

The outlook for the 2019 Spending Review

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Presentation given at the Institute for Government/Institute for Fiscal Studies event "The 2019 Spring Statement and Spending Review"

11 February 2019

The 2019 Spending Review

Much we don't yet know

- What years will be covered?
- What spending will be in scope?
- What will the spending envelope be?

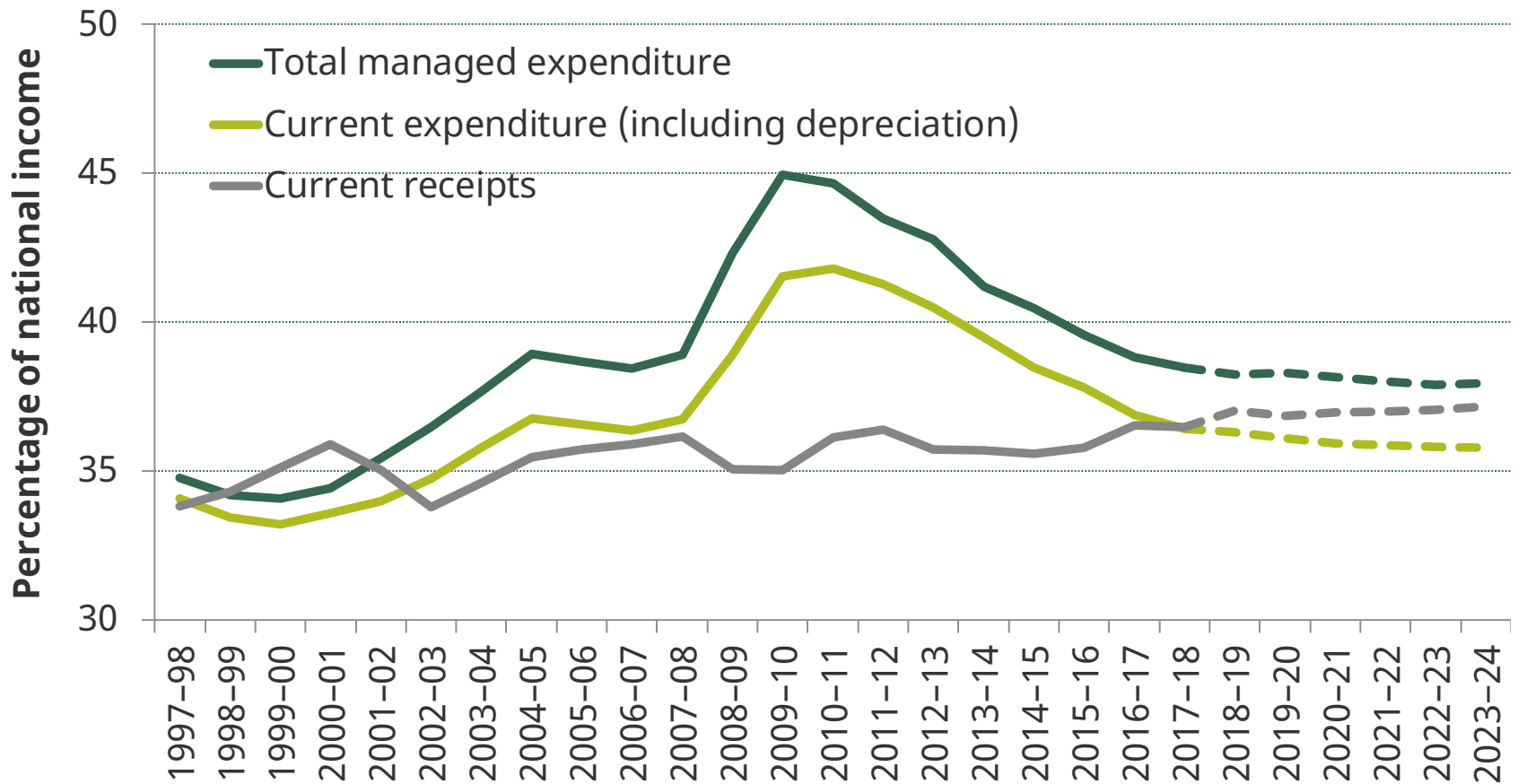
Could announce these in the forthcoming Spring Statement, or at a later point before the summer

- Final Spending Review allocations to follow in the Autumn Budget?

Following is predicated on the October 2018 Budget forecasts

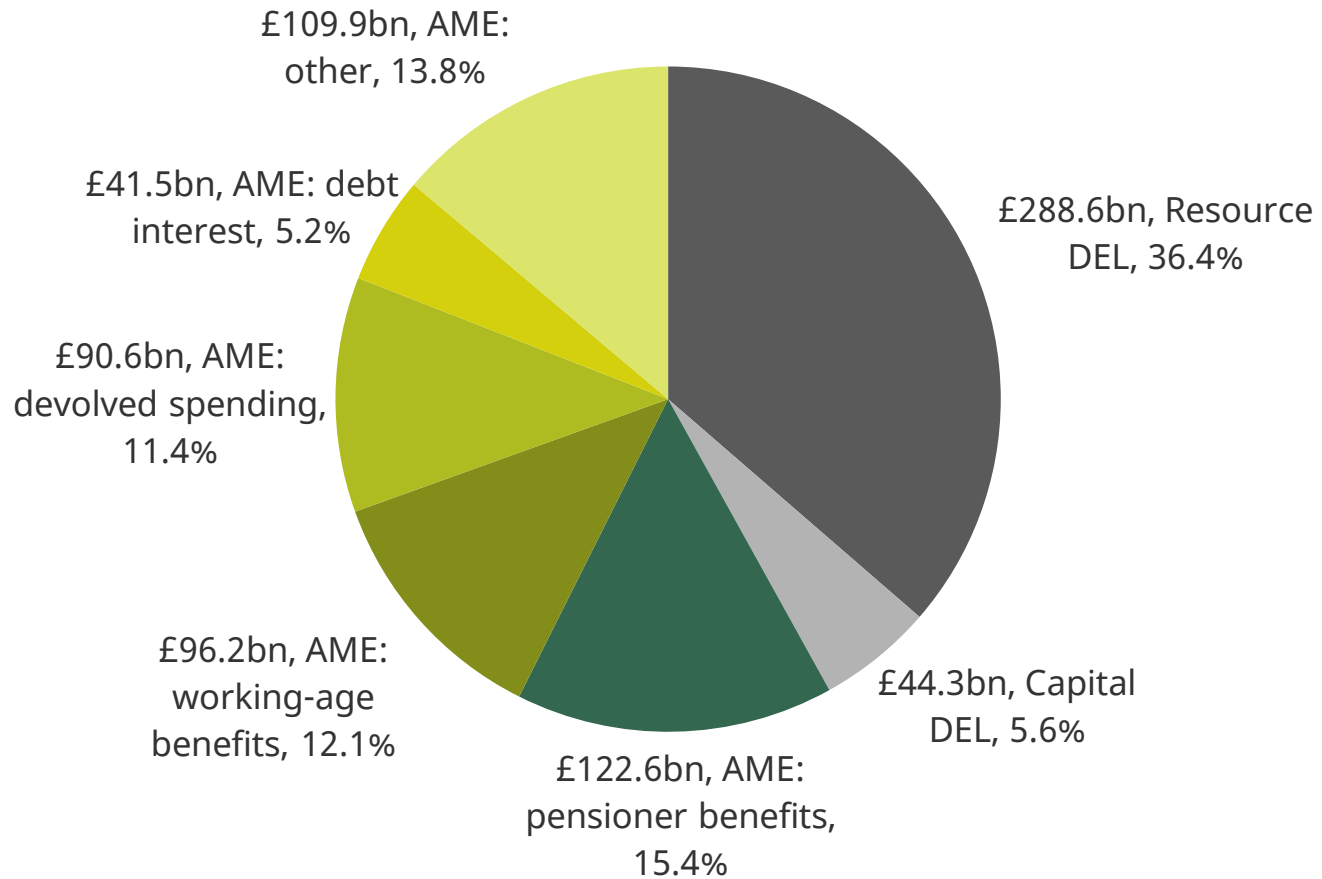
- This improved the outlook for receipts by £18 billion in 2022–23
- Last week the BoE downgraded 2019 growth by ½%: if the OBR did the same this would increase borrowing by around £5 billion to £7 billion

Public sector receipts and spending since 1997-98



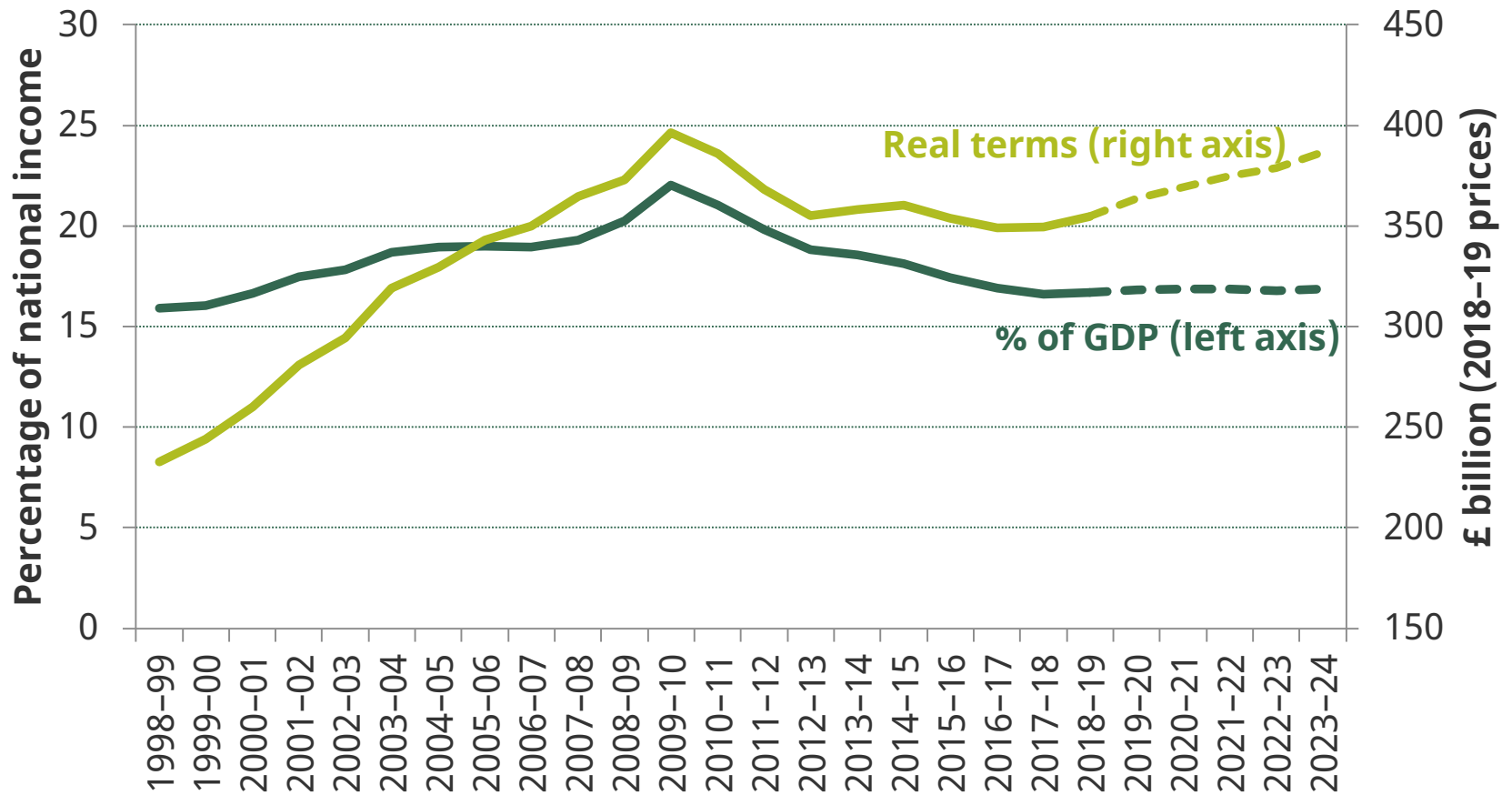
Notes and sources: Figure 2a of Emmerson, Pope and Zaranko (2019).

Components of public spending in 2017–18



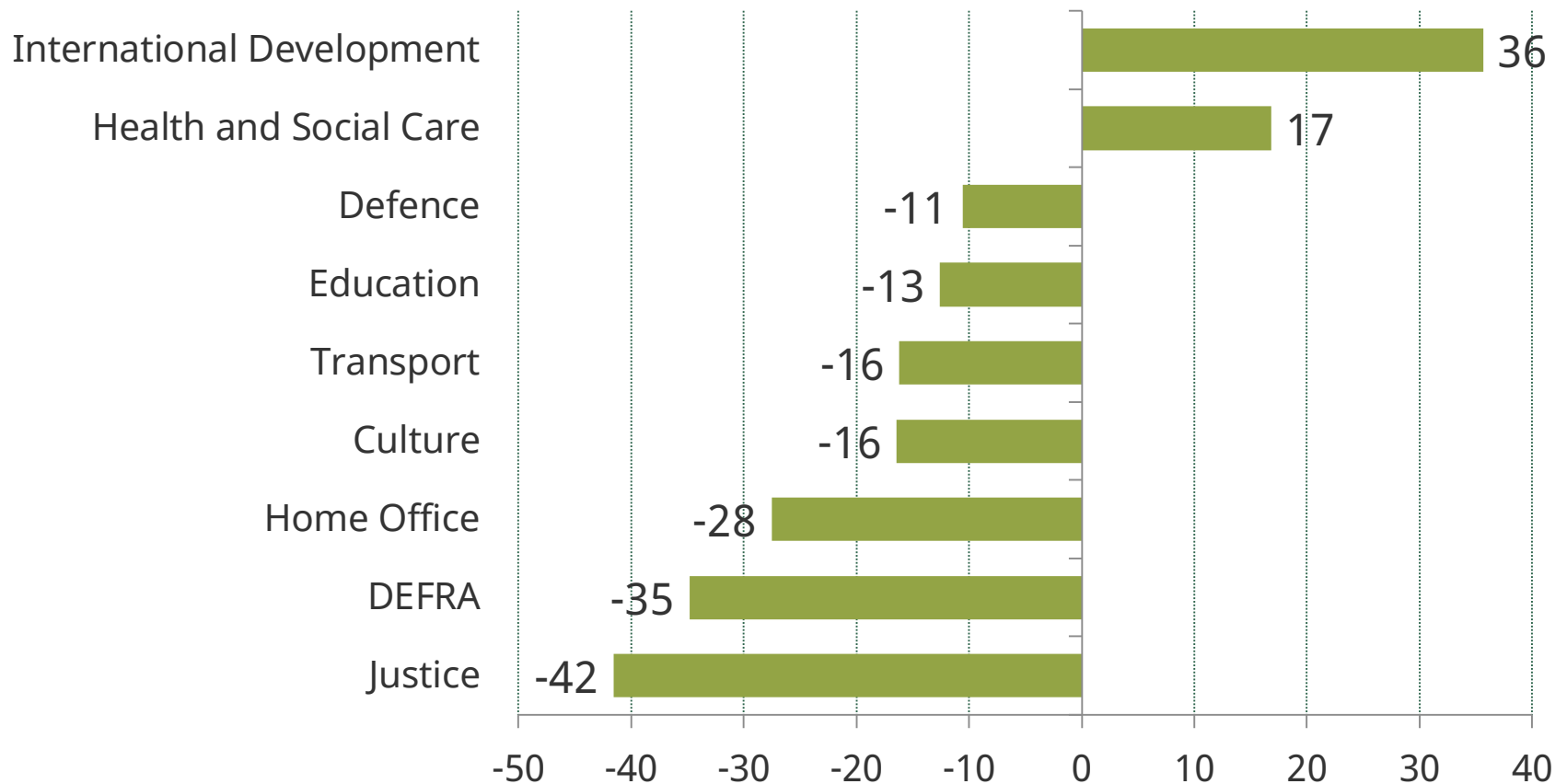
Notes and sources: Figure 3 of Emmerson, Pope and Zaranko (2019).

Total departmental expenditure



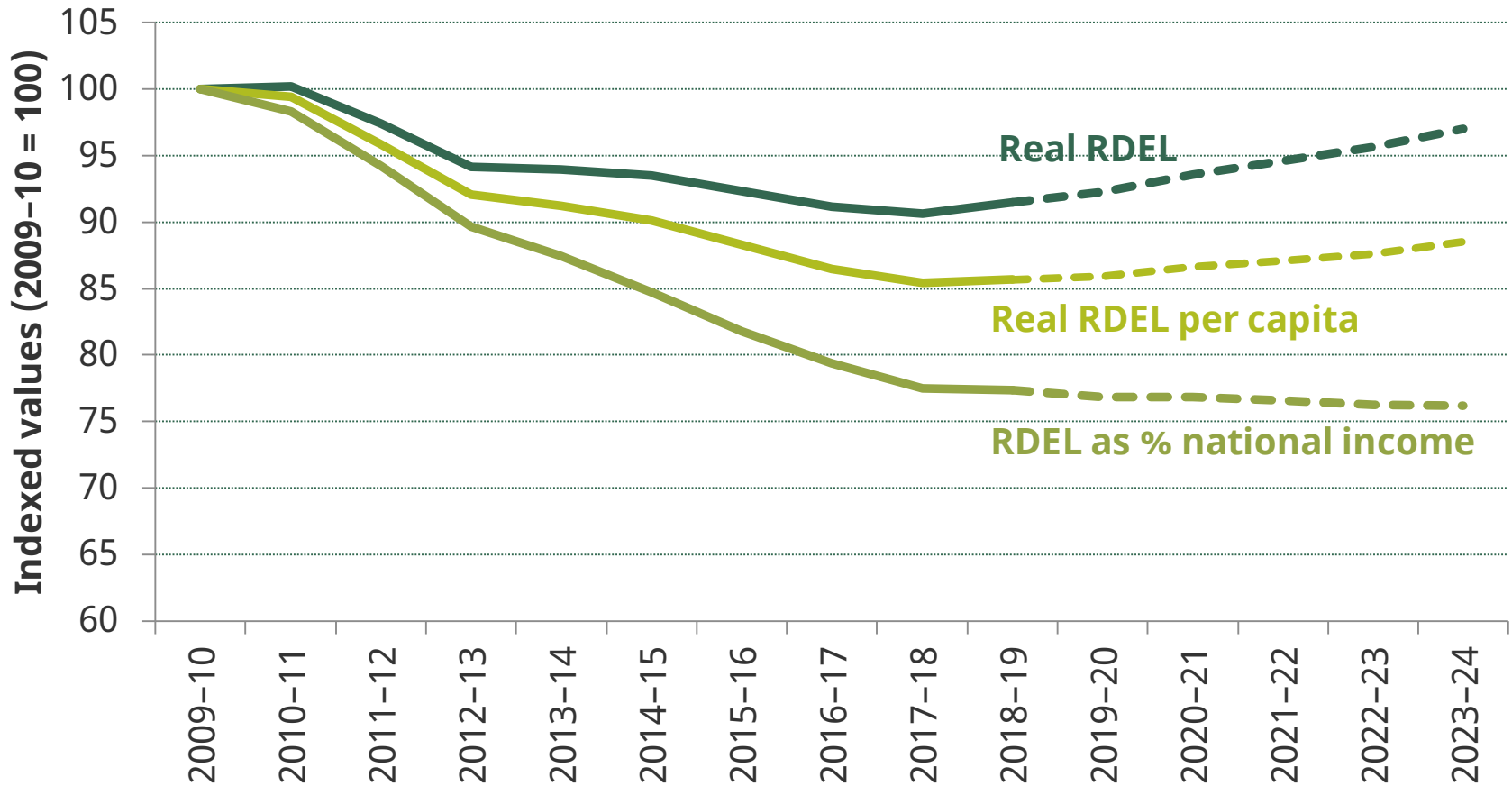
Notes and sources: Figure 4 of Emmerson, Pope and Zaranko (2019).

Real-terms departmental budget changes, 2010–11 to 2019–20



Notes and sources: Figure 6 of Emmerson, Pope and Zaranko (2019).

Forecast change in day-to-day public service spending



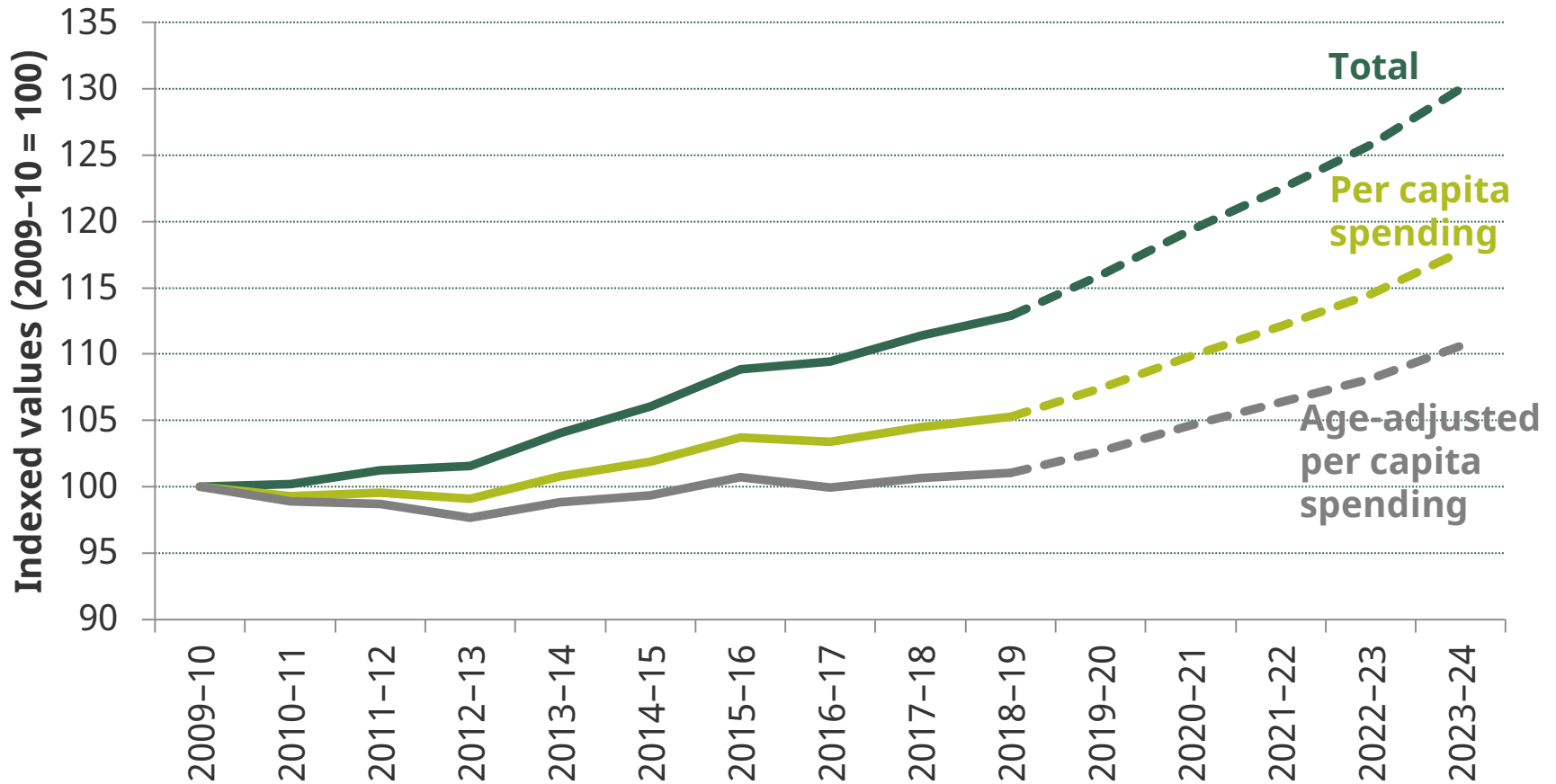
Notes and sources: Figure 8 of Emmerson, Pope and Zaranko (2019).

Protected areas of spending

Several spending commitments will constrain Spending Review

- NHS: day-to-day budget of NHS England to increase by £20.5 billion between 2018–19 and 2023–24

Real-terms Department of Health and Social Care spending



Notes and sources: Figure 9 of Emmerson, Pope and Zaranko (2019).

Protected areas of spending

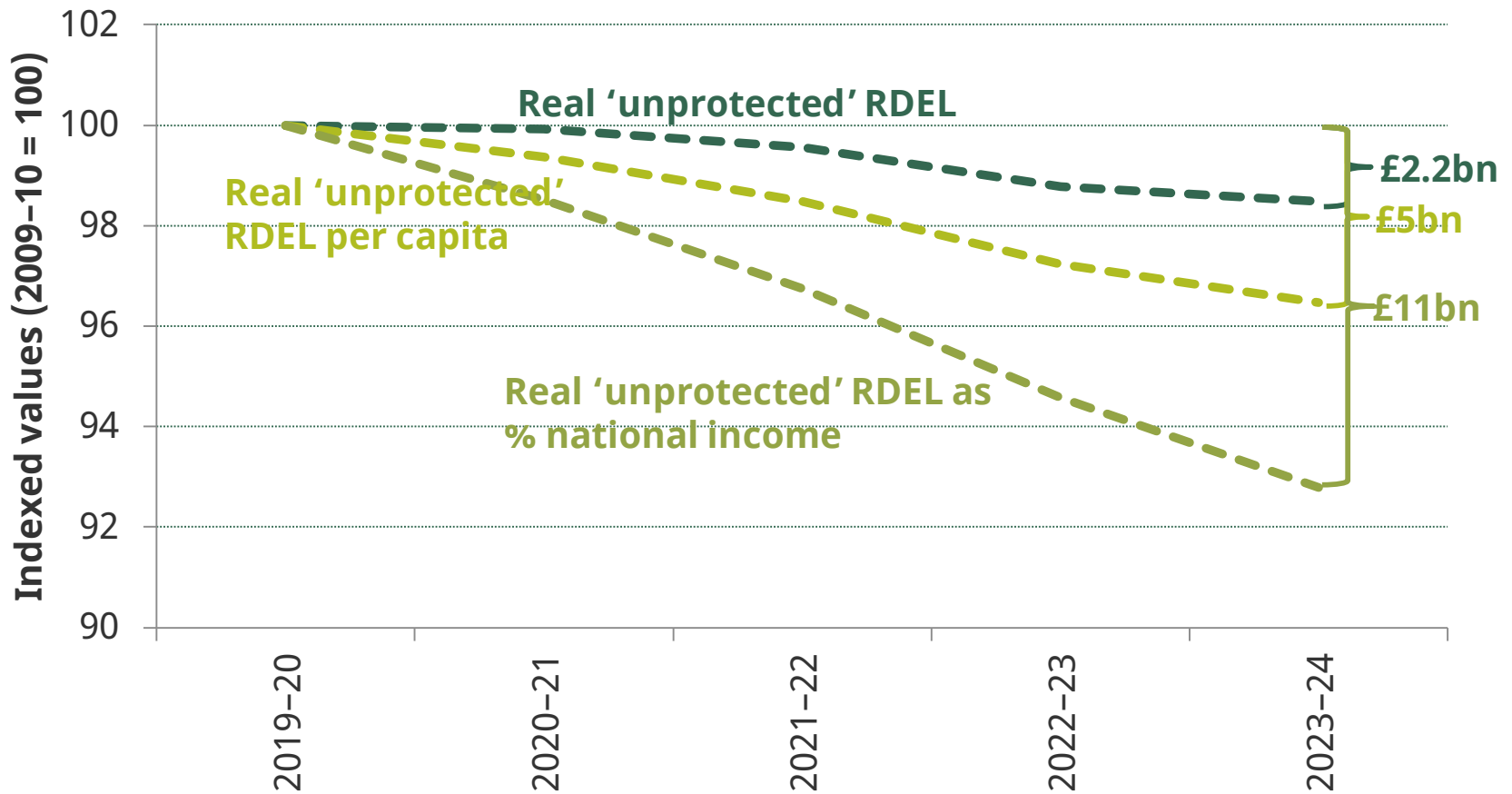
Several spending commitments will constrain Spending Review

- NHS: day-to-day budget of NHS England to increase by £20.5 billion between 2018–19 and 2023–24
- Defence: commitment to continue to spend at least 2% of GDP
- Overseas aid: commitment to continue to spend 0.7% of GNI

Together these comprise over half (£156 billion) of day-to-day departmental spending

- Spending Review could largely be about just one-fifth of spending
- Current spending plans, combined with these commitments, imply cuts to unprotected areas

Forecast change in 'unprotected' day-to-day public service spending



Notes and sources: Figure 10 of Emmerson, Pope and Zaranko (2019).

Over the longer-term GDP most likely lower, and the underlying public finances weaker, as a result of Brexit

- Eventually necessitating a combination of tax rises and spending cuts

But an economically bad Brexit might not mean a tighter SR2019

If there is a hit to demand that is greater than the hit to supply:

- Almost certainly allow automatic stabilisers to operate
- Given already low interest rates, case for active temporary fiscal stimulus to boost consumer spending and business investment

Additional spending to help deal with impacts of a disorderly Brexit:

- Border issues
- Temporary support to particularly hard hit industries / areas?

Conclusions

Many departments have experienced deep cuts since 2010

- Overall DELs cut by 10%, or £40 billion, in real-terms

Spending Review 2019 to set spending plans for years beyond 2019–20

- Government committed to an extra £20 billion on the NHS by 2023–24
- Given protections for defence and overseas aid over half of day-to-day department spending already largely decided

Chancellor needs to set overall spending envelope

- Provisional figures imply continued cuts to unprotected services, albeit at a slower pace than seen since 2010

A disorderly Brexit would eventually require additional tax rises and/or spending cuts

- But not necessarily over the coming Spending Review: in fact spending could be increased rather than reduced

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