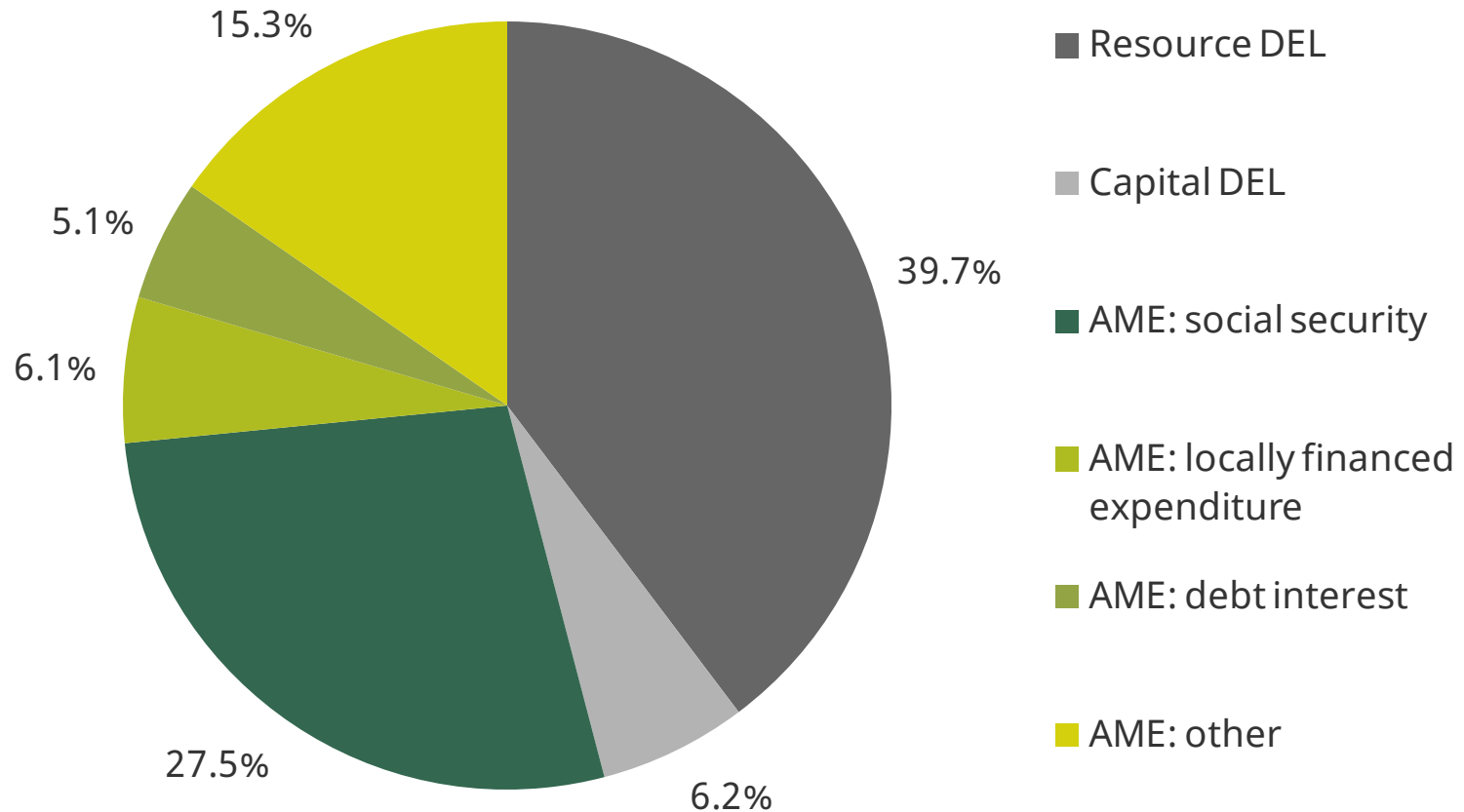


IFS Green Budget 2018

Trade-offs for the forthcoming Spending Review

Ben Zaranko, Institute for Fiscal Studies

Breakdown of public spending in 2017–18



Notes and sources: See Figure 4.4 of the Green Budget

Public services spending: where do we stand?

Spending Review 2015 set plans for the four years up to 2019–20

There are planned cuts of £4 billion to the day-to-day spending of unprotected departments next year

- i.e. outside of Health and Social Care, Defence and International Development

The Chancellor has said that he will set a firm overall path for public spending for the years beyond 2019–20 in the Budget

- The Spring Statement set provisional spending totals up to 2022–23
 - deficit reduction plans are dependent on these spending totals

The forthcoming Spending Review

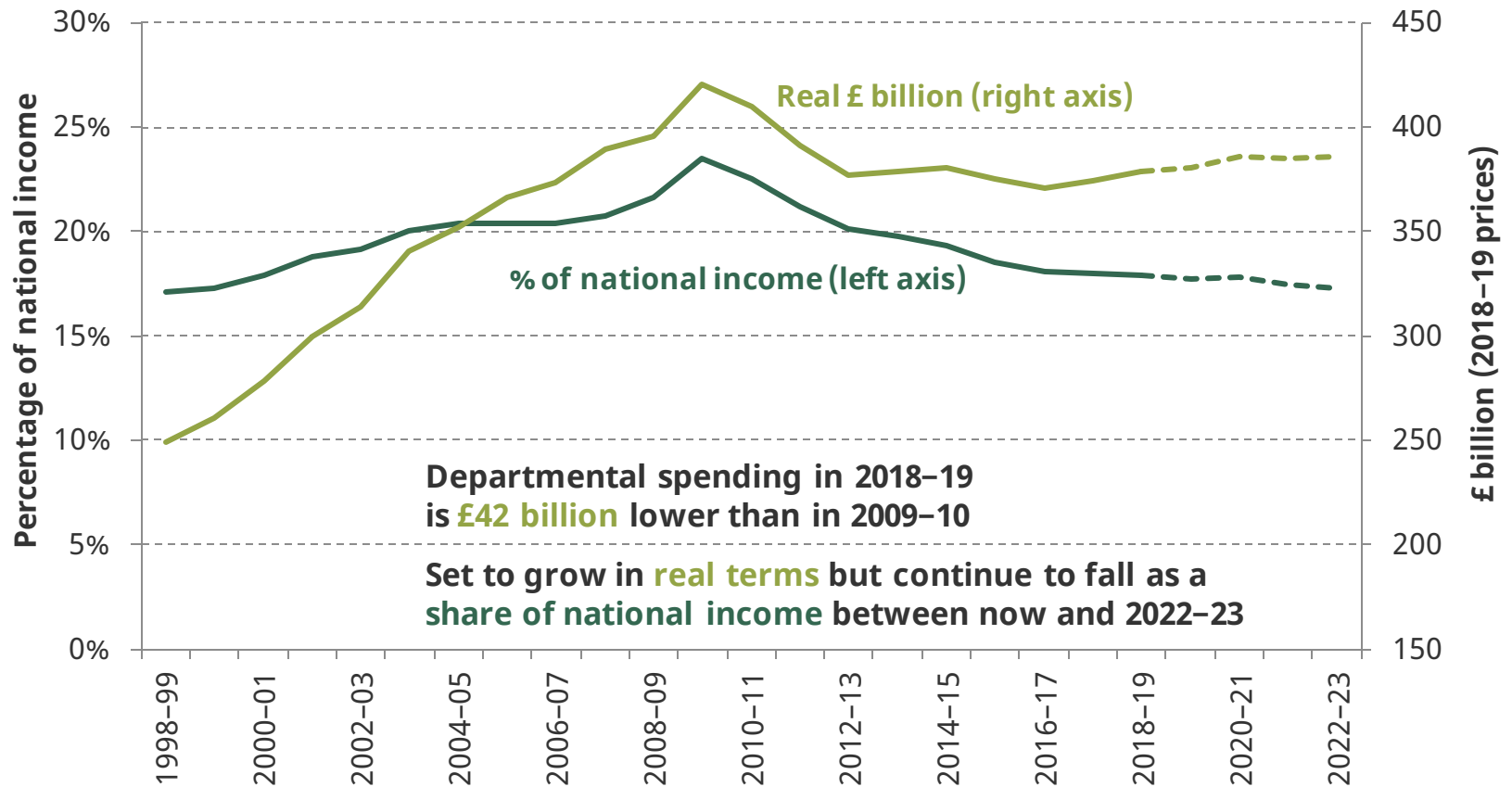
Detailed departmental allocations to be set at Spending Review 2019

- The Chancellor has not confirmed which years will be covered
 - we assume allocations will be set for 2020–21, 2021–22 and 2022–23
 - but he may decide to cover a shorter period

The Chancellor has some tough choices over how large the spending review envelope should be, and how it should be allocated

Provisional plans for departmental spending

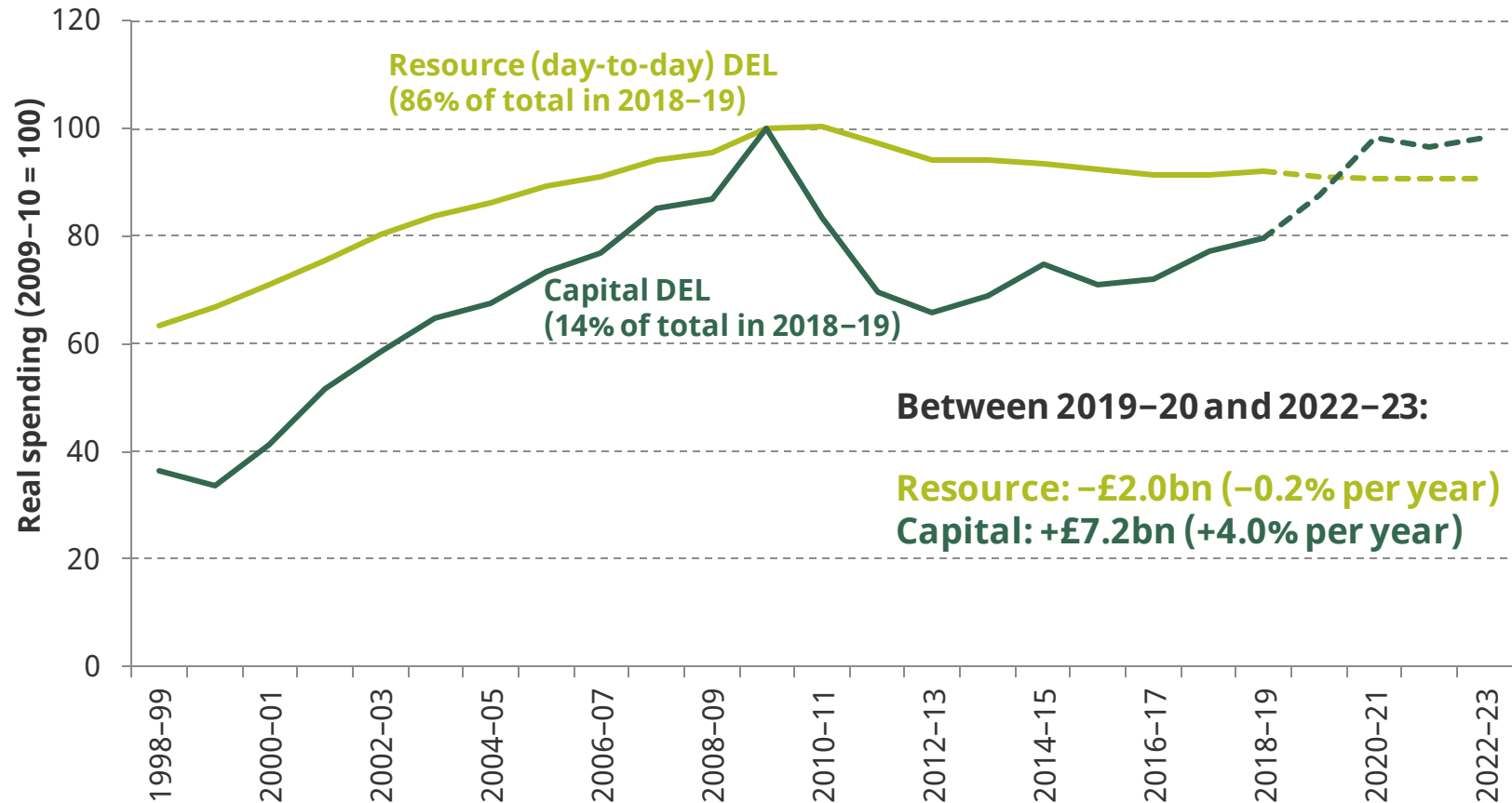
Total departmental expenditure limits



Notes and sources: See Figure 4.5 of the Green Budget

Capital and resource spending are set to follow very different paths

Resource and capital departmental expenditure limits



Notes and sources: See Figure 4.6 of the Green Budget

Existing spending commitments

NHS funding settlement

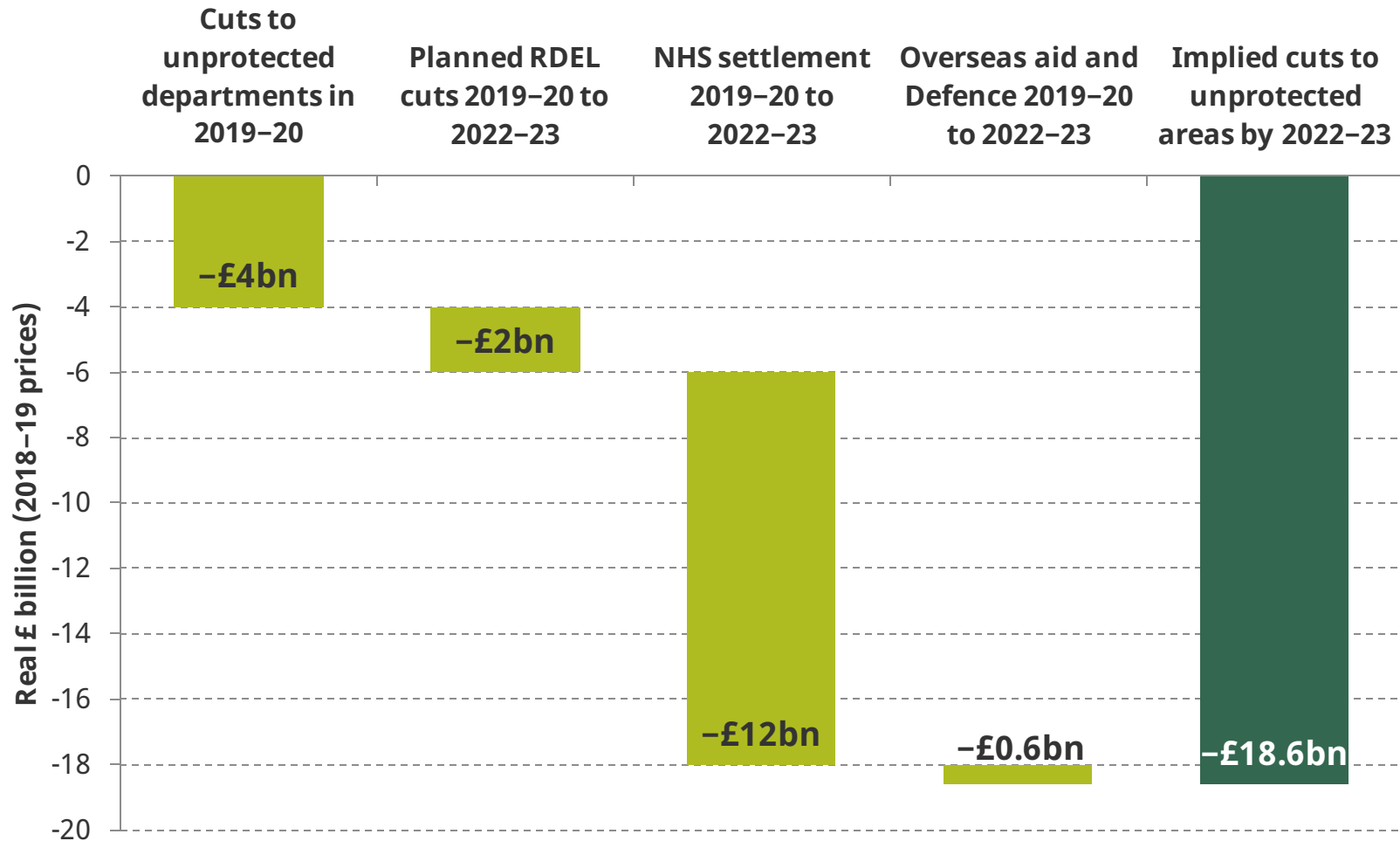
- Extra £20.5 billion for frontline services in England by 2023–24
 - £12 billion increase between 2019–20 and 2022–23

Overseas aid and Defence

- Day-to-day spending on these areas expected to increase by £0.6 billion

£13 billion increase in day-to-day spending between 2019–20 and 2022–23

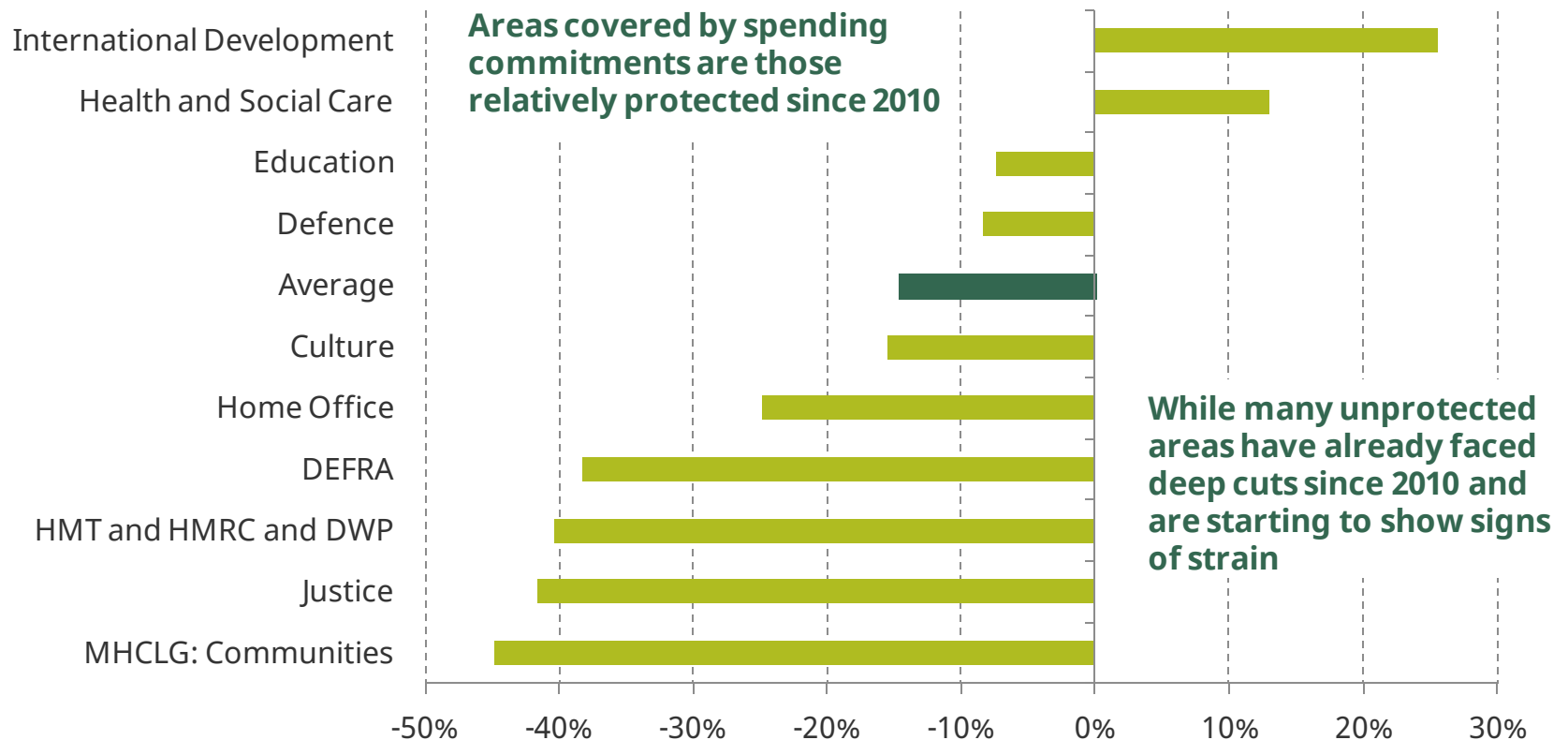
These commitments imply big cuts elsewhere



Notes and sources: See Section 4.3 of the Green Budget

Cuts to day-to-day spending since 2010

Real terms departmental resource budget changes, 2010–11 to 2019–20



- Overall spending by English councils fell by 19% between 2009–10 and 2017–18

Notes and sources: See Figure 4.10 of the Green Budget

The end of austerity?

The Chancellor may well decide to increase overall spending on public services relative to the plans he set out in March

- £19 billion more in 2022–23 than currently planned to meet existing commitments and avoid further cuts to day-to-day spending elsewhere
 - minimal definition of an “end to austerity”

Would still leave £7 billion of social security cuts in the pipeline

- Final year of the four year freeze to working-age benefits
- Transitional protection for other recent cuts to means-tested support fade over time
 - removal of additional payment for first child
 - removal of any payment for most third and subsequent children
- Continued transition to Universal Credit

Universal credit

Always designed to be more generous to many, less generous to many

- Winners include: low-wage renters, particularly one-earner couples with children
- Losers include: most single parents, low-income self-employed, some disabled claimants, non-working with unearned income

2015 u-turn on tax credit cuts left in place equivalent cuts to UC

- Long-run saving of £2½ billion p.a., no longer net giveaway

Transitional protection intended to ensure no losses at the moment legacy claimants move across

- Scheduled to start next summer

Many operational challenges

- Not least ensuring legacy claimants move across successfully

Options for cutting public services by less

Increasing spending on services would require some combination of:

- Higher borrowing
- Cuts to other areas of spending, such as:
 - social security (on top of £7 billion of cuts already in the pipeline)
 - capital investment
- Reduced net contributions to the EU: but likely to be virtually no 'Brexit dividend' over the next Spending Review period (< £1 billion)
- Tax increases

Summary

A minimal definition of ending austerity for public services would require an additional £19 billion in 2022–23

- And social security cuts of £7 billion would still happen

Even on existing plans, still a substantial deficit forecast for 2022–23

- Fiscal objective requires eliminating deficit entirely by mid 2020s

Absent much better-than-expected growth or substantial tax rises, an “end to austerity” is not compatible with meeting this objective

Brexit uncertainty makes these decisions and trade-offs even harder