

# Institute for Fiscal Studies



## Public services: serious cuts to come

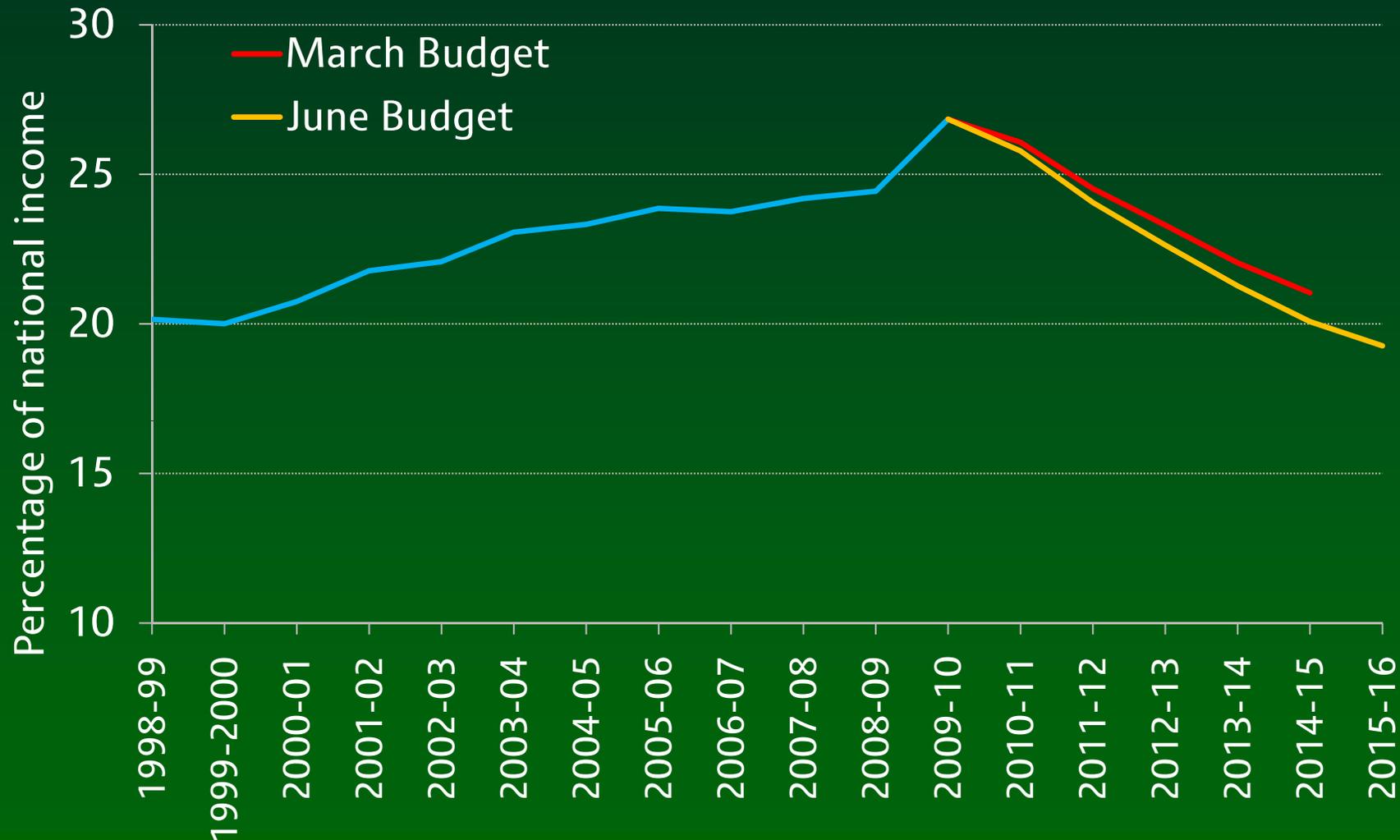
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# Outline

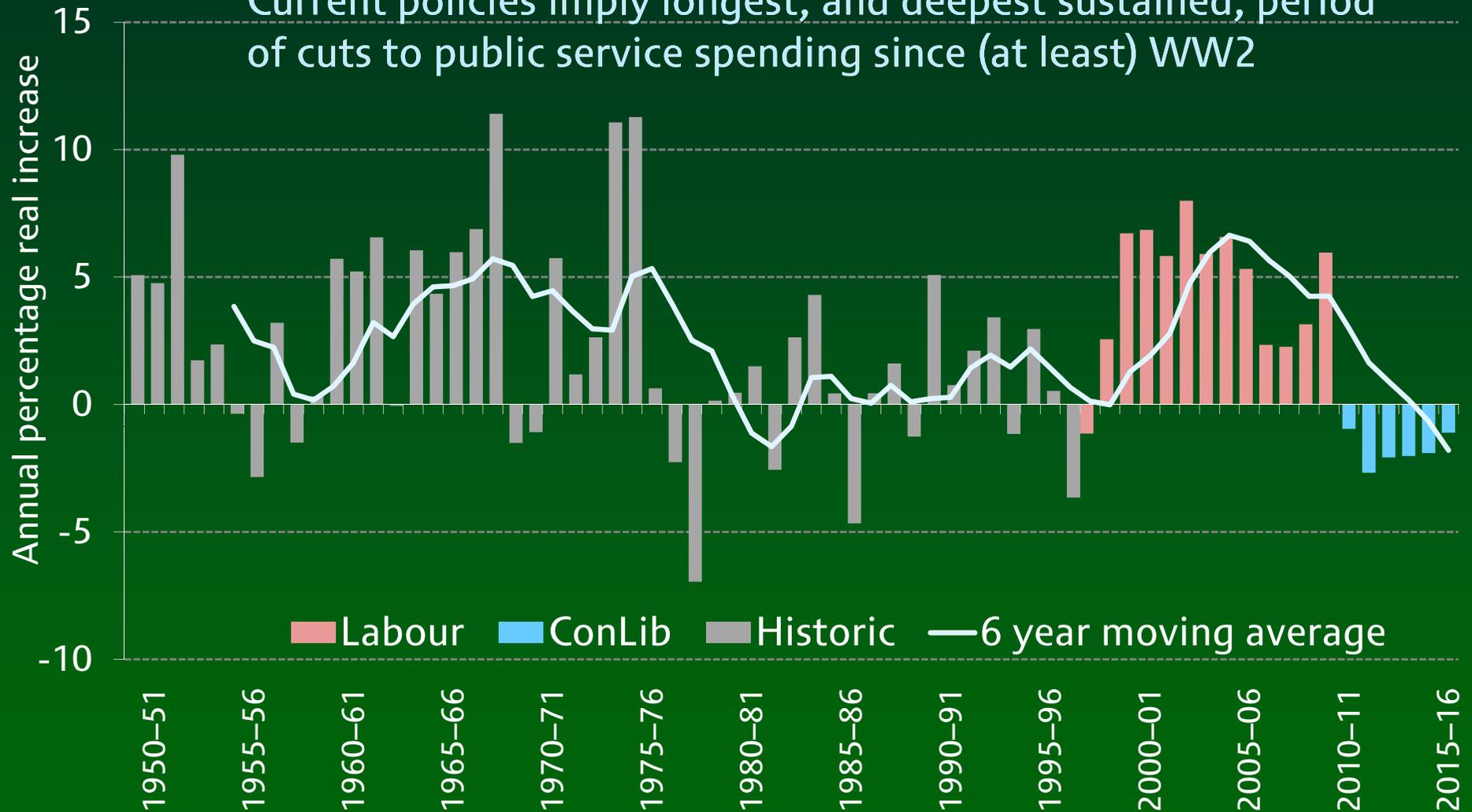
- What do current plans imply for spending on public services?
- What about unprotected public services?
- Yesterday's Budget contained cuts to welfare spending – to what extent could similar further cuts lighten the load for services?

# DELs: The grand old Duke of York?



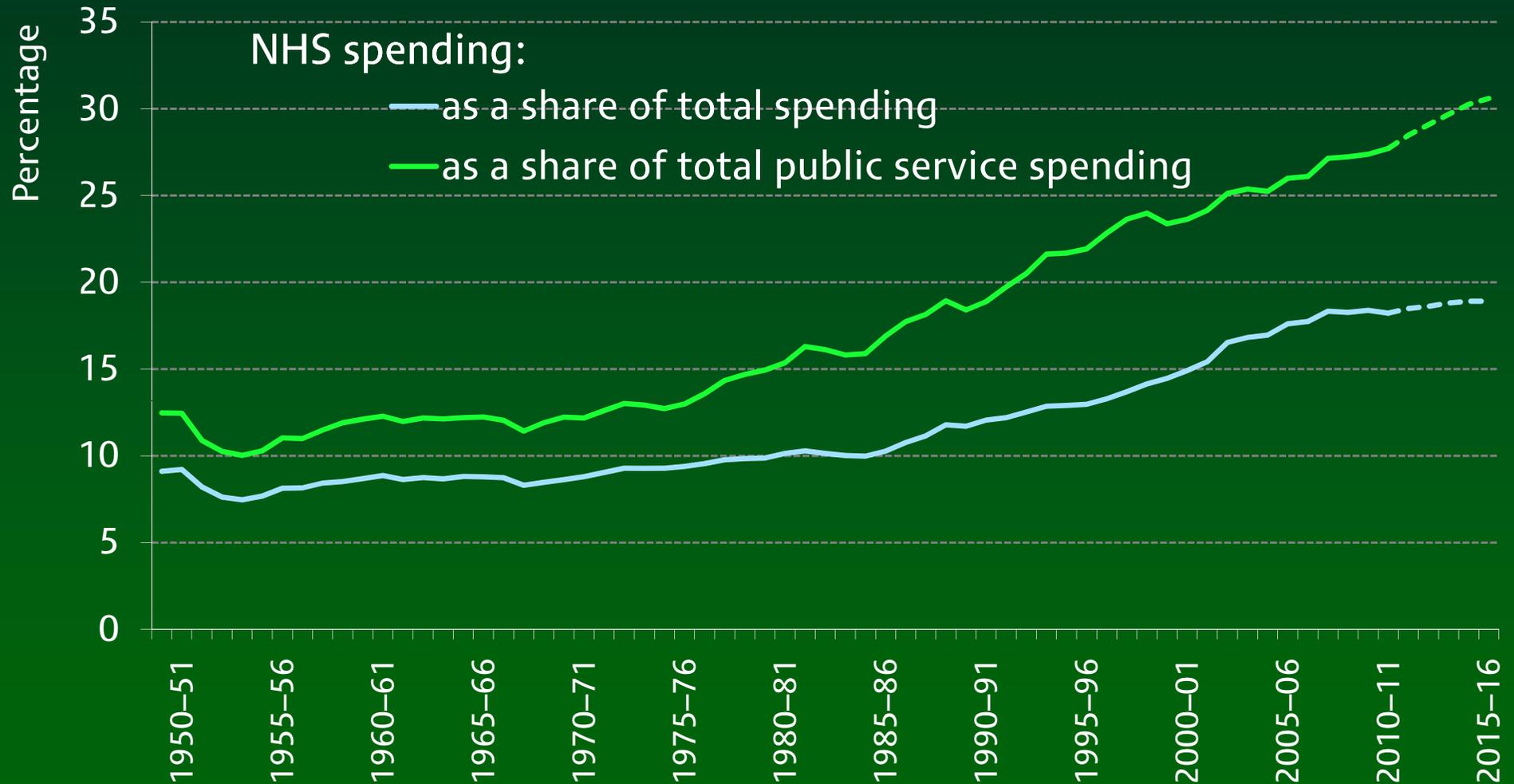
# Public service spending set for a squeeze

Current policies imply longest, and deepest sustained, period of cuts to public service spending since (at least) WW2

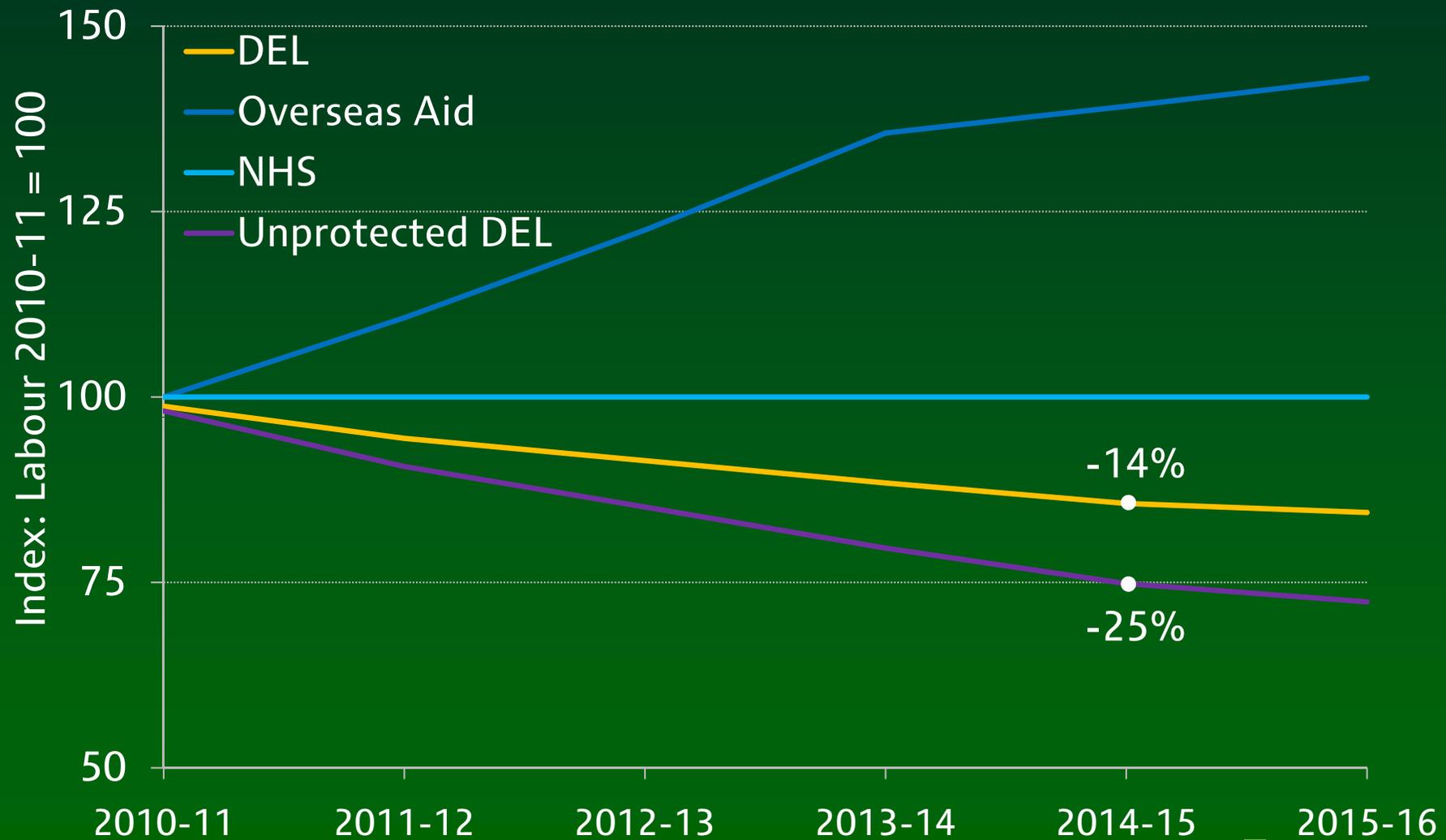


Note: Figure shows total public spending less spending on welfare benefits and debt interest

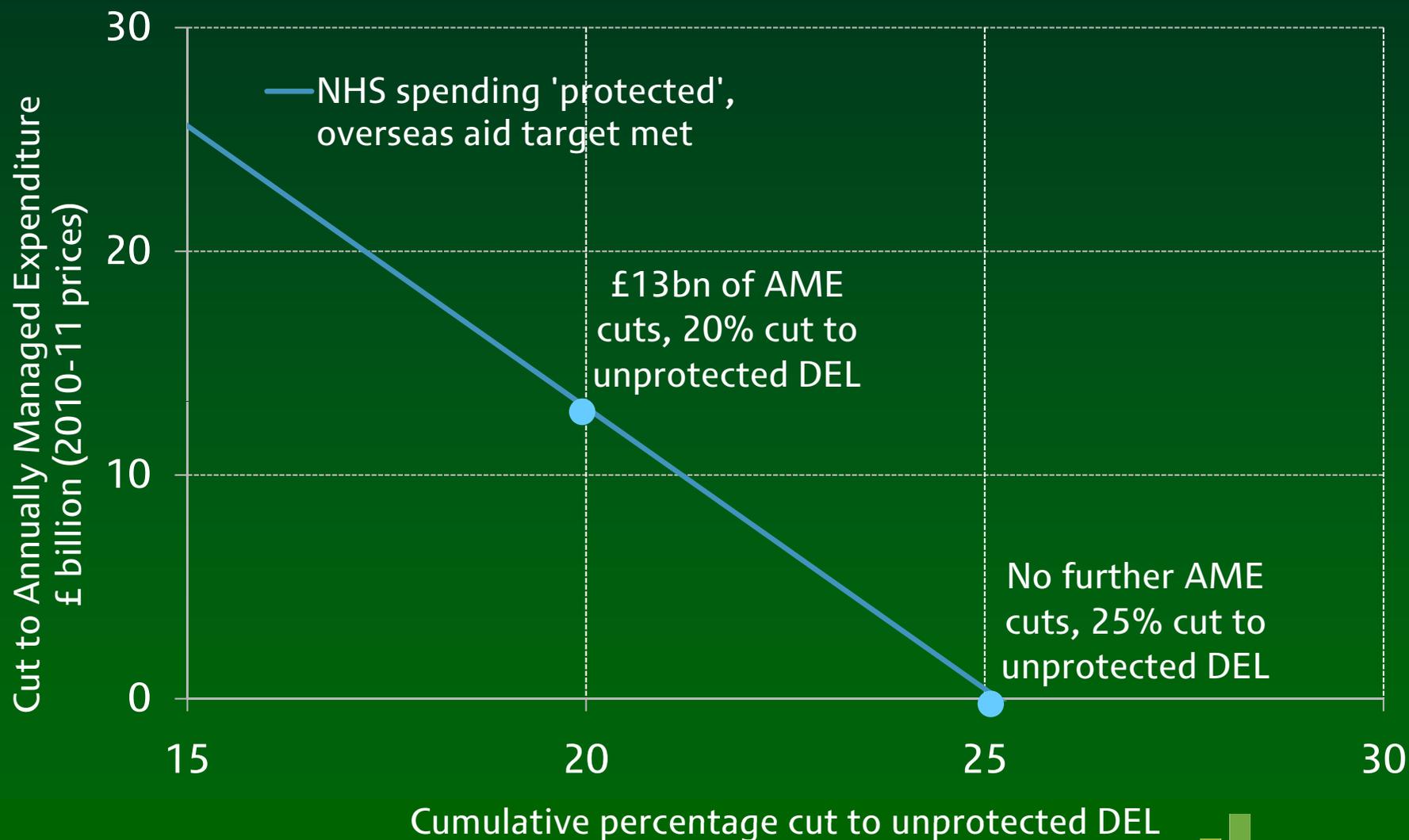
# NHS taking up an increasing share of the cake



# Pain to come for unprotected DELs



# Spending Review 2010: the DEL v AME trade-off



# Spending Review 2010: allocating the pain

- Current policies imply unprotected DEL cuts of 25% in real terms by 2014–15 compared to Labour’s 2010–11 baseline
  - £13bn of AME cuts would reduce this to 20%
  - would need to come from £270bn of AME spending included in the spending review (4.8%)
  - but likely from £154bn of spending once state pensions, council tax financed spending and public corporation spending excluded (8.4%)
- Plausible SR2010 settlements?
  - NHS spending ‘protected’, ODA target met
  - Spending on schools and defence cut by 10% by 2014–15
  - Other unprotected DELs would need to be cut by 33%: includes areas such as higher education, home office, justice, transport and housing
  - Or cutting AME by a further £13 billion would leave these other unprotected areas facing cuts of 25%

# Conclusions

- Current plans imply
  - reversal of all of the increase in DELs as a share of national income under Labour
  - Longest and deepest sustained cuts to spending on public services since at least WW2
  - DELs to be cut in real terms by 14% by 2014–15
  - Non-NHS non-ODA DELs to be cut by an average of 25%
- Further cuts to welfare spending or increases to public-service pension contributions would reduce pain for unprotected DELs
  - £13bn extra would still leave average cuts of 20%
- Very deep cuts to some areas likely
  - 10% cuts to defence and schools budgets and no further AME cuts would leave other unprotected DELs facing cuts averaging 33%

