



Institute for Fiscal Studies

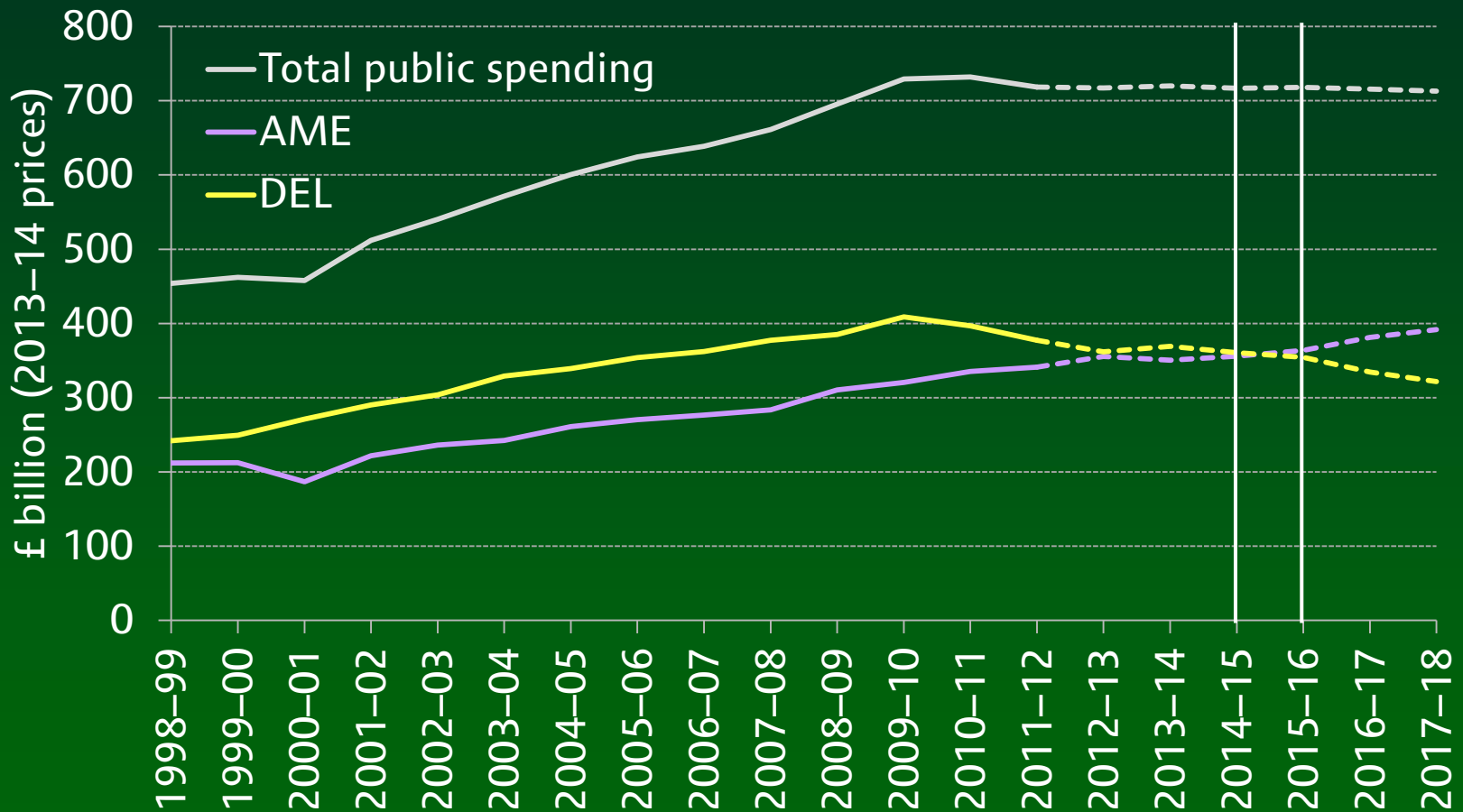


“We shall squeeze ... until the pips
squeak”

Gemma Tetlow

Post-Spending Round Briefing, 27 June 2013

The outlook for total spending

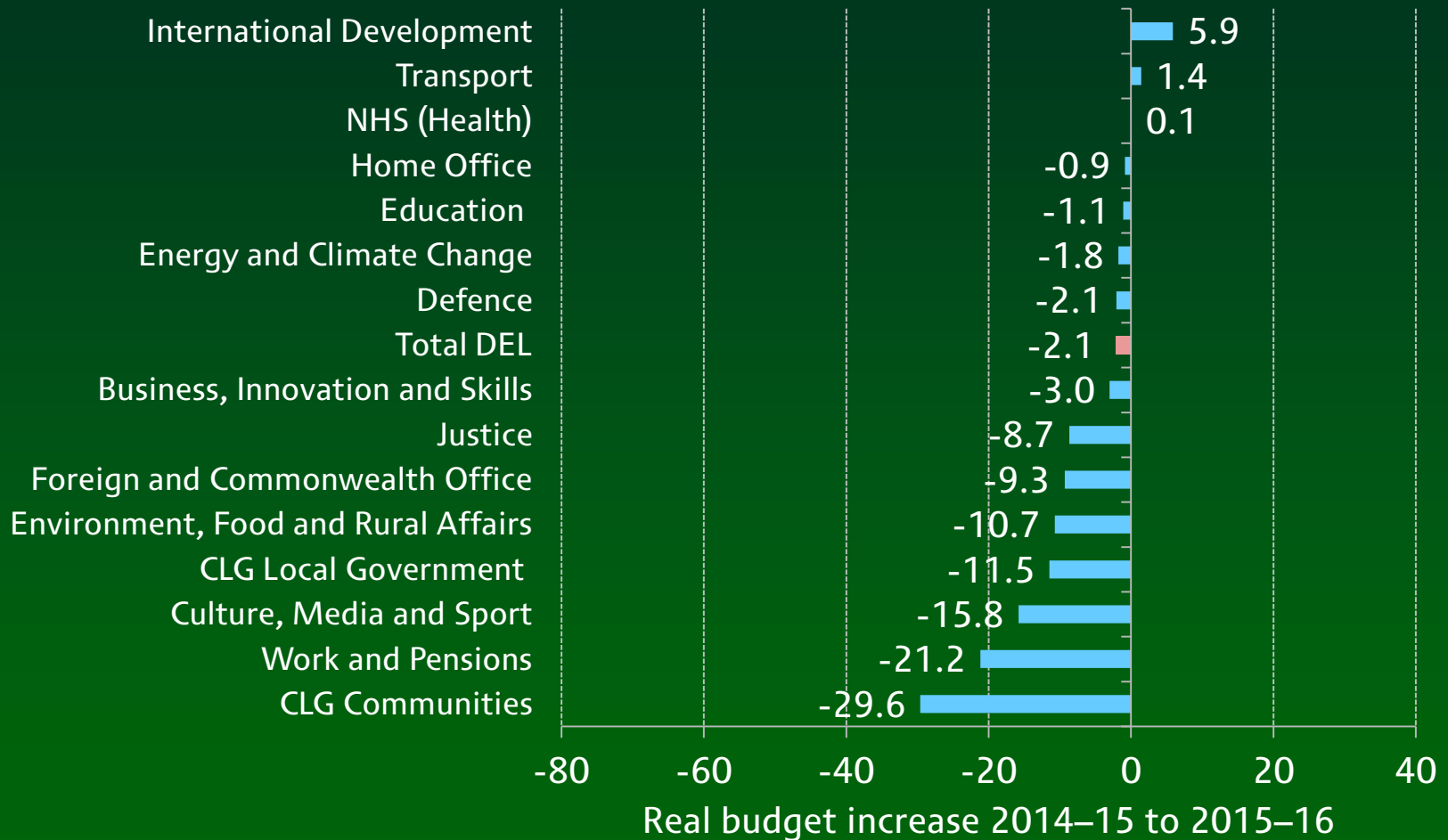


Overview of spending plans for 2015–16

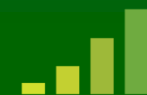
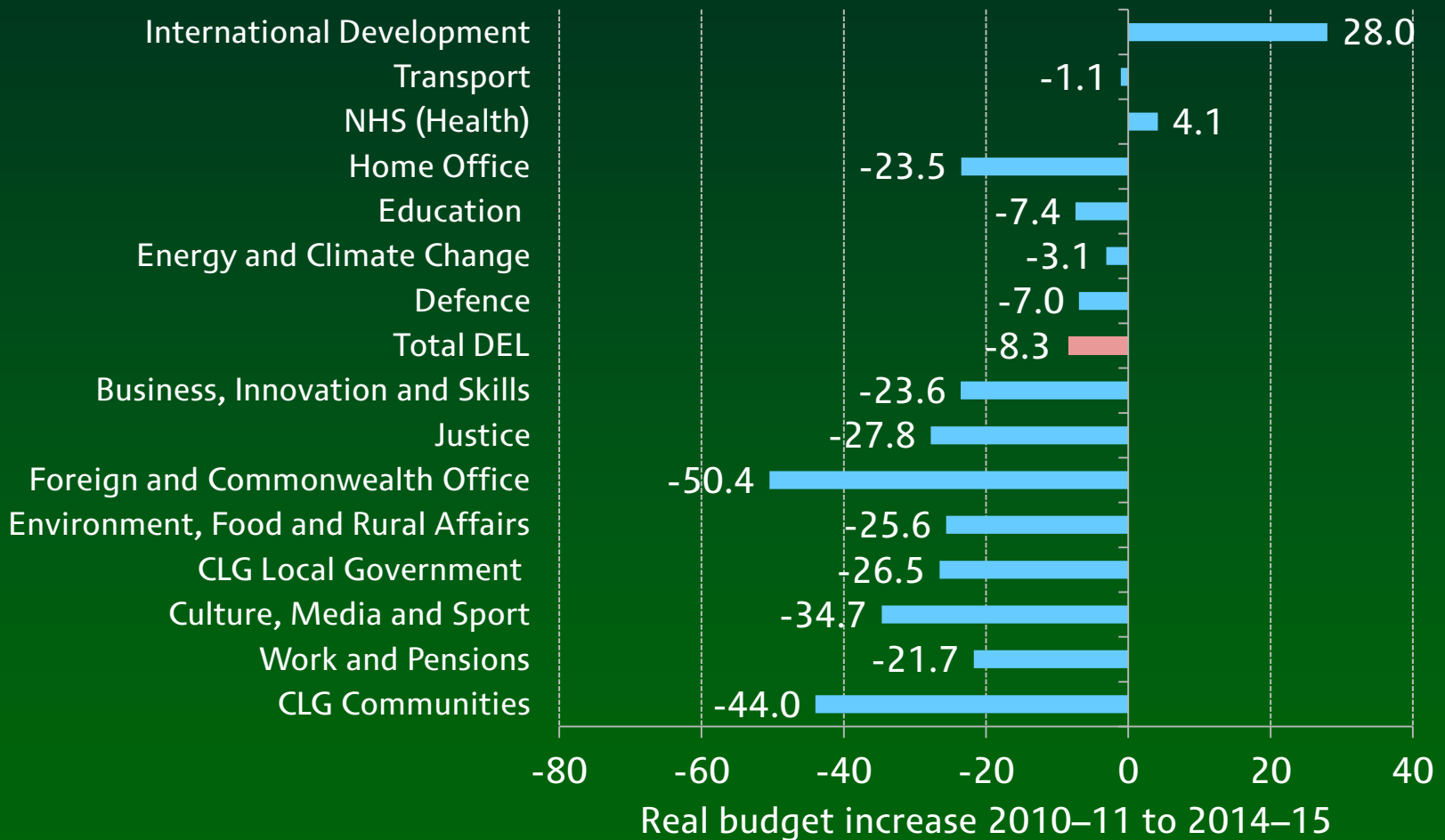
- Reallocation from capital AME to capital DEL
 - “Financial transaction”
 - Decreases AME and increases DEL by £3 billion
 - Reduces the apparent cut to DEL compared to what was suggested in March
- Average DEL cut of 2.1% in real terms across departments in 2015–16
 - On top of 8.3% average cut between 2010–11 and 2014–15
 - Implies 10.3% average cumulative cut over five years
- Pain has not been equally shared
 - Capital spending increased while current spending cut (unlike SR2010)
 - Departmental priorities largely the same as in SR 2010
 - Some departments set to be cut by more than a third over five years



Additional cuts averaging 2.1% announced yesterday for 2015–16...



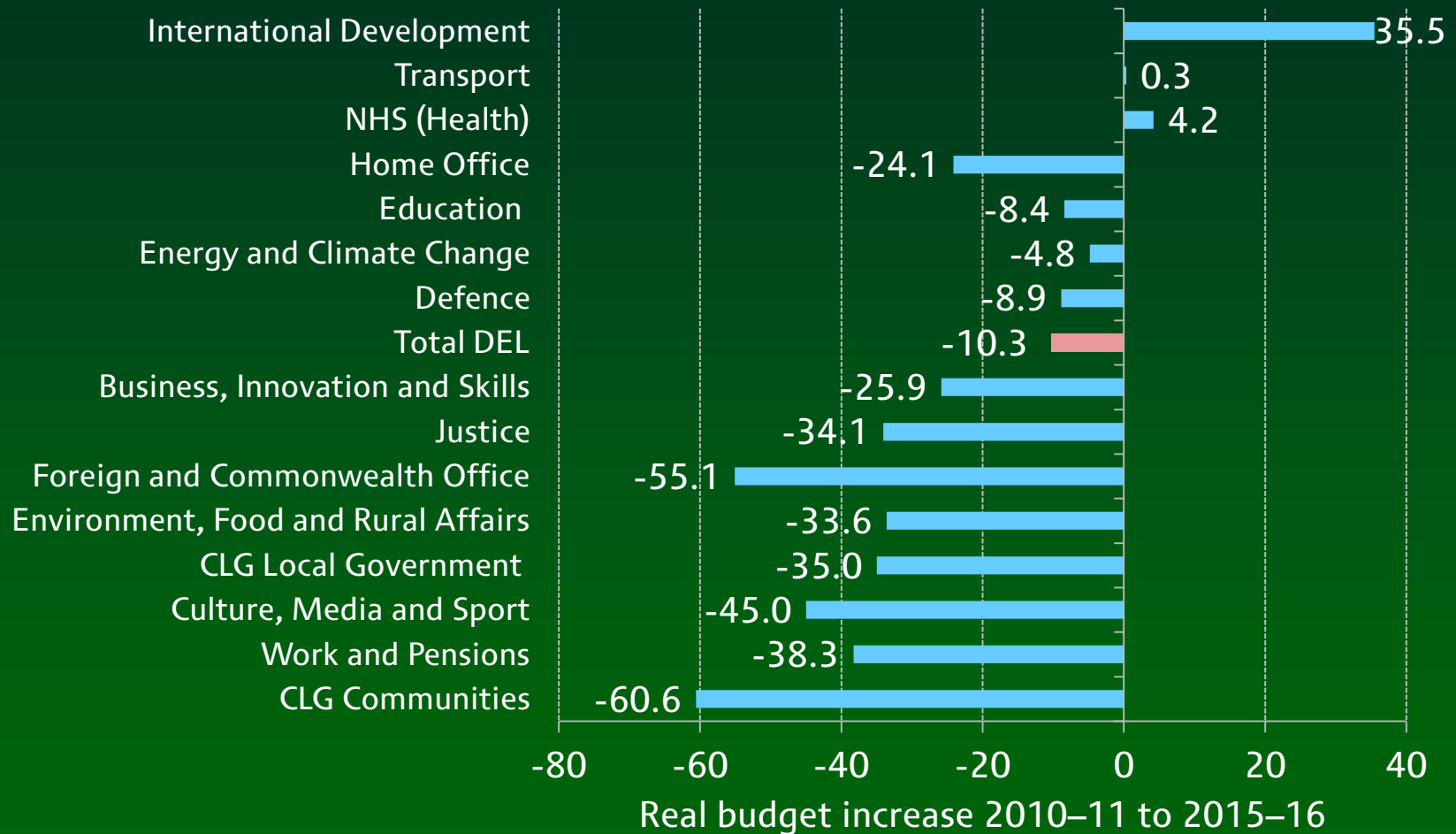
Come on top of cumulative cut to DEL averaging 8.3% over SR2010...



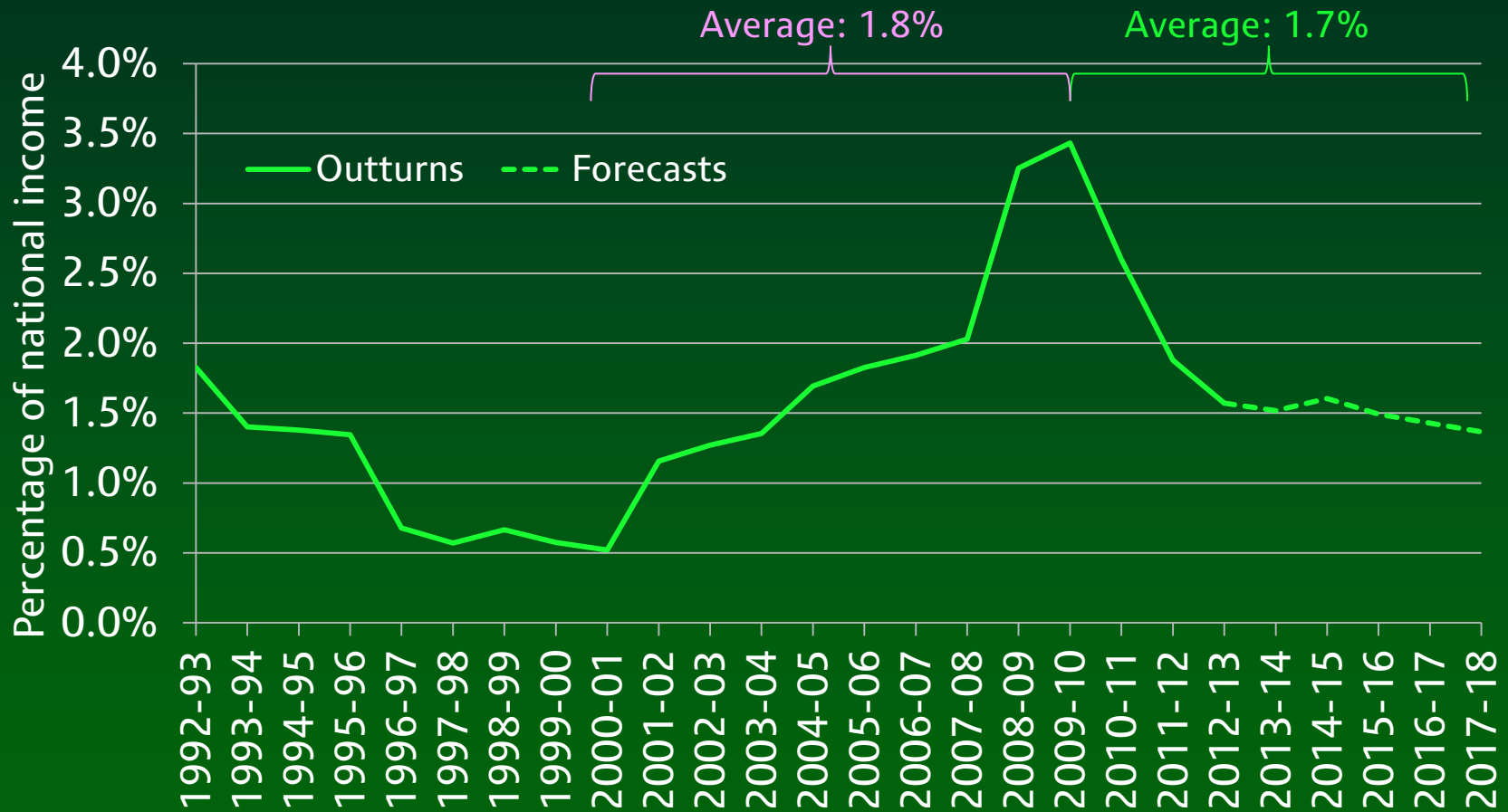
The art of obfuscation

- Figures for Departmental Expenditure Limits published yesterday for 2014–15 differ quite significantly from figures published in Budget 2013 for some departments
 1. Change in where some grants sit
 - Police grant transferred from Local Government to Home Office (£3 billion)
 - Learning disabilities and health grant moved from NHS to Local Government (£1.4 billion)
 - Other transfers occurred from Education and Transport to Local Government
 2. Localisation of council tax benefit now incorporated in DCLG Local Government budget – moves £4.3 billion of spending
- For now, the first point hampers a comparison of historic and forecast departmental budgets

Estimated cumulative 5-year cut



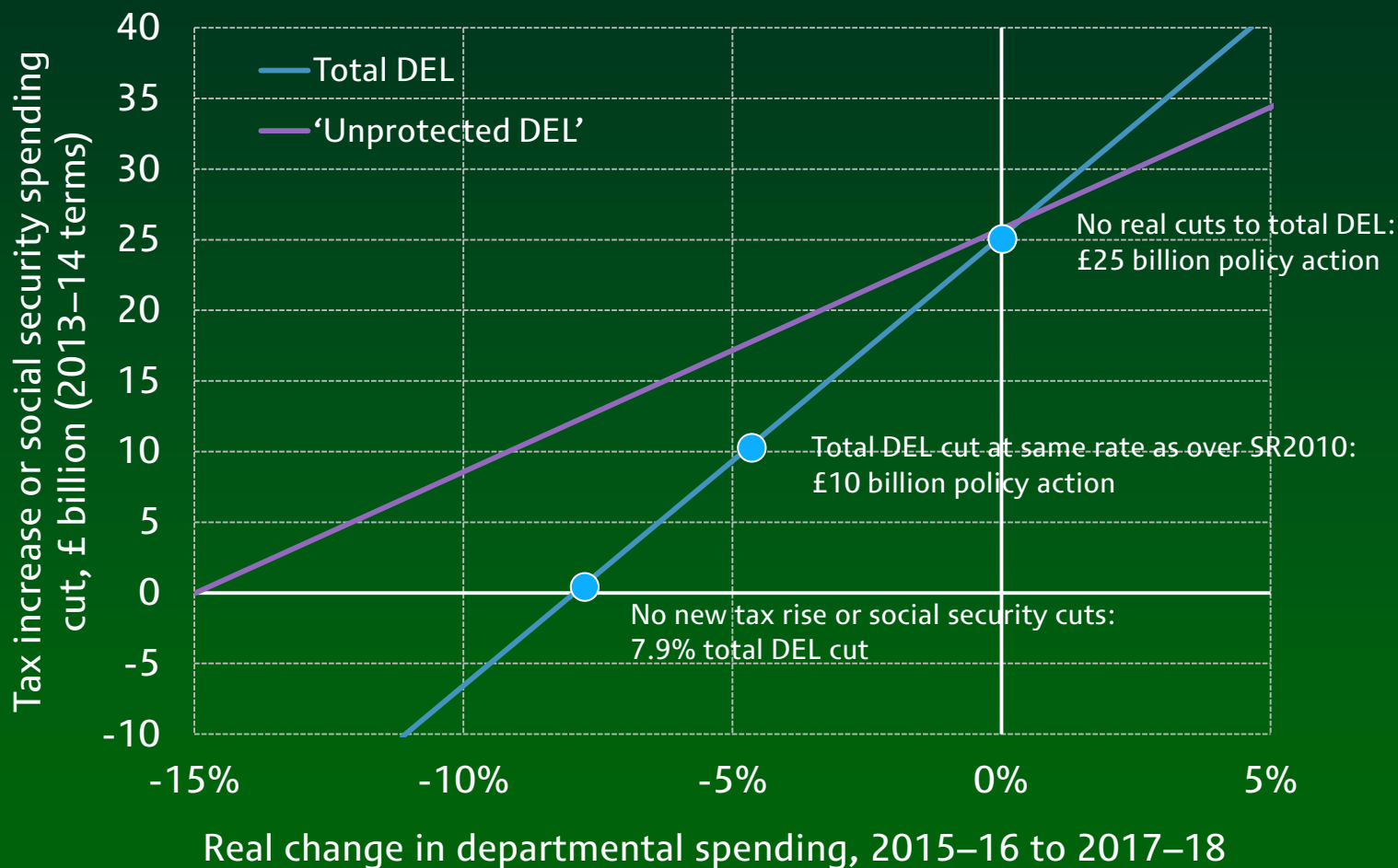
Public Sector Net Investment



Further cuts are expected beyond March 2016 (1)

- Total spending approximately frozen in real terms
 - But AME spending rising, in the absence of further policy action
 - Implies further cuts to DELs
- If no further tax increases or AME cuts announced
 - Total DEL would have to be cut by 7.9% over two years
 - If continue 'protecting' NHS, schools, ODA, unprotected areas would have to be cut by 15.0%
 - Implies cumulative cut to unprotected areas over 7 years of 32.9%
- If want to avoid any further DEL cuts
 - Additional £25 billion of tax increases or AME cuts required

Beyond SR 2013: Trade off between DEL cuts and other policy action



Further cuts are expected beyond March 2016 (2)

- If no further tax increases or AME cuts announced
 - Total DEL would have to be cut by 7.9% over two years
 - If continue ‘protecting’ NHS, schools, ODA, unprotected areas would have to be cut by 15.0%
 - Implies cumulative cut to unprotected areas over 7 years of 32.9%
- If want to avoid any further DEL cuts
 - Additional £25 billion of tax increases or AME cuts required
- If continue cutting DEL at same rate as between 2010–11 and 2015–16 (average 2.4% a year)
 - Additional £10 billion of tax increases or AME cuts required
- Additional £3.7bn a year also has to be found from 2016–17 for higher public sector employer National Insurance contributions

Conclusions

- Departmental spending cuts averaging 2.1% announced for 2015–16
 - Capital spending increased, while current spending cut
 - Cuts unevenly spread, with priorities largely unchanged since SR 2010
 - Some departments have fared noticeably better this time: Home Office, Transport
- Cumulative cut over five years from 2010–11 now averages 10.3%
 - 18.5% across unprotected areas
 - Some departments will see cuts of more than a third: Justice, Communities, DEFRA, Foreign Office
- Further cuts likely in 2016–17 and 2017–18
 - If no further tax increases or AME cuts announced, total DEL would have to be cut by 7.9% over two years