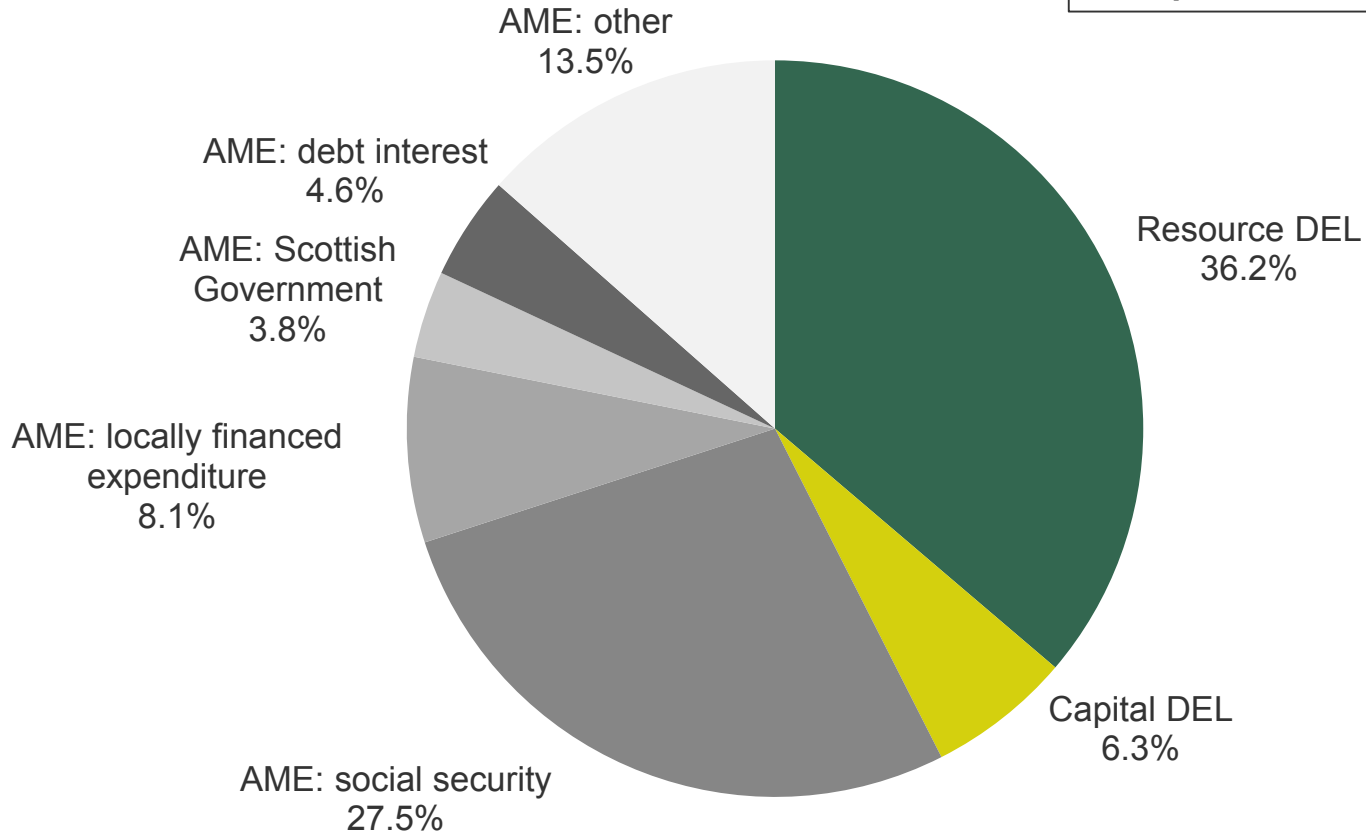


The outlook for public spending

Ben Zaranko

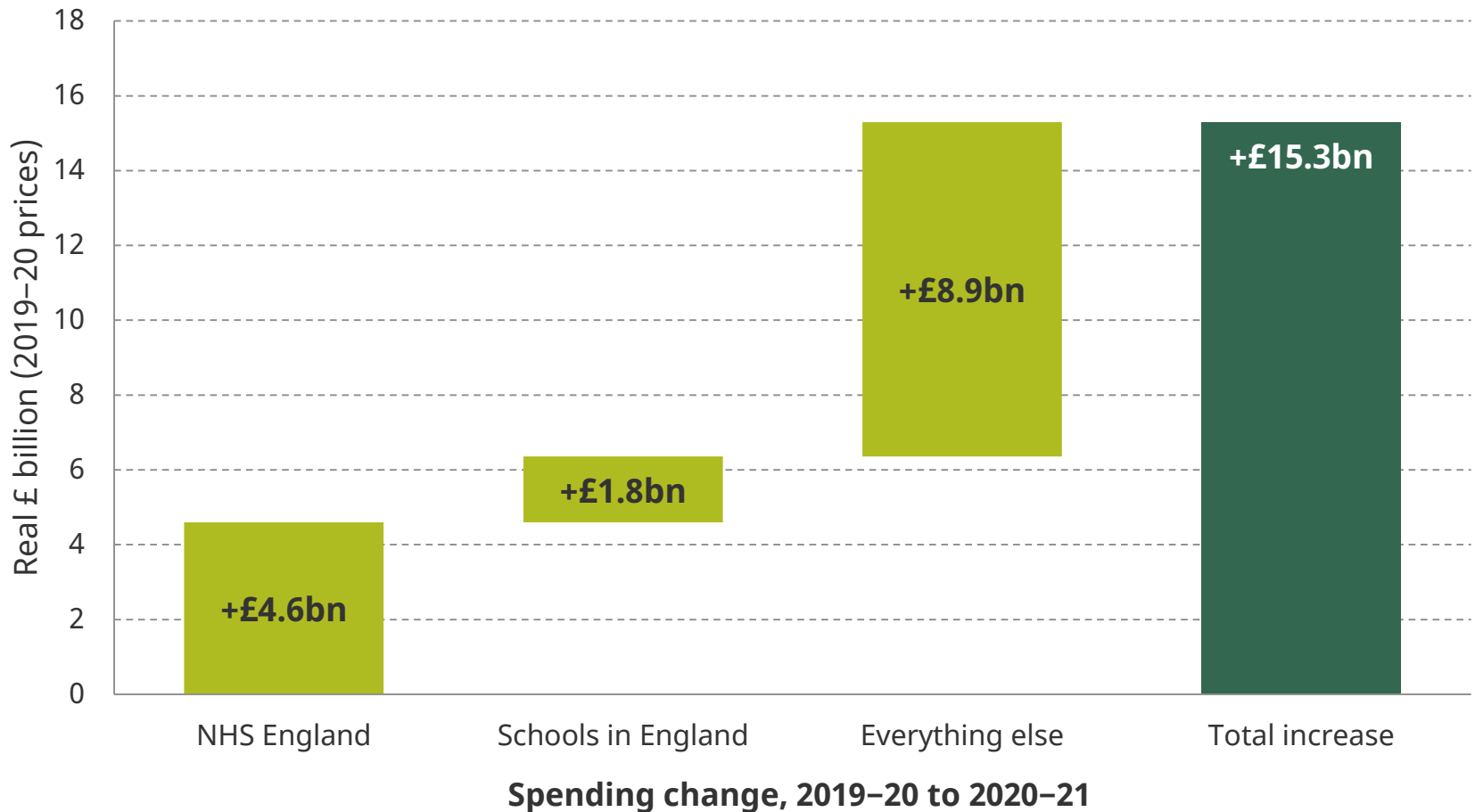
A Spending Review is coming this year

Share of Total Managed
Expenditure in 2018–19



Source: Office for Budget Responsibility, Economic and Fiscal Outlook March 2019

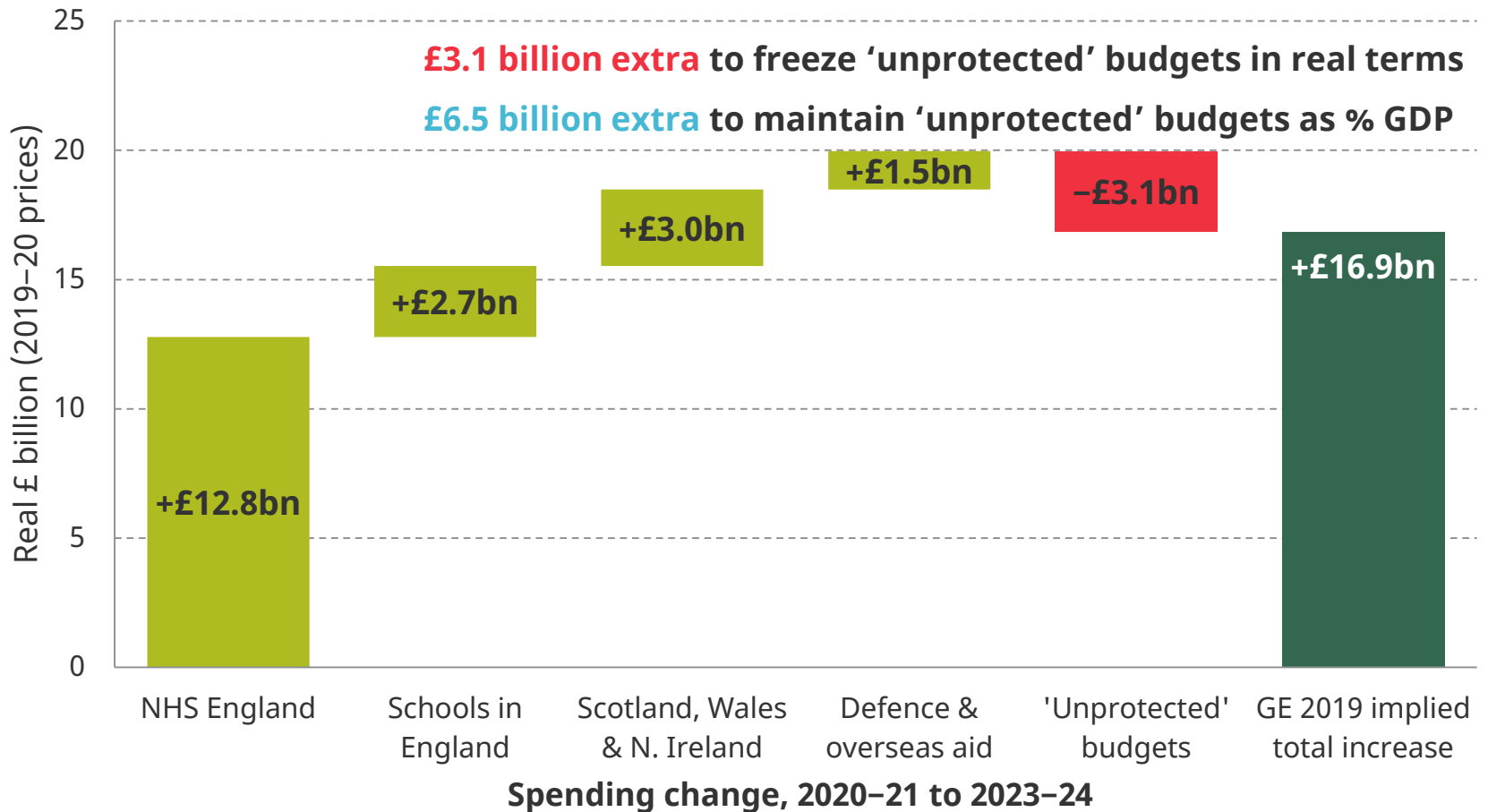
Departmental day-to-day budgets will see a considerable real increase between this year and next...



Note: Total increase denotes the increase in public sector current expenditure in resource DEL (PSCE in RDEL). Source: Author's calculations using OBR Economic and Fiscal Outlook March 2019, various HM Treasury Public Expenditure Statistical Analyses, Spending Round 2019 and Conservative party 2019 election manifesto.

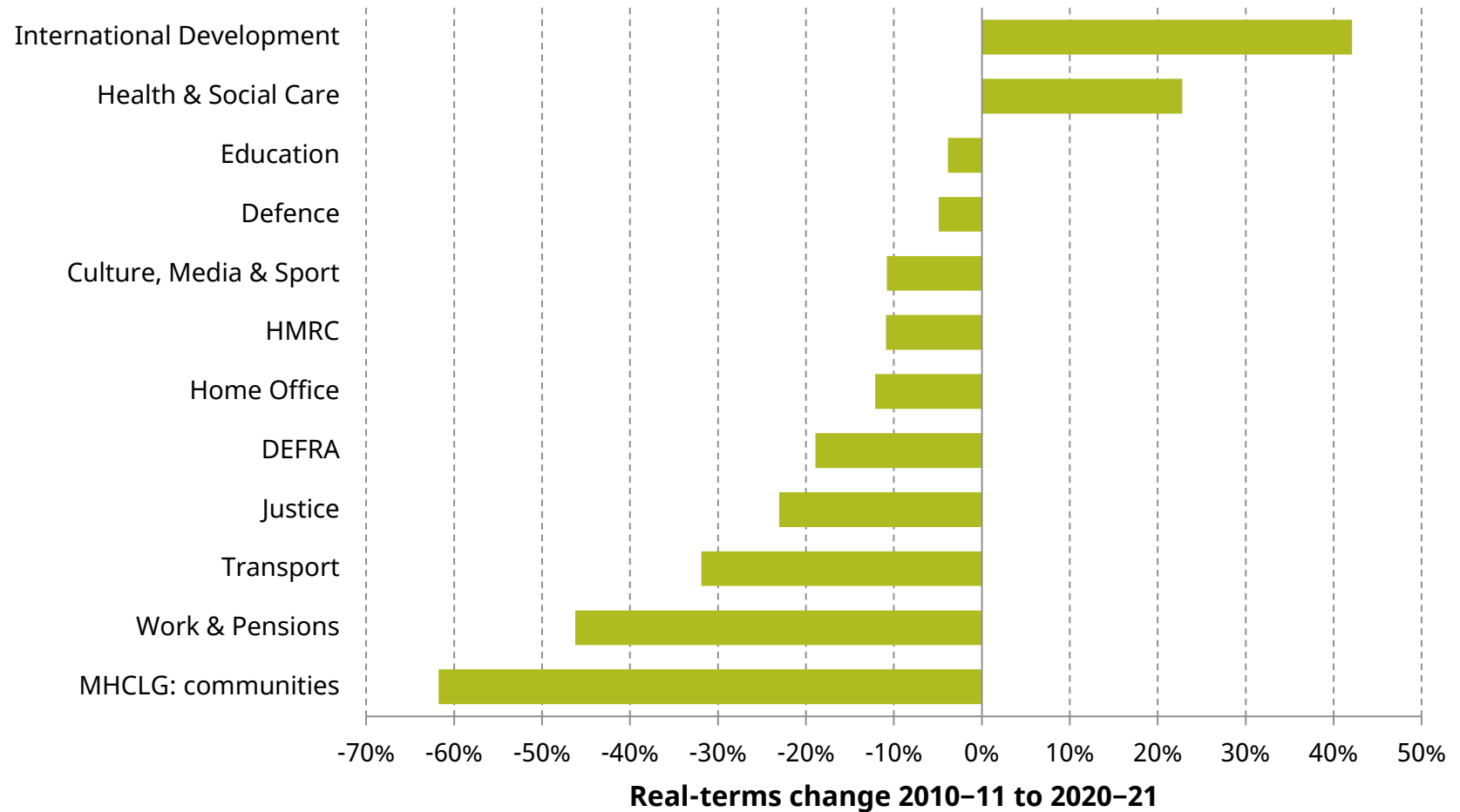


...but if the Chancellor does not find extra funding, some areas could face cuts after next year



Note: Firm government spending plans do not exist beyond 2020-21: 'GE 2019 implied total increase' is an IFS estimate calculated so as to be consistent with the Conservative party general election manifesto, expressed in terms of public sector current expenditure in resource DEL (PSCE in RDEL). 'Scotland, Wales and N. Ireland' denotes the sum of the estimated Barnett consequential of the increase in NHS and schools spending in England. Source: Author's calculations using OBR Economic and Fiscal Outlook March 2019, various HM Treasury Public Expenditure Statistical Analyses, Spending Round 2019 and Conservative party 2019 election manifesto.

Day-to-day spending outside of health has fallen substantially since 2010



Note: All figures shown are for the percentage change in resource DEL excluding depreciation. Source: Authors' calculations using HM Treasury Public Expenditure Statistical Analyses (various), Spending Round 2019 and December 2019 GDP deflators.



The outlook for investment spending

Plenty of scope for additional investment spending

- Government has indicated its willingness to borrow to invest

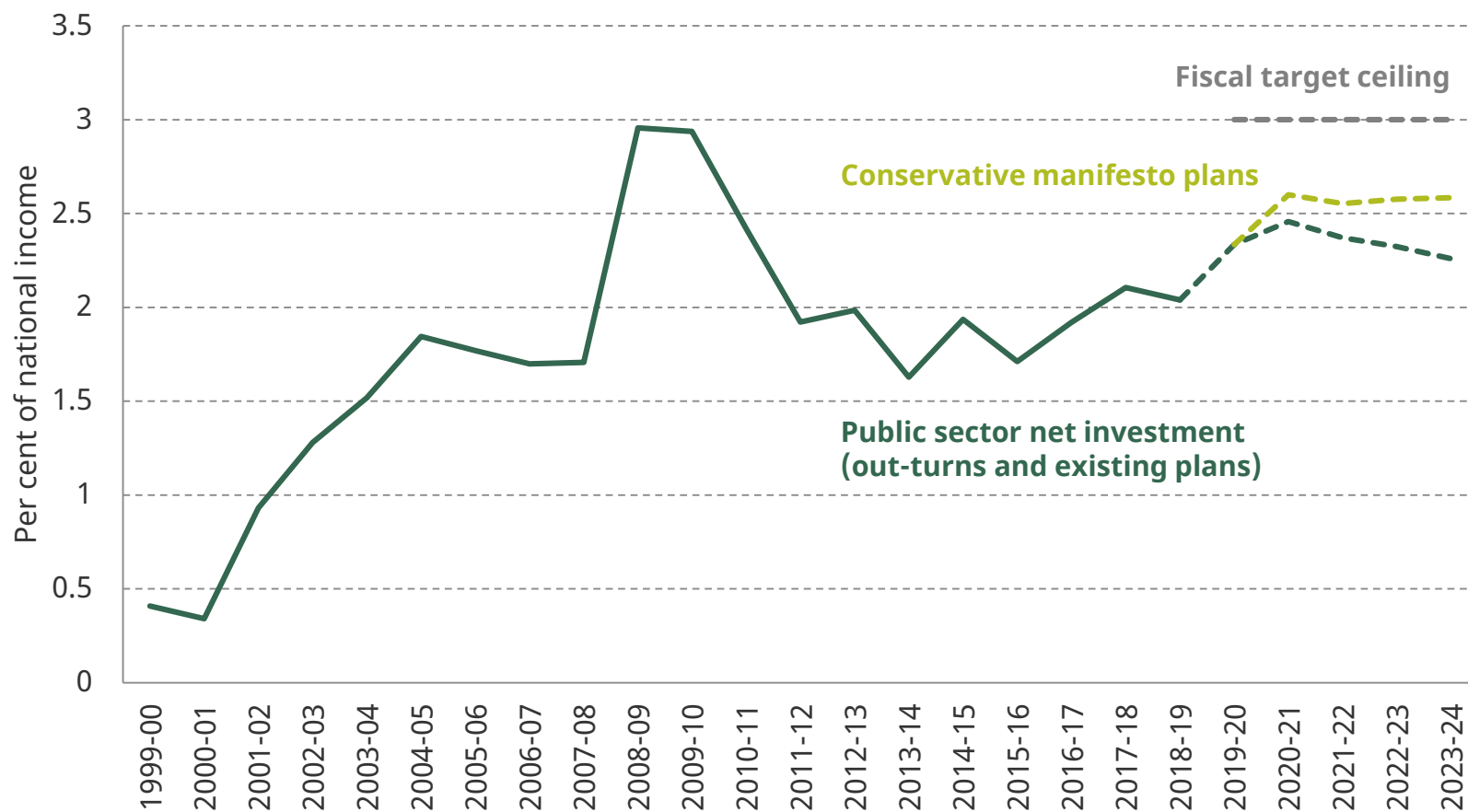
Existing plans would increase government investment spending to levels not sustained at any point in the last 40 years

- But would leave investment comfortably below the government's proposed ceiling of 3% of national income
- Conservative election manifesto contained commitments in need of funding

This Budget is likely to promise big on investment

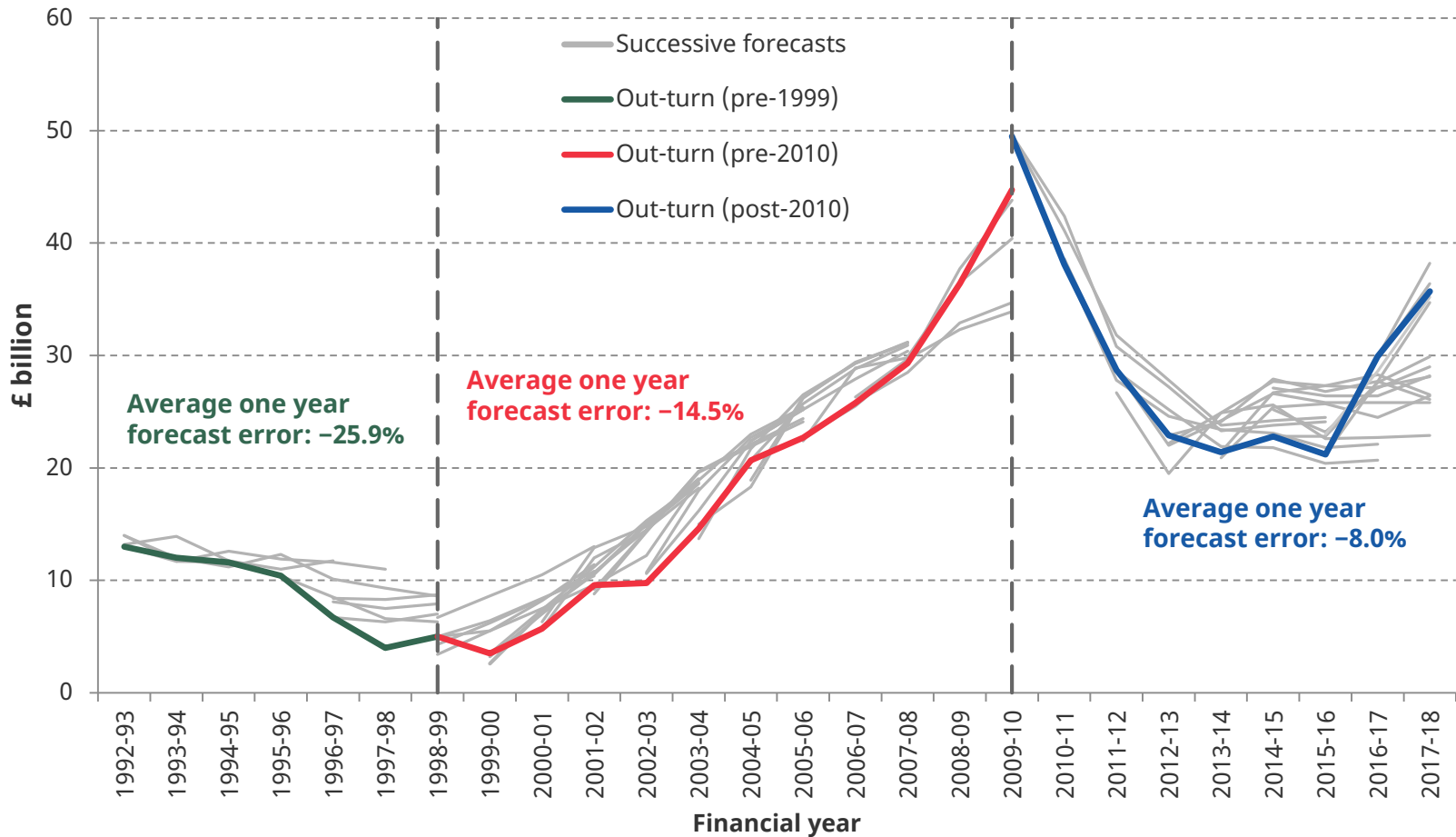
- Practical challenges remain around project delivery

Government investment is already at high levels by recent historical standards



Source: Author's calculations using OBR public finances databank, Spending Round 2019 and Conservative party 2019 election manifesto.

The government tends to undershoot its capital spending plans



Note: Figures pre-1999 are public sector net capital expenditure (PSNCE); figures post-1999 are public sector net investment (PSNI). Out-turns are adjusted for classification changes and so are not consistent with the most recently published figures. For further details, see Crawford, Johnson and Zaranko (2018).
 Source: Author's calculations and Crawford, Johnson and Zaranko (2018), *The planning and control of UK public expenditure, 1993-2015*; IFS Report R147.

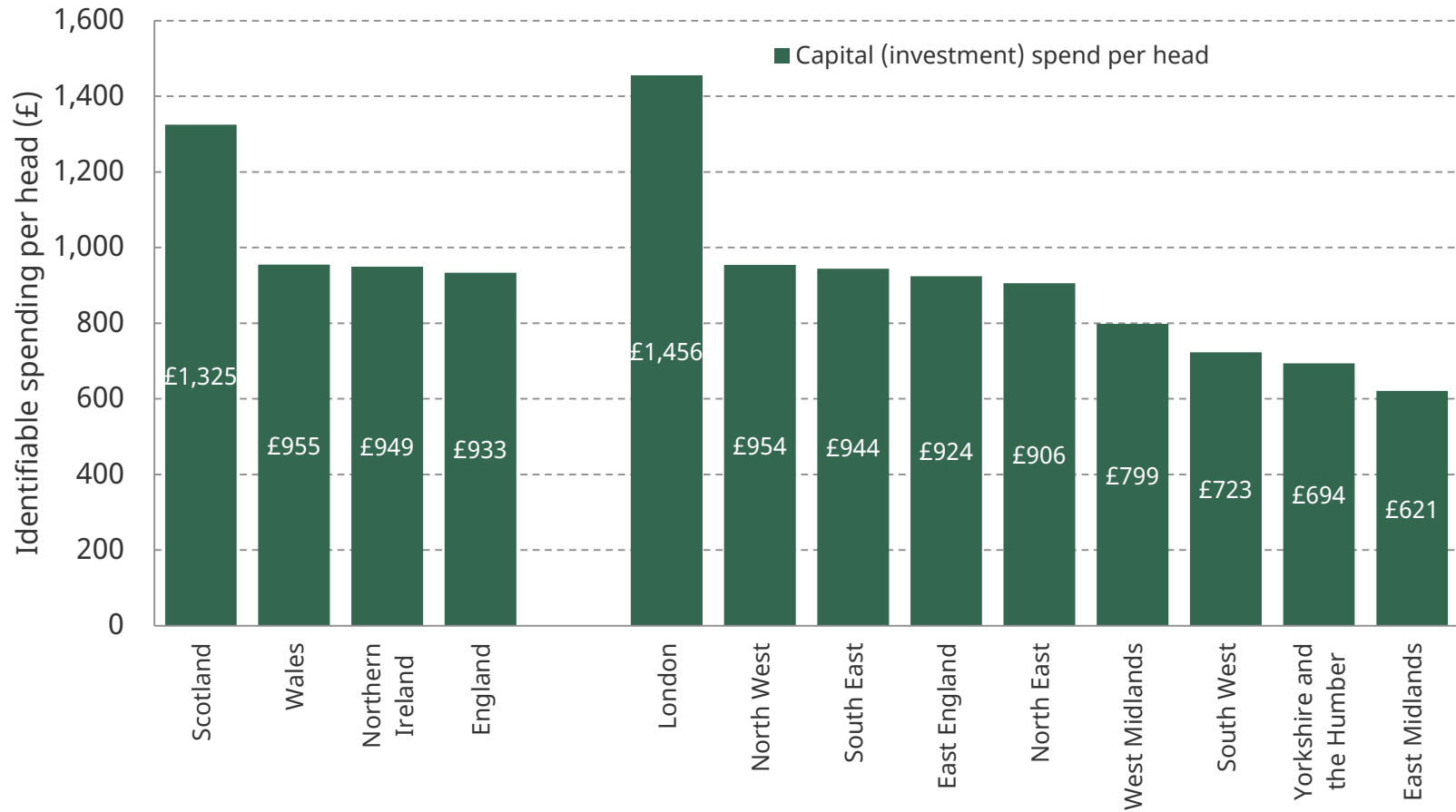
The regional distribution

Great deal of interest in the government's promise to 'level up across the UK'

Particular focus on the possibility of investment spending targeted at the Midlands and the North

Public service spending, benefit spending and tax revenues also vary considerably across the country

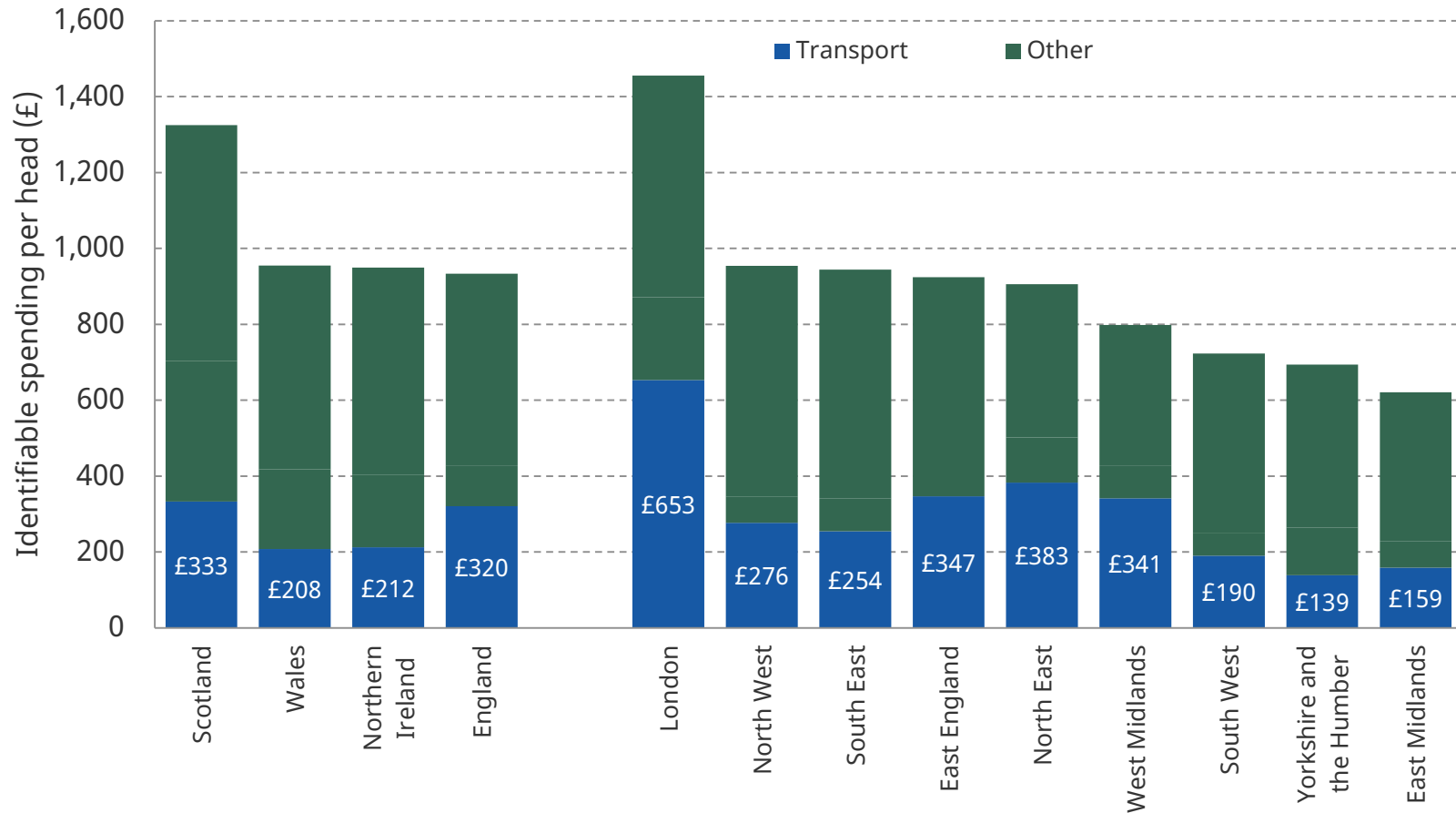
Investment spending per head is highest in London



Note: All figures are for identifiable capital expenditure in 2018–19. 'Country and regional analysis: 2019', ONS mid-year population estimates and DWP benefit expenditure and caseload tables 2019.



Higher investment spending in London is driven in large part by transport



Note: All figures are for identifiable capital expenditure in 2018–19. 'Country and regional analysis: 2019', ONS mid-year population estimates and DWP benefit expenditure and caseload tables 2019. London transport figures include TfL.

The regional imbalance in investment: how did we get here?

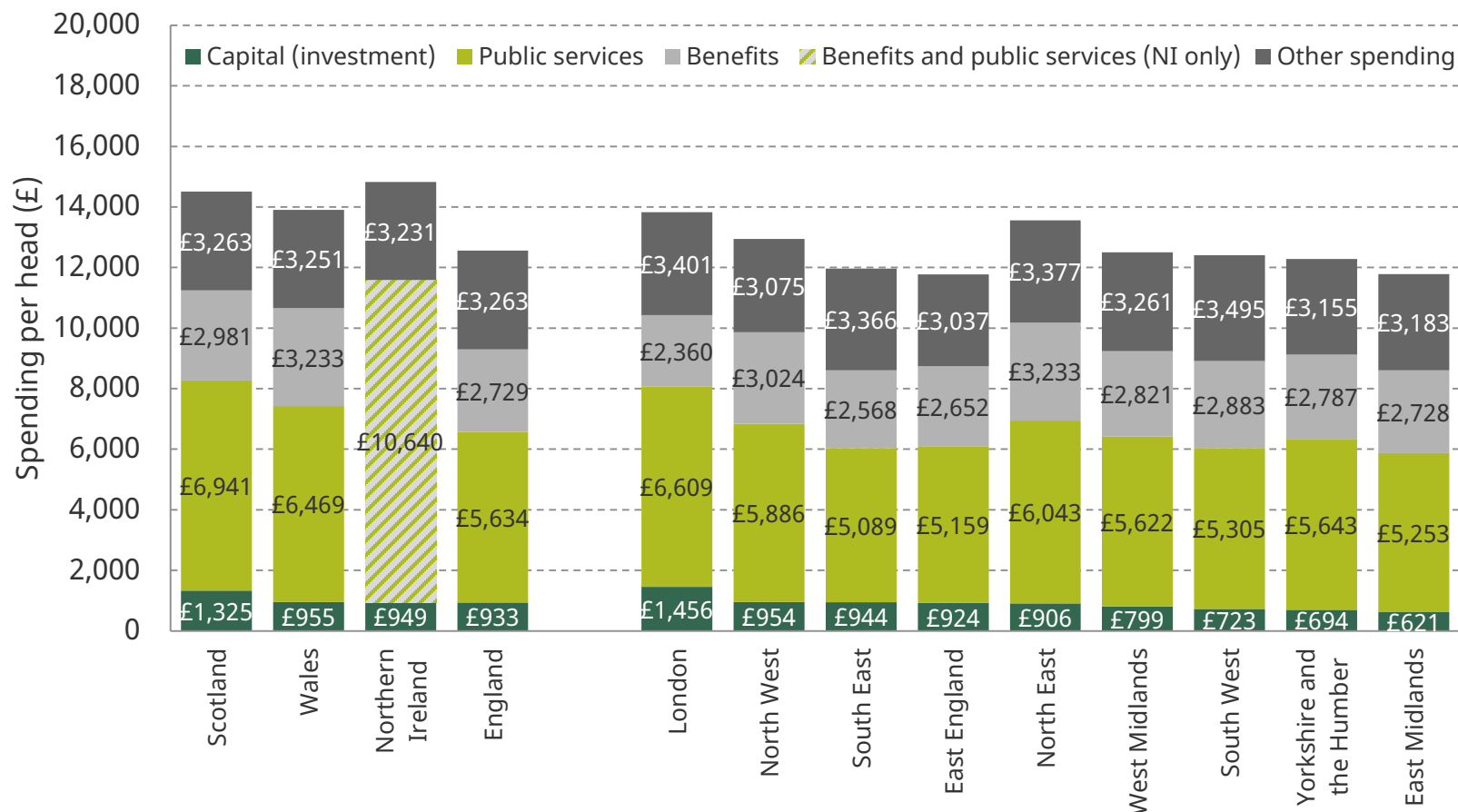
One argument: through “rational” cost benefit analyses

- London is a densely populated, highly productive urban area
 - greater demand per head (and willingness to pay) for public transport
 - greater estimated economic return to some projects due to higher productivity, etc.
 - some spending in London financed through locally raised taxes/fares

Why change this?

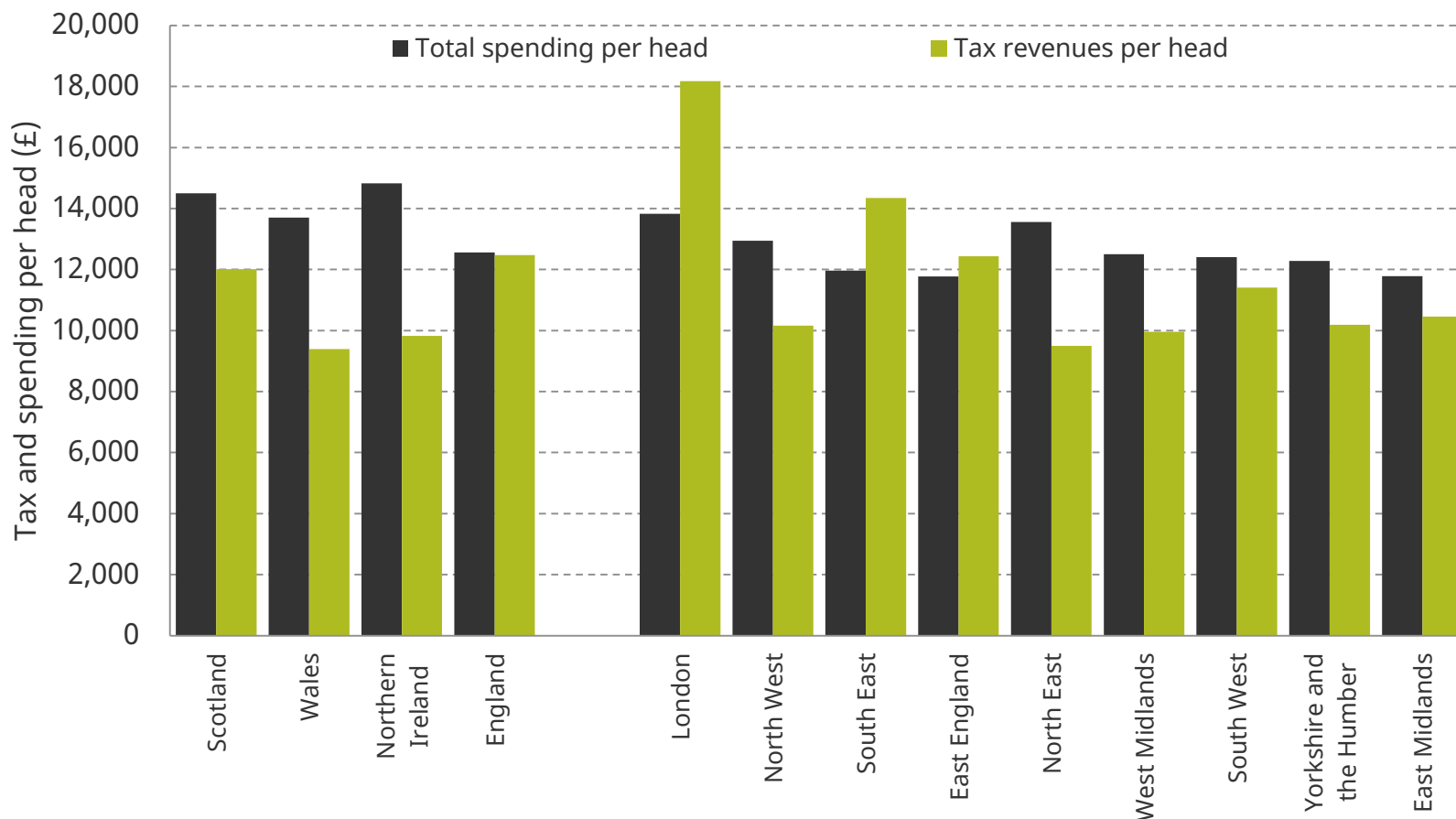
- The “rational” approach may favour areas that *already have* productive jobs, higher wages and dense populations, and those with higher land and property prices
- We might care intrinsically about the distribution of spending
 - one option: lower benefit-cost threshold outside of London
 - another: reduce the focus on boosting UK-wide economic growth

Overall spending per head is lowest in the East Midlands, South East and East of England



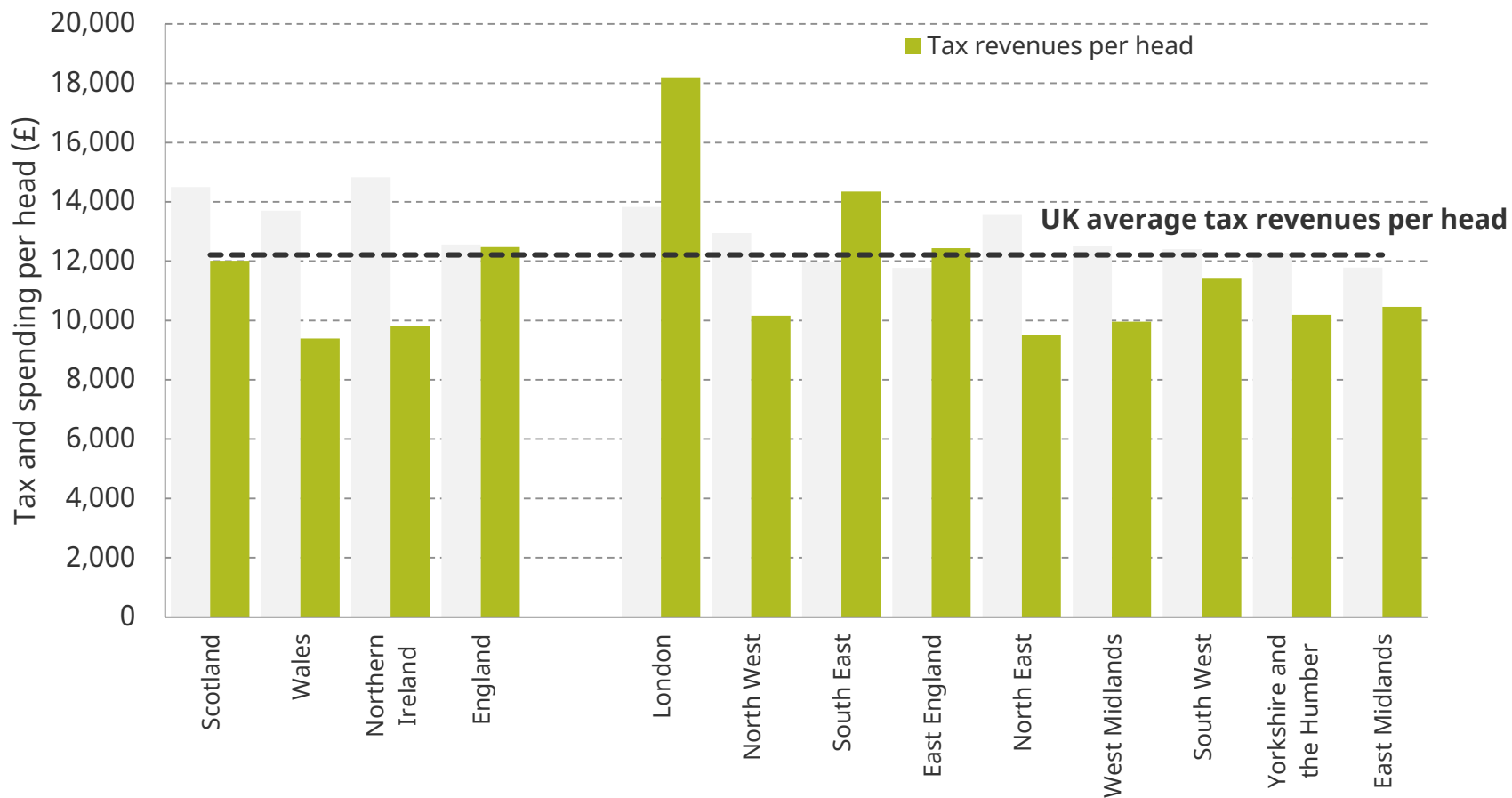
Note: All figures for 2018–19. Public services spending defined as current identifiable expenditure less benefit expenditure. Breakdown between public services and benefits expenditure not available for Northern Ireland. Other spending includes spending outside the UK, non-identifiable spending, and accounting adjustments. The bars sum to total managed expenditure (TME) per head. Source: Author’s calculations using HM Treasury, ‘Country and regional analysis: 2019’, ONS ‘Country and regional public sector finances expenditure tables’, ONS mid-year population estimates and DWP benefit expenditure and caseload tables 2019.

The UK is reliant on tax revenues from London and the South East



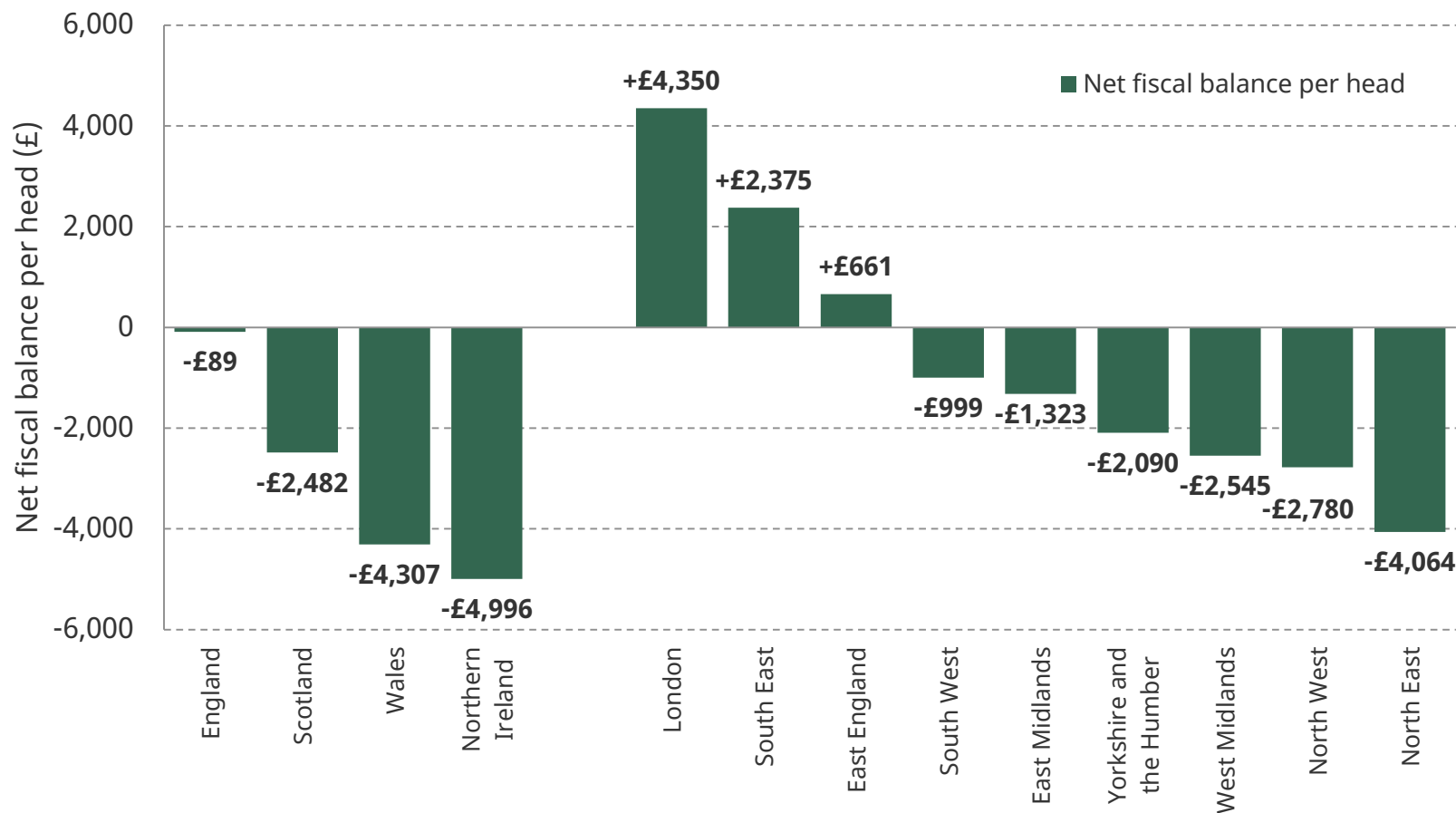
Note: All figures for 2018–19. Total spending per head denotes total managed expenditure (TME) per head. Tax revenues per head denote public sector current receipts per head (incl. North Sea Oil & Gas revenues allocated by geographic area). Source: Author's calculations using HM Treasury, 'Country and regional analysis: 2019', ONS 'Country and regional public sector finances revenue tables', ONS mid-year population estimates and DWP benefit expenditure and caseload tables 2019.

The UK is reliant on tax revenues from London and the South East



Note: All figures for 2018–19. Total spending per head denotes total managed expenditure (TME) per head. Tax revenues per head denote public sector current receipts per head (incl. North Sea Oil & Gas revenues allocated by geographic area). Source: Author's calculations using HM Treasury, 'Country and regional analysis: 2019', ONS 'Country and regional public sector finances revenue tables', ONS mid-year population estimates and DWP benefit expenditure and caseload tables 2019.

Only London, the South East and the East of England had a net fiscal surplus last year



Note: All figures for 2018–19. Positive figures indicate a surplus; negative figures indicate a deficit. Figures include North Sea Oil & Gas revenues allocated by geographic area.

Source: Author's calculations using ONS 'Country and regional public sector finances net fiscal balance tables' and ONS mid-year population estimates.



The UK public finances are increasingly reliant on London and the South East

This reflects a number of factors:

- The spending gap between London and the rest of the country has narrowed over the past decade
 - government spending more and more concentrated on health and pensions
 - local authorities in London have faced particularly deep budget cuts
- Tax revenues are increasingly concentrated in London and the South East
 - increases in property values and rents
 - growing share of those with very highest incomes in London and South East
 - policy: stamp duty, inheritance tax and income tax all made more progressive



The outlook for benefits spending

Social security spending has stayed broadly flat over the past decade (despite substantial reforms and cuts in generosity)

The benefits freeze has now come to an end

- Payments will now maintain their real value: no real-terms giveaways planned

Two major working-age benefit cuts being rolled out gradually:

- ‘two-child limit’ on support through means-tested benefits
- abolition of ‘family premium’ (extra support for first child)
- Estimated to eventually reduce benefits spending by ~£4.4 billion (combined, of which roughly $\frac{5}{6}$ still to come)

The full rollout of Universal Credit has been delayed once again



The outlook for public spending: a summary

Implied spending plans leave a considerable amount of austerity 'baked in'

- Without additional funding some day-to-day budgets likely to face further cuts after next year
 - the Budget could provide this funding as part of the overall 'envelope'
 - Spending Review later in the year to finalise allocations

Plenty of scope for additional capital spending – but promising a boost to investment is easier than delivering it

- Potential for rule change to target investment outside of London and the S. East

Some working-age benefit cuts still working through the system; Universal Credit rollout delayed again