“We shall squeeze ... until the pips squeak”

Gemma Tetlow

Post-Spending Round Briefing, 27 June 2013
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.
Overview of spending plans for 2015–16

- Reallocation from capital AME to capital DEL
  - “Financial transaction”
  - Decreases AME and increases DEL by £3 billion
  - Reduces the apparent cut to DEL compared to what was suggested in March

- Average DEL cut of 2.1% in real terms across departments in 2015–16
  - On top of 8.3% average cut between 2010–11 and 2014–15
  - Implies 10.3% average cumulative cut over five years

- Pain has not been equally shared
  - Capital spending increased while current spending cut (unlike SR2010)
  - Departmental priorities largely the same as in SR 2010
  - Some departments set to be cut by more than a third over five years
Additional cuts averaging 2.1% announced yesterday for 2015–16...

- International Development: 5.9%
- Transport: 1.4%
- NHS (Health): 0.1%
- Home Office: -0.9%
- Education: -1.1%
- Energy and Climate Change: -1.8%
- Defence: -2.1%
- Total DEL: -2.1%
- Business, Innovation and Skills: -3.0%
- Justice: -8.7%
- Foreign and Commonwealth Office: -9.3%
- Environment, Food and Rural Affairs: -10.7%
- CLG Local Government: -11.5%
- Culture, Media and Sport: -15.8%
- Work and Pensions: -21.2%
- CLG Communities: -29.6%

Note: Figures show cumulative change in total DEL after economy-wide inflation.
Come on top of cumulative cut to DEL averaging 8.3% over SR2010...

Note: Figures show cumulative change in total DEL after economy-wide inflation.
The art of obfuscation

- Figures for Departmental Expenditure Limits published yesterday for 2014–15 differ quite significantly from figures published in Budget 2013 for some departments

1. Change in where some grants sit
   - Police grant transferred from Local Government to Home Office (£3 billion)
   - Learning disabilities and health grant moved from NHS to Local Government (£1.4 billion)
   - Other transfers occurred from Education and Transport to Local Government

2. Localisation of council tax benefit now incorporated in DCLG Local Government budget – moves £4.3 billion of spending

- For now, the first point hampers a comparison of historic and forecast departmental budgets
Estimated cumulative 5-year cut

- International Development: -60.6%
- Transport: -24.1%
- NHS (Health): -8.4%
- Home Office: -8.9%
- Education: -10.3%
- Energy and Climate Change: -25.9%
- Defence: -34.1%
- Total DEL: -55.1%
- Business, Innovation and Skills: -35.0%
- Justice: -35.0%
- Foreign and Commonwealth Office: -33.6%
- Environment, Food and Rural Affairs: -45.0%
- CLG Local Government: -38.3%
- Culture, Media and Sport: -45.0%
- Work and Pensions: -45.0%
- CLG Communities: -60.6%

Real budget increase 2010–11 to 2015–16

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Note: Figures show cumulative change in total DEL after economy-wide inflation.
Public Sector Net Investment

Percentage of national income

Outturns
Forecasts

Average: 1.8%
Average: 1.7%

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Further cuts are expected beyond March 2016 (1)

- Total spending approximately frozen in real terms
  - But AME spending rising, in the absence of further policy action
  - Implies further cuts to DELs
- If no further tax increases or AME cuts announced
  - Total DEL would have to be cut by 7.9% over two years
  - If continue ‘protecting’ NHS, schools, ODA, unprotected areas would have to be cut by 15.0%
  - Implies cumulative cut to unprotected areas over 7 years of 32.9%
- If want to avoid any further DEL cuts
  - Additional £25 billion of tax increases or AME cuts required
Beyond SR 2013: Trade off between DEL cuts and other policy action

- No new tax rise or social security cuts: 7.9% total DEL cut
- Total DEL cut at same rate as over SR2010: £10 billion policy action
- No real cuts to total DEL: £25 billion policy action
Further cuts are expected beyond March 2016 (2)

• If no further tax increases or AME cuts announced
  – Total DEL would have to be cut by 7.9% over two years
  – If continue ‘protecting’ NHS, schools, ODA, unprotected areas would have to be cut by 15.0%
  – Implies cumulative cut to unprotected areas over 7 years of 32.9%

• If want to avoid any further DEL cuts
  – Additional £25 billion of tax increases or AME cuts required

• If continue cutting DEL at same rate as between 2010–11 and 2015–16 (average 2.4% a year)
  – Additional £10 billion of tax increases or AME cuts required

• Additional £3.7bn a year also has to be found from 2016–17 for higher public sector employer National Insurance contributions
Conclusions

• Departmental spending cuts averaging 2.1% announced for 2015–16
  – Capital spending increased, while current spending cut
  – Cuts unevenly spread, with priorities largely unchanged since SR 2010
  – Some departments have fared noticeably better this time: Home Office, Transport

• Cumulative cut over five years from 2010–11 now averages 10.3%
  – 18.5% across unprotected areas
  – Some departments will see cuts of more than a third: Justice, Communities, DEFRA, Foreign Office

• Further cuts likely in 2016–17 and 2017–18
  – If no further tax increases or AME cuts announced, total DEL would have to be cut by 7.9% over two years