Public service spending: an even bigger squeeze
Much higher economy-wide inflation

a) Annual growth in GDP deflator

<table>
<thead>
<tr>
<th>Year</th>
<th>Spring Budget 2023</th>
<th>Autumn Statement 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022-23</td>
<td>6.7%</td>
<td>6.1%</td>
</tr>
<tr>
<td>2023-24</td>
<td>2.5%</td>
<td>5.7%</td>
</tr>
<tr>
<td>2024-25</td>
<td>1.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td>2025-26</td>
<td>1.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2026-27</td>
<td>1.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td>2027-28</td>
<td>1.8%</td>
<td></td>
</tr>
</tbody>
</table>

b) Cumulative growth in GDP deflator from 2021–22

<table>
<thead>
<tr>
<th>Year</th>
<th>Spring Budget 2023</th>
<th>Autumn Statement 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021-22</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>2022-23</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>2023-24</td>
<td>6%</td>
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</tr>
<tr>
<td>2024-25</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>2025-26</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>2026-27</td>
<td>15%</td>
<td>+14.4%</td>
</tr>
<tr>
<td>2027-28</td>
<td>18%</td>
<td>+21.1%</td>
</tr>
</tbody>
</table>

Public service spending
Departmental settlements are now less generous across the board

Planned average real-terms growth in selected day-to-day budgets over the parliament

- March 2023 plans
- November 2023 plans

Overall Resource DEL (OBR)
Overall Resource DEL (HMT)
Health and Social Care
Justice
Education
Home Office
Defence

Average real-terms growth 2019–20 to 2024–25


Public service spending
Where did the money for those tax cuts come from?

Tax cuts announced in Autumn Statement 2023

Reduction in real-terms generosity in public service budgets between Spring Budget 2023 and Autumn Statement 2023

Note: The reduction in real-terms generosity of public service budgets refers to the cash top-up to Total Departmental Expenditure Limits (TDEL) that would be required to maintain the real-terms generosity of spending plans at the level specified in the 2023 Spring Budget. Source: IFS calculations using OBR Economic and Fiscal Outlook (March and November 2023), HM Treasury Spring Budget 2023, and HM Treasury Autumn Statement 2023.

Public service spending
Cuts pencilled in for after the next election

Illustrative change in day-to-day funding implied by latest plans, 2024–25 to 2028–29

- Growth in line with NHS workforce plan
- Constant as a share of GDP
- Held flat in real-terms
- Cuts for unprotected budgets in England, accounting for Barnett consequentials for Scotland, Wales, and Northern Ireland
- Cuts for other unprotected budgets (incl. local government, further education, courts, prisons, HMRC, etc)
- Growing to fund Spring Budget announcements

- 30.6%
- 0.9%
- 3.6%
- 0.0%
- 1.8%
- 1.8%
- -1.8%
- -3.4%
- c. £20bn required in 2028–29 to avoid cuts

Public service spending
Public sector net investment

Source: Author’s calculations using OBR Public Finances Databank. For details of assumptions on Labour’s plans, see Zaranko (2023), ‘A look under the hood of Labour’s investment plans’, https://ifs.org.uk/articles/look-under-hood-labours-investment-plans
Much higher inflation throughout forecast period
  - Departments squeezed across the board
  - Cash top-ups to planned day-to-day spending after 2024–25 not enough to offset inflation

Tight spending settlements after 2024–25 mean unprotected departments face significant cuts
  - Would require ~£20 billion of additional spending in 2028–29 to avoid any cuts to day-to-day public service budgets

No extra money for capital – lower each year in real terms
  - even Labour’s extra £20 billion not enough to avoid investment falling

Boosting public sector productivity massively important – but only helps public finance if allows for *cashable savings*
  - (rather than leading to a boost to public sector output)