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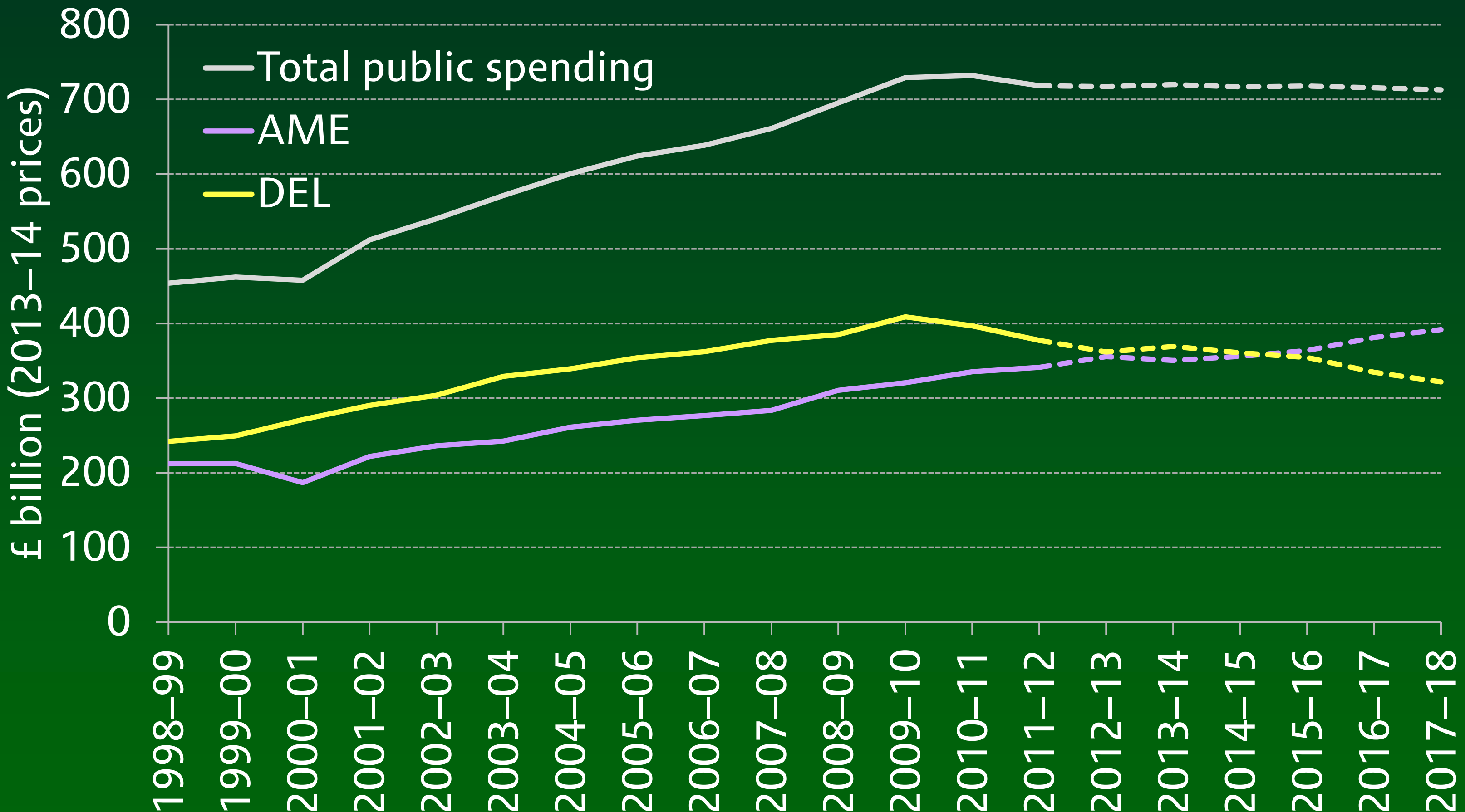
Controlling Annually Managed Expenditure

Carl Emmerson

The outlook for total spending



Note: DEL and AME figures from 2013–14 adjusted for changes for local government funding for Business Rates Retention and Council Tax Benefit localisation.

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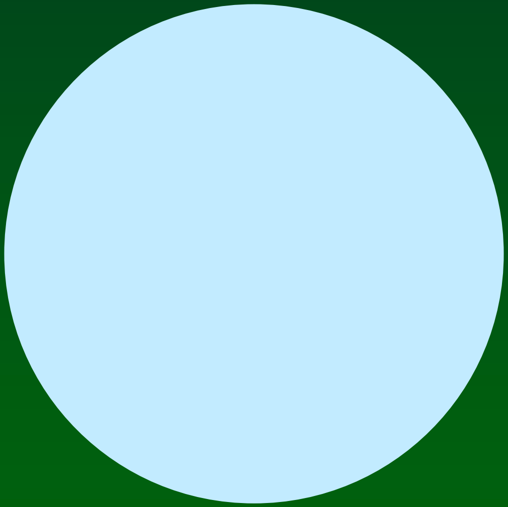
Introducing Aimee

Annually Managed Expenditure
in 2013–14 (£350.7bn)



Source: Author’s calculations using data from DWP, HM Treasury and ONS.

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Introducing Aimee

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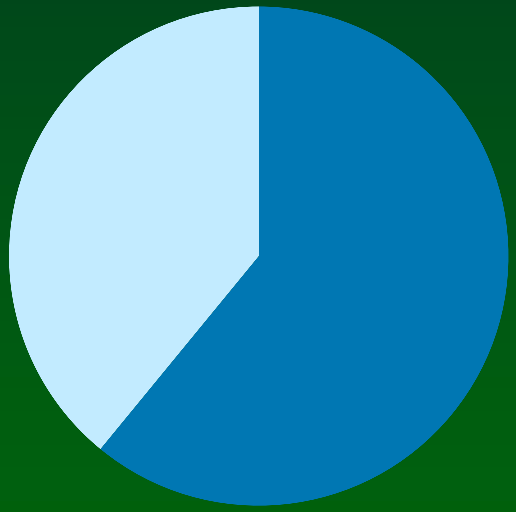

Social security:
£213.7bn

Note: Social security adjusted to include support for council tax benefit and locally-financed expenditure adjusted for Non-Domestic Rates.
Source: Author's calculations using data from DWP, HM Treasury and ONS.

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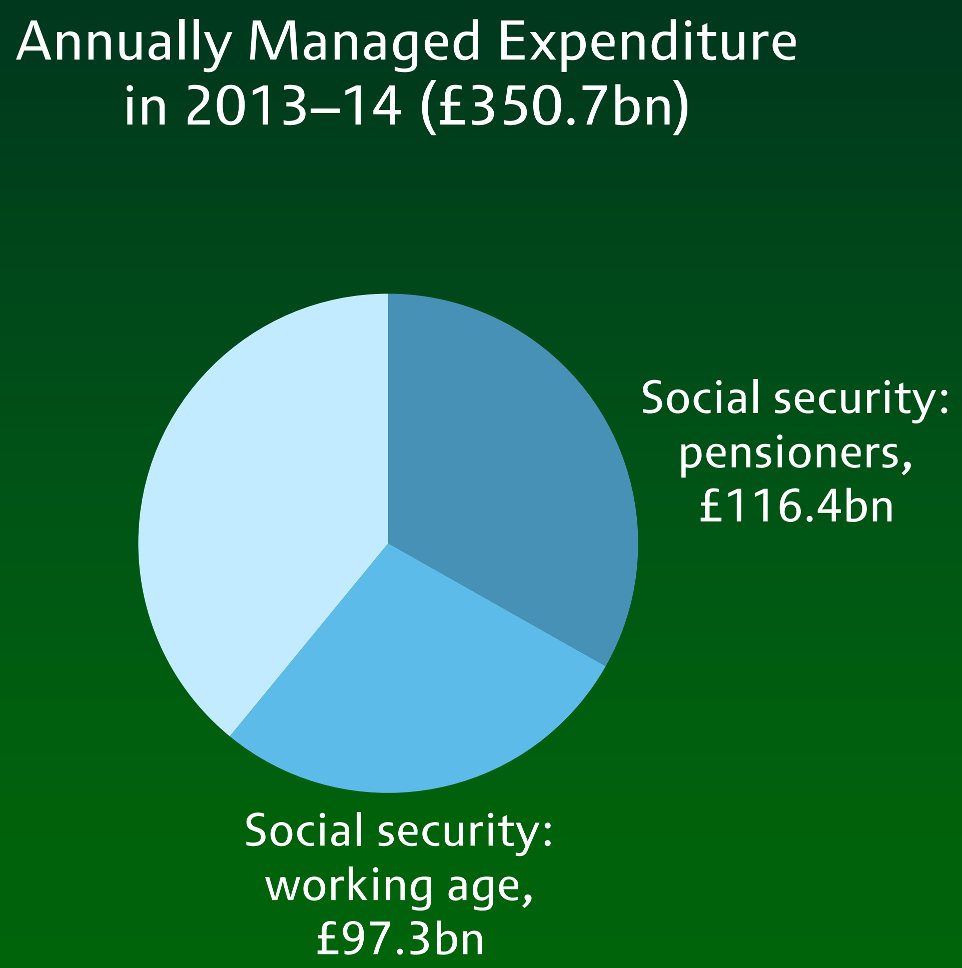

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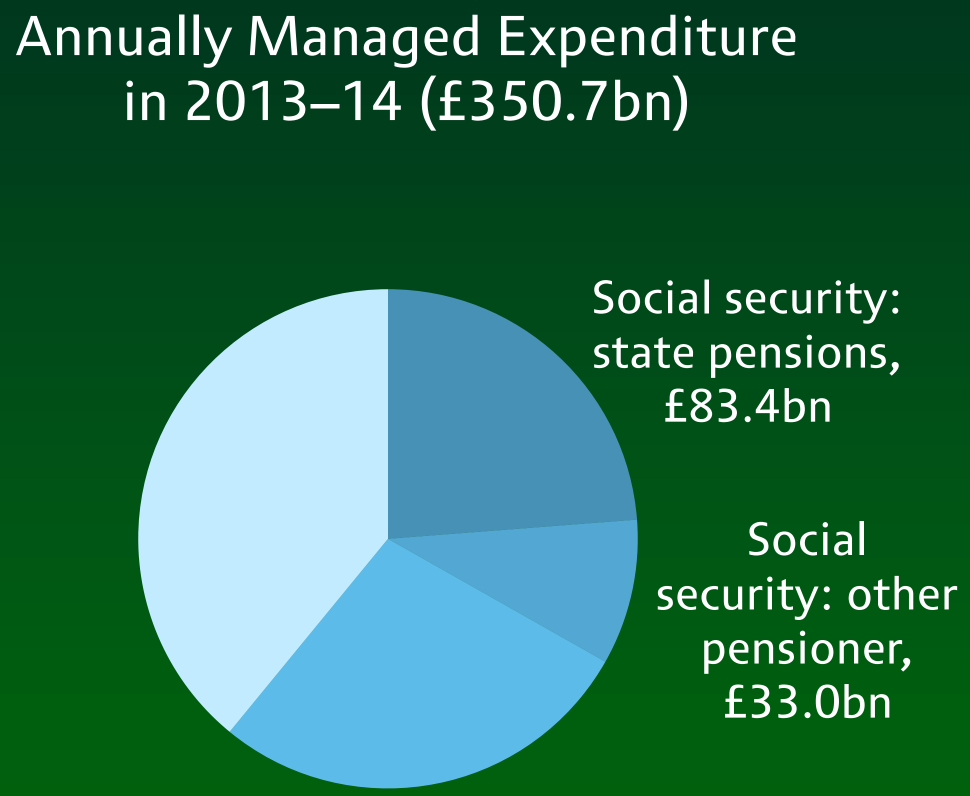

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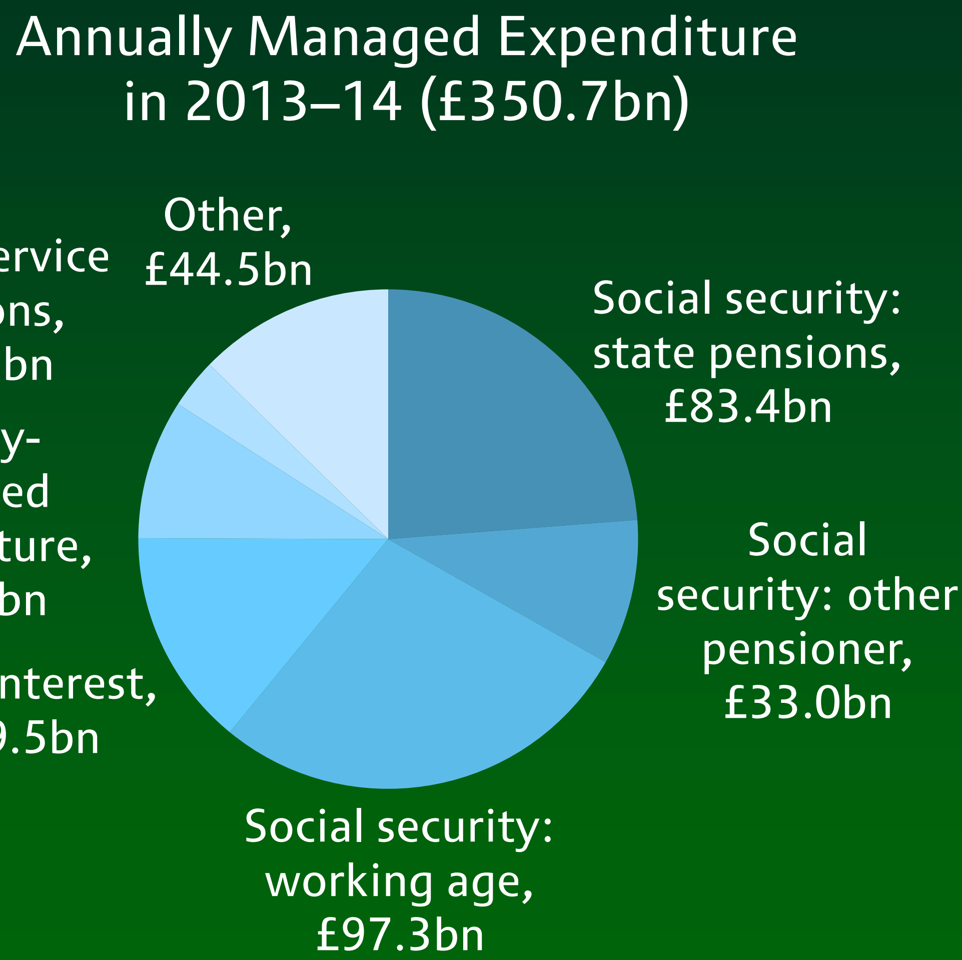

Note: Social security adjusted to include support for council tax benefit and locally-financed expenditure adjusted for Non-Domestic Rates.
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There she grows

Forecast real growth in AME and components

Note: Social security adjusted to include support for council tax benefit and locally-financed expenditure adjusted for Non-Domestic Rates.
Source: Author's calculations using data from DWP, HM Treasury and ONS.

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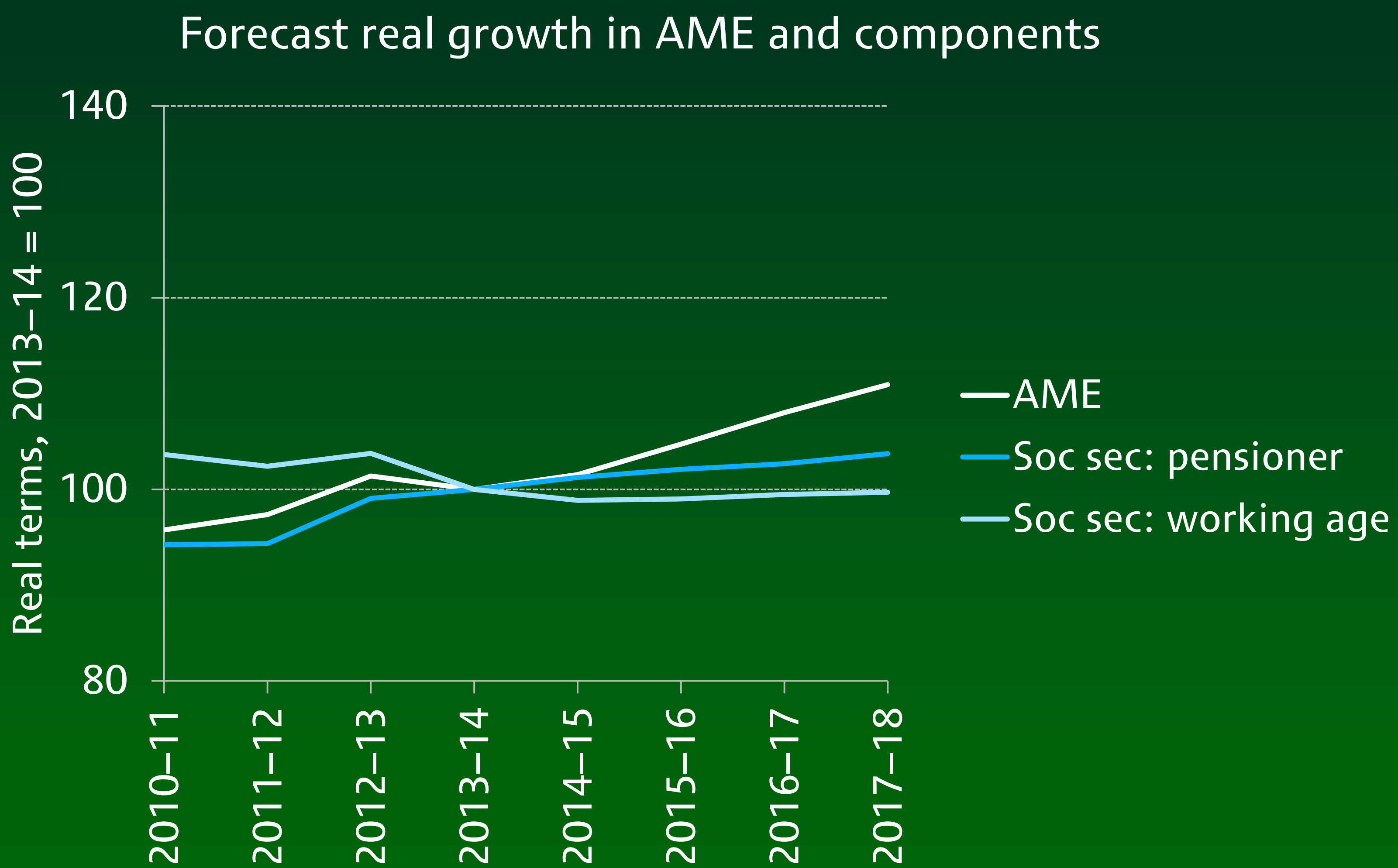
There she grows



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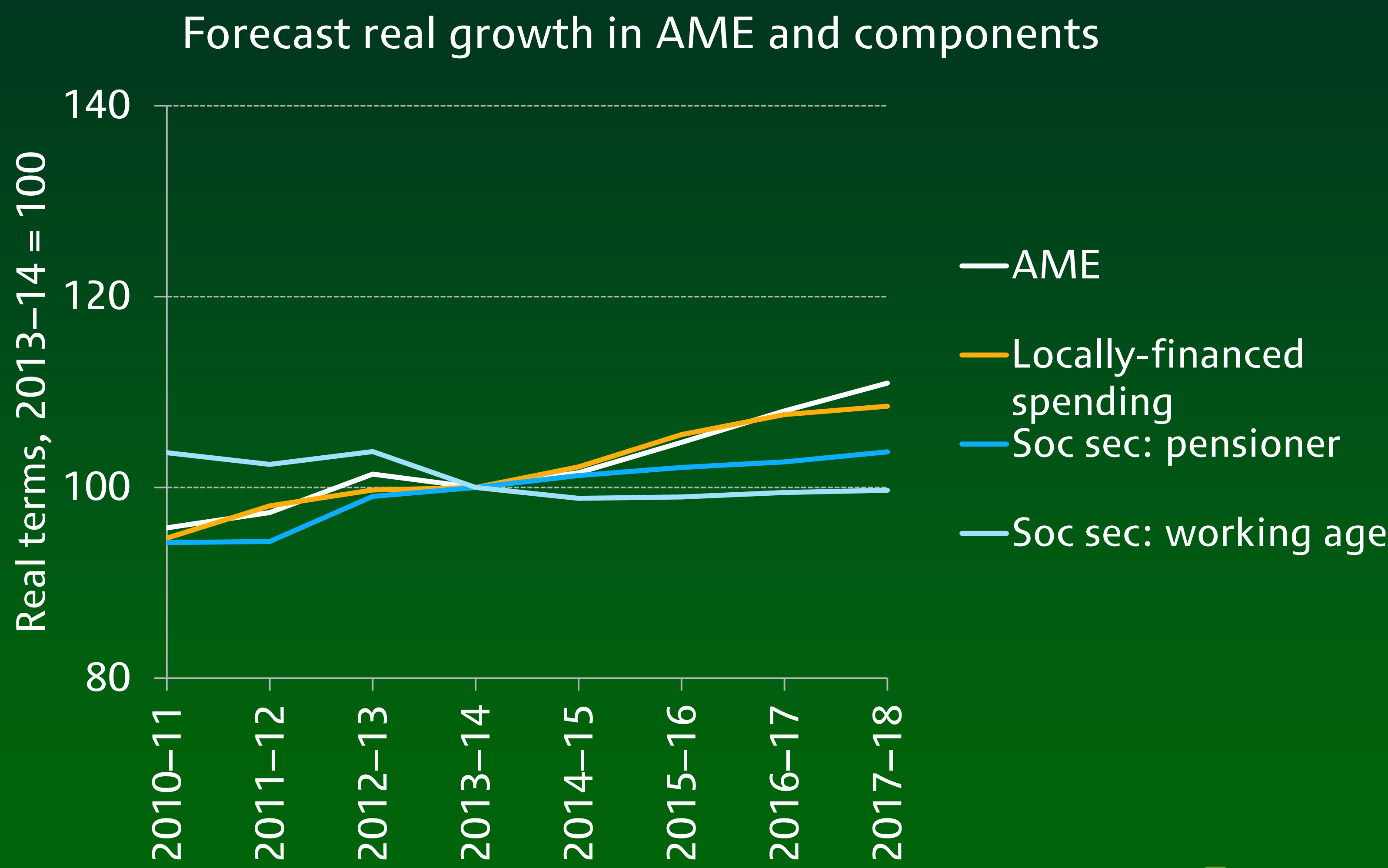

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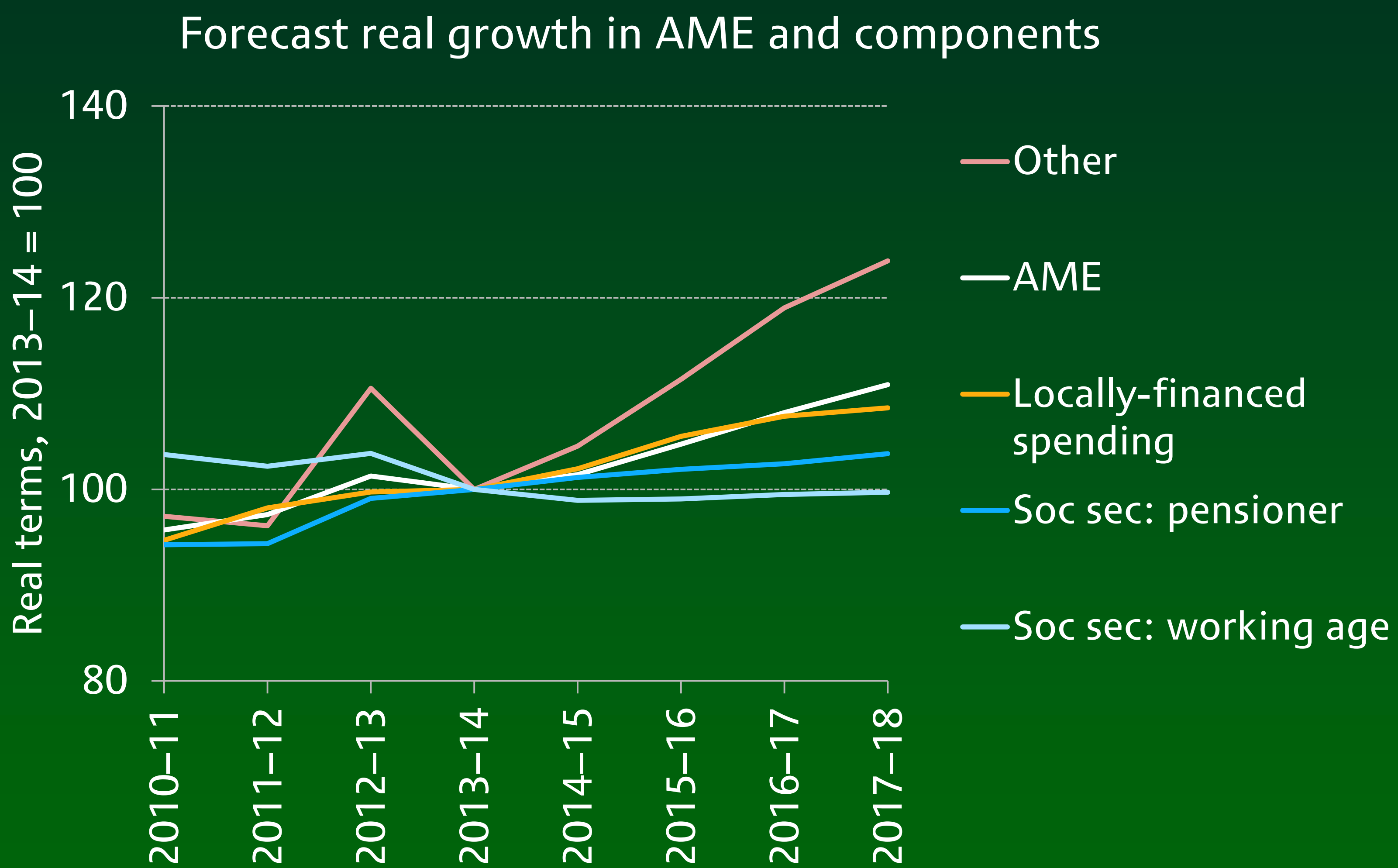

Note: Social security adjusted to include support for council tax benefit and locally-financed expenditure adjusted for Non-Domestic Rates.
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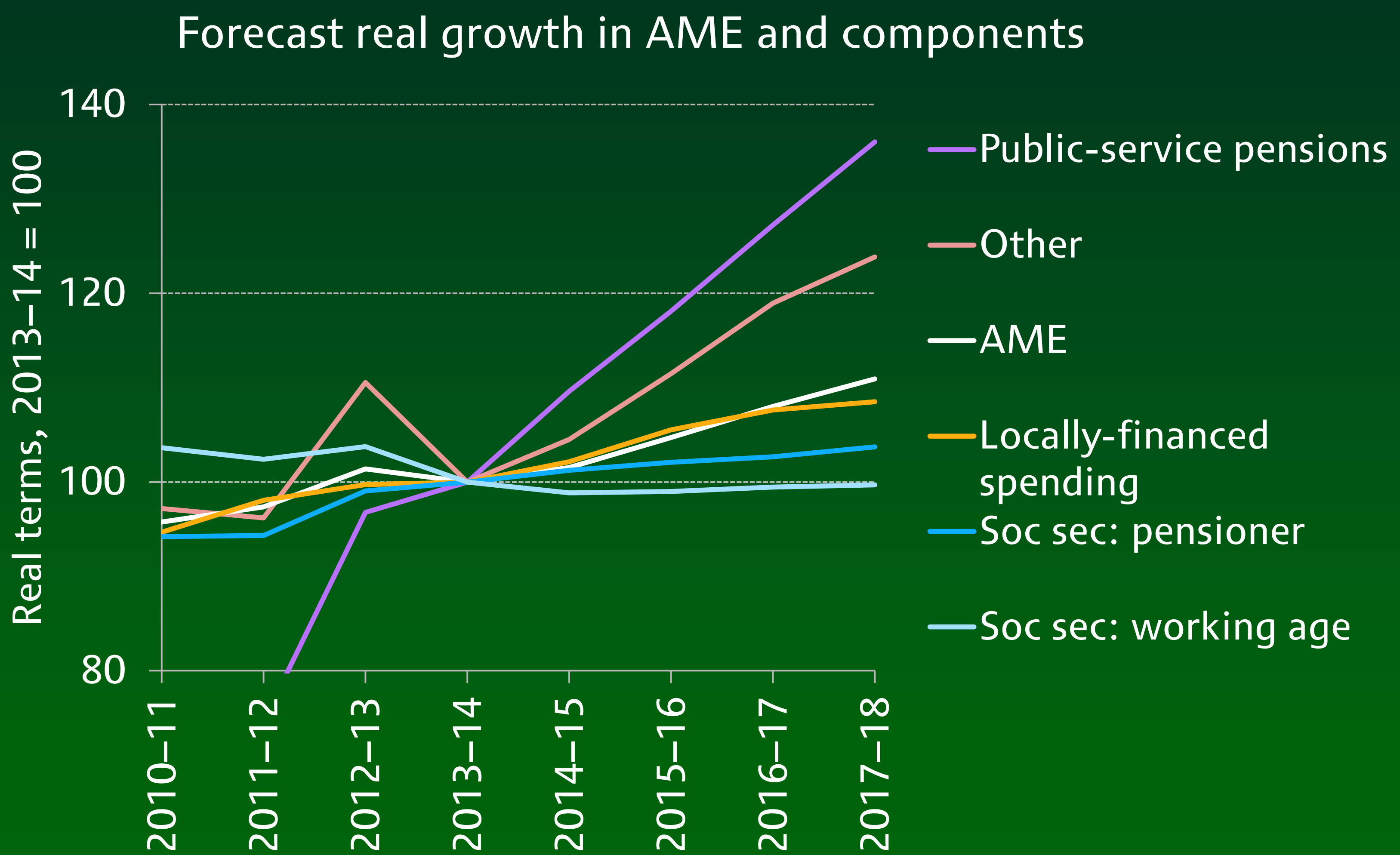
There she grows (again)



Note: Social security adjusted to include support for council tax benefit and locally-financed expenditure adjusted for Non-Domestic Rates.
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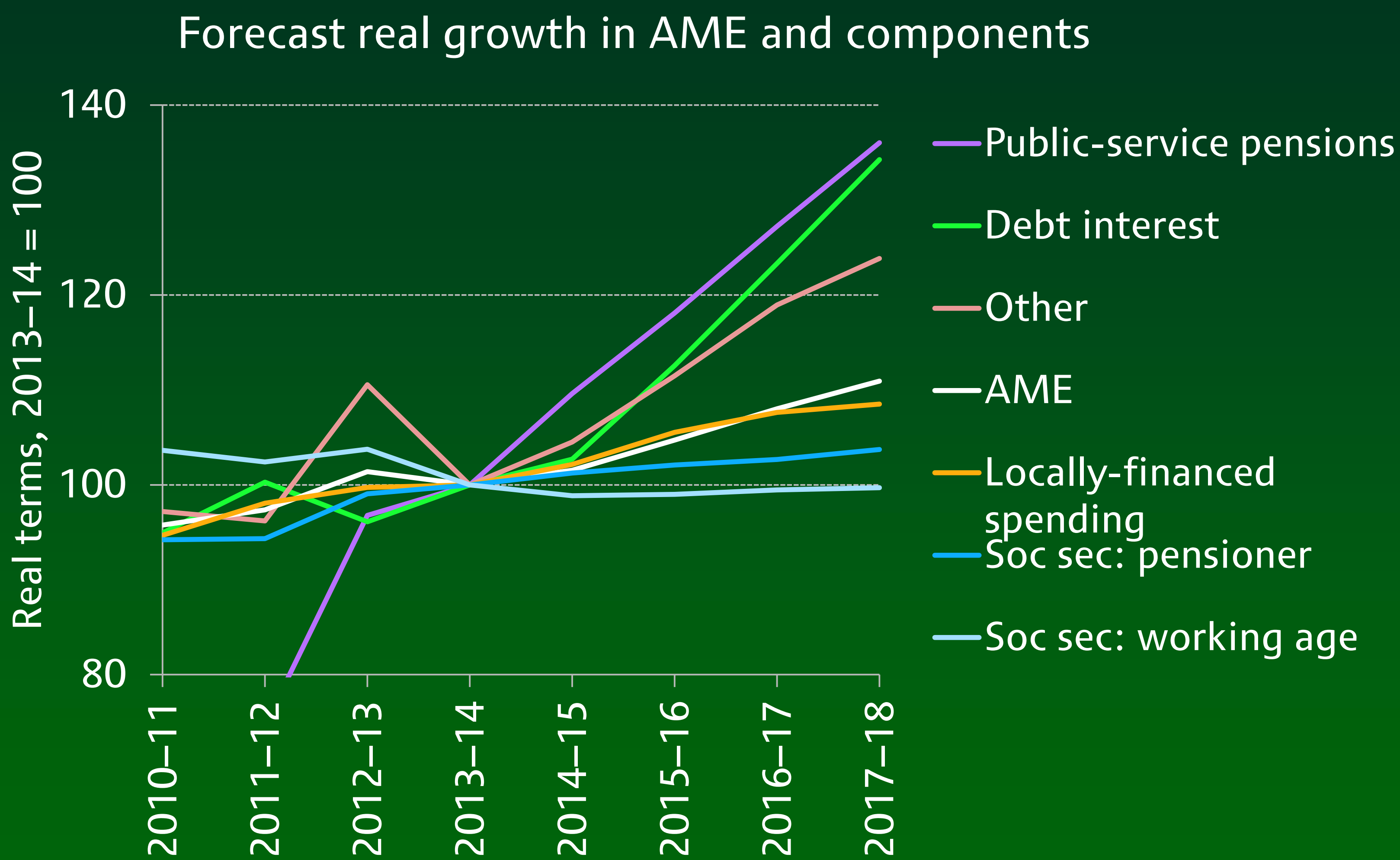

Note: Social security adjusted to include support for council tax benefit and locally-financed expenditure adjusted for Non-Domestic Rates.
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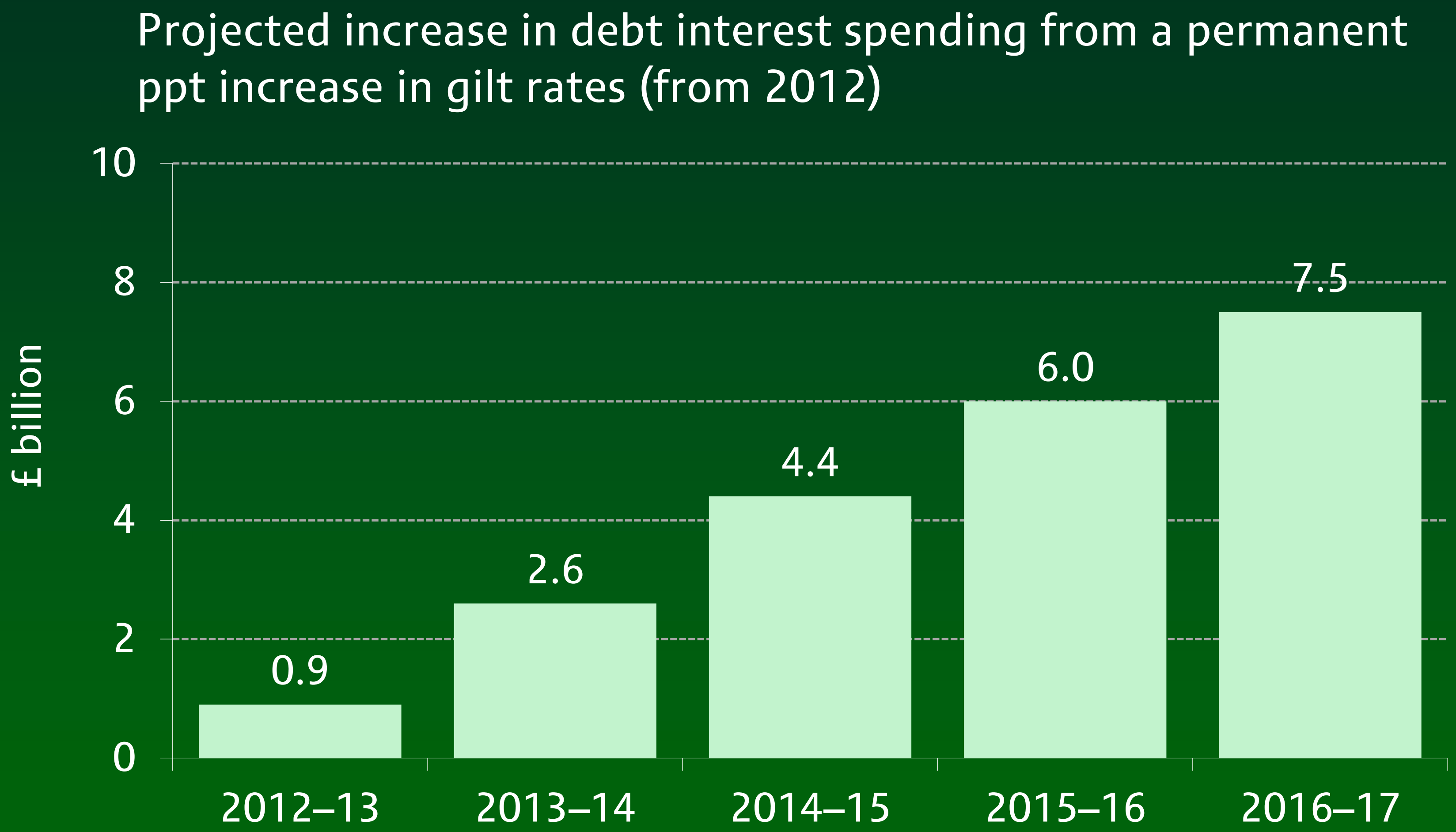
Debt interest

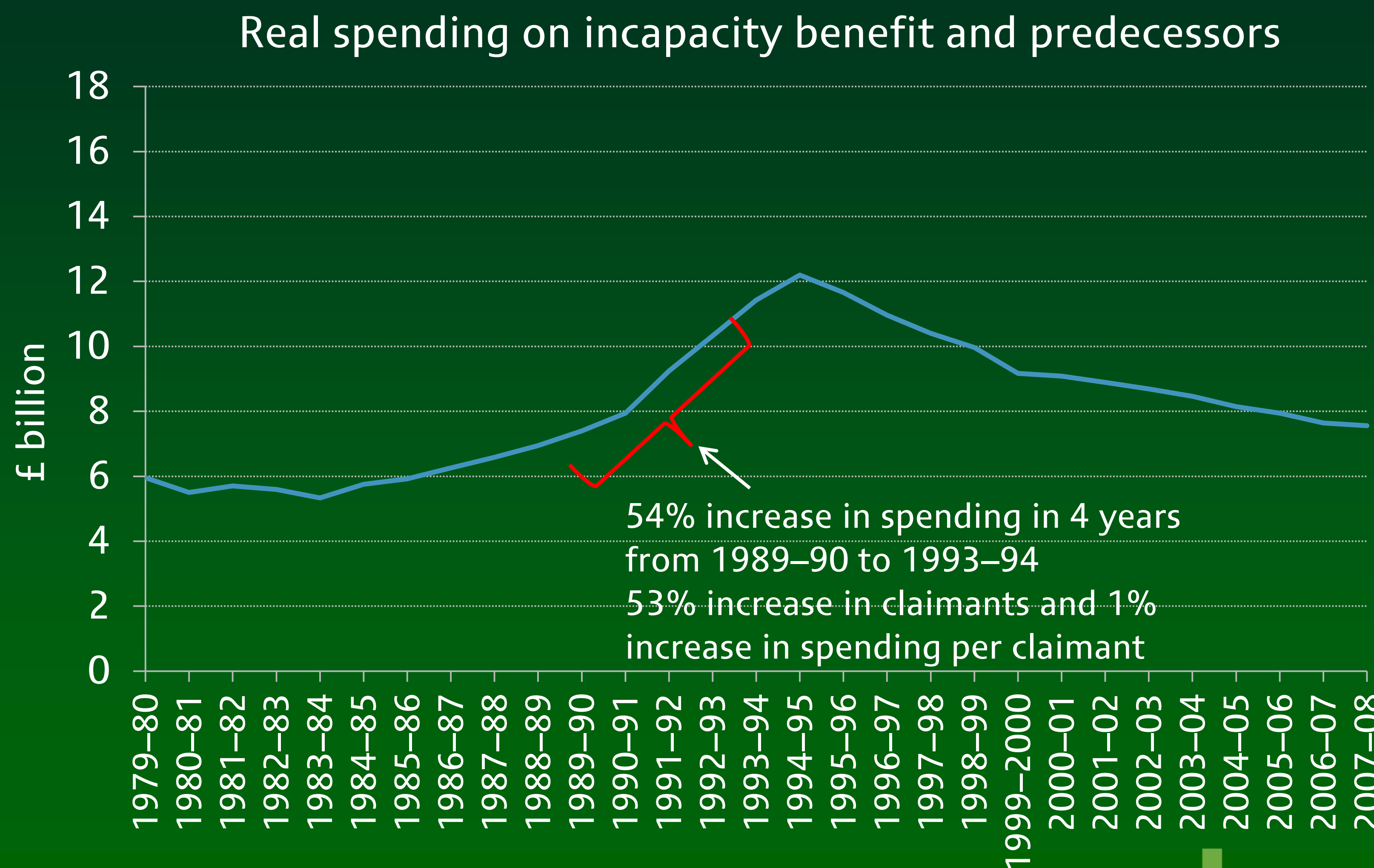


Source: Table 3.1 of OBR (2012), *How we present uncertainty*, Briefing Note No. 4.

Capping social security

- Budget 2014 to set a cash cap for "welfare in scope" spending in 2015–16, 2016–17, 2017–18 and 2018–19
  - subsequent Budgets each to announce cap for one further year
- Cap to cover total spending on social security and tax credits less
  - spending on state pension as over the longer-term this is to be controlled via increases in the state pension age
  - spending on jobseeker's allowance (JSA) & some passported benefits as these are the most cyclical
- If OBR projects spending to exceed the cap by a certain margin then either have to implement cuts to bring projected spend below the cap or announce that the cap is to be breached
- Idea is to force active decisions on whether or not to accommodate welfare spending that is projected to be higher than previously deemed desirable

Unmanaged expenditure example 1?



Notes: Deflated to 2013–14 prices using GDP deflator.
Source: DWP benefit expenditure tables.

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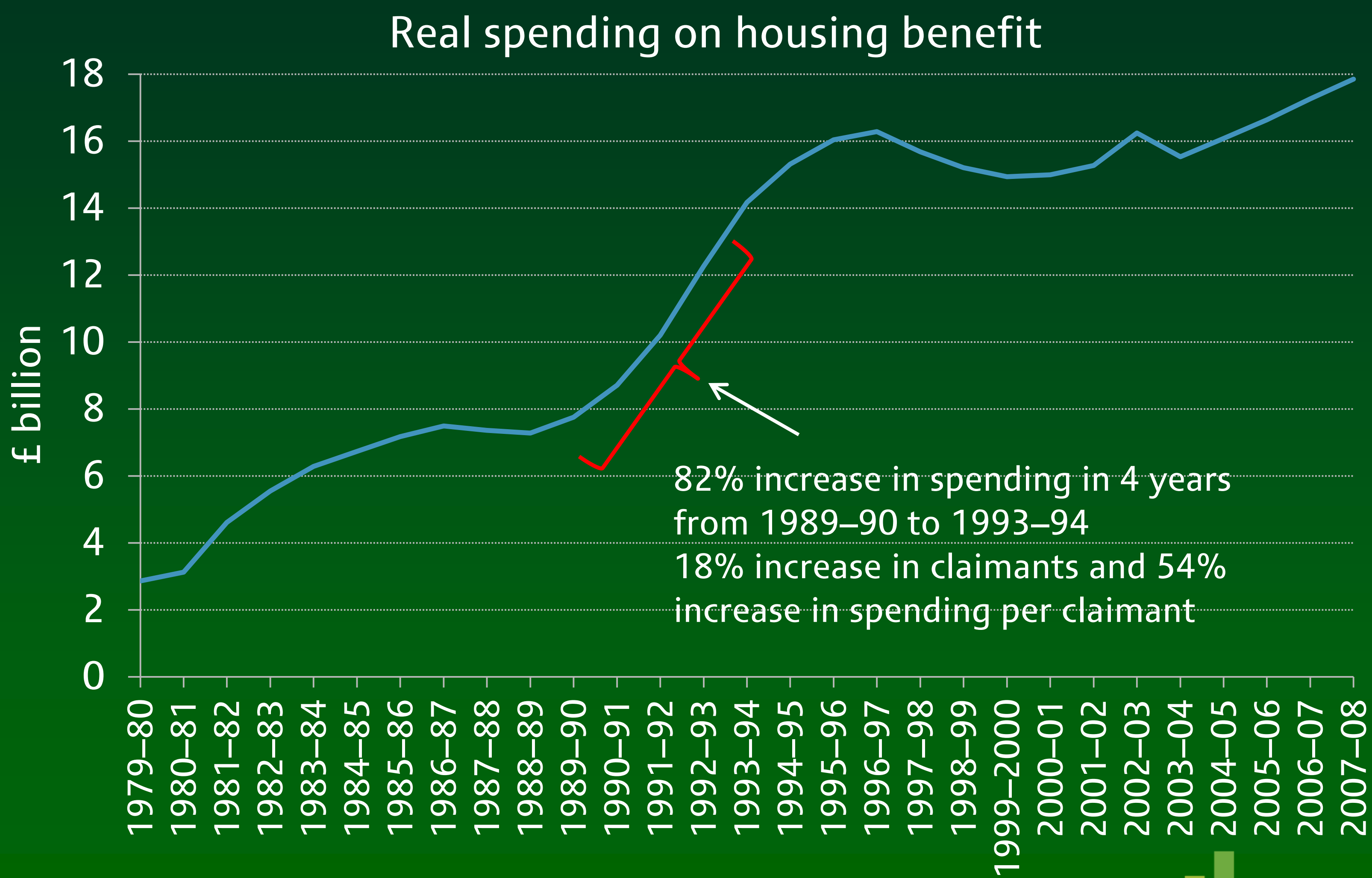
Unmanaged expenditure example 2?



Notes: Deflated to 2013–14 prices using GDP deflator.
Source: DWP benefit expenditure tables.

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Would the cap have fitted since 2010?

Total benefit and tax credit spending excluding state pension and JSA

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Capping social security

- If welfare spending has been allowed to rise undesirably then forcing an active decision could lead to better policy making
- Could be good reasons to want to breach a cap
  - economic downturn (much of capped spending still cyclical)
  - above-expected inflation associated with higher private incomes
  - deliberate increases in generosity of benefits/tax credits
- If a cap is a good thing then why not announce one now (or this autumn) for 2014–15, 2015–16, 2016–17 and 2017–18?
  - is this to avoid action being taken before the general election?
- Better to review all spending frequently regardless of whether higher or lower than forecast, or at least cap individual components
  - why no need to review if one component rises while another falls?
- Is enshrining cap in law the best use of parliamentary time?

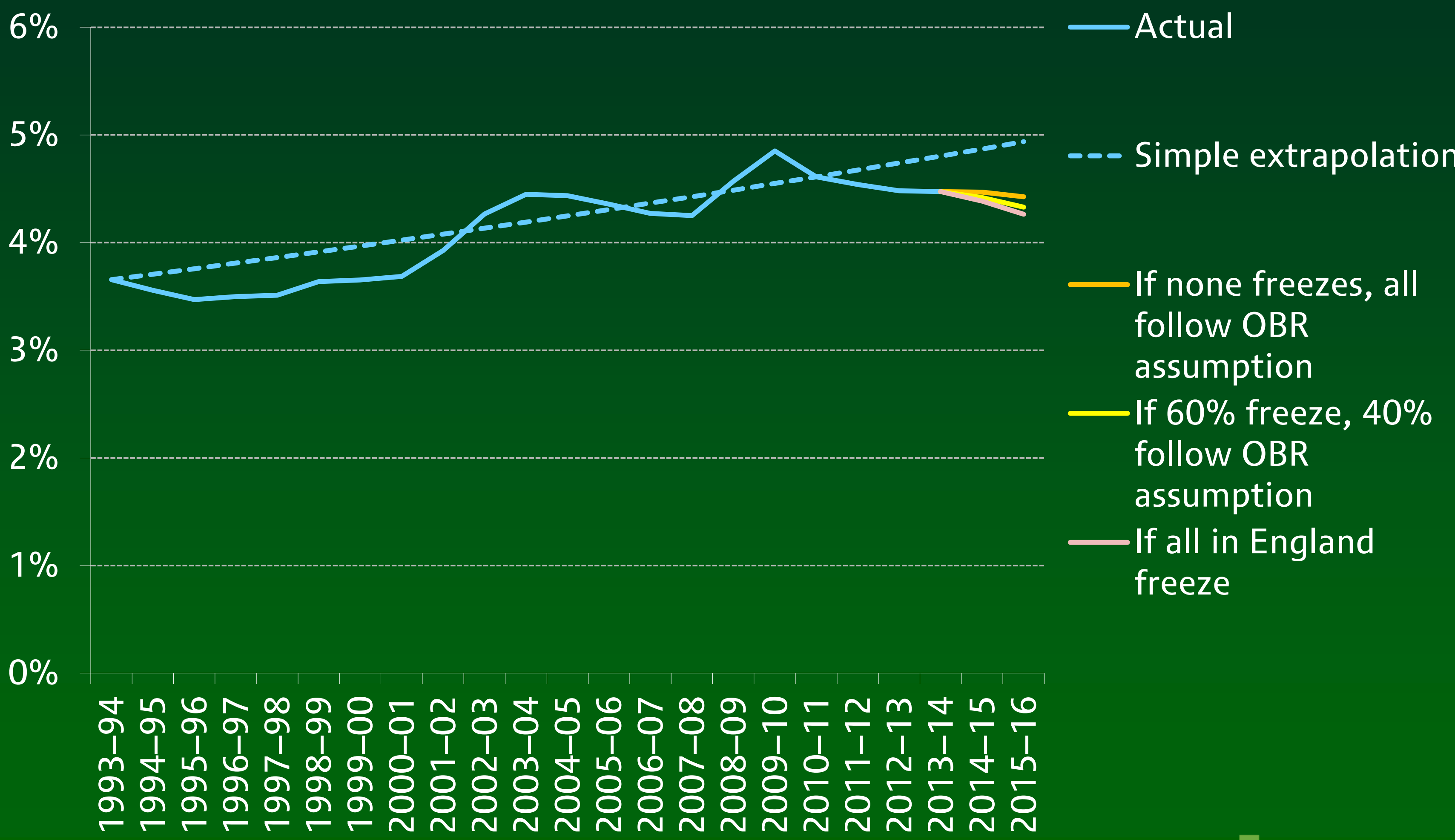
Change to annual uprating of social rents

- "CPI + 1ppt", not "RPI + 0.5ppts", between 2015–16 and 2024–25
  - 3% cut in social rents (~£2.70 p/w, on average) by April 2018
  - OBR projections suggest social rents to rise by ~1ppt less per year thereafter
- Impact on social tenants:
  - 2.6m on Housing Benefit (HB) unaffected
  - 1.6m not on HB gain in full
  - 0.7m million gain partially ('under-occupying' working-age tenants on HB): 4 in 5 of them keep 14% of the rent cut; 1 in 5 keep 25%
- Reduces income of local authorities / Housing Associations
  - back-of the-envelope calculation based on official costing suggests £600m less rent in 2017–18 of which £400m goes to central government (via reduced HB) and £200m to tenants
  - Treasury assumes policy will reduce investment in social housing

Part-funding councils to freeze council tax

- Part-funding a freeze in England in 2014–15 and 2015–16
  - offer is extra grant equivalent to 1% of council tax, for 2 years only
- Average bill in England is £1,045
  - by 2015–16 would rise to £1,098 if increased with CPI inflation
  - so average real saving to households is £53 if local authorities do freeze
  - rich gain most in cash terms, poor gain most as % of income
- The latest of several freezes
  - council tax rates in England 9% lower than if risen with CPI since 2010
  - nothing similar in Wales
  - but council tax in Scotland has been frozen since 2007–08
- Relative to CPI uprating since 2010–11 revenues £3bn to £4bn lower as a result of council tax freezes by 2015–16
  - actual figure depends on take-up of latest freeze

Council tax as % of total revenue



Conclusions

- Forecast rise in Annually Managed Expenditure offsetting planned cuts to departmental budgets
  - strong growth in spending on debt interest and public service pensions
- If welfare spending has been allowed to rise undesirably then forcing an active decision could lead to better policy making
  - if so why not announce cap now for years to 2017–18?
  - better to review all spending frequently regardless of whether higher or lower than forecast, or at least cap individual components
- Lower social rents to benefit some tenants and reduce housing benefit bill
  - at the expense of local authorities and Housing Associations

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