



Max Warner

Public service spending: challenges and options

10th October 2024

IFS Green Budget

@TheIFS



Economic
and Social
Research Council

The public spending challenge

1. Promises for public services and ‘no return to austerity’
2. Inherited spending plans are tight
 - Last SR eroded by higher inflation and faster population growth
 - Future plans imply real-terms cuts to ‘unprotected’ public services and to government investment
3. £22 billion of in-year spending pressures only add to this
 - Recent public sector pay decisions will put pressure on future years

Seems inevitable that the previous government’s spending plans will need topping up – **the key question is by how much?**

The Spending Review timeline



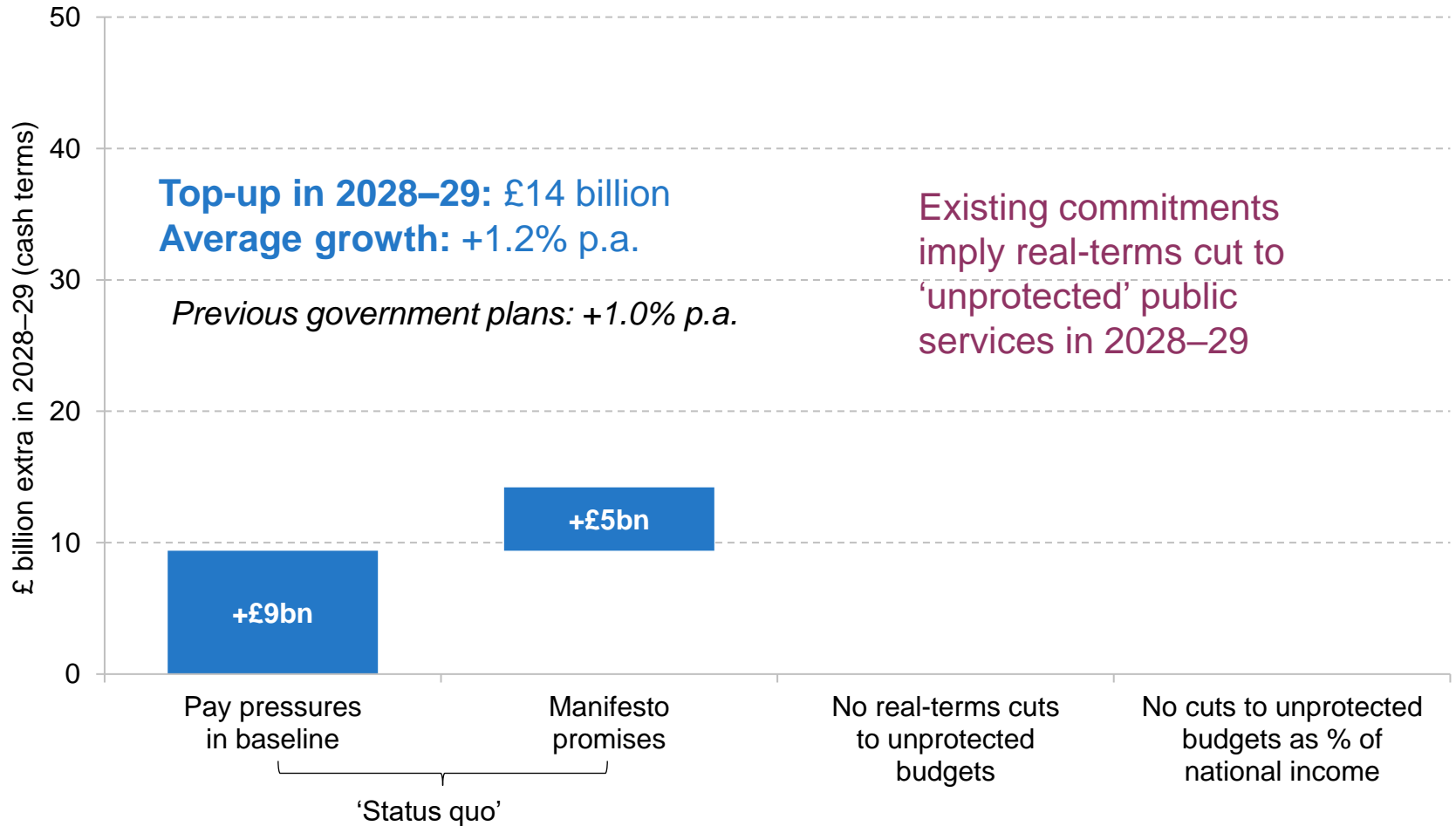
- Budget on October 30th
 - Confirm departmental spending totals for 2024–25
 - Set new departmental spending totals for 2025–26
 - Set the overall path for spending for 2026–27 onwards
- Spending Review next spring
 - Allocate the overall pot between departments from 2026–27 onwards (to at least 2028–29)
- Setting day-to-day (RDEL) and capital (CDEL) budgets
- Not covered here: AME spending, including social security benefits

What scale of top-up might be needed?

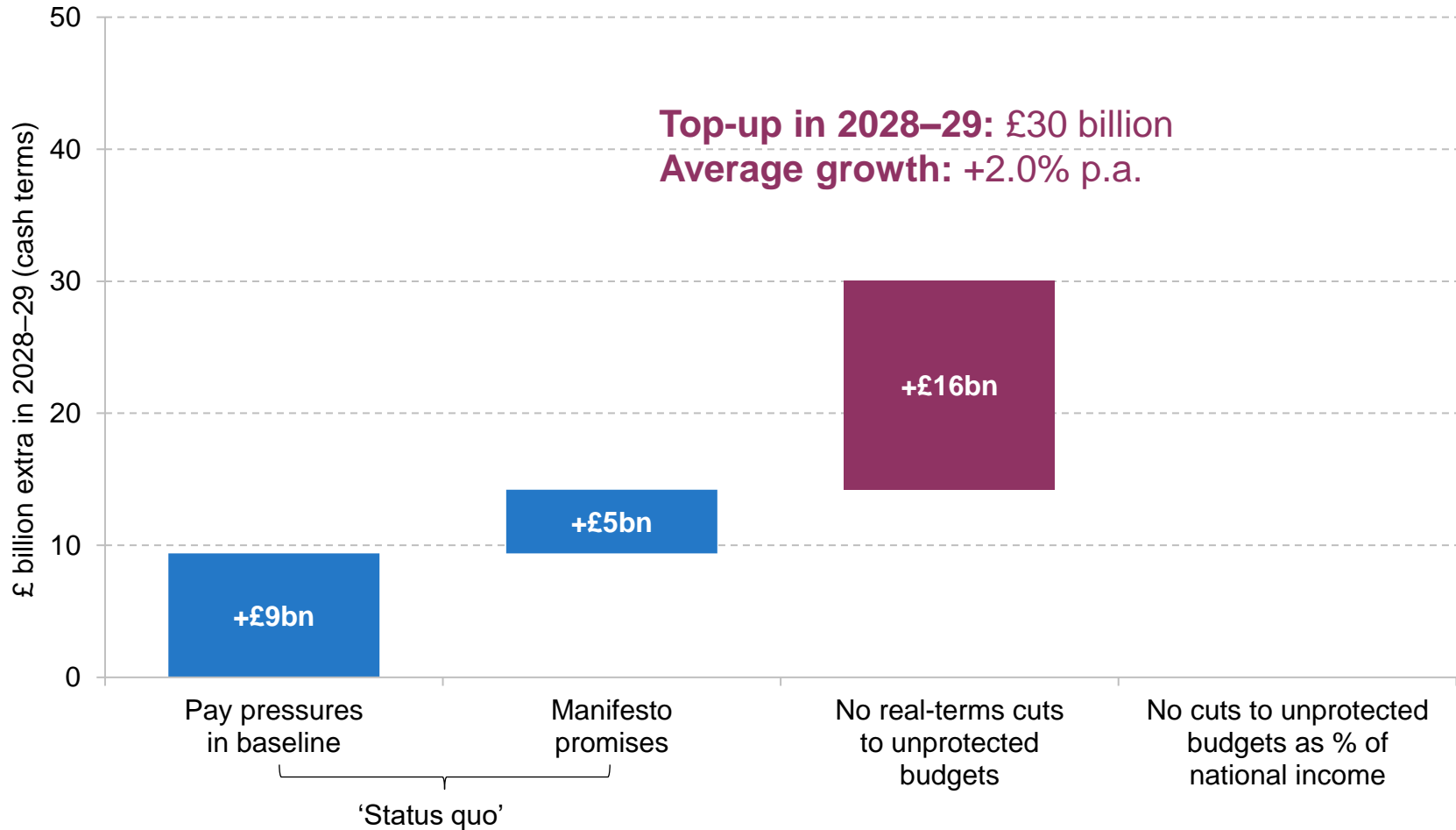


- We focus here on the potential top-up needed by 2028–29
- Set out a range of illustrative scenarios for top-ups
- **Key point: top-ups can get quite large, quite quickly, under reasonable assumptions**

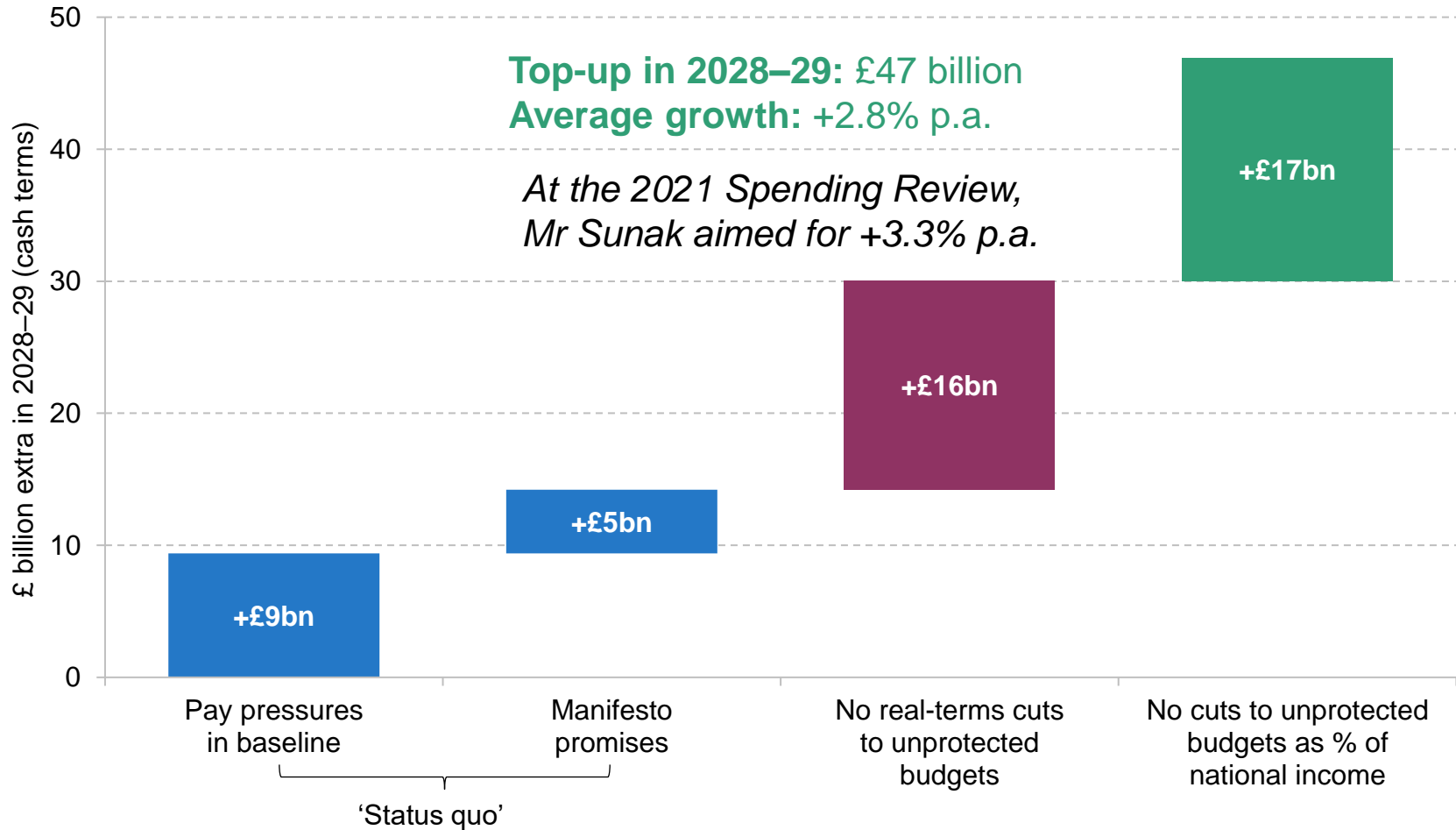
Scenarios for day-to-day top ups



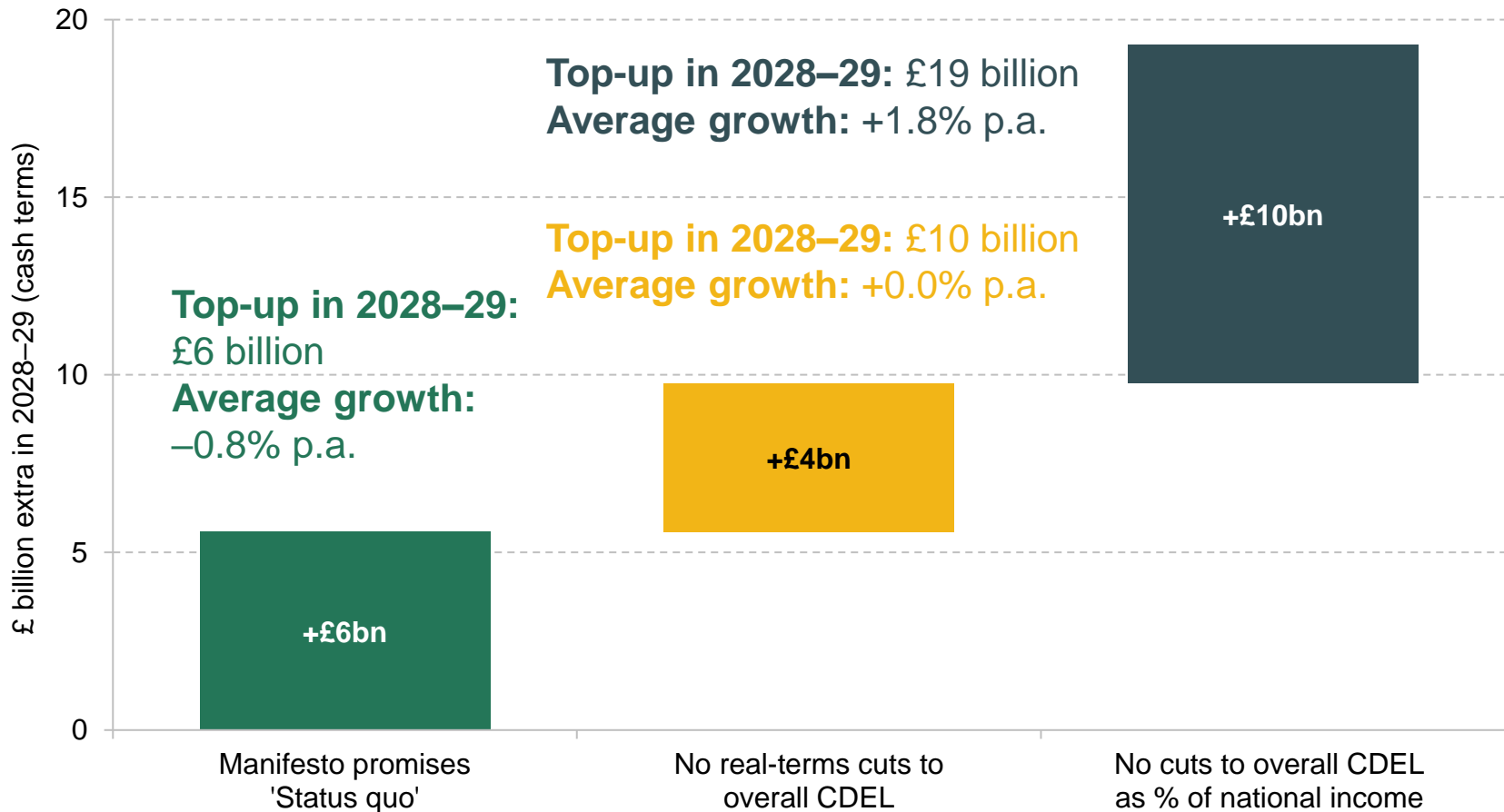
Scenarios for day-to-day top ups



Scenarios for day-to-day top ups



Scenarios for capital top ups



Taken together

- Precise numbers matter less than the magnitude
- Under reasonable assumptions, total top-up could be large
 - Avoiding real-terms cuts to unprotected RDEL and overall CDEL would require a £40 billion top-up by 2028-29
 - Spending would grow less quickly than Mr Sunak's 2021 plans
 - History suggests top-ups down the line are likely
- The decisions and choices made at these Spending Reviews will be consequential, and possibly parliament-defining

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk

