Public services: deep cuts coming

Rowena Crawford, Carl Emmerson and Gemma Tetlow
The outlook for spending

• Total public spending: PBR plans real freeze over 2011-12 to 2014-15

• Capital spending to bear the brunt:
  – Current spending: +0.7% p.a.
  – Investment spending: −14.4% p.a.

• Some areas of spending to continue growing
  – Welfare payments, debt interest payments, etc
  – No official forecasts

• How much is left for departmental spending?
### Growth in components of spending: 2011-12 to 2014-15

<table>
<thead>
<tr>
<th>Component</th>
<th>Average Annual Percentage Real Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Managed Expenditure</td>
<td>0.0</td>
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<tr>
<td>Of which:</td>
<td></td>
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<tr>
<td>Debt interest</td>
<td>9.4</td>
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<tr>
<td>Social security</td>
<td>1.5</td>
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<td>Other AME</td>
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<td>Departmental Expenditure Limits</td>
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</table>

**Notes and sources:** see Table 8.2 of the February 2010 IFS Green Budget.
Spending on public services

Notes and sources: see Figure 8.9 of the February 2010 IFS Green Budget.
Cuts in DELs: the Grand Old Duke of York

Notes and sources: see Figure 8.10 of the February 2010 IFS Green Budget.
Departmental spending in 2011-12 and 2012-13

• PBR planned total spending to be cut by 0.1% a year in real terms

• Implies average annual real cuts to Departmental Expenditure Limits of 3.0%
  – Once estimates of debt interest payments, spending on social security and other annually managed expenditure are taken into account

• But some areas are to be ‘protected’
But some areas are to be ‘protected’...

• Overseas Development Assistance
  – Meet 2013 target of spending 0.7% of Gross National Income

In 2011-12 and 2012-13:

• Health
  – Real freeze in “front-line” NHS spending

• Education
  – 0.7% real increase in “front-line” schools spending
  – 0.9% real increase in “front-line” spending on 16-19 participation
  – Real freeze in “front-line” spending on Sure Start
Implications for other departments?

Average annual real growth: 2011–12 and 2012–13

DEL | Overseas Development Assistance | "Front-line" NHS | "Front-line" schools | "Front-line" 16-19 participation | "Front-line" Sure Start
---|---------------------------------|-----------------|---------------------|-------------------------------|---------------------
  -3.0

Notes and sources: see Table 8.3 of the February 2010 IFS Green Budget.
Implications for other departments?

Average annual real growth: 2011–12 and 2012–13

- Other DEL
- Overseas Development Assistance 11.3
- "Front-line" NHS
- "Front-line" schools
- "Front-line" 16-19 participation
- "Front-line" Sure Start

Notes and sources: see Table 8.3 of the February 2010 IFS Green Budget.
Implications for other departments?

Average annual real growth: 2011–12 and 2012–13

- Other DEL: 12.0%
- Overseas Development Assistance: 11.2%
- "Front-line" NHS: 0.0%
- "Front-line" schools: 0.0%
- "Front-line" 16-19 participation: 0.0%
- "Front-line" Sure Start: -5.0%

Notes and sources: see Table 8.3 of the February 2010 IFS Green Budget.
Implications for other departments?

Average annual real growth: 2011–12 and 2012–13

<table>
<thead>
<tr>
<th>Category</th>
<th>2011–12</th>
<th>2012–13</th>
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<tr>
<td>Other DEL Development Assistance</td>
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<td>&quot;Front-line&quot; NHS</td>
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<td>&quot;Front-line&quot; 16-19 Sure Start</td>
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Notes and sources: see Table 8.3 of the February 2010 IFS Green Budget.
Cumulative spending changes to 2012-13

Notes and sources: see Figure 8.17 of the February 2010 IFS Green Budget.
Cumulative spending changes to 2014-15?

-10.9%

Notes and sources: see Figure 8.17 of the February 2010 IFS Green Budget.
Cumulative spending changes to 2014-15?

Notes and sources: see Figure 8.17 of the February 2010 IFS Green Budget.
Cumulative spending changes to 2014-15?

- Protected DELs - "2yr protection":
  - Cumulative percentage change: -10.9%

- Unprotected DELs - "2yr protection":
  - Cumulative percentage change: -24.8%

- Protected DELs - "4yr protection":
  - Cumulative percentage change: 2.9%

- Unprotected DELs - "4yr protection":
  - Cumulative percentage change: -20%

Notes and sources: see Figure 8.17 of the February 2010 IFS Green Budget.
Summary of implications for DELs

• By 2012-13:
  – Cumulative cuts to real DELs of 6.0% (or £22.9bn)
  – Pledges to maintain or increase real spending in some areas
  – Total cumulative cuts required across ‘unprotected’ areas: 12.9% (or £25.8bn)

• By 2014-15:
  – Cumulative cuts to real DELs of 10.9% (or £42.0bn)
  – If ‘protection’ ends in 2012-13: cumulative cuts required across ‘unprotected’ areas by 2014-15 of 18.7% (or £37.2bn)
  – If ‘protection’ continues: cumulative cuts required across ‘unprotected’ areas by 2014-15 of 24.8% (or £47.4bn)

• Significant unprotected areas
  – Defence, Higher Education, Transport and Housing
Where do the Conservatives’ plans stand?

- **Pledges on DEL:**
  - Meet ODA target
  - Increase real NHS spending year on year throughout parliament

- **If match Labour’s plans for total spending:**
  - Cut required across other departments budgets by 2014-15 of 18.3% (or £45.7bn)

- **Proposed fiscal targets imply a more ambitious tightening**
  - Delivering this with 1/3 further tax rises and 2/3 spending cuts would imply...
  - Without cuts to welfare spending, cuts to departmental spending of 13.9% by 2014-15
  - Cuts across their unprotected areas of 22.8% (or £57.1bn) by 2014-15
Conclusions

• Labour plans to freeze total spending over 2011-12 to 2014-15
• Departmental spending would have to be cut by 10.9% or £42bn by 2014-15 if no new measures to cut social security spending
• Tightest squeeze for public service spending since late 1970s and reversal of the % GDP increase seen so far under Labour
• Conservatives plan to tighten faster implying greater cuts to total spending and departmental spending
• Mix of departmental spending cuts, welfare cuts and tax increases not yet set in stone
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