Public Spending and Pay

Rowena Crawford, Jonathan Cribb and Luke Sibieta
Outline

• Departmental spending after current spending review period
  – Possible departmental allocations in 2015–16
  – Trade offs in spending decisions after 2015–16
• How are the current departmental spending cuts being delivered?
• Implications for general government employment and public pay policy
Departmental spending 2010–11 to 2014–15

Note: Figure shows Departmental Expenditure Limits (DELs) under current policies, assuming no further changes to welfare policies or total government spending.

Source: Table 6.1 of The IFS Green Budget: February 2013.
Forecast departmental spending in 2015–16

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Source: Table 6.1 of The IFS Green Budget: February 2013.
Extending the forecast up to 2017–18

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Source: Table 6.1 of *The IFS Green Budget: February 2013*.

• Government has announced its intention to hold a Spending Review in 2013 to allocate departmental spending for 2015–16

• Total DEL to be cut by 2.4%
  – NHS, schools (non-investment) and overseas aid spending protected
  – Other areas to see cuts of an average 2.8% to resource spending and 4.9% to capital spending

• How might these cuts be allocated across ‘unprotected’ departments?

• Consider 2 scenarios for cuts to resource budgets:
  1. “Same trajectory” – all departments see resource spending cut by the same proportion of their average annual cut over SR2010
  2. “Equal cut” – all unprotected departments see 2.8% cut to resource spending

• Assume all unprotected departments see cut of 4.9% to their capital budgets

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Resource DEL for unprotected departments during SR 2010 period

Percentage real change in resource DEL, 2010–11 to 2014–15

Note: Figure’s do not include OBR’s forecast underspend as only a total underspend across DEL has been forecast.

Sources and Notes: Figure 6.2 of The IFS Green Budget: February 2013.
Spending Review 2013: ‘Same trajectory’

- Cuts to total DEL of unprotected departments:

<table>
<thead>
<tr>
<th>‘UNPROTECTED DEPARTMENTS’</th>
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Percentage real change in total DEL in 2015–16

Notes and Sources: Figure 6.4 of *The IFS Green Budget: February 2013.*
Options for 2013 SR: ‘Same trajectory’

• ‘Same trajectory’ scenario implies that those departments whose budgets were cut more in SR 2010 will face larger cuts in SR 2013

• This implies very large cumulative cuts for some departments from 2010–11 to 2015–16
  – 70.0% fall in CLG: Communities DEL
  – 31.5% fall in Business Innovation and Skills DEL

• Since unprotected capital DEL is falling faster than unprotected resource DEL, departments with high capital budgets see larger cuts in 2015–16 (e.g. Transport and Energy and Climate Change)
Spending Review 2013: ‘Equal cut’

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- ‘Unprotected’ DEL cuts: assumes maintaining protection for NHS, International Development and schools non-investment budget

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- ‘Unprotected’ DEL cuts: assumes maintaining protection for NHS, International Development and schools non-investment budget
- Protecting military equipment expenditure leads to unprotected expenditure falling by 35 – 36% 2010–11 to 2017–18
- As the government protects more expenditure, the cuts in unprotected areas become larger in order to reduce DEL by a given amount
- Over time, maintaining protection to currently protected areas of spending becomes more difficult as proportion of expenditure in protected areas rises

**Notes and Sources:** Figure 6.4 of *The IFS Green Budget: February 2013.*
Trade off between ‘unprotected DEL’ cuts and other policy action

- No new tax rise or social security cuts: 12.7% cut in ‘unprotected’ DEL
- No new tax rise or social security cuts: 6.6% total DEL cut
- Total DEL cut at same rate as over SR2010: £3 billion policy action
- ‘Unprotected’ DEL cut at same rate as over SR2010: £4 billion policy action
- No real cuts to total DEL: 0% DEL cut, £20 billion policy action

Notes and Sources: Figure 6.5 of The IFS Green Budget: February 2013
Implications of spending cuts for public pay and employment

• What the implications of departmental spending cuts for:
  – Departmental paybill
  – Public sector employment

• The overall level of public sector employment fell by about 300,000 (5%) from 2010 to 2012
  – Cuts in total paybill are primarily driven by employment reduction rather than reduction in pay per head

• What do we know about the future path of paybill and public sector employment up to 2017–18?
## Implications of resource DEL cuts for paybill

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<td>93.6</td>
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- According to departmental plans submitted to Treasury, central government paybill is set to fall faster than other resource spending.

Notes and Sources: Table 6.5 of *The IFS Green Budget: February 2013*
General government employment to 2017–18

• Forecasts of paybill can be used to understand future trends in government employment

• From departmental plans, we know the forecast central government paybill up to 2014–15

• We must make assumptions about local government paybill over the whole period and central government paybill after 2014–15

• Assume local government paybill moves in line with RDEL

• Two scenarios for central government paybill after 2014–15
  – If central government paybill falls in line with RDEL from 2014–15 to 2017–18: fall in GGE of 1.1 million from 2010–11 to 2017–18
  – If central government paybill continues to fall faster than RDEL from 2014–15 to 2017–18: fall in GGE of 1.2 million from 2010–11 to 2017–18

• This compares with fall in general government employment of 900,000 forecast by OBR
  – OBR assumes that total paybill moves in line with RDEL
Implications of future public pay policy

- Fall in general government employment may be in the order of 1.1 to 1.2 million by 2017–18
- Net job losses can be reduced by squeezing pay growth
- OBR forecasts nominal pay-per-head growth of 3%
- Reducing this to 2% could lead to 140,000 fewer net general government job losses by 2017–18
- Future public sector pay policy needs to balance trade offs between
  - Number of jobs and quality of workers
  - Effect of labour and non-labour inputs on public service provision
- One important consideration would be how are public sector workers paid compared to similarly skilled private sector workers
Public sector pay differential

Estimated average public-private hourly wage differentials controlling for age, education and region over time

Notes and Sources: Figure 6.11 of *The IFS Green Budget: February 2013*
Public sector pay since the financial crisis

- During the financial crisis, private sector earnings flatlined, while public sector earnings continued to grow at the same rate as pre-crisis
  - Many public sector workers were subject to 3 year settlements up to 2011
- Public sector wage growth outperformed private sector wage growth by a total of 2.6 percentage points from 2007–08 to 2011–12
- Public sector pay has been squeezed by the current government
- Government has announced pay policy up to 2014–15
  - Public sector pay frozen for those earnings over £21,000 in 2011–12 and 2012–13
  - Average 1% per year pay awards announced for 2013–14 and 2014–15
Public sector pay: outlook

• OBR forecasts imply that private earnings growth will outstrip public earnings growth in each year up to 2014–15
  – Likely lead to a fall in the public sector pay differential, although less quickly than was expected last year
  – Comes after the sharp rise in the premium during the financial crisis
  – Differential could return to around its pre crisis level in 2014–15
• OBR forecasts suggest that private earnings growth will outstrip public earnings growth between 2014–15 and 2017–18
• Advisable to gather evidence on the importance of these trade-offs before setting public pay policy for 2015–16 and beyond
  – Relative importance of pay may vary across the public sector
Conclusions

• Departmental spending is set to fall by a total of 18.6% between 2010–11 and 2017–18
  – If current protections remain in place, unprotected departmental spending set to fall by a total of 33.2% from 2010–11 to 2017–18

• Departmental plans imply greater cuts to central government paybill than central government resource spending up to 2014–15
  – This implies fall in general government employment may be in the order of 1.1 to 1.2 million by 2017–18

• Public-private pay differential to fall back to pre crisis level by 2014–15