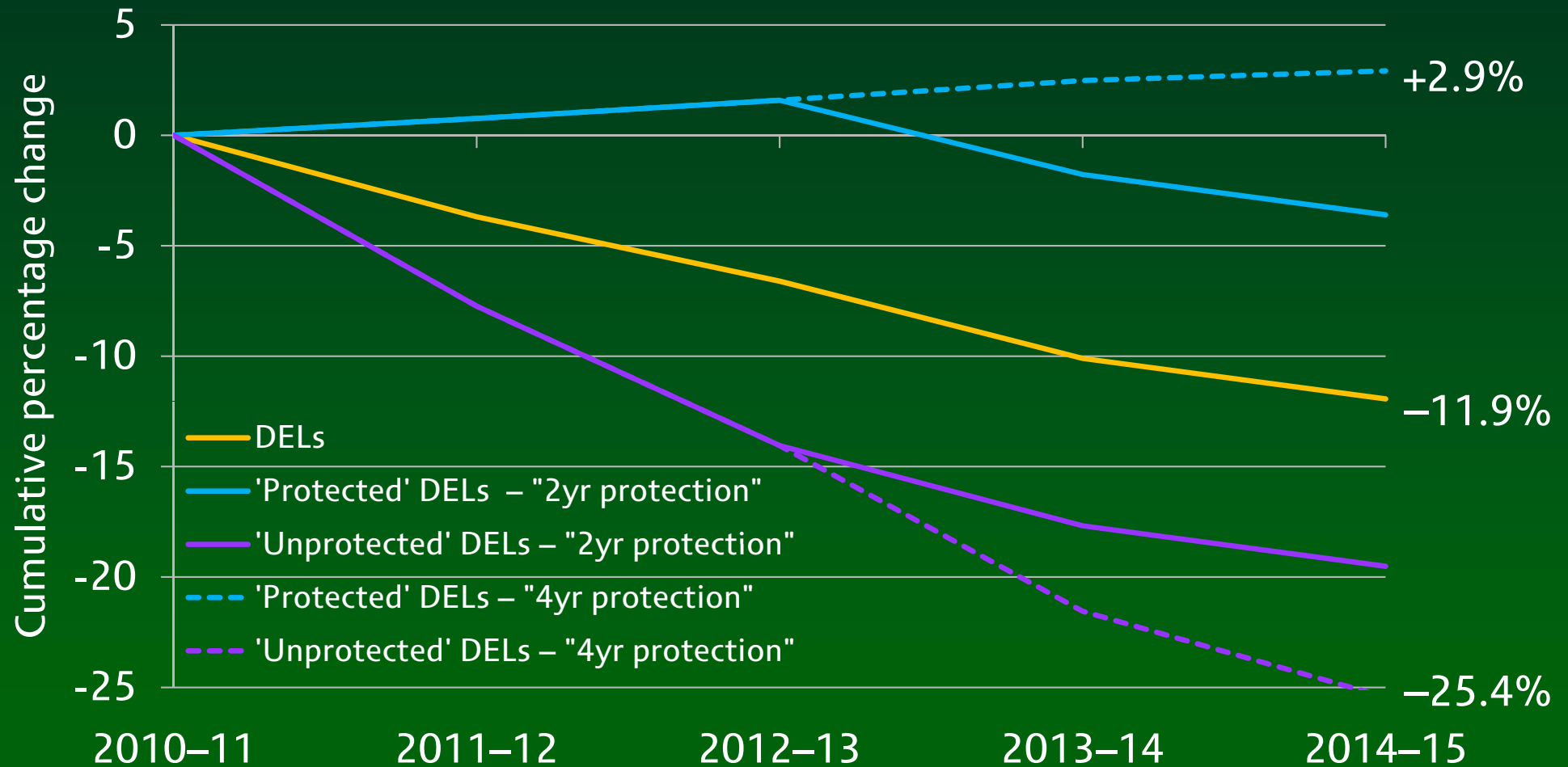
Cumulative spending changes to 2014–15?



Cumulative spending changes to 2014–15?



Cumulative spending changes to 2014–15?



Claimed savings so far

- Cuts to DELs total £25bn by 2012–13 rising to £46bn by 2014–15
- By 2012–13 Treasury estimates:
 - 1% cap on public-sector pay to reduce spending by £3.4bn
 - cuts to lower value spending worth £5bn
 - cap on employer-pension contributions saves £1bn
 - efficiency savings of £11bn
- Do these contribute to deficit reduction and has the financial crisis led to them happening?
 - lower public sector pay: yes and yes
 - cuts to lower value spending: yes and quite possibly
 - public sector pensions: yes and very doubtful
 - efficiency saving: unclear in either case

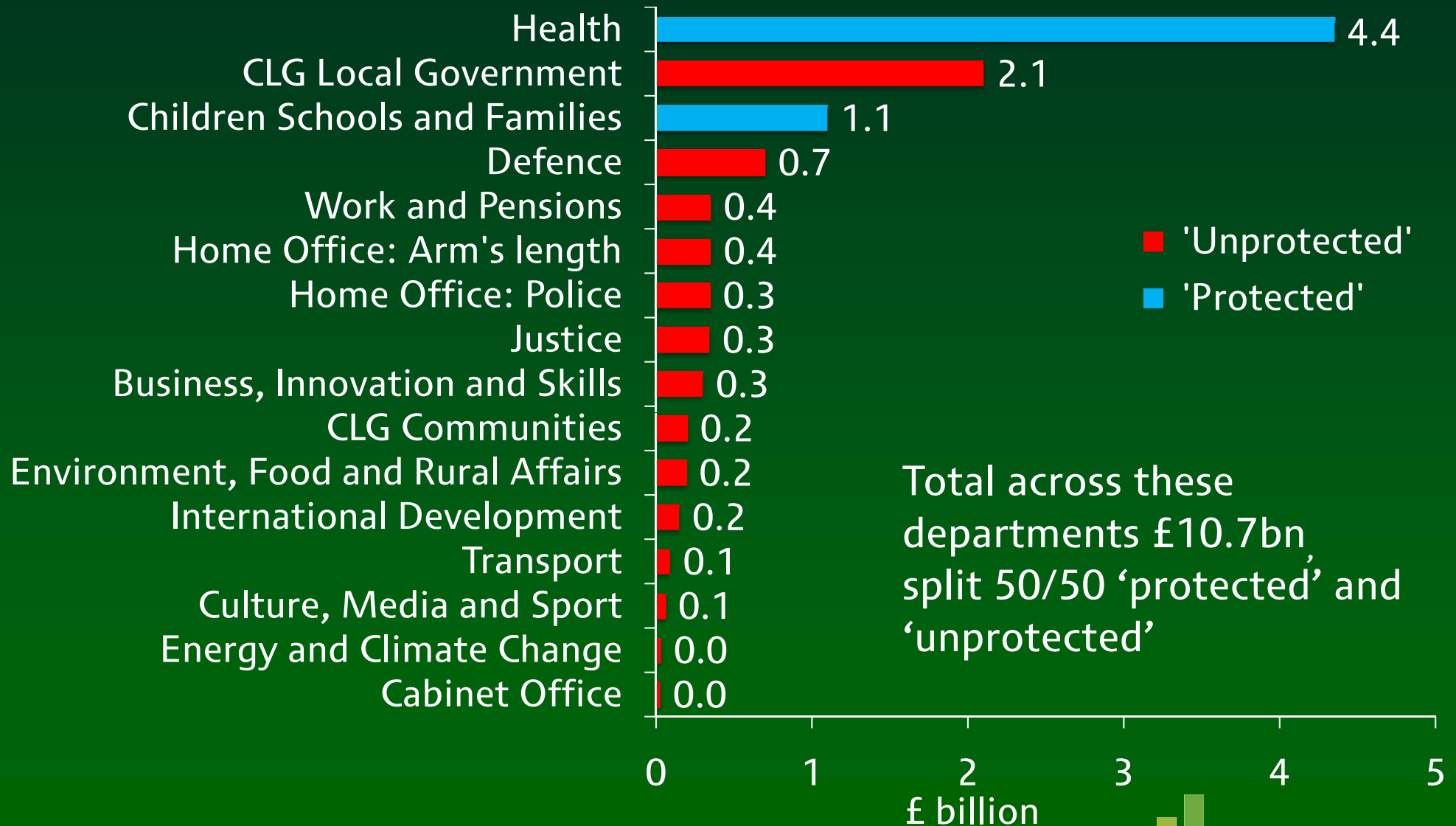
Efficiency savings

- Treasury claims £11bn by 2012–13
- Had the financial crisis not happened what would have been claimed over this period?
 - targeted £21.5bn between 2004–05 and 2007–08 under Gershon Review and claims achieved £26.5bn
 - targeted £30bn between 2007–08 and 2010–11 under 2007 CSR and increased this to £35bn under Operational Efficiency Programme
- Will efficiency savings be delivered as expected?
 - £26.5bn: NAO audit half-way through suggested: 25% did not adequately demonstrate true efficiencies, another 50% questionable
 - £35bn: less than one-third (£10.8bn) found by Autumn 2009, another £24bn needed before April 2011

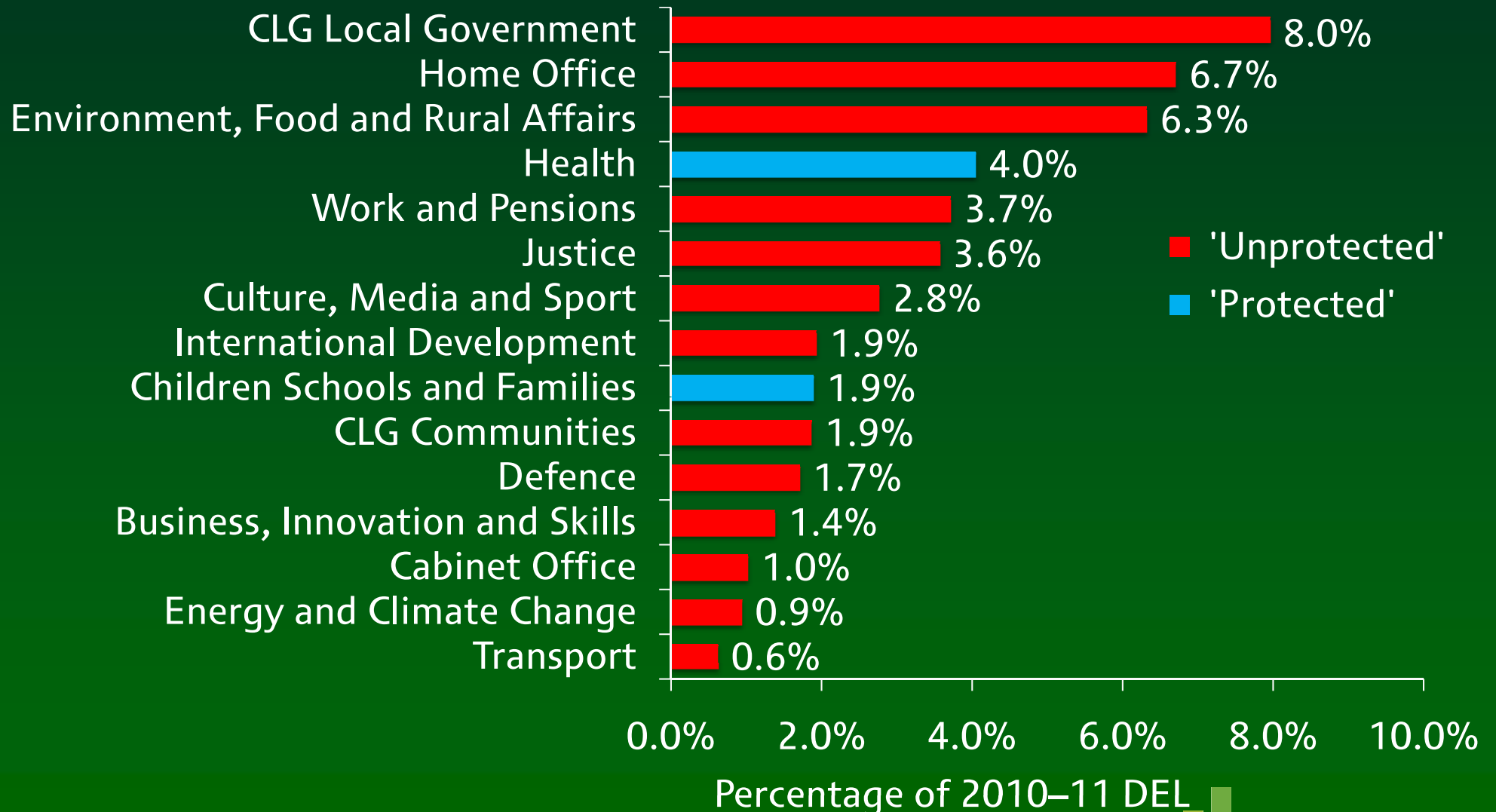
Deficit reduction and efficiency savings

- Without spending limits being set not possible to say what the contribution of each department is to the deficit reduction
- Genuine efficiency savings within 'protected' budgets boost service quality in those areas rather than reduce borrowing

Efficiency savings (2012–13)

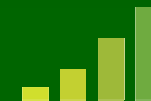


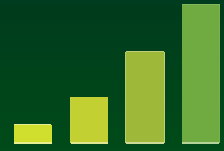
Efficiency savings (2012–13)



Public spending: summary

- Little change since PBR; over four years from April 2011
 - total public spending broadly flat after economy-wide inflation
 - debt interest and, under current policies, welfare benefits and other annually managed expenditure to continue rising
 - implies deep cuts for public service spending
 - and much deeper cuts elsewhere if large areas such as the NHS and schools exempted from cuts
- Announced real cuts to public sector pay and axing of some lower value spending will help
 - cuts to employer-contributions to public-service pensions
Government policy before the crisis began
 - additional contribution of efficiency savings less clear
- Significant welfare spending cuts or further tax rises could alleviate the pain





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Post Budget briefing

Institute for Fiscal Studies, 25th March 2010

www.ifs.org.uk