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.
Introducing Aimee

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

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

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

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.
Introducing Aimee

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

Social security: pensioners, £116.4bn
Social security: working age, £97.3bn

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.
Introducing Aimee

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

- Social security: state pensions, £83.4bn
- Social security: other pensioner, £33.0bn

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.
Introducing Aimee

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

- Social security: state pensions, £83.4bn
- Social security: other pensioner, £33.0bn
- Social security: working age, £97.3bn
- Public-service pensions, £11.3bn
- Locally-financed expenditure, £31.7bn
- Debt interest, £49.5bn
- Other, £44.5bn

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.
There she grows

Forecast real growth in AME and components

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There she grows

Forecast real growth in AME and components

Real terms, 2013–14 = 100

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Forecast real growth in AME and components

- **AME**
- **Locally-financed spending**
- **Soc sec: pensioner**
- **Soc sec: working age**

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.
There she grows (again)

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.
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There she grows (again)

Forecast real growth in AME and components

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Debt interest

Projected increase in debt interest spending from a permanent ppt increase in gilt rates (from 2012)

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending (£ billion)</th>
</tr>
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<tbody>
<tr>
<td>2012–13</td>
<td>0.9</td>
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<tr>
<td>2013–14</td>
<td>2.6</td>
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<tr>
<td>2014–15</td>
<td>4.4</td>
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<tr>
<td>2015–16</td>
<td>6.0</td>
</tr>
<tr>
<td>2016–17</td>
<td>7.5</td>
</tr>
</tbody>
</table>

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

  – 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?

Real spending on incapacity benefit and predecessors

£ billion

54% increase in spending in 4 years from 1989–90 to 1993–94
53% increase in claimants and 1% increase in spending per claimant

Notes: Deflated to 2013–14 prices using GDP deflator. Source: DWP benefit expenditure tables.
Unmanaged expenditure example 2?

Real spending on housing benefit

£ billion

82% increase in spending in 4 years from 1989–90 to 1993–94
18% increase in claimants and 54% increase in spending per claimant

Notes: Deflated to 2013–14 prices using GDP deflator. Source: DWP benefit expenditure tables.
Would the cap have fitted since 2010?

Total benefit and tax credit spending excluding state pension and JSA

- £1.8bn increase in spending, could have led to breach of cap and/or further welfare cuts than have been announced?
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

- Actual
- Simple extrapolation
  - If none freezes, all follow OBR assumption
  - If 60% freeze, 40% follow OBR assumption
  - If all in England freeze
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