



Institute for
Fiscal Studies



Public spending: more cuts to come

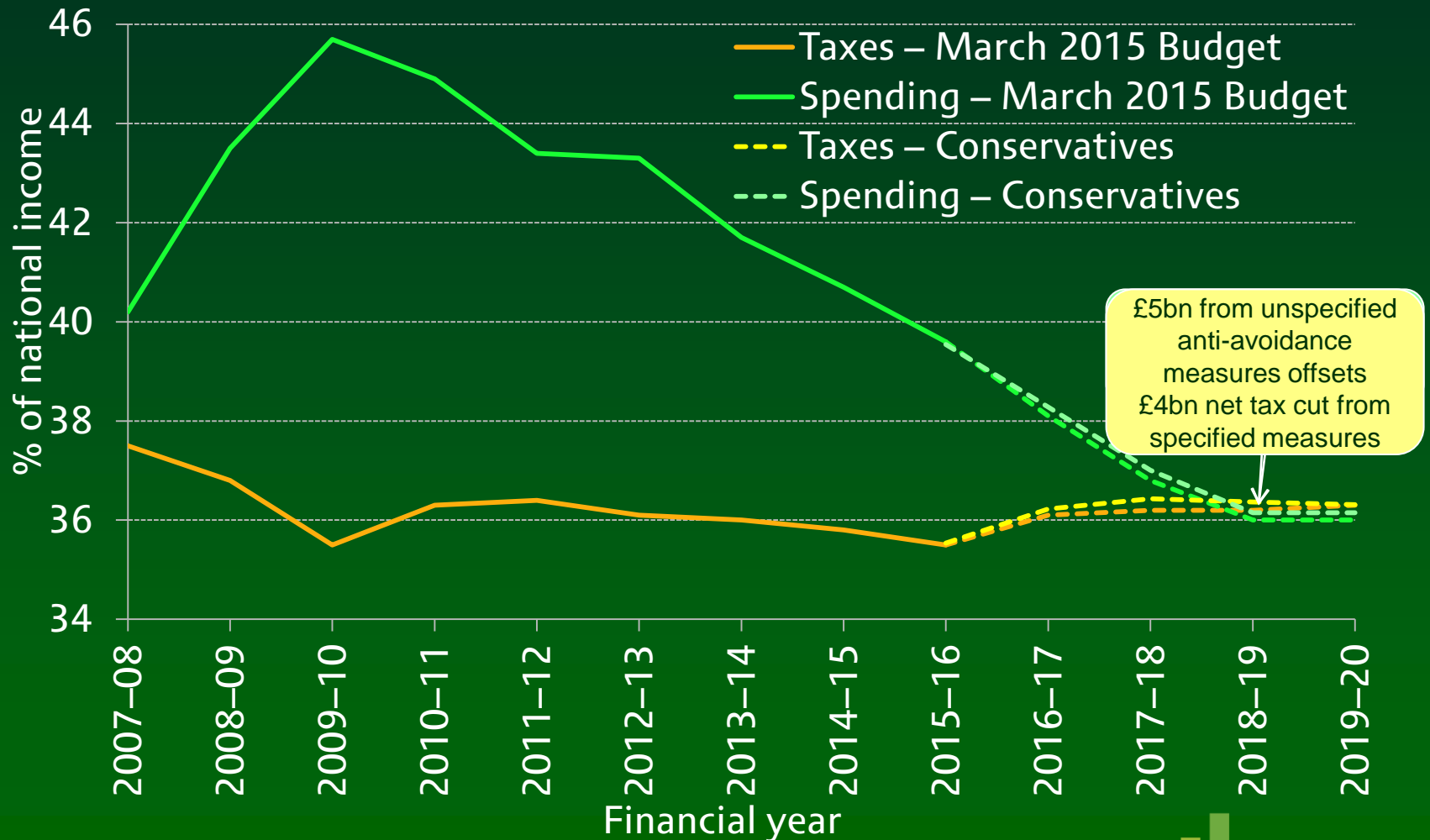
Carl Emmerson

Presentation at IFS and IfG background briefing “The 2015 Budget and Spending Review”, 4 June 2015

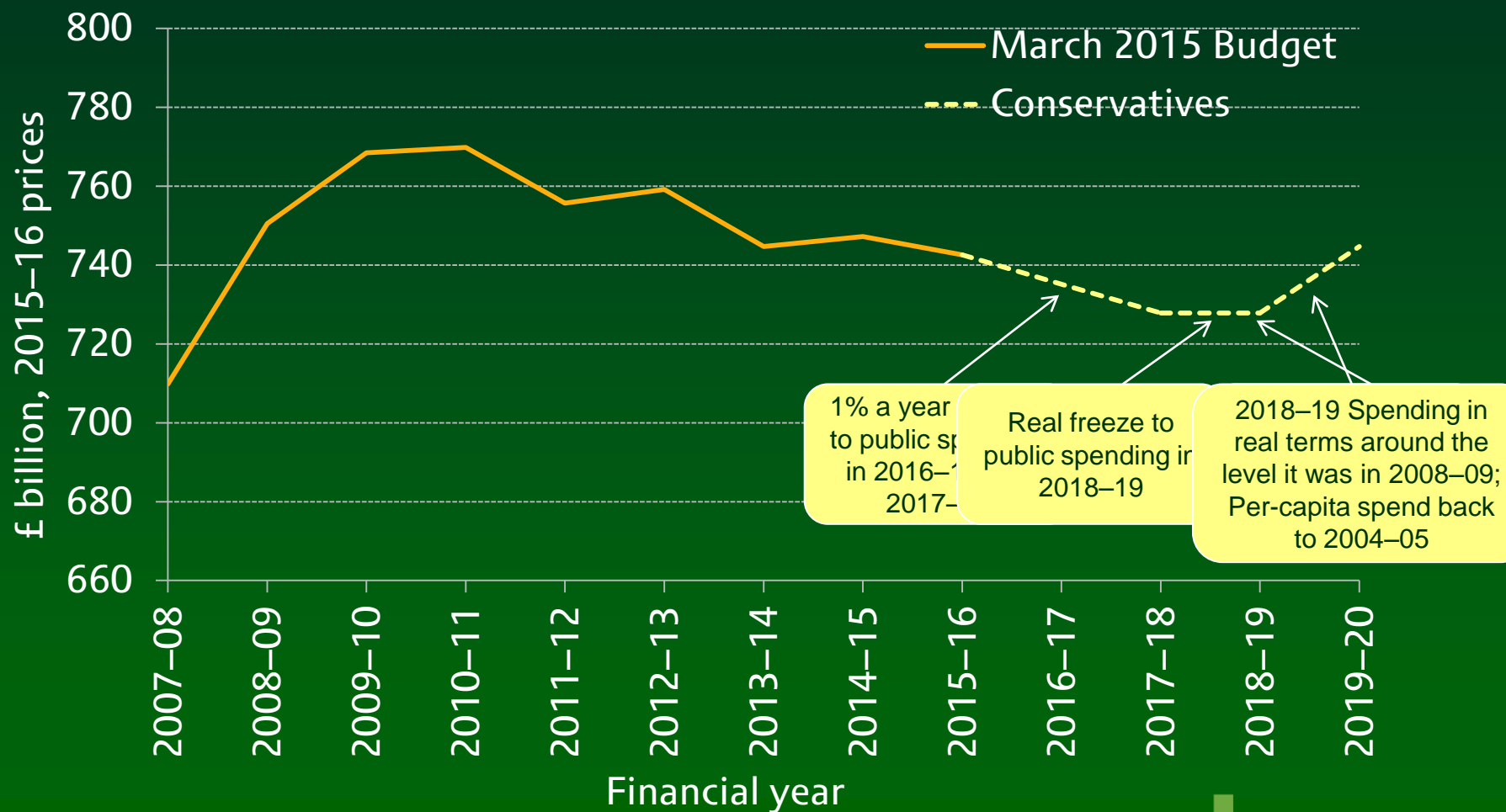
<http://election2015.ifs.org.uk/>



Tax rises and spending cuts to eliminate the deficit



Manifesto commitments on total spending



Underlying pressures pushing spending up

- Components of Annually Managed Expenditure forecast to rise:
 - debt interest: increased government debt and rising effective interest rate
 - public service pensions: numbers receiving rising
 - state pensions: average payments rising
- Given cut to overall spending implies a deeper cut to departmental spending
- Decision to increase some spending, and not to cut some other spending, increases the size of the cuts faced elsewhere

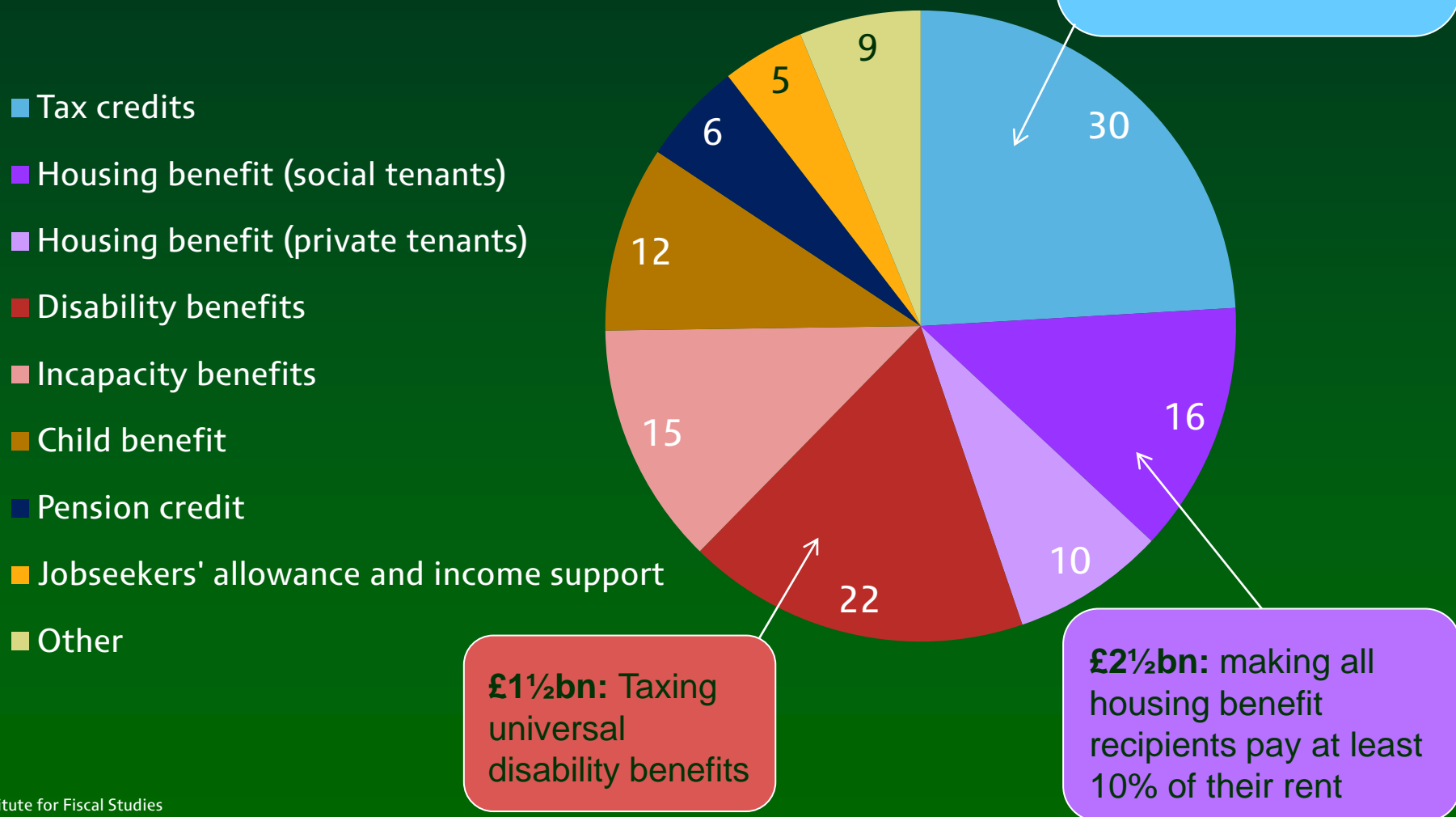
Manifesto commitments on social security spending

- Pledged £11.1bn (today's terms) of cuts to annual social security by 2017–18 (£12bn nominal in 2017–18)
 - £220bn of spending, but £95bn on state pension and universal pensioner benefits protected
 - so unprotected spending to be cut by about 10% which would reduce it to lowest level as a share of national income since 1990–91
- Announced measures achieve one-tenth of this:
 - **£1.0bn**: freeze most working-age benefits in 16–17 and 17–18
 - **£0.1bn**: reduce benefits cap from £26k to £23k
 - **£0.1bn**: remove housing benefit from 18-21 yr-old JSA claimants
- Leaves about £10bn more cuts to find in 2 years
 - via policies other than 'just' increasing things less quickly than inflation
 - over last 5 years, excluding policies to increase benefits less quickly than inflation, coalition found £15bn of gross cuts



What could be cut? (some illustrative examples)

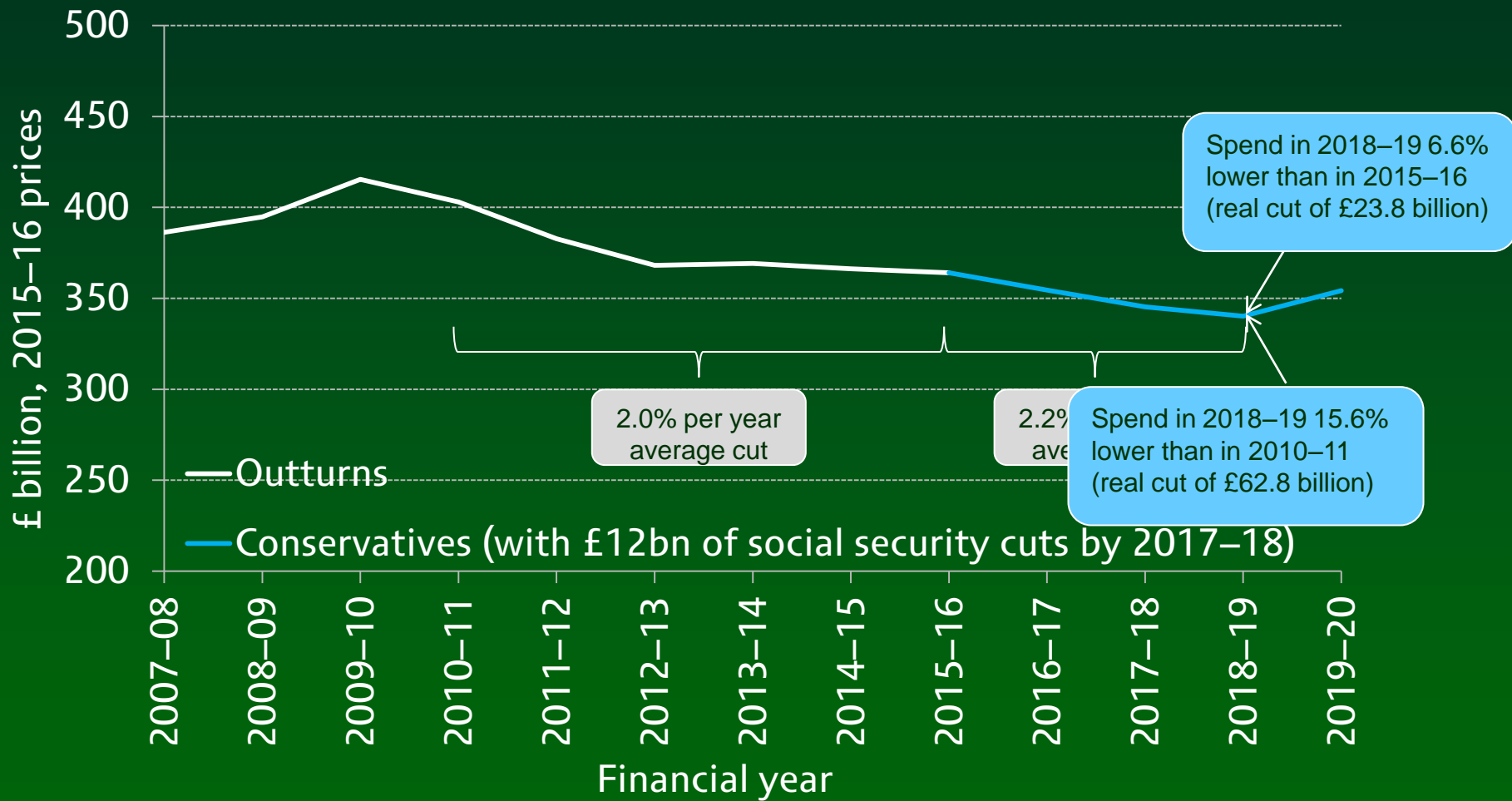
Unprotected benefit spending: £125 billion in 2015–16



Departmental cuts: the story so far

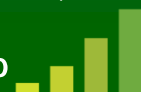
- Average real cuts of 9.7% between 2010–11 and 2015–16
 - less than was planned over the four years to 2014–15 in SR2010
 - despite cash day-to-day budgets being cut back further
 - due to lower-than-forecast inflation and capital spending being topped up
- Cuts over this period far from evenly spread
 - increases in spending on overseas aid, relative protection from cuts for the NHS and day-to-day schools spending
 - cuts of 25% or more to some unprotected departments including Home Office, Ministry of Justice, Communities & Local Government and Business, Innovation & Skills

Three more years of departmental spending cuts



Departmental cuts: the next chapter?

- Conservative manifesto pledged to protect 3 areas of spending:
 - aid: continue spending 0.7% national income on ODA
 - schools: protect cash spending per pupil
 - health: spend at least an additional £8 billion (real terms) by 2020
- Together imply additional real terms spending of £6.2 billion between 2015–16 and 2018–19
 - requires cuts elsewhere to amount to £30.0 billion or 15.3%
 - cumulative cut to unprotected departments since 2010–11 would reach 32.9%
 - freezing defence spending through to 2018–19 would increase the cuts required elsewhere to 18.7% (or 36.9% since 2010–11)
 - includes: Home Office, Ministry of Justice, Communities & Local Government and Business, Innovation & Skills, Transport, ...
- Block grant to Scotland to fall, but by less than 6.6%



Reducing the public sector wage bill

- General government employment
 - reduced by 376,000 between 2010Q1 and 2014Q4, fall of 80,000 in 2015–16 forecast by the OBR
 - now down to the level of the early 2000s and to the lowest share of workforce since at least early 1970s
- Public sector pay also squeezed
 - our estimates suggest all of the increase in the estimated public sector pay differential seen since the financial crisis began now unwound
- Difficult trade-off between 2015–16 and 2018–19
 - if public sector pay increases in line with OBR projection then we estimate a further 500,000 reduction in general government employment
 - this would reduce it to its lowest level since 1974
 - CPI indexation of pay through to 2018–19 would still require a further 350,000 reduction in general government employment



Will the cuts be delivered?

- Coalition government successful in keeping (broadly) to the spending plans set out in 2010
- But reasons to think cuts likely to be harder this parliament
 - squeezing public sector pay will get harder as private wages increase
 - efficiencies easiest to identify and deliver presumably have been made
 - programmes judged to be low-value presumably already scrapped
 - ending of contracting out increases NICs bill of public sector employers (£3.3bn)
 - latest pension scheme valuations push up the required employer contribution rate (£1.1bn)
 - new commitments: extension of free childcare (£350m); new tax-free childcare (£0.8bn); abolition of cap on HE student numbers (£0.7bn); Dilnot social care (£1.0bn)
 - population continues to grow (and age)

Conclusions

- Manifesto commitment to cut spending through to 2018–19
 - eliminate the deficit without announcing significant net tax rises
- Underlying pressures pushing up spending in some areas
- Even with £12bn of social security cuts pace of departmental spending cuts set to accelerate slightly
 - further 6.6% to come from departments over next three years, bringing cumulative cut since 2010–11 to 15.6%
- NHS and overseas aid spending to rise, cash schools spending per pupil protected from cuts
 - spending on unprotected departments set to be cut by a further 15.3%, bringing cumulative cut to these departments to 32.9%
 - freezing defence spending would increase this cumulative to cut to 18.7%, or 36.9% since 2010–11
- Meeting these spending plans will not be easy



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