IFS Green Budget 2019
Spending Round 2019: keeping perspective

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Breakdown of public spending in 2018–19

- Resource DEL: 36.2%
- Capital DEL: 6.3%
- AME: locally financed expenditure: 8.1%
- AME: Scottish Government: 3.8%
- AME: social security: 27.5%
- AME: debt interest: 4.6%
- AME: other: 13.5%

Source: Office for Budget Responsibility, March 2019 Economic and Fiscal Outlook
Spending Round 2019: what did we learn?

The Chancellor allocated budgets for departments for 2020–21

Two notable features:

• No department facing a real-terms budget cut

• The size of the increase in day-to-day spending
  – 4.4% increase over and above economy-wide inflation
  – £13.8 billion real-terms increase between this year and next
Where is the £13.8 billion increase going?

- +£4.1bn Health and Social Care
- +£2.2bn Education
- +£1.0bn MHCLG Local Government
- +£0.8bn Home Office
- +£0.7bn Other
- +£0.6bn Defence
- +£0.6bn Wales, Scotland and Northern Ireland
- +£0.4bn Justice
- +£0.9bn Addition to reserves
- +£0.4bn Transport

Notes and sources: See Figure 6.2 of the Green Budget
Keeping perspective: cuts since 2010

Since 2010–11:

- Real terms: −3%
- Real terms per person: −9%

Day-to-day spending on public services

Increases this year and next enough to reverse:

Two-thirds of cuts to day-to-day spending since 2010

One-third of per person cuts

Notes and sources: See Figure 6.3 of the Green Budget
Winners and losers over the past decade

Indexed real values (2010−11 = 100)

Department of Health (+23%)

DH: 42% of total day-to-day spending in 2020–21, up from 33% in 2010–11, and 26% in 1999–00

Education (−4%)

Home Office (−12%)

DEFRA (−19%)

Justice (−23%)

Local government services (−16%)

Note: ‘Local government services’ refers to service spending by English local authorities, based on final outturn data available only up to 2017–18. All other figures refer to resource DEL (excluding depreciation). Full notes and sources: see Figure 6.4 of the Green Budget

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Keeping perspective

The Chancellor’s announcements must be seen in the context of spending cuts since the financial crisis

- Day-to-day spending on public services now 14.1% of national income, compared with 16.2% in 2007–08
  - excluding health, now at 8.1% of national income vs. 11.1% in 2007–08
  - offset in part by increase in locally financed expenditure
- Total spending now at 38.3% of national income vs. 38.9% in 2007–08
- Era of cuts looks to be over – but has by no means been undone

Announcements must also be considered in the context of:

- Historic trends
- Labour’s plans at the 2017 general election
Keeping perspective: historic context

Broader measure of day-to-day public service spending

Day-to-day departmental spending

Average 1.2% per year increase

Average 2.3% per year increase

Average 4% per year increase

If spending had grown by 2.3% per year

If spending had grown by 1.2% per year

Notes and sources: See Figure 6.5 of the Green Budget
Keeping perspective: 2017 manifesto plans

Approx. Labour 2017 manifesto plans plus extra spending on the NHS

Javid 2019 Spending Round plans

Hammond 2019 Spring Statement plans

Approx. Labour 2017 manifesto plans

March 2017 day-to-day spending plans

Figures refer to day-to-day spending on public services. Full notes and sources: See Figure 6.8 of the Green Budget
Where are we now?

Spending on public services is considerably lower than where might have been predicted pre-crisis

Latest plans for 2020–21 strikingly similar to the level of day-to-day spending implied by the Labour Party’s 2017 manifesto

• But composition of spending is different. Conservatives have:
  – broadly matched Labour’s 2017 plans for school funding, and gone some way on further education and social care
  – exceeded Labour’s spending plans on the police and the NHS
  – not (yet) matched Labour’s plans for big additional spending increases on early years and university education

Labour also had plans for a substantial increase in investment spending
The gap between Conservatives and Labour is greater for investment spending.

With Labour’s proposed £25bn extra per year.

Public sector net investment

Notes and sources: See Figure 6.9 of the Green Budget
Final thoughts

Given the stated policies of both main parties, it looks likely that austerity for public services is over for now.

Higher spending will mean some combination of higher taxes and/or higher borrowing (relative to current plans).

The 2019 Spending Round provided breathing space for departments, but no real clarity for the medium term.

If the economy fails to grow as hoped – for example due to a disruptive ‘no-deal’ Brexit – the return to significant spending increases could be short-lived.