

The end of austerity?

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Public services spending: what did we learn?

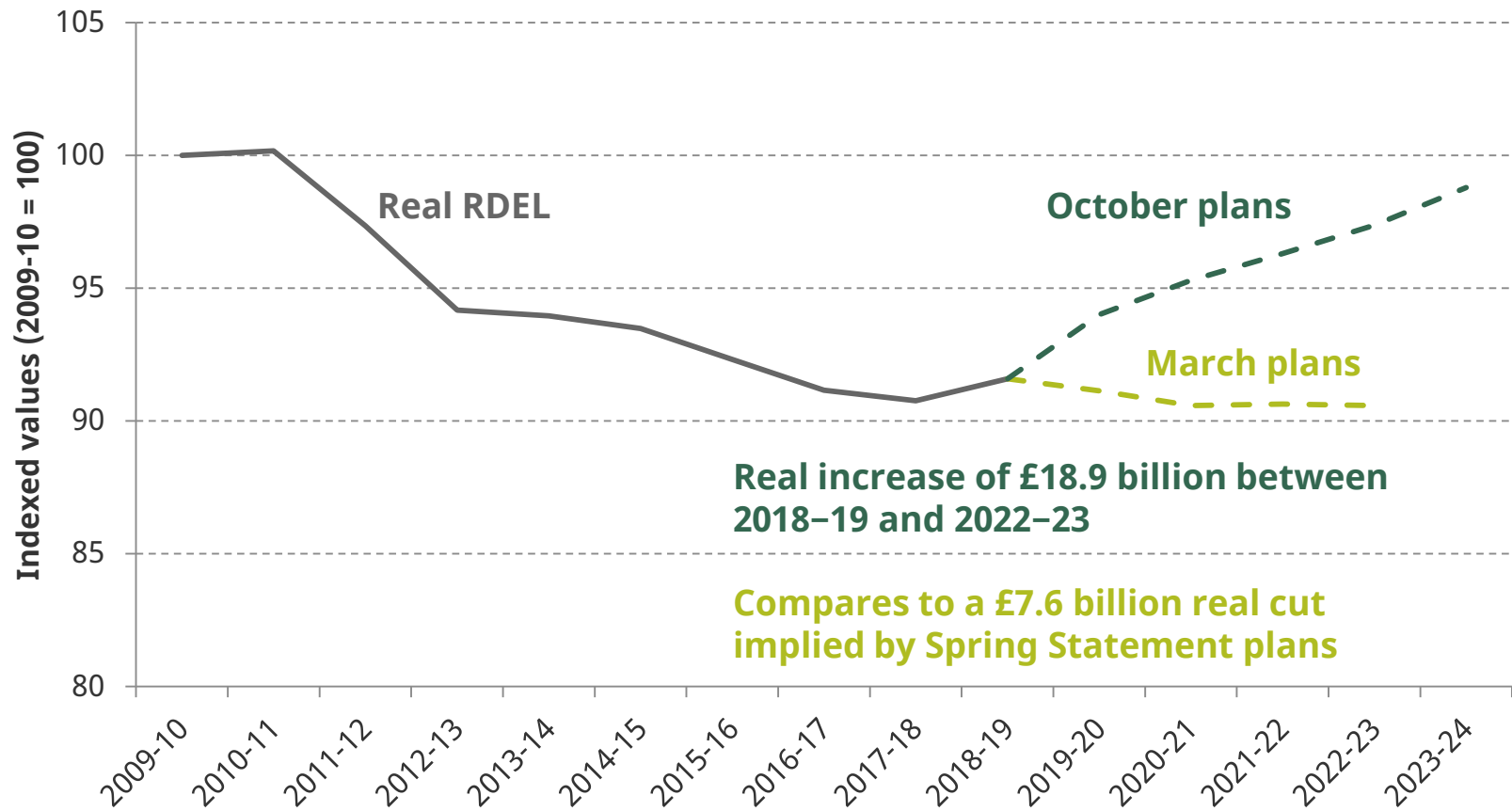
In March the Chancellor announced he would set a firm overall path for public spending beyond 2020 in the Budget

Mr Hammond instead chose not to set a firm spending review envelope

- Indicative path for public spending set for five years up to 2023–24
 - open to revision next year
- We still don't know which years will be covered in the spending review

Fiscal windfall spent rather than saved

Big changes in the path for day-to-day spending since March



Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

Short term spending announcements

A number of spending giveaways for this year and next

£11 billion of extra day-to-day spending in 2019–20 relative to March

- £7.4 billion of this for the NHS (£5 billion for frontline services in England)

Overall spending outside of NHS, defence and aid no longer set to fall next year

- But RDEL outside of health is 18.9% lower today than in 2010–11

Sticking plasters, filling potholes

Extra capital spending for 2018–19

- Biggest winner: road maintenance (£500m)
- Schools get £475m this year for capital projects (~10% of capital budget)
- OBR assume around half of this won't get spent

Social care gets an extra £285m this year (and £775m next year)

- Ring-fenced funding for social care has been increasing quickly in last few years
- Difficult to enforce that this is spent on social care

Defence got an extra £200m this year and £800m next year

Extra money for pension contributions

Lower discount rate used for calculating employer pension contributions

- Means higher costs for public sector employers

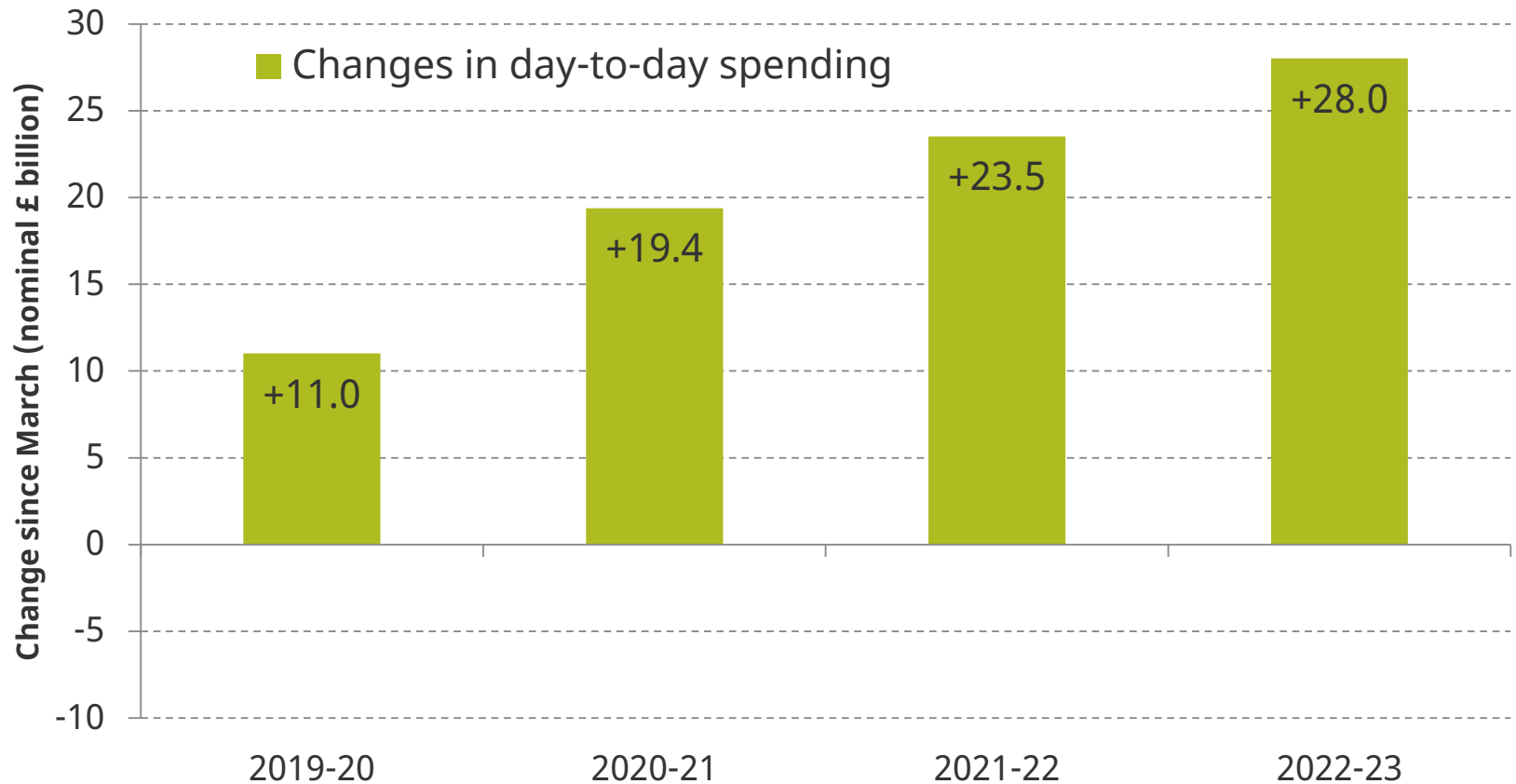
Extra £4.7 billion allocated to reserve next year to cover costs

- Cost to departments will rise to £6.3 billion by 2023–24
- Sent back to Treasury: no effect on total public spending in medium term

Government has chosen for the most part to protect departments

- Contrast to March 2016, when departments were not compensated for an additional £2 billion of employer contributions
 - NHS subsequently compensated

Medium term giveaways are even bigger



Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).
Source: Author's calculations using Table 4.23 of OBR Economic and Fiscal Outlook, October 2018

The Budget confirmed the NHS funding announcement made in June

Frontline services in England set to receive an extra £20.5 billion in real terms by 2023–24

Non-NHS health budgets to be set at next year's spending review

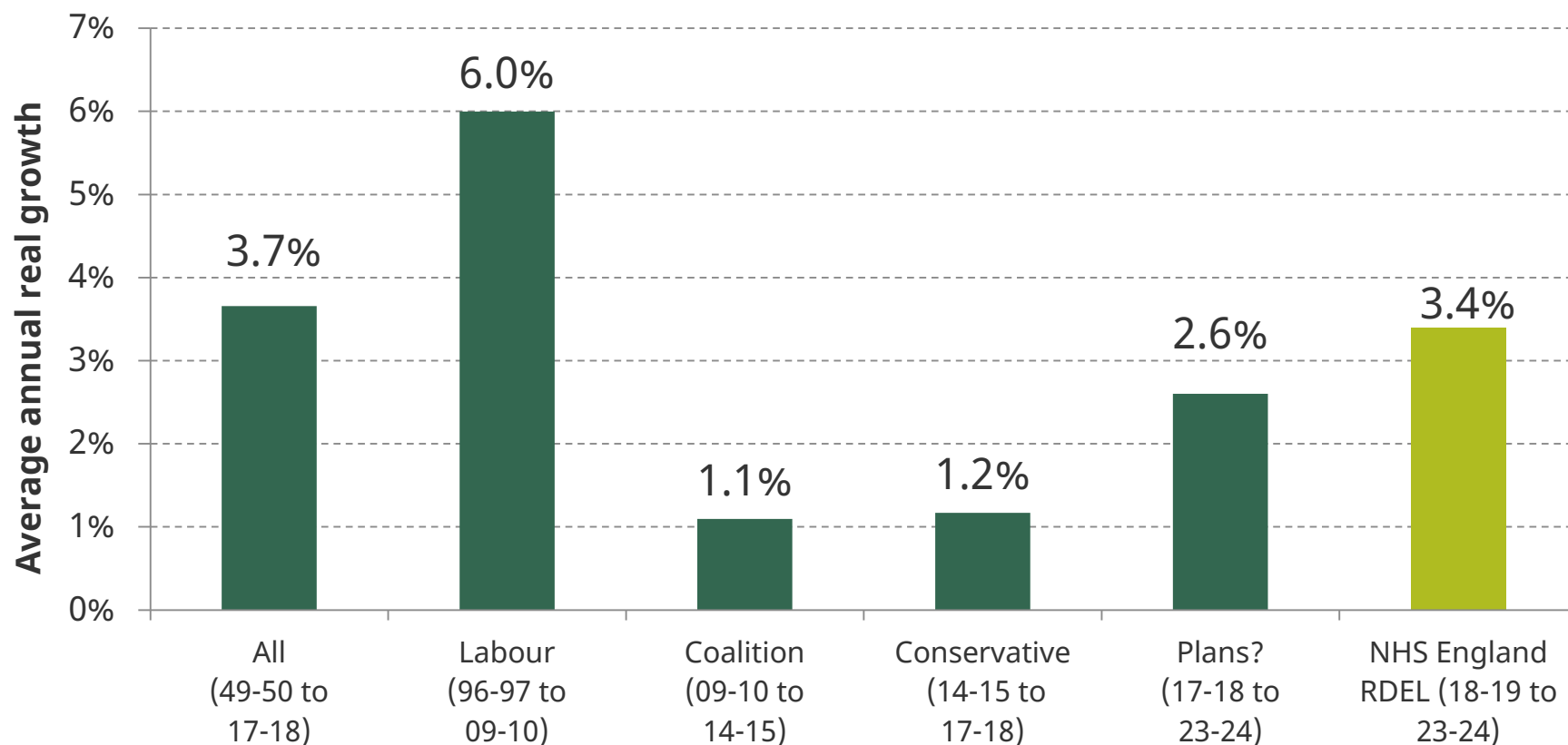
- Includes public health, medical research, training for medical staff

Health set to account for an ever-growing share of departmental spend

- 38% of TDEL in 2023–24, up from 23% in 2000–01

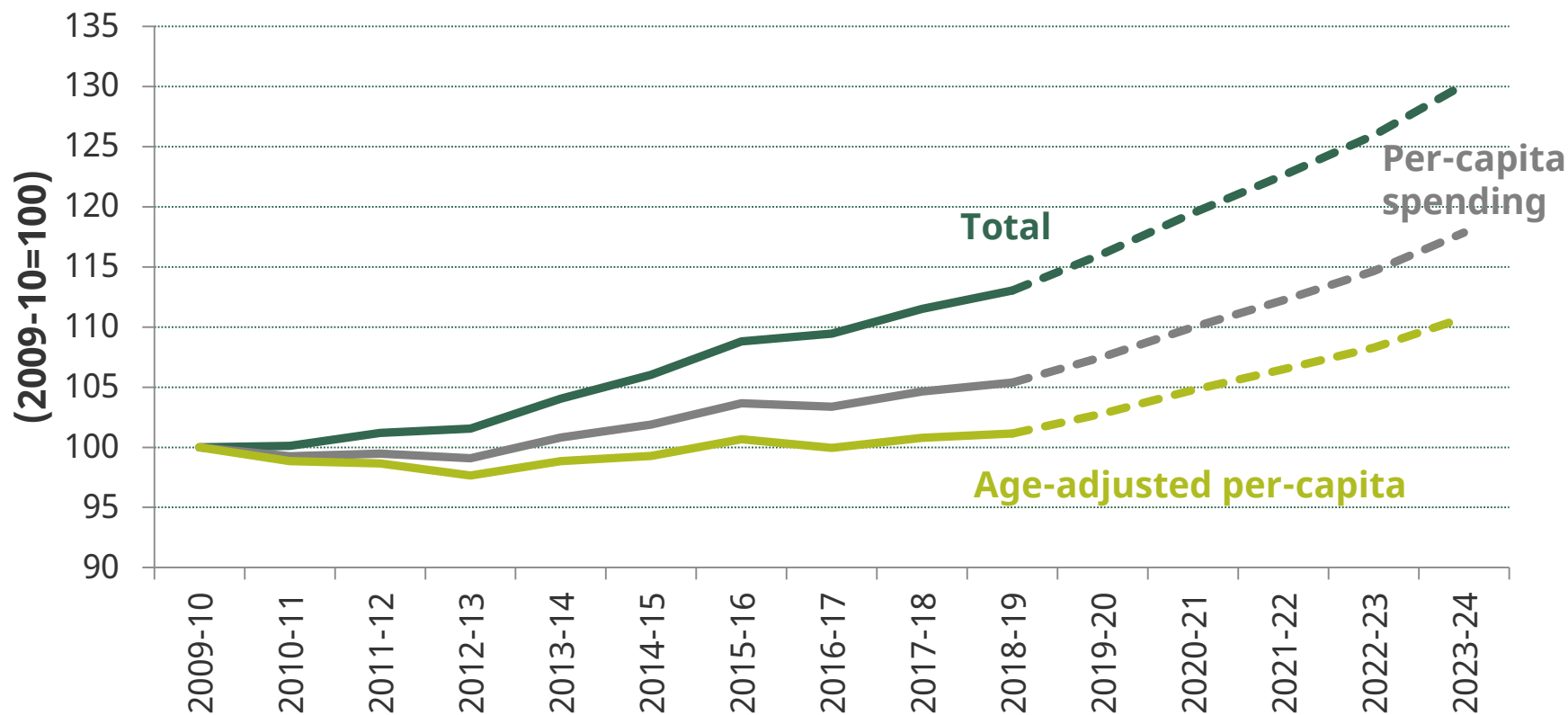
Historically large increases in cash terms, but not in terms of real growth

Historical context for NHS spending plans



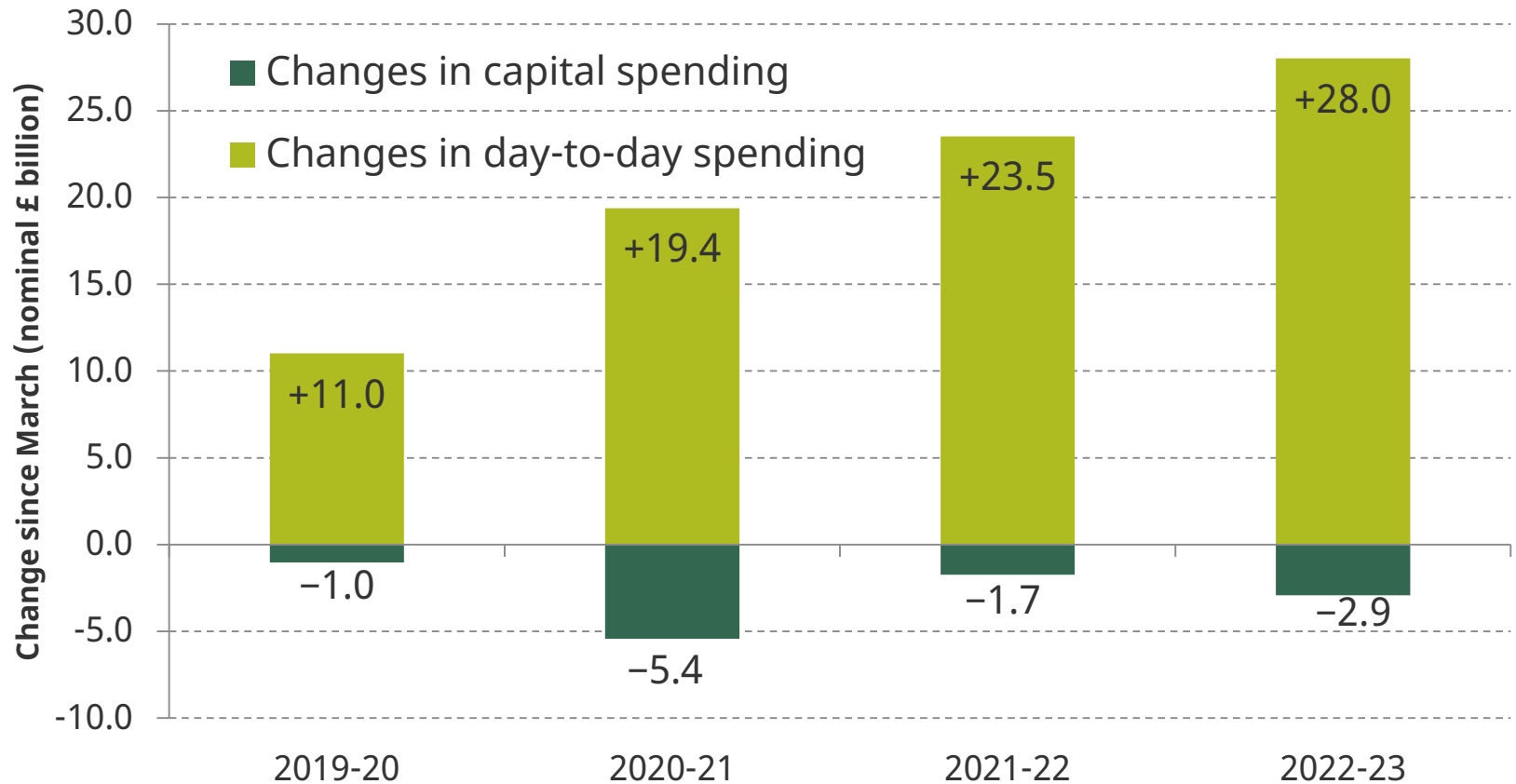
Notes and sources: Historical spending refers to UK-wide public spending on health. Nominal health spending data from Office of Health Economics (1955–56 to 1990–91) and HM Treasury, *Public Expenditure Statistical Analyses* (1991–92 to 2017–18). Real spending refers to 2018–19 prices, using the GDP deflator from the OBR in October 2018. Future projections based on spending plans for England (NHS England RDEL plans and an assumed real freeze in other DH spending) applied to all UK health spending. Plans exclude additional spending on NHS pensions.

Real-terms Department of Health and Social Care spending, 2009-10 to 2019-20



Source: Author's calculations using DH spending from HM Treasury, *Public Expenditure Statistical Analyses 2016*, ONS population estimates (2009 – 2017) and projections (2017-2023), and age spending weights from the OBR Fiscal Sustainability Report (January 2017). Future projections based on spending plans for England (NHS England RDEL plans and an assumed real freeze in other DH spending). Real spending refers to 2018-19 prices, using the GDP deflator from the OBR in October 2018. Plans exclude additional spending on NHS pensions.

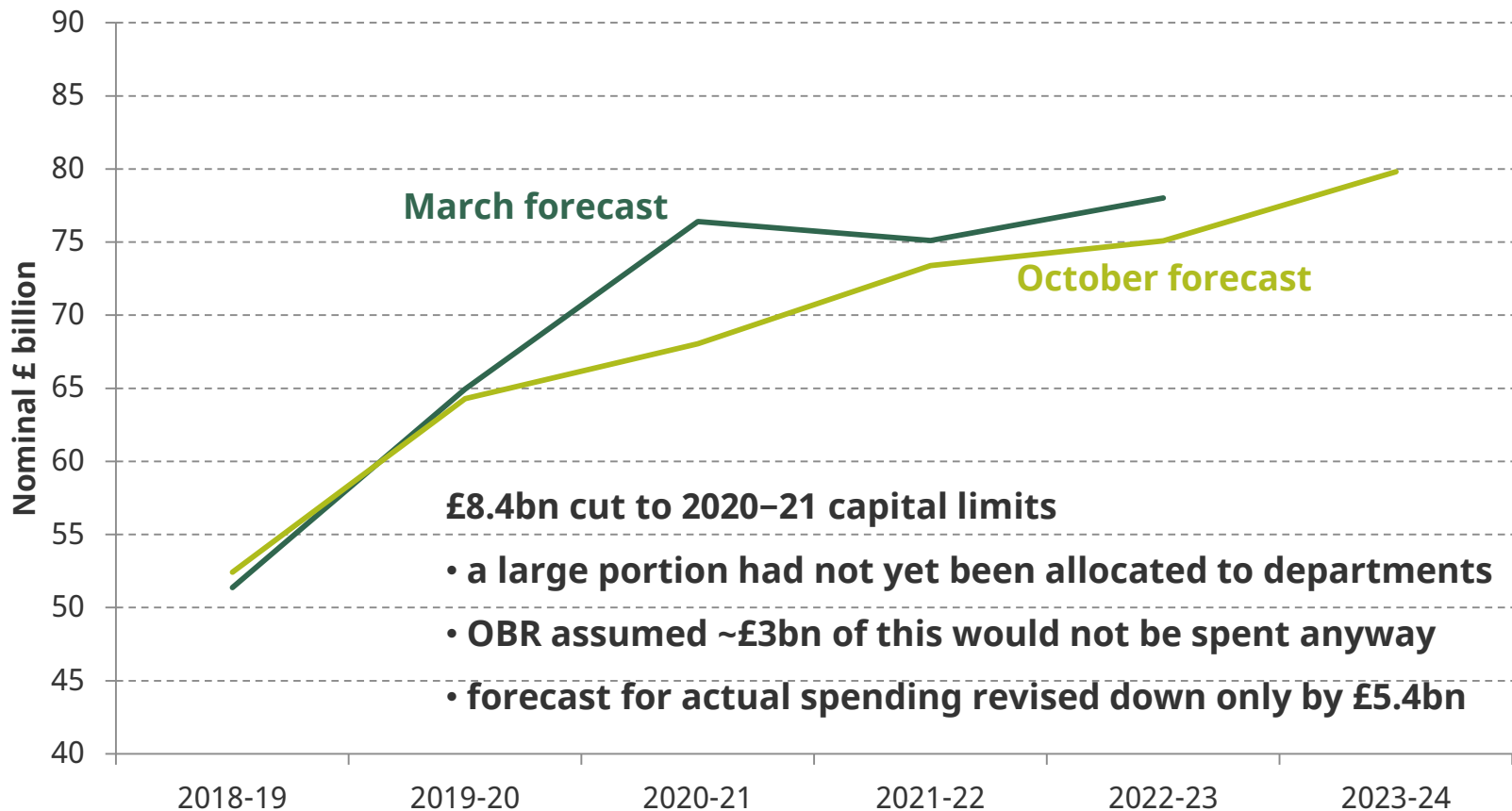
The Chancellor also announced cuts to departments' capital budgets



Note: RDEL and CDEL refer to OBR definitions of PSCE in RDEL and PSGI in CDEL, respectively.

Source: Authors' calculations using Table 4.23 of OBR Economic and Fiscal Outlook, October 2018

The Chancellor has cut departments' capital budgets relative to his March plans



Note: CDEL refers to OBR definition of PSGI in CDEL.

Source: Authors' calculations using OBR Economic and Fiscal Outlook, October 2018

Public sector net investment set to be sustained at a historically high level



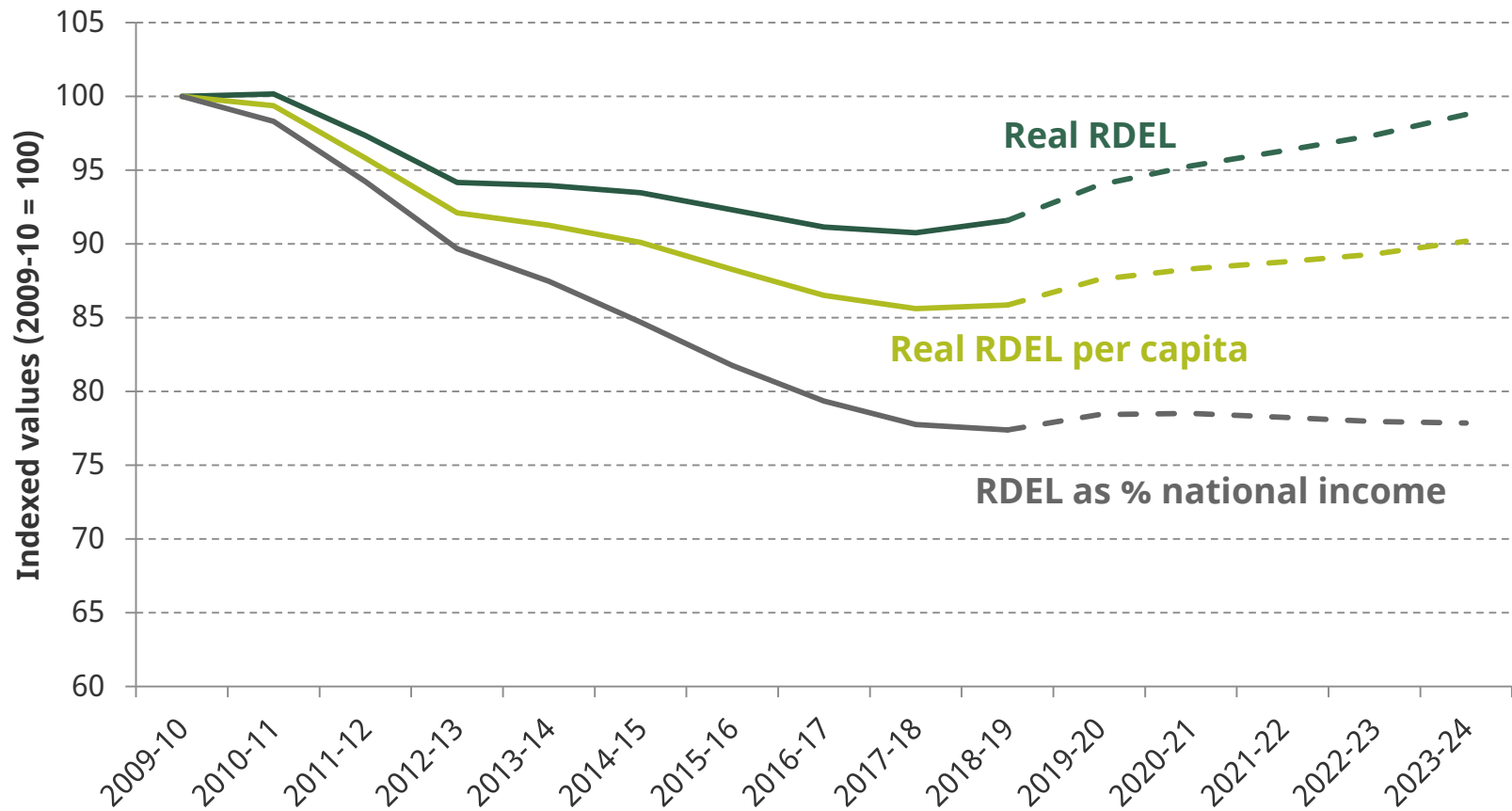
Source: OBR Public Finances Databank, October 2018

The end of austerity?

Whether the “era of austerity is coming to an end” depends on our choice of definition

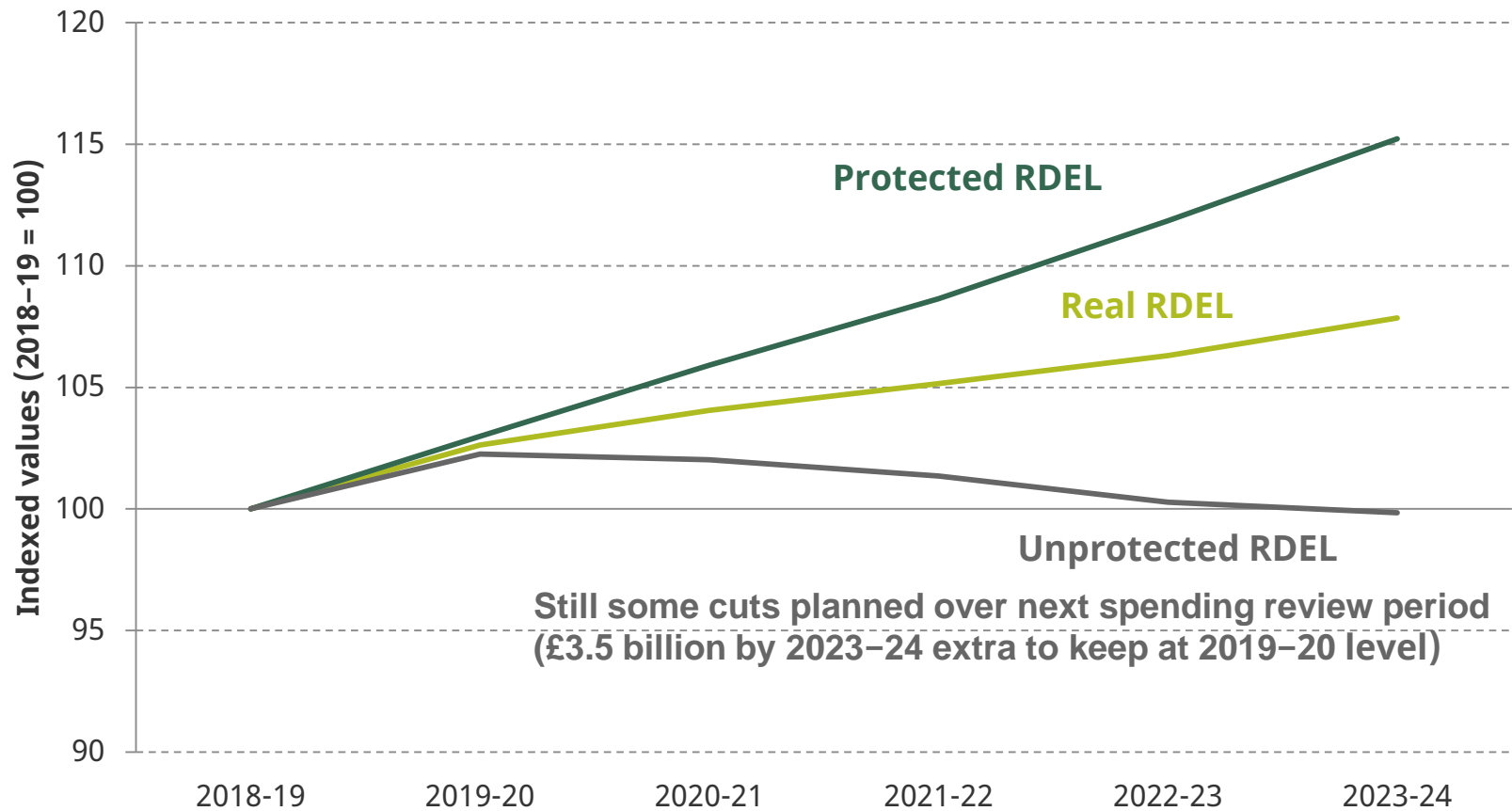
- 1) Overall spending on day-to-day public services (total RDEL)**
- 2) Unprotected departments (RDEL outside of NHS, aid and defence)**
 - NHS funding settlement runs up to 2023–24
 - commitments on defence and overseas aid
- 3) Social security**
 - around £4 billion of cuts still in the pipeline

RDEL now set to grow both in real and per person terms



Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

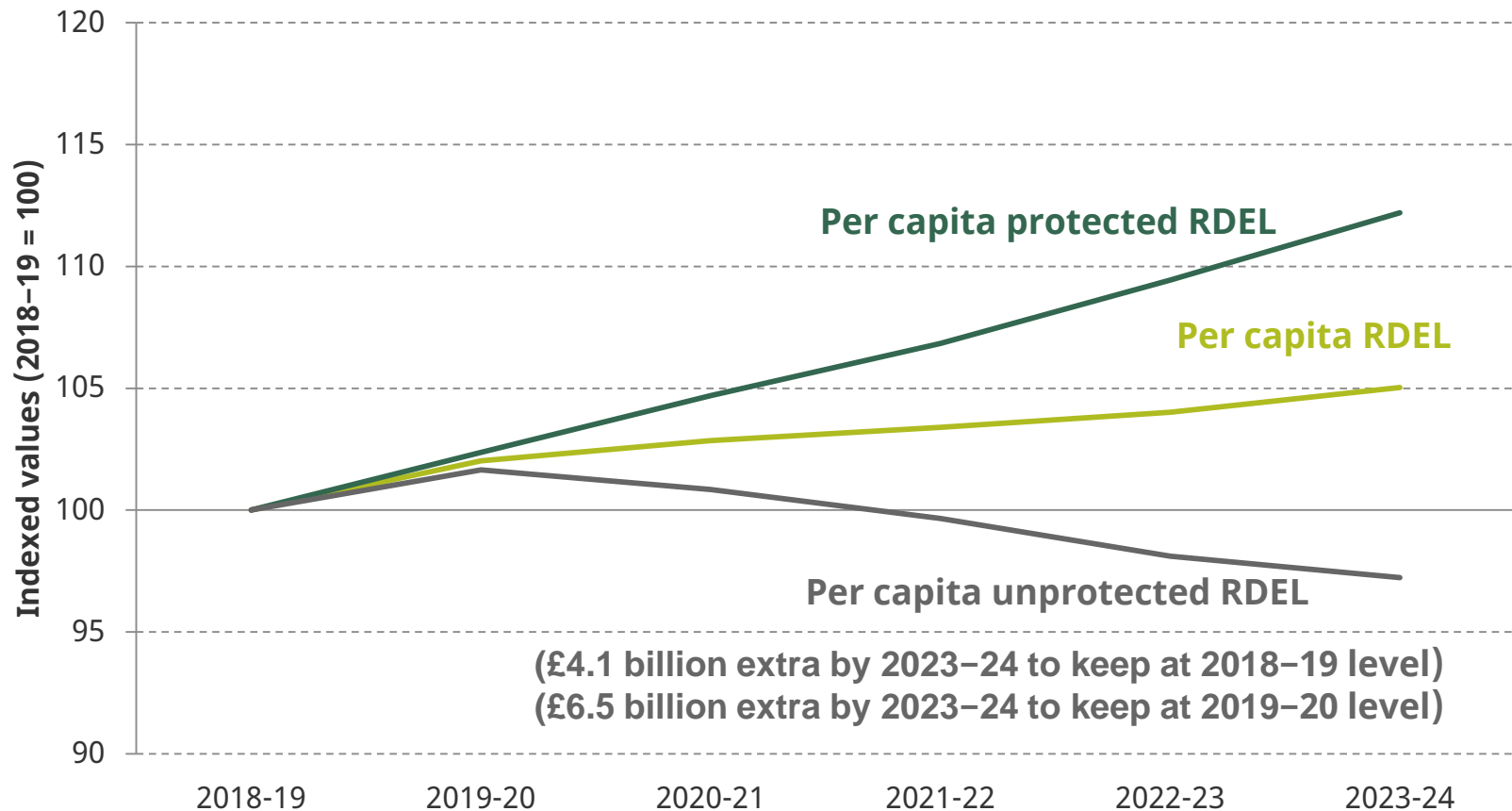
Real freeze for unprotected departments between now and 2023–24



Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).

Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

But unprotected spending still set to fall in per capita terms into the 2020s




Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).

Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018


The beginning of the end?

A lot depends on our choice of definition

1) Overall spending on day-to-day public services (total RDEL)

- set to increase in real terms, increase in per person terms, and stay flat as share of national income
- on this definition, austerity for public services looks to be over 

2) Unprotected departments (outside of NHS, aid and defence)

- no further cuts up to 2023–24: could be interpreted as end of austerity
- increase next year followed by cuts after 2019–20 
- still set to fall in per capita terms and as a share of national income

3) No end of austerity for working age benefits: still cuts to come