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Bee Boileau, IFS

Public service spending: an even bigger squeeze

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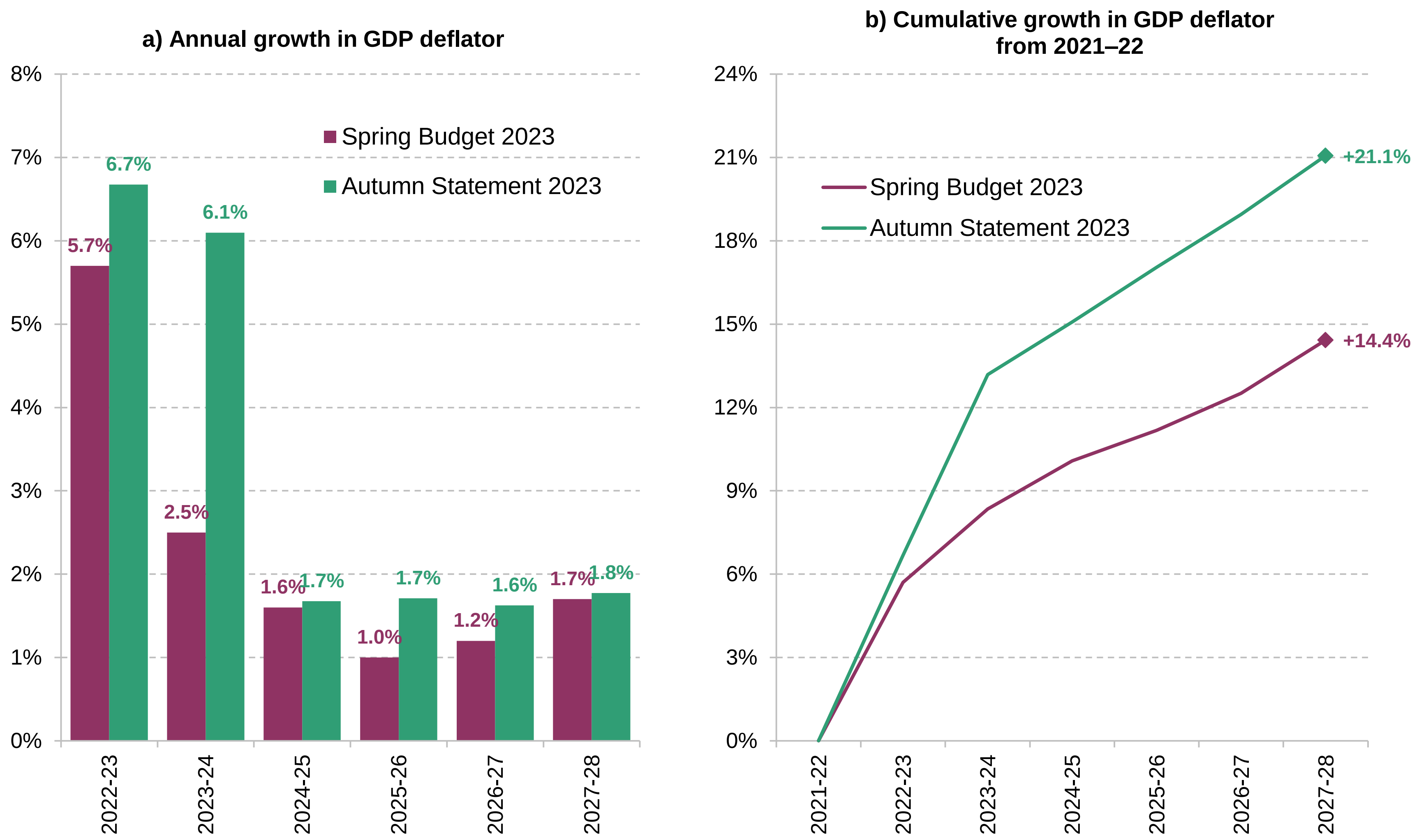
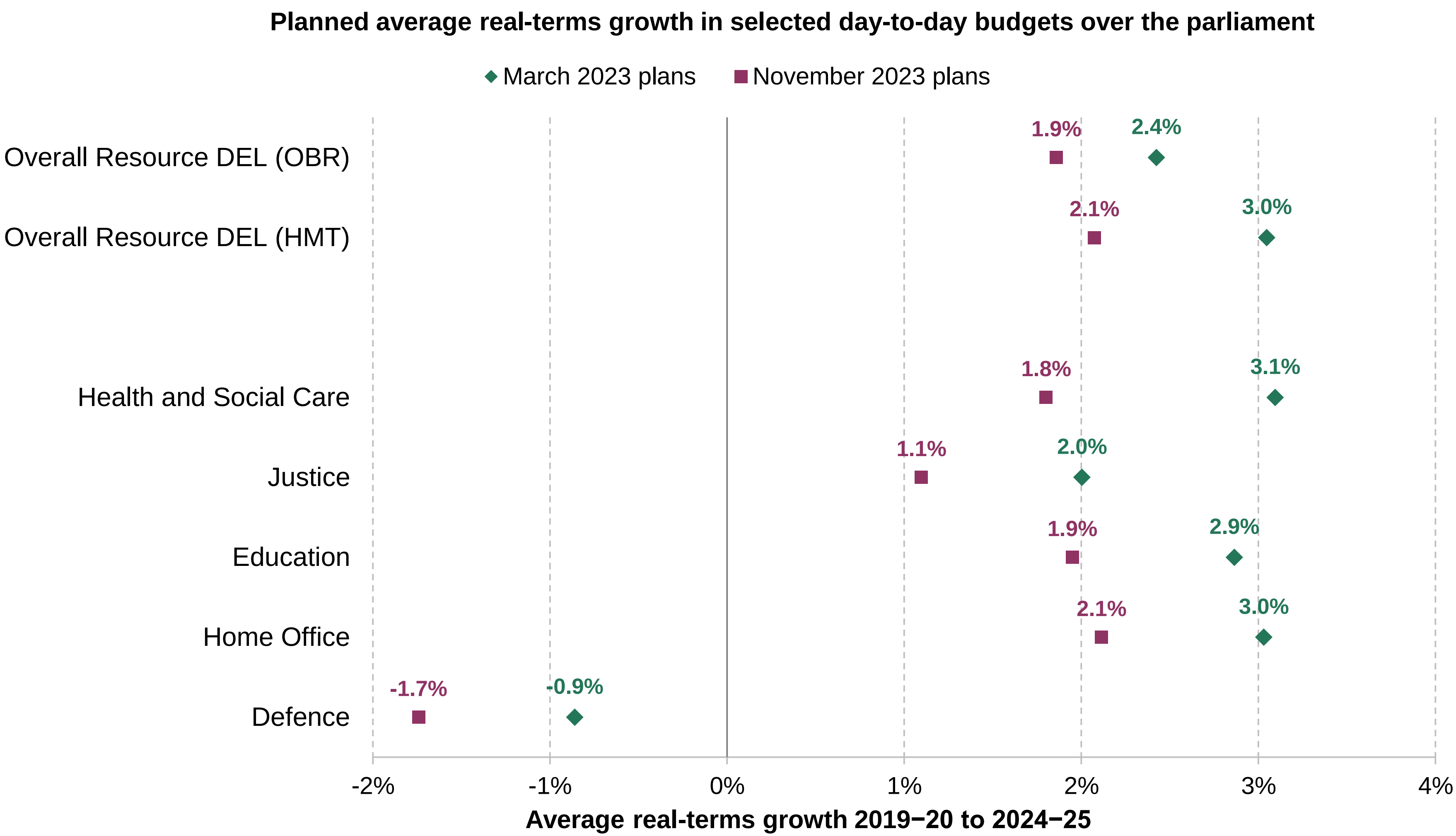
Much higher economy-wide inflation

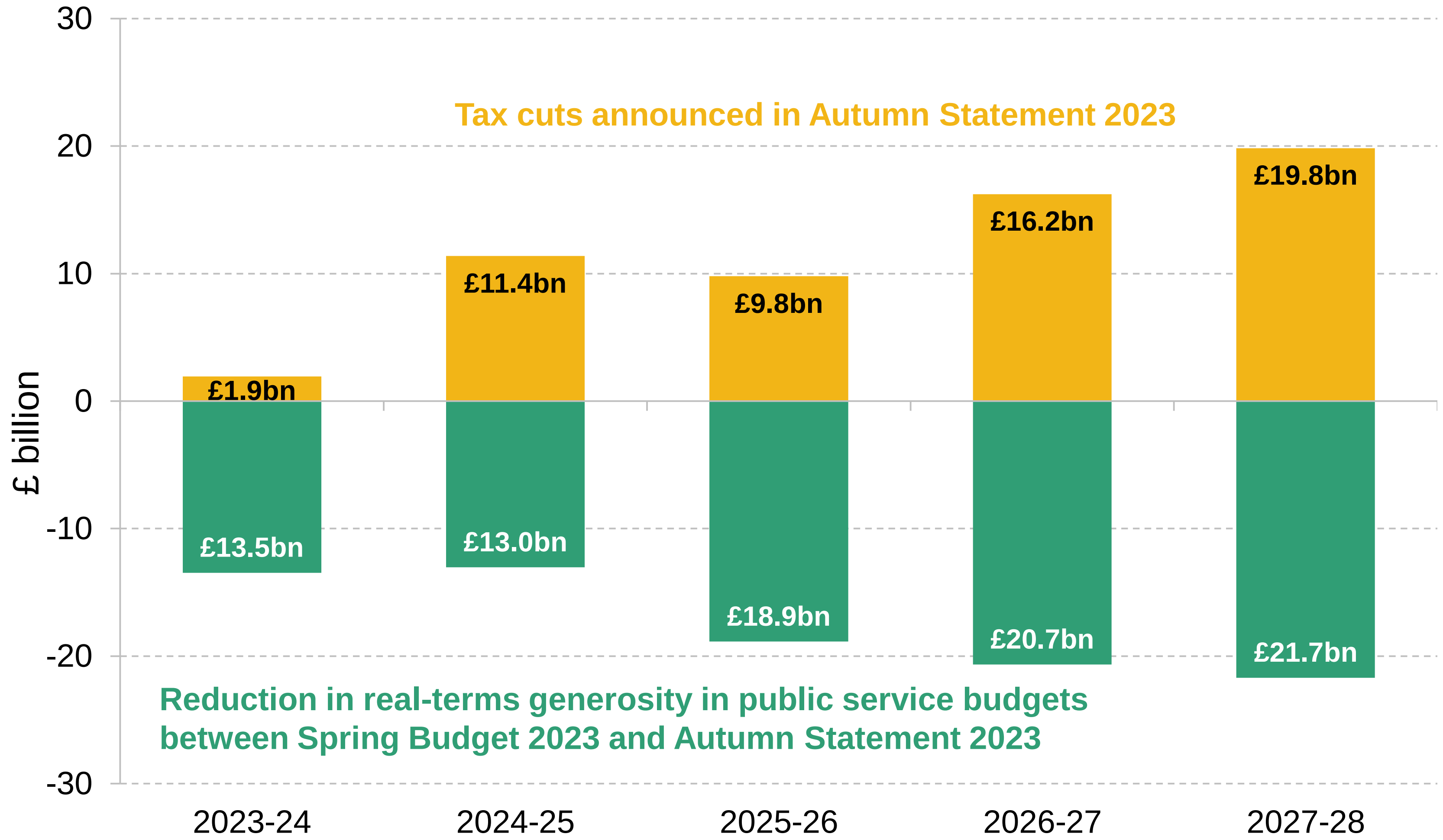


Departmental settlements are now less generous across the board



Source: IFS calculations using HM Treasury Spending Review 2021, Spring Statement 2023, and Autumn Statement 2023, and OBR Economic and Fiscal Outlook (November 2021, March 2023, and November 2023).

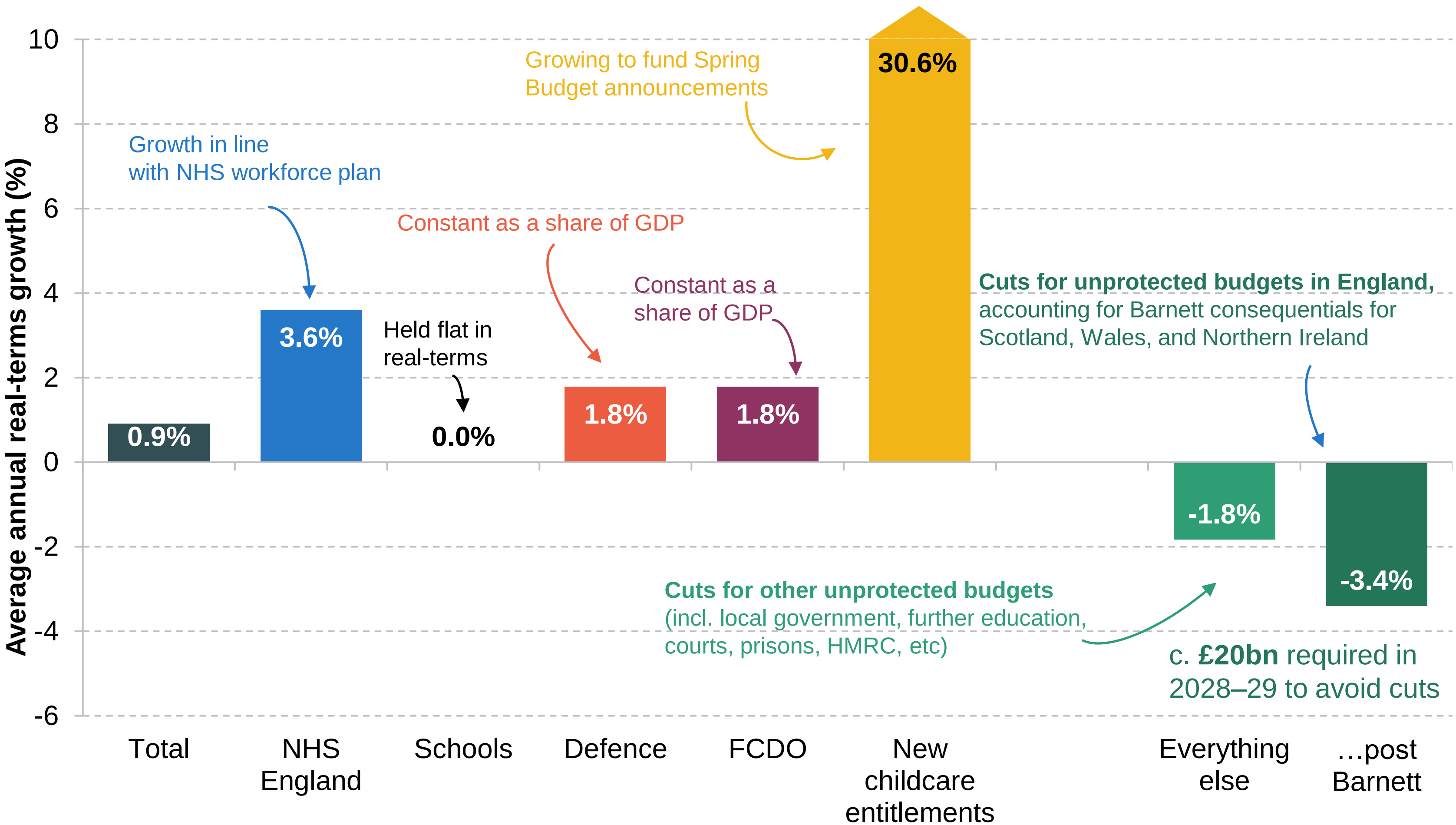
Where did the money for those tax cuts come from?



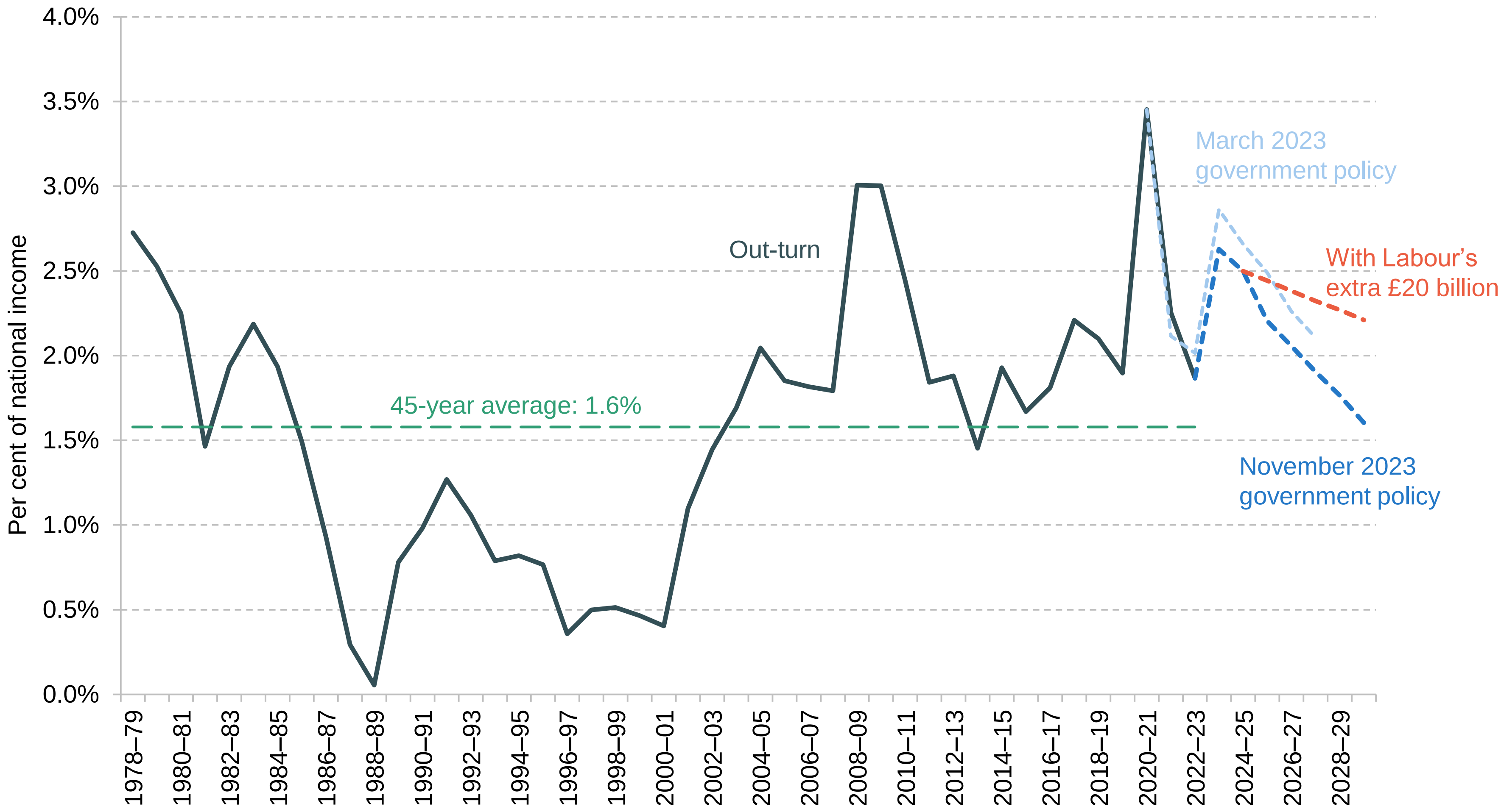
Note: The reduction in real-terms generosity of public service budgets refers to the cash top-up to Total Departmental Expenditure Limits (TDEL) that would be required to maintain the real-terms generosity of spending plans at the level specified in the 2023 Spring Budget. Source: IFS calculations using OBR Economic and Fiscal Outlook (March and November 2023), HM Treasury Spring Budget 2023, and HM Treasury Autumn Statement 2023.

Cuts pencilled in for after the next election

Illustrative change in day-to-day funding implied by latest plans, 2024–25 to 2028–29



Public sector net investment



Source: Author's calculations using OBR Public Finances Databank. For details of assumptions on Labour's plans, see Zaranko (2023), 'A look under the hood of Labour's investment plans', https://ifs.org.uk/articles/look-under-hood-labours-investment-plans

Conclusion

- Much higher inflation throughout forecast period
  - Departments squeezed across the board
  - Cash top-ups to planned day-to-day spending after 2024–25 not enough to offset inflation
- Tight spending settlements after 2024–25 mean unprotected departments face significant cuts
  - Would require ~£20 billion of additional spending in 2028–29 to avoid any cuts to day-to-day public service budgets
- No extra money for capital – lower each year in real terms
  - even Labour’s extra £20 billion not enough to avoid investment falling
- Boosting public sector productivity massively important – but only helps public finance if allows for *cashable savings*
  - (rather than leading to a boost to public sector output)

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