The Summer budget: Taxes up, borrowing up, departmental spending up

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Changes in borrowing forecasts since March

Public sector net borrowing, £ billion

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
Budget March 2015	**90.2**	**75.3**	**39.4**	**12.8**	**-5.2**	**-7.0**	
Forecasting changes		-2.9	1.4	3.5	5.4	7.4	
Tax takeaways		-1.1	-7.0	-10.9	-14.1	-14.1	-15.9
Tax giveaways		+0.1	+3.0	+5.8	+7.3	+8.3	+9.4
Net benefit takeaways		-0.3	-5.6	-6.9	-9.7	-12.5	-13.4
Departmental spending giveaway		-2.3	15.4	24.9	27.5	10.5	
Other (incl. indirect effect)		0.7	-3.4	-4.8	-4.7	-2.5	0.7
Budget July 2015	**89.2**	**69.5**	**43.1**	**24.3**	**6.4**	**-10.0**	**-11.6**
Difference	*-1.0*	*-5.8*	*3.7*	*11.5*	*11.6*	*-3.0*	

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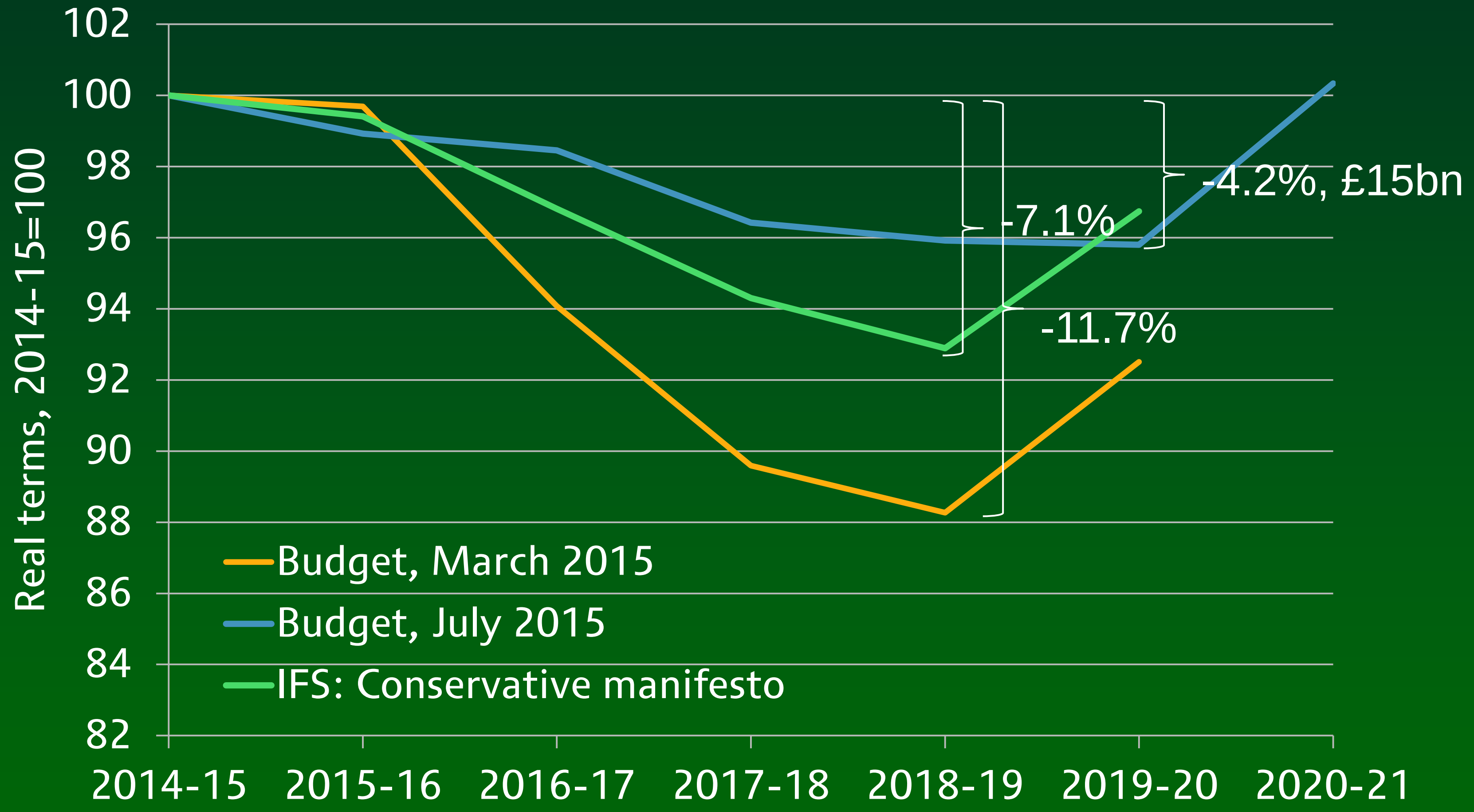
The new "Charter for Budget Responsibility"

- New fiscal mandate
  - surplus on public sector net borrowing in 2019–20
  - once this is achieved in 2019–20, run a surplus each subsequent year as long as the economy remains in 'normal times'
- New supplementary target
  - public sector net debt to fall as a share of GDP in each year from 2015–16 to 2019–20
- Targets apply as long as real GDP growth remains at or above 1% per year
  - if OBR judges that economy has been hit by a shock that reduces growth below this level, rules will be suspended
  - government would then be required to set a plan to return to surplus following the shock

Implied path for real departmental spending



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Implementing their manifesto plans?

- Departmental spending in 2018-19 ~£13bn higher than our analysis of their manifesto suggested
  - Borrowing and tax receipts higher than expected (around £11bn and £10bn respectively)
  - Partially offset by smaller than expected benefit cuts (around £3bn) and higher other non-departmental spending (around £5bn)

- Departmental spending in the longer run lower than our analysis of their manifesto suggested
  - By around £4bn in 2019-20
  - Receipts higher than expected (around £9bn)
  - More than offset by borrowing lower than expected (around £6bn) and other non-departmental spending higher than expected (£7bn)

Spending Review 2015

- Budget did not:
  - Formally set the departmental spending envelope
  - Announce what period the Spending Review would cover

- Protected so far:
  - NHS spending: Extra £8bn by 2020-21
  - Aid spending: 0.7% national income on aid each year
  - Schools: Manifesto pledged to maintain cash spending per pupil
  - Defence: MoD budget to grow by 0.5% per year in real terms

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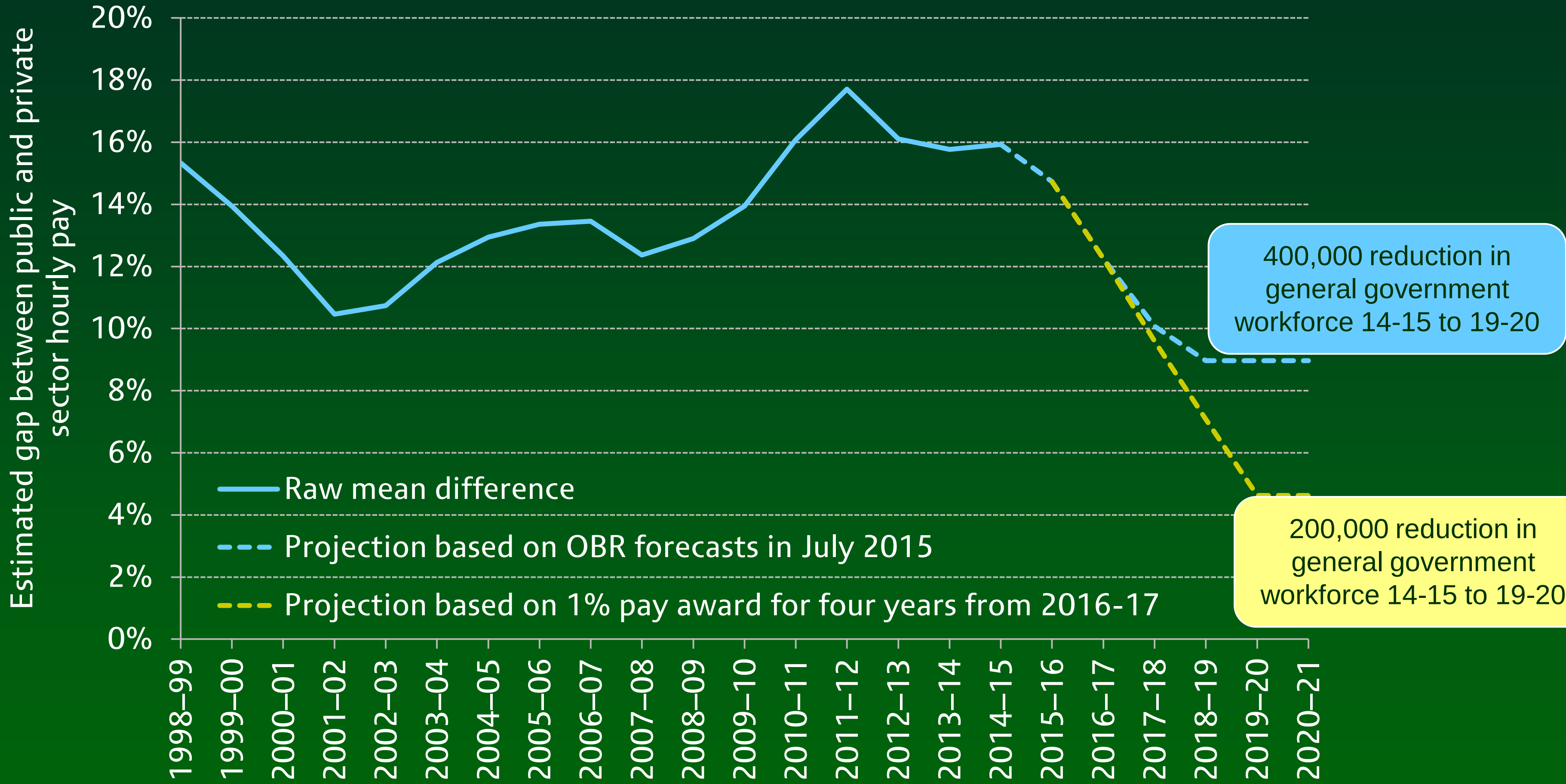
Spending Review 2015

- Budget plans for departmental spending imply real terms cuts between 2015-16 and 2019-20 of:
  - Total departmental spending: £11bn or 3.2%
  - DEL less NHS, aid and schools: £19bn or 9.9%
  - DEL less NHS, aid, schools and MoD: £19bn or 12.6%
- Would take the real terms cuts between 2010-11 and 2019-20 to:
  - Total departmental spending: £50bn or 12.6%
  - DEL less NHS, aid and schools: £71bn or 29.3%
  - DEL less NHS, aid, schools and MoD: £66bn or 32.8%
- Additional pressures:
  - Extra spending in some areas: childcare, social care, security
  - Increased NICs and pension contributions for public sector employers
- Cap on public sector pay reduces pressure from pay bill

Falling value of public pay relative to private sector



Notes: Data up to 2014–15 estimated using Labour Force Survey. Projections are based on OBR forecasts. The second projection adjusts OBR forecasts for the announcement of 1% pay awards from 2016–17 to 2019–20, which was made by HM Treasury after the OBR produced its July 2015 forecasts.

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Summary

- Chancellor to borrow more than forecast in the March Budget in each of the next three years but less in 2019-20
  - Despite this debt is forecast to be lower than forecast in March each year from 2015-16 – due to asset sales
- Departmental spending cuts forecast to be more gradual over the parliament than manifesto implied (but slightly larger by 2019-20)
- Spending Review likely to be seeking cut of £19bn from departments outside of the NHS, aid, schools and MoD by 2019-20
  - Real cut to these areas of 12.6% since 2015-16, 32.8% since 2010-11
- Cap on public sector pay increases of 1% for a further 4 years
  - Could reduce cuts to general government employment over 2014-15 to 2019-20 to 200,000 rather than the 400,000 forecast by OBR
  - But reduces attractiveness of working in the public sector which might make it harder to recruit and retain quality workers

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