

Institute for
Fiscal Studies

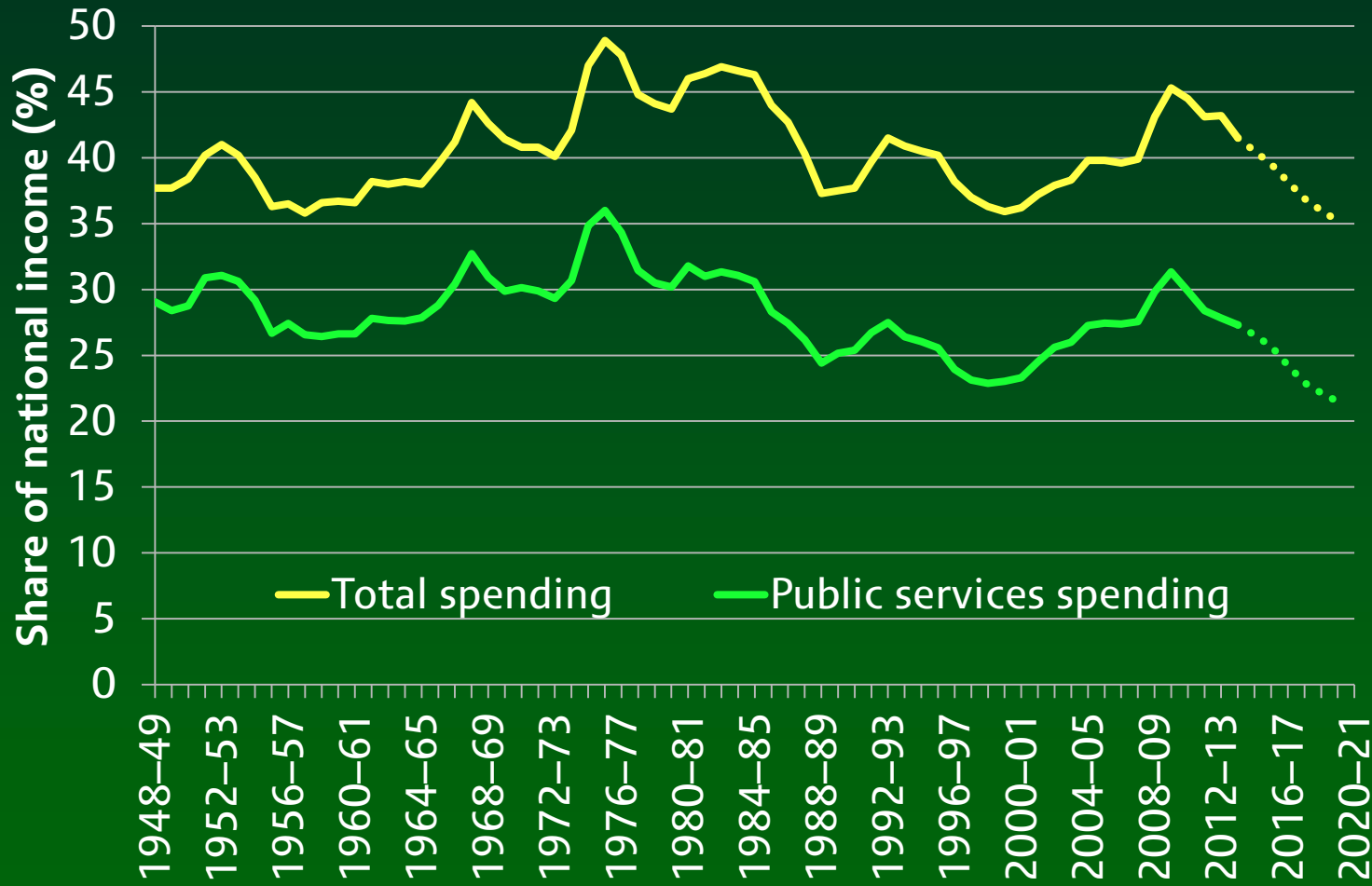


Options for the 2015 Spending Review

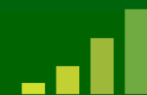
Soumaya Keynes



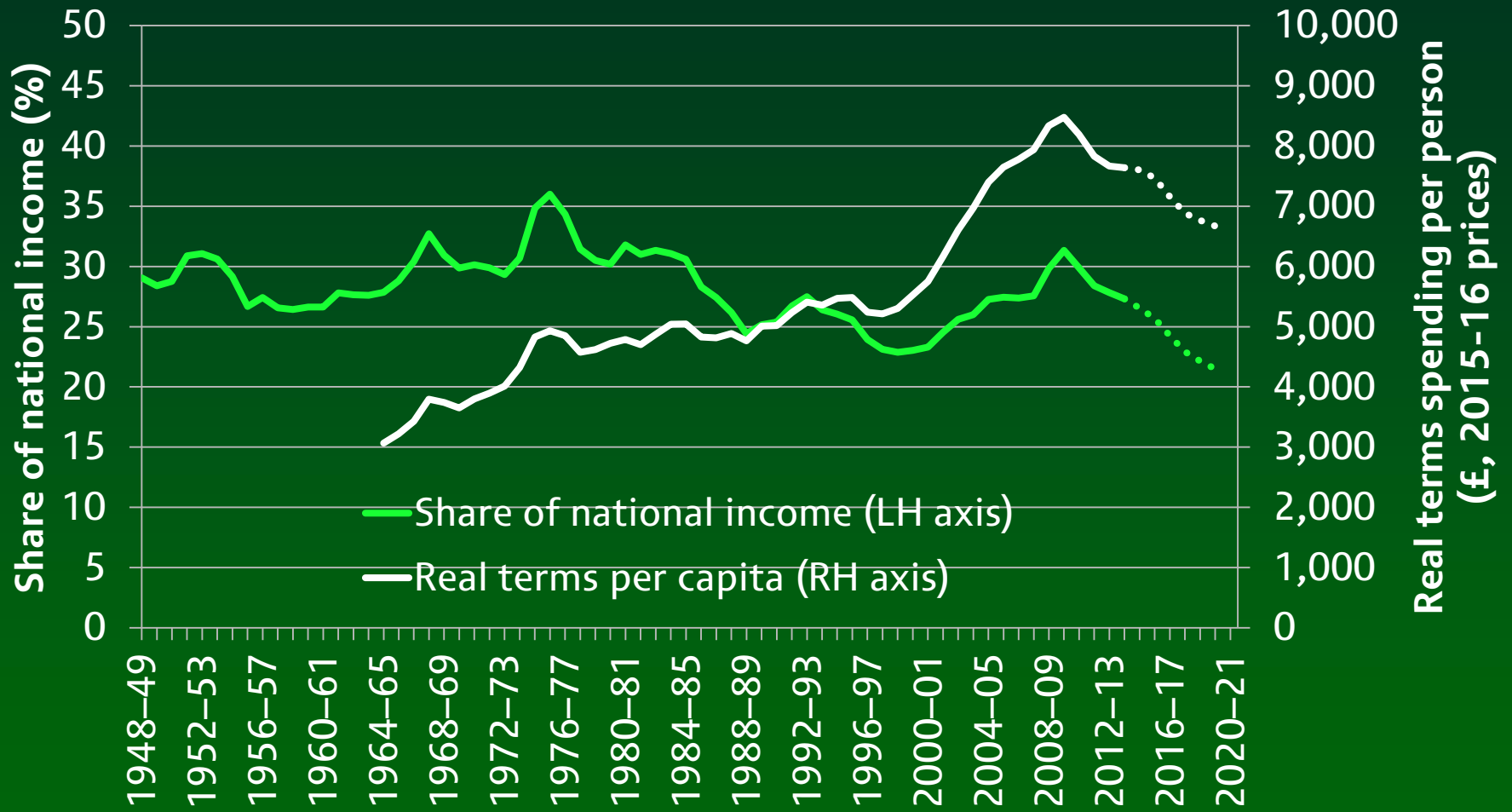
Public spending in context



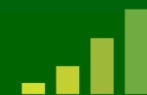
Notes and sources: see Figures 5.1 and 7.1 of *The IFS Green Budget: February 2015*.



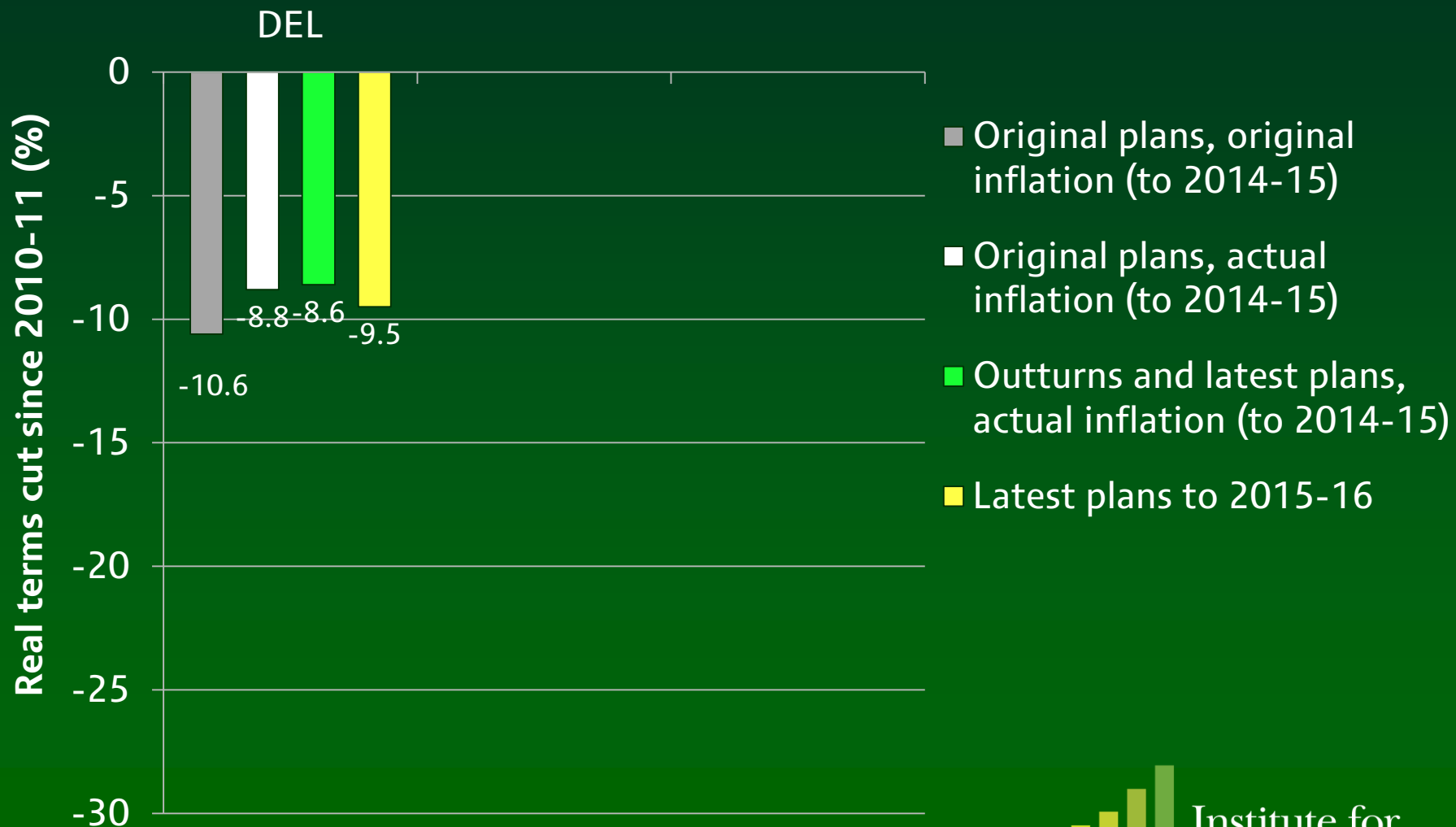
Public services spending in context



Notes and sources: see Figure 7.1 of *The IFS Green Budget: February 2015*.



Real terms DEL cuts since 2010-11: original and latest plans



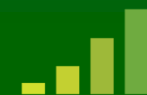
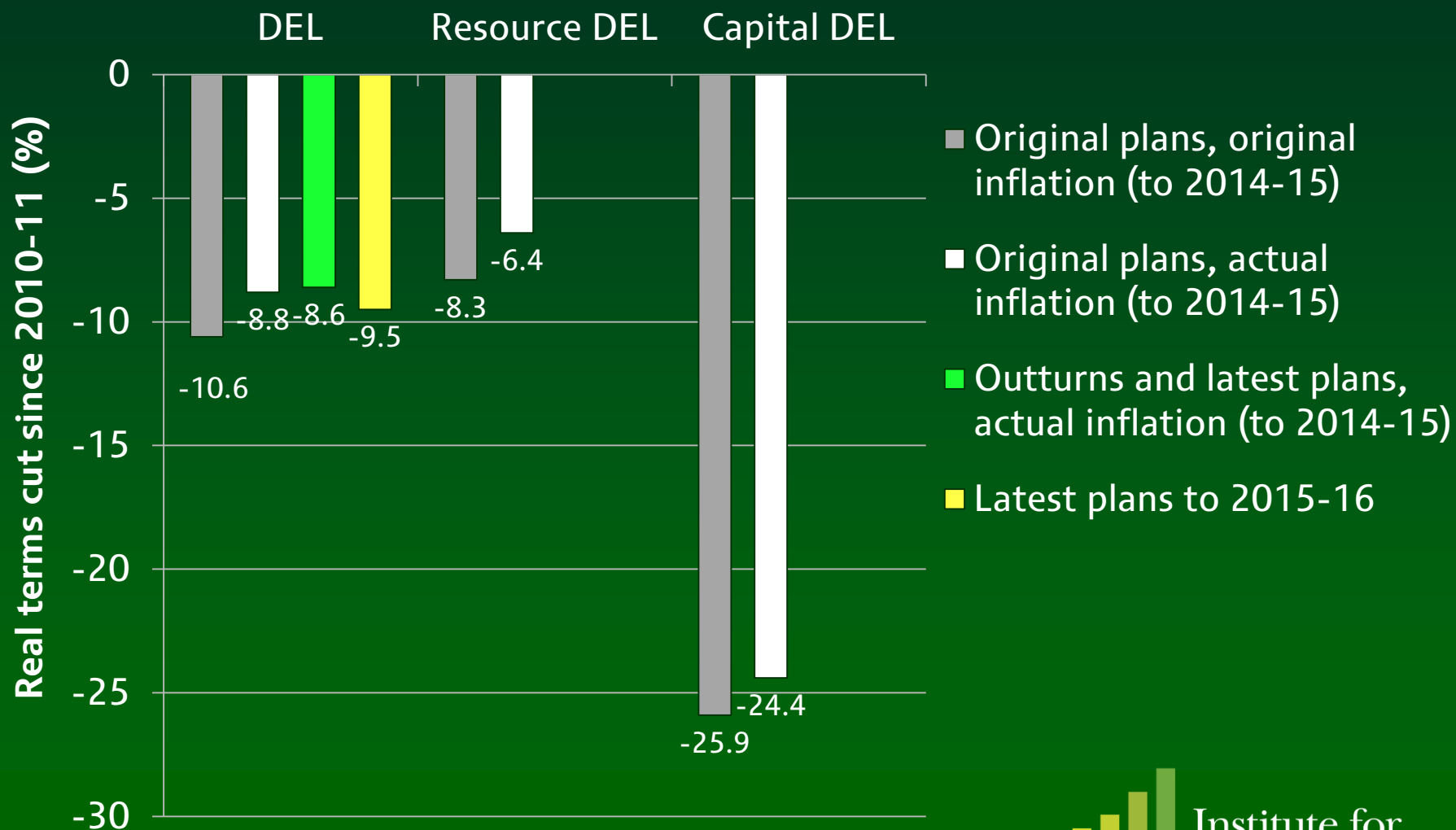
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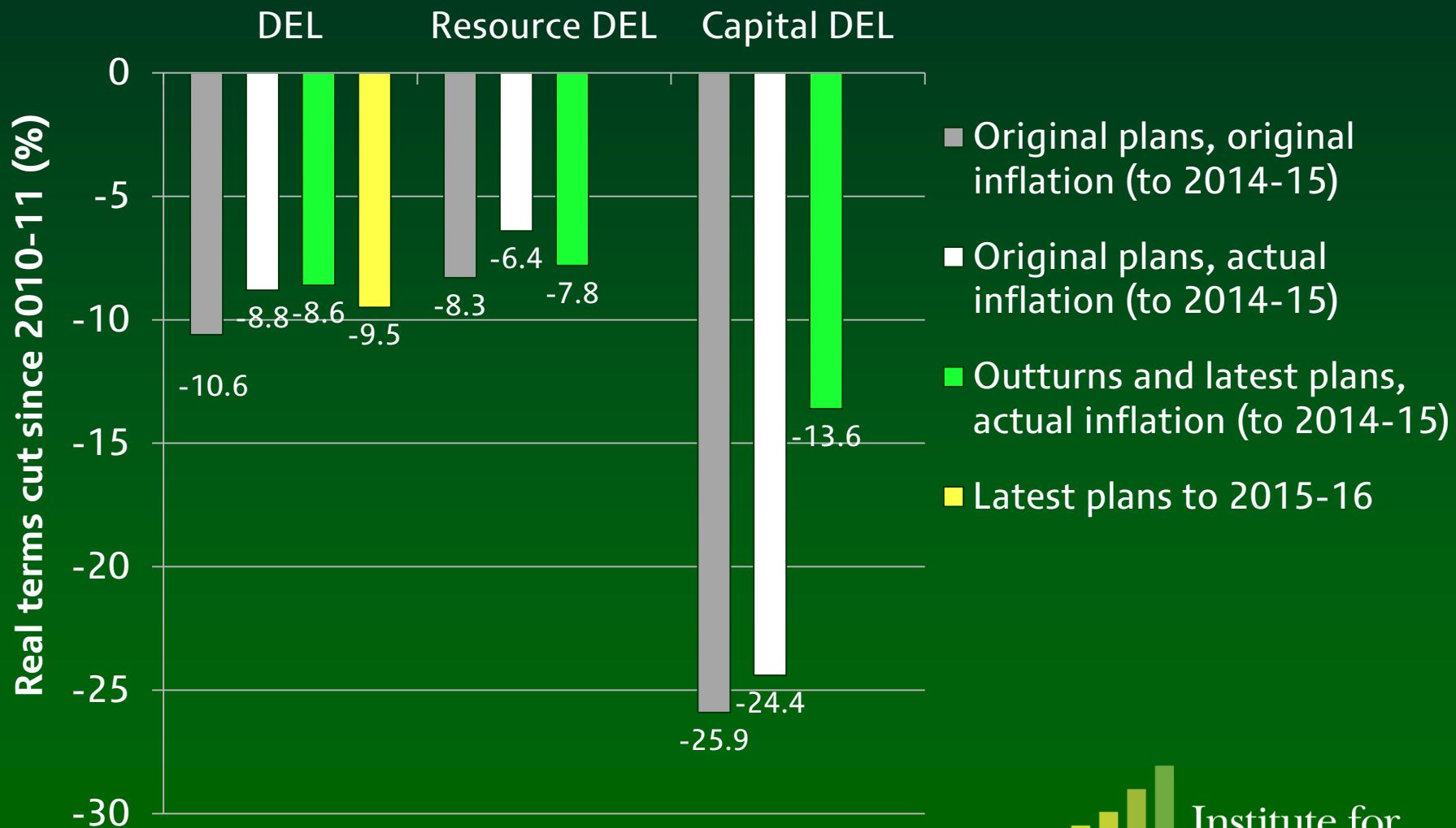
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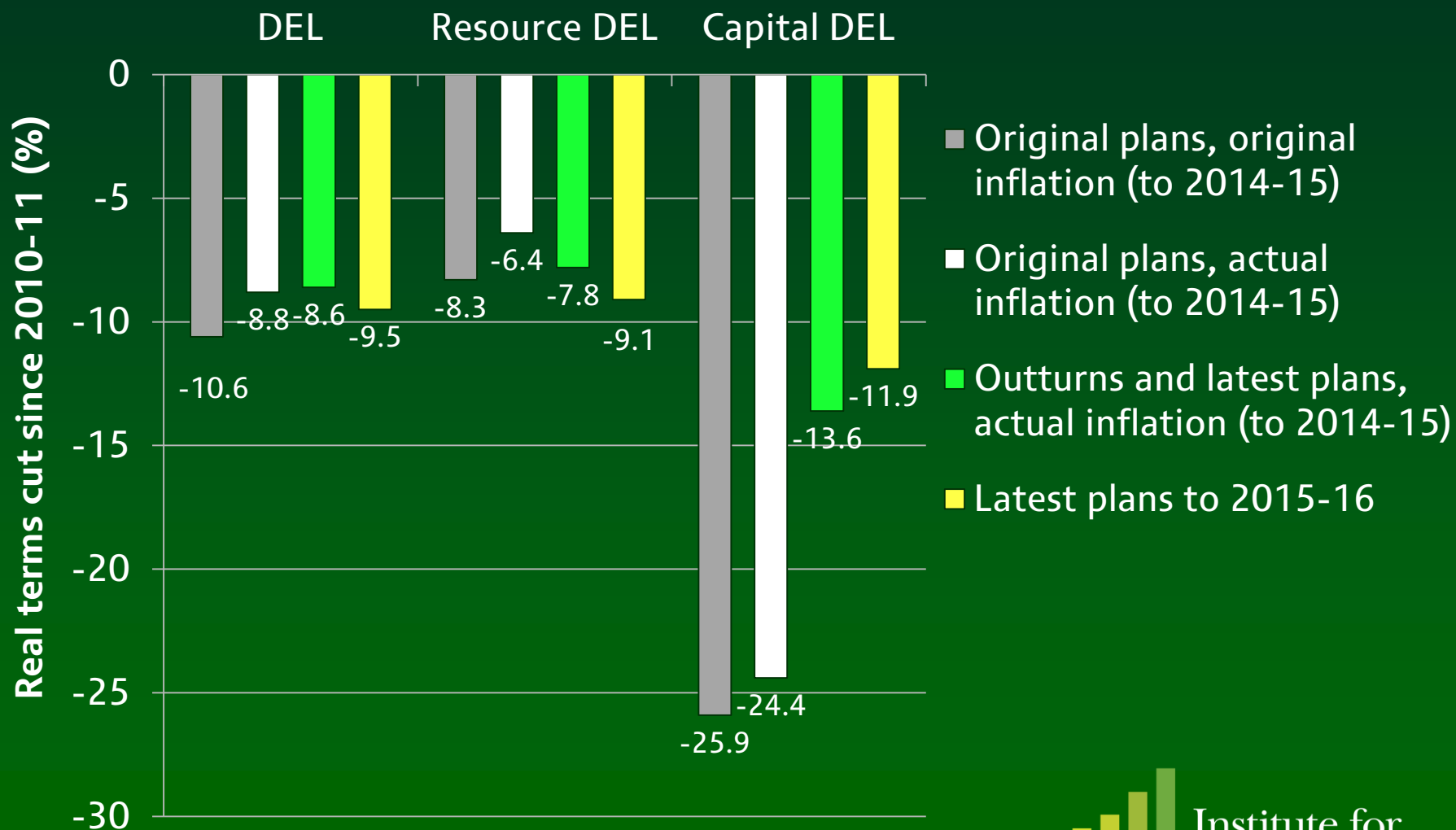
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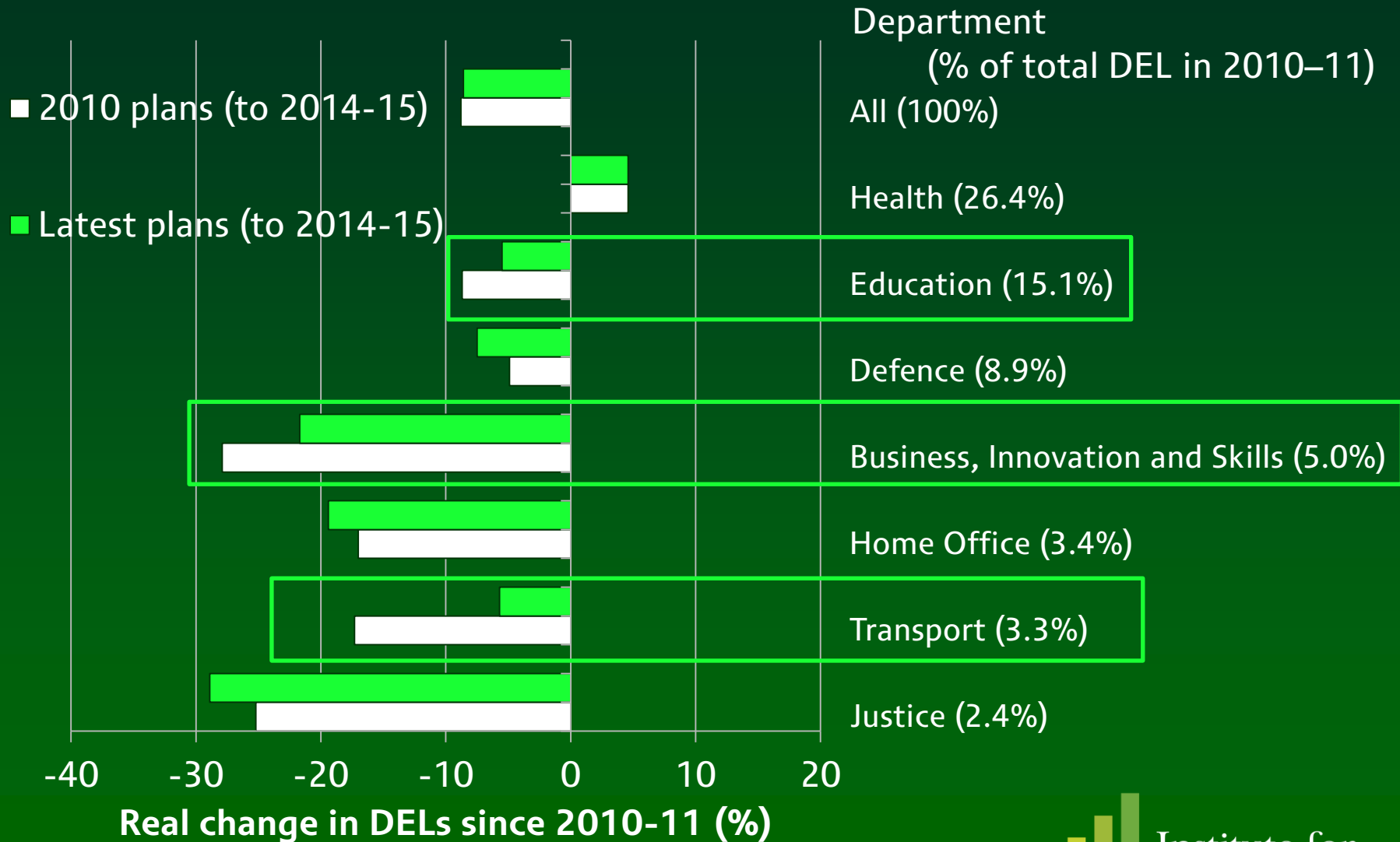
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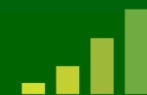
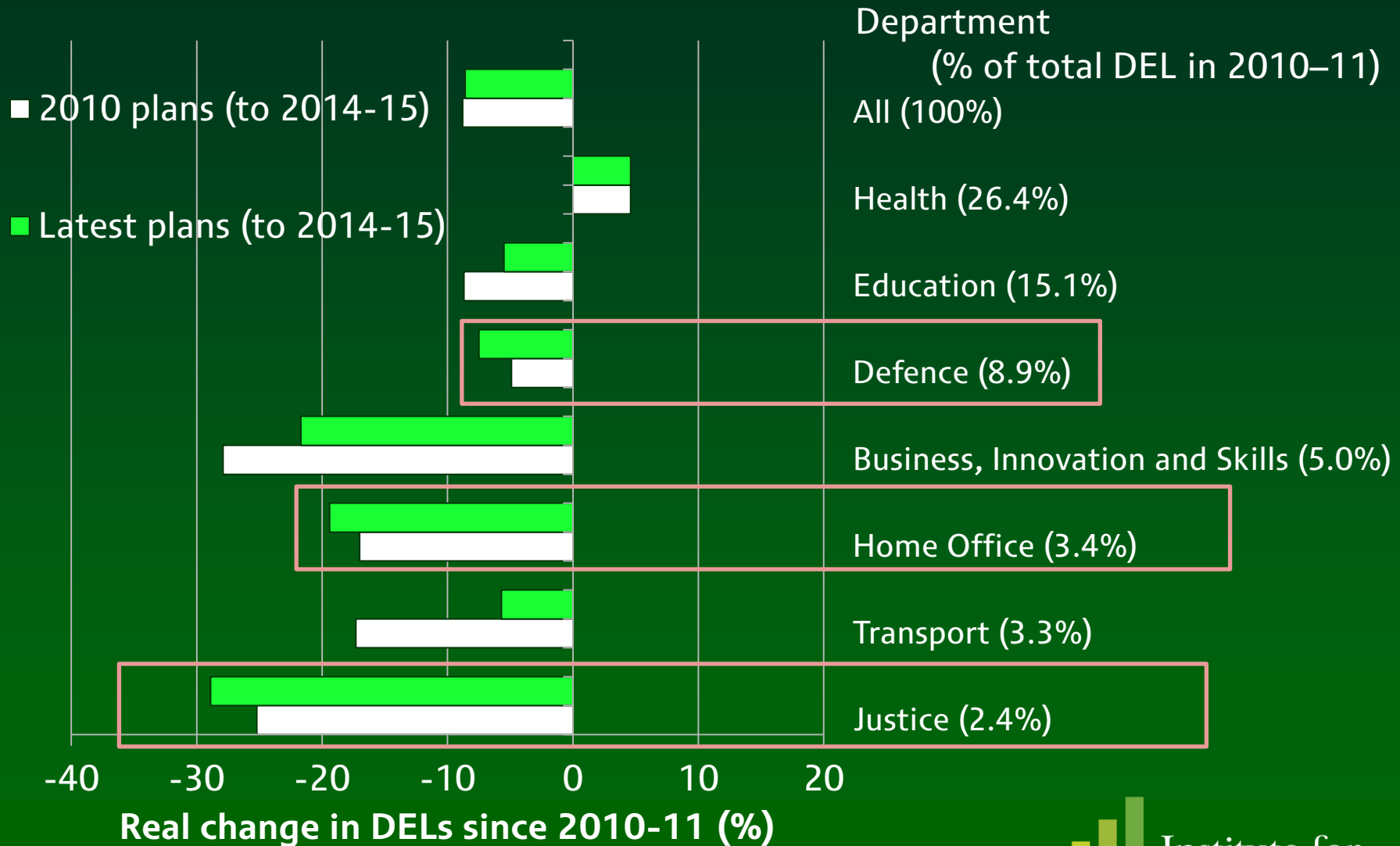
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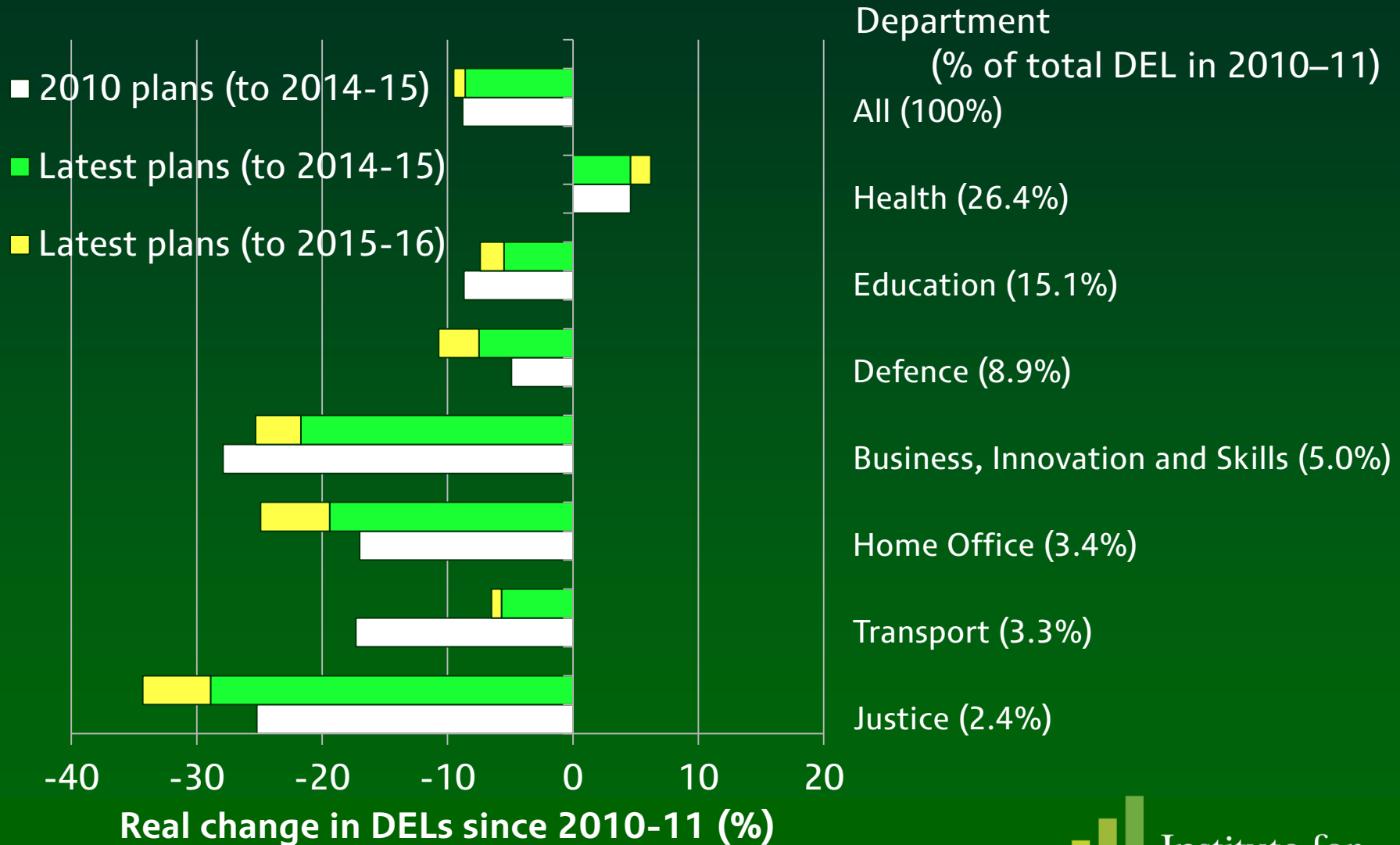
DEL changes original plans (latest inflation) & latest plans



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Changes to DEL beyond 2015-16

Coalition plans Autumn Statement 2014	2010-11 to 2015-16
<i>Cumulative real growth</i>	
Departmental spending limits	-9.5%
<i>of which:</i>	
Resource DEL (excl. depreciation)	-9.1%
Capital DEL	-11.9%

Notes and sources: see Table 7.1 and Table 7.6 of *The IFS Green Budget: February 2015*.

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 <i>Average annual real growth</i>	
Departmental spending limits	-2.0%
<i>of which:</i>	
Resource DEL (excl. depreciation)	-1.9%
Capital DEL	-2.5%

Notes and sources: see Table 7.1 and Table 7.6 of *The IFS Green Budget: February 2015*.

Changes to DEL beyond 2015-16

Coalition plans Autumn Statement 2014	2010-11 to 2015-16	2015-16 to 2019-20
<i>Cumulative real growth</i>		
Departmental spending limits	-9.5%	-14.1%
<i>of which:</i>		
Resource DEL (excl. depreciation)	-9.1%	-17.3%
Capital DEL	-11.9%	7.3%
<i>Average annual real growth</i>		
Departmental spending limits	-2.0%	-3.7%
<i>of which:</i>		
Resource DEL (excl. depreciation)	-1.9%	-4.6%
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Notes and sources: see Table 7.1 and Table 7.6 of *The IFS Green Budget: February 2015*.

Parties' fiscal rules

- All three main UK parties have fiscal rules that would allow smaller cuts than coalition plans
- **Conservatives** are aiming for a budget surplus
 - Consistent with £21bn smaller cuts to departmental spending in 2019-20
- **Labour/Liberal Democrats** would exclude investment spending from their targets
 - Could reduce cuts to departments by £45bn in 2019-20 (and even more on capital spending by departments)
- Though cost would be borrowing and debt falling less quickly
- In addition, changes to tax/social security spending could reduce (or increase) the cuts to departmental spending

Departmental cuts: alternative scenarios

	Real change 2015–16 to 2019–20:		Real change 2010–11 to 2019–20:	
	%	£ billion	%	£ billion
2014 Autumn Statement plans	-14.1			

Notes and sources: £ billion figures in 2015-16 prices. See Table 7.7 of *The IFS Green Budget: February 2015*.

Departmental cuts: alternative scenarios

	Real change 2015–16 to 2019–20:		Real change 2010–11 to 2019–20:	
	%	£ billion	%	£ billion
2014 Autumn Statement plans	-14.1	-51.4	-22.2	-89.5

Notes and sources: £ billion figures in 2015-16 prices. See Table 7.7 of *The IFS Green Budget: February 2015*.

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	Real change 2015–16 to 2019–20:		Real change 2010–11 to 2019–20:	
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2014 Autumn Statement plans <i>Given parties' fiscal rules and stated intentions:</i>	-14.1	-51.4	-22.2	-89.5

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2014 Autumn Statement plans	-14.1	-51.4	-22.2	-89.5
<i>Given parties' fiscal rules and stated intentions:</i>				
Conservatives	-6.7	-24.9		

Notes and sources: £ billion figures in 2015-16 prices. See Table 7.7 of *The IFS Green Budget: February 2015*.

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Conservatives	-6.7	-24.9		
Labour	-1.4	-5.2		

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Conservatives	-6.7	-24.9		
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Liberal Democrats	-2.1	-7.5		

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Departmental cuts: alternative scenarios

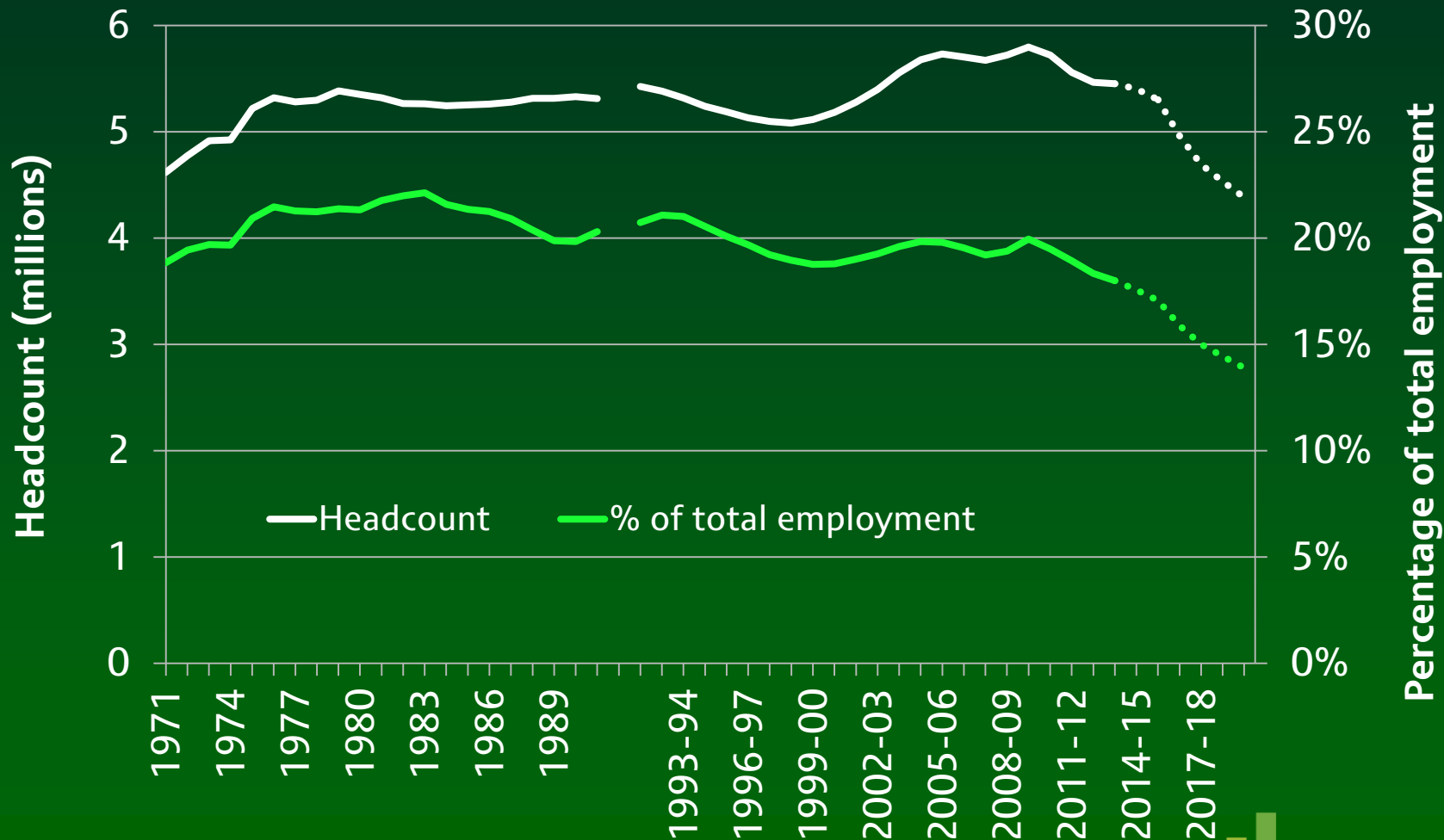
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	%	£ billion	%	£ billion
2014 Autumn Statement plans	-14.1	-51.4	-22.2	-89.5
<i>Given parties' fiscal rules and stated intentions:</i>				
Conservatives	-6.7	-24.9	-16.5	-53.1
Labour	-1.4	-5.2	-10.8	-43.3
Liberal Democrats	-2.1	-7.5	-11.3	-45.7

Notes and sources: £ billion figures in 2015-16 prices. See Table 7.7 of *The IFS Green Budget: February 2015*.

General government employment Autumn Statement

2009-10 to 2015-16:
-300,000

2015-16 to 2019-20:
-900,000



Change in general government employment

	Change in general government employment 2015–16 to 2019–20:	
2014 Autumn Statement plans <i>Given parties' fiscal rules and stated intentions:</i> Conservatives Labour Liberal Democrats	OBR forecast public sector pay growth	Public sector pay grows in line with CPI
	–900,000	

Notes and sources: see Table 7.7 of *The IFS Green Budget: February 2015*.

Change in general government employment

	Change in general government employment 2015–16 to 2019–20:	
	OBR forecast public sector pay growth	Public sector pay grows in line with CPI
2014 Autumn Statement plans	–900,000	
<i>Given parties' fiscal rules and stated intentions:</i>		
Conservatives	–550,000	
Labour	–300,000	
Liberal Democrats	–300,000	

Notes and sources: see Table 7.7 of *The IFS Green Budget: February 2015*.

Change in general government employment

	Change in general government employment 2015–16 to 2019–20:	
	OBR forecast public sector pay growth	Public sector pay grows in line with CPI
2014 Autumn Statement plans	–900,000	–750,000
<i>Given parties' fiscal rules and stated intentions:</i>		
Conservatives	–550,000	
Labour	–300,000	
Liberal Democrats	–300,000	

Notes and sources: see Table 7.7 of *The IFS Green Budget: February 2015*.

Change in general government employment

	Change in general government employment 2015–16 to 2019–20:	
	OBR forecast public sector pay growth	Public sector pay grows in line with CPI
2014 Autumn Statement plans	–900,000	–750,000
<i>Given parties' fiscal rules and stated intentions:</i>		
Conservatives	–550,000	–400,000
Labour	–300,000	–100,000
Liberal Democrats	–300,000	–150,000

Notes and sources: see Table 7.7 of *The IFS Green Budget: February 2015*.

Spending review 2015 – departmental allocations

- Uncertain size of overall cut: 14.1% (£51.4bn, Coalition) to 1.4% (£5.2bn, consistent with Labour announcements)
- Uncertain protections
 - All three major parties signed up to protection of NHS and ODA
 - Liberal Democrats announced protection for education
 - Conservatives’ protection for schools
- Protecting large areas like education would have serious implications for other unprotected departments
 - For example, Conservative plans: 6.7% overall cut, protecting ODA and £8bn real increase for NHS would imply unprotected departments cut by...
 - 15.0% if freeze cash schools spending per pupil
 - 12.4% if schools spending not ‘protected’
- Capital intensive departments likely to do relatively well



Conclusions

- Cuts to capital spending by departments up to 2015–16 have been halved relative to 2010 plans (up to 2014–15)...
- ...which has meant that the government has not cut departmental spending by as much as was originally planned.
- Autumn Statement plans imply large cuts beyond the next election
- These could take general government employment to its lowest share of the workforce in almost fifty years
- But there are large differences implied by the parties' stated policies, leaving huge uncertainty for departments
- Continued protection for the NHS and schools would put pressure on unprotected areas
- There is a real difference between the parties' plans, for the size and the composition of the state



Options for the 2015 Spending Review

Soumaya Keynes