

# Spending on public services

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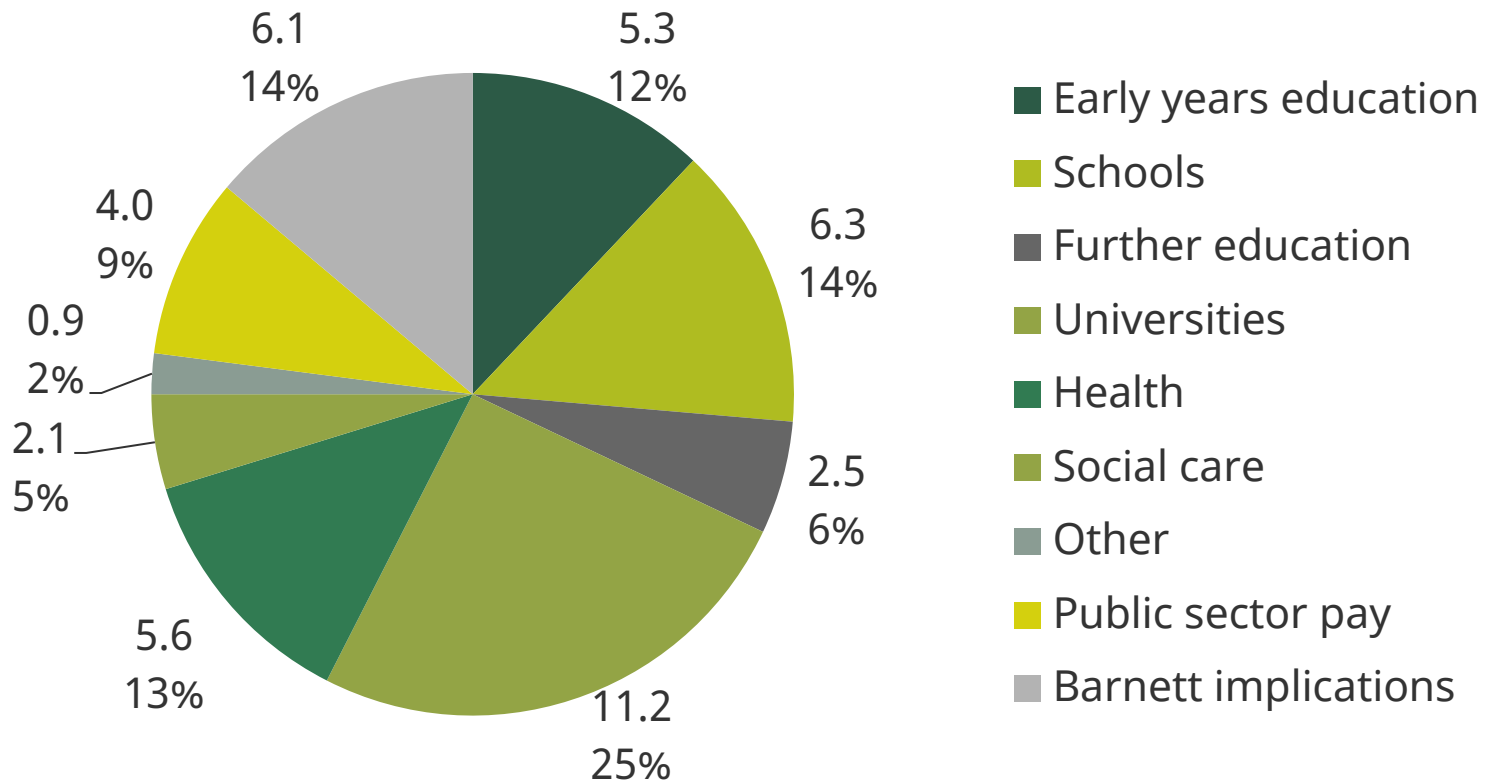
# Big picture

**Conservatives have not announced large spending policies**

**Labour have announced significant spending policies**

# Big picture: Labour

Labour manifesto costed their public service policies as increasing day-to-day spending by £44bn



Labour also announced £250bn “National Transformation Fund”

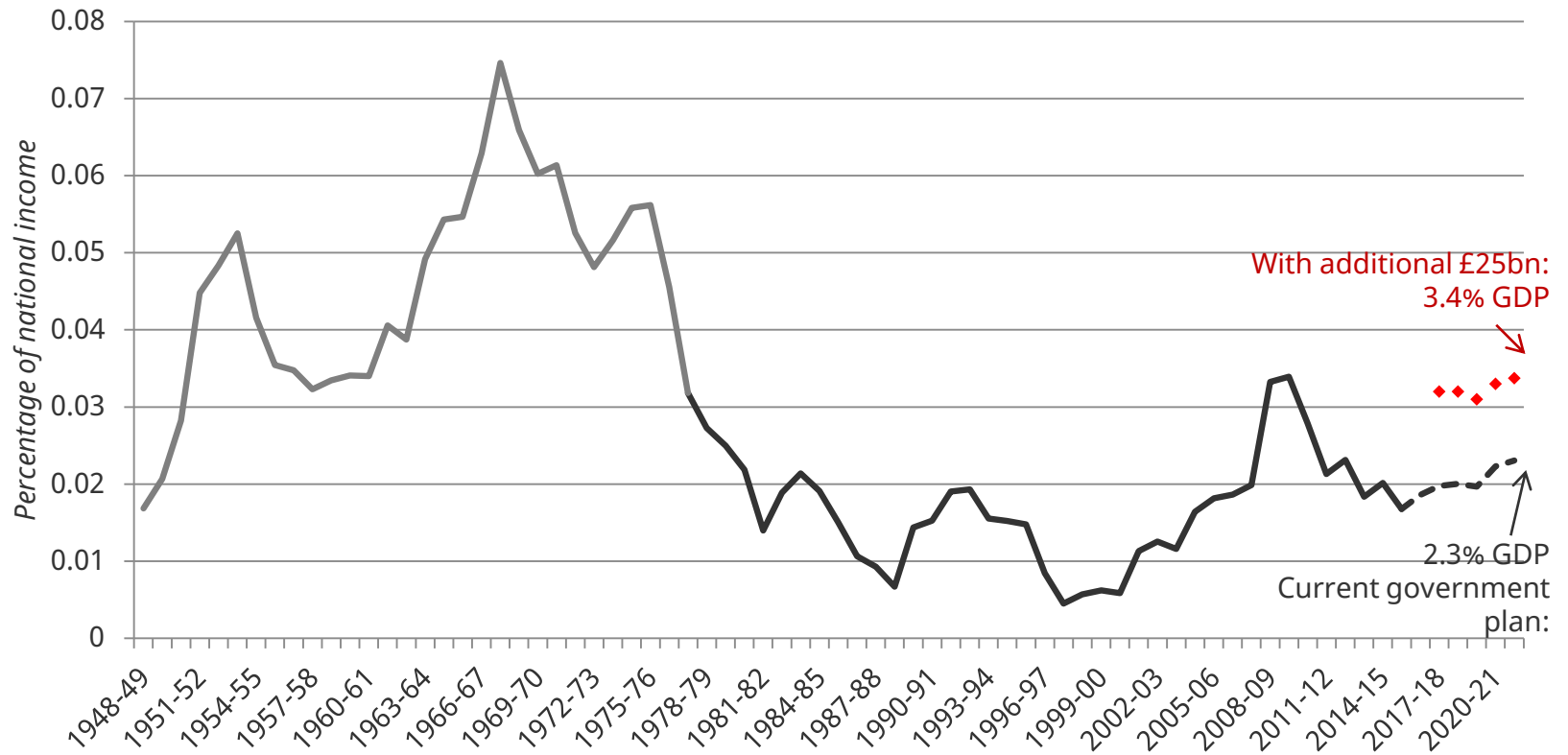
## Labour's "National Transformation Fund"

- Invest £250 billion over 10 years
- On transport, energy systems, communications, scientific research and housing
- £2bn for the NHS?

## If delivered would be a big increase in public sector investment

- Would be spending at a level that has not been sustained since the 1970s

# Public sector net investment over time



Source: OBR Public Finances Databank

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## **Increased public investment could well be beneficial**

- Could boost supply side capacity of the economy
- Government borrowing costs relatively low
- UK lags behind other countries in spending on research and development

## **But need to ensure that investment projects do offer a good return**

- Investment already set to reach a level high by recent historical standards

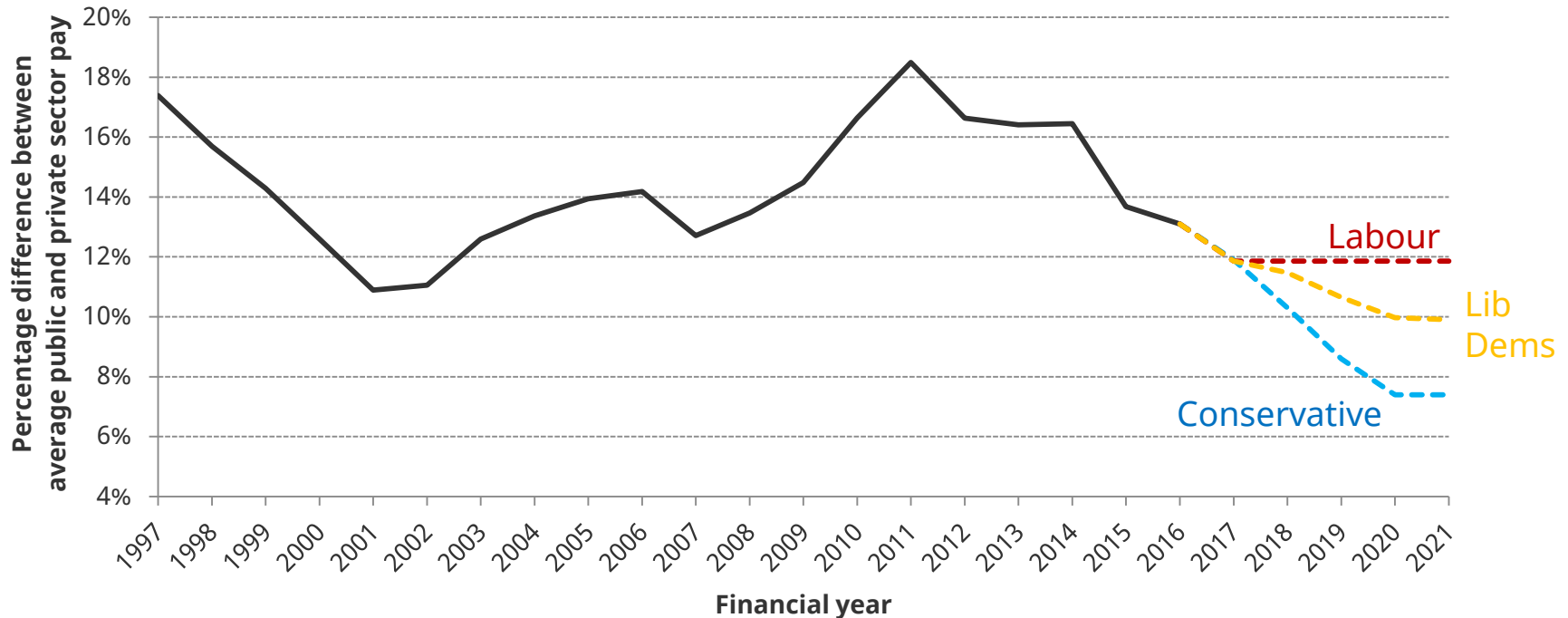
# Public sector pay

## The parties policies:

- Conservatives: Public pay scales to rise by 1% per year up to 2019-20
- Labour: Delegate public sector pay to Pay Review Bodies
- Liberal Democrats: Public sector pay to rise in line with inflation

## The public-private pay difference:

# Difference between average public and private sector pay



**Note:** Labour line assumes delegating public sector pay to the Pay Review Bodies results in public sector wages rising in line with private sector wages. Liberal Democrat line assumes public sector wages rise in line with inflation until 2019-20 and in line with private sector wages thereafter.

Full notes and sources: Cribb (2017) "Public sector pay in the next parliament"



# Public sector pay

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## The public-private pay difference:

- Now back at around pre-crisis levels
- Conservative plan would reduce it to a level not seen in (at least) last 20yrs
- Likely to exacerbate current recruitment and retention problems

## Higher wage growth would be costly for service providers

- If public sector wages grow in line with private sector wages: £9.2bn p.a. higher funding needed by 2021-22 (£2.9bn in the NHS alone) to avoid cuts to employment or non-paybill spending

## **State currently funds childcare in two main ways:**

- Free hours of care (for some 3-4yos) – providers paid by the state
- Tax-subsidies to parents (tax credits, childcare vouchers, taxfree childcare)

## **Labour have proposed a shift towards universal state provision**

- Expansion of free hours to 30hrs per week for all 2-4yos
  - Ambition to extend some free hours to 1yos
- Raise reimbursement rate by ~50% to help up-skill the workforce
- Subsidise providers for additional childcare use
- End tax-subsidies for parents

## **Plans involve a big increase in level of state funding**

- Labour estimates net cost at £5.3bn in 2021-22 (incl. money for Sure Start)
  - >70% increase in spending on early years and childcare support

## **Expensive policy reforms and long run cost may be considerably higher**

- Net cost higher if Labour continue to support the over-fives
- Take-up has major implications for costs but is very difficult to estimate

## **Big giveaway to families with children aged 2 to 4**

- E.g. free entitlement extensions worth up to £5,000 p.a. for newly-eligible 2-yos
- Subsidies an additional giveaway (offset somewhat by loss of other subsidies)

## **Potentially a takeaway from older children?**

## **Potential gains for child development and maternal labour supply**

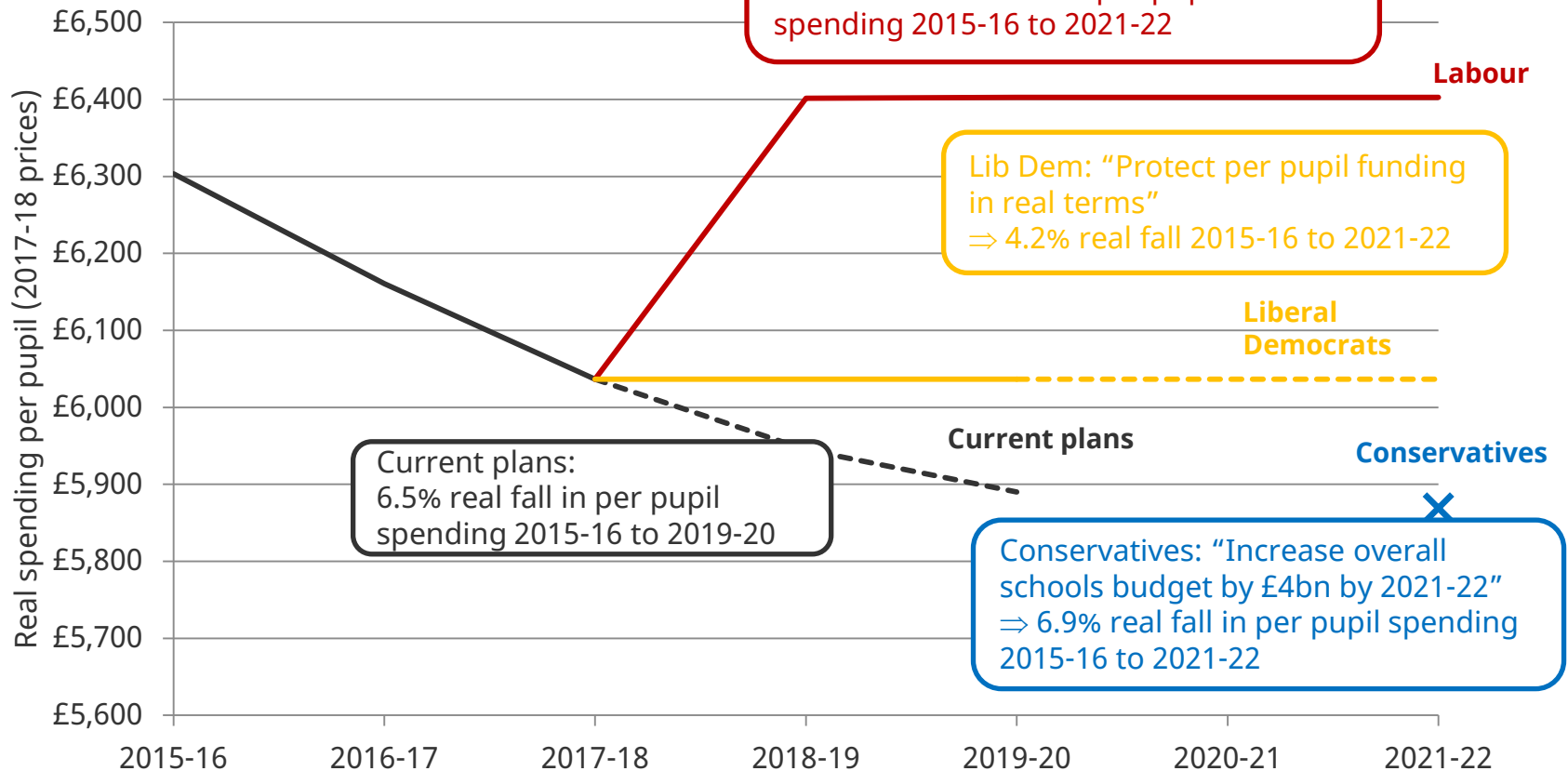
- But hard to predict with any certainty

## **Impact on providers**

- Much higher level of funding
- Skews choice away from providers who don't accept free/subsidised entitlement
- Supply-side funding might give government more influence over providers

# Schools

## Real English schools spending per pupil



# Free school meals

## School lunches currently free for disadvantaged pupils and all children in Yrs R to 2

### Main parties have opposite proposals

- Labour: extend free school lunches to all primary pupils (costs ~£0.9bn)
- Conservatives: restrict free school lunches to disadvantaged pupils (saves ~£0.7bn) but provide free breakfasts for all primary pupils (costs ~£0.1bn)

### Which is better value for money?

- Some evidence universal free school lunches might raise attainment
  - Though unclear exactly how
- IFS research found a one-year breakfast programme in disadvantaged schools:
  - Delivered similar academic benefits to universal free school meal provision
  - Significantly improved behaviour and concentration, and reduced absences
- Uncertain gains from rolling out either policy nationally
- Free school breakfasts considerably cheaper so likely better value for money

# Higher education

## Labour's policy:

- End university tuition fees (£9,250 in 2017), replace with public funding
- Bring back maintenance grants for poorer students

## Public finance impact

- Expensive: Labour estimate adds £11.2bn to borrowing in 2021-22
  - Likely a slight underestimate (we estimate £13.4bn)
  - Long run cost lower (we estimate £8.8bn) as majority of loans would have been partially written off

# Higher education

## Impact on students:

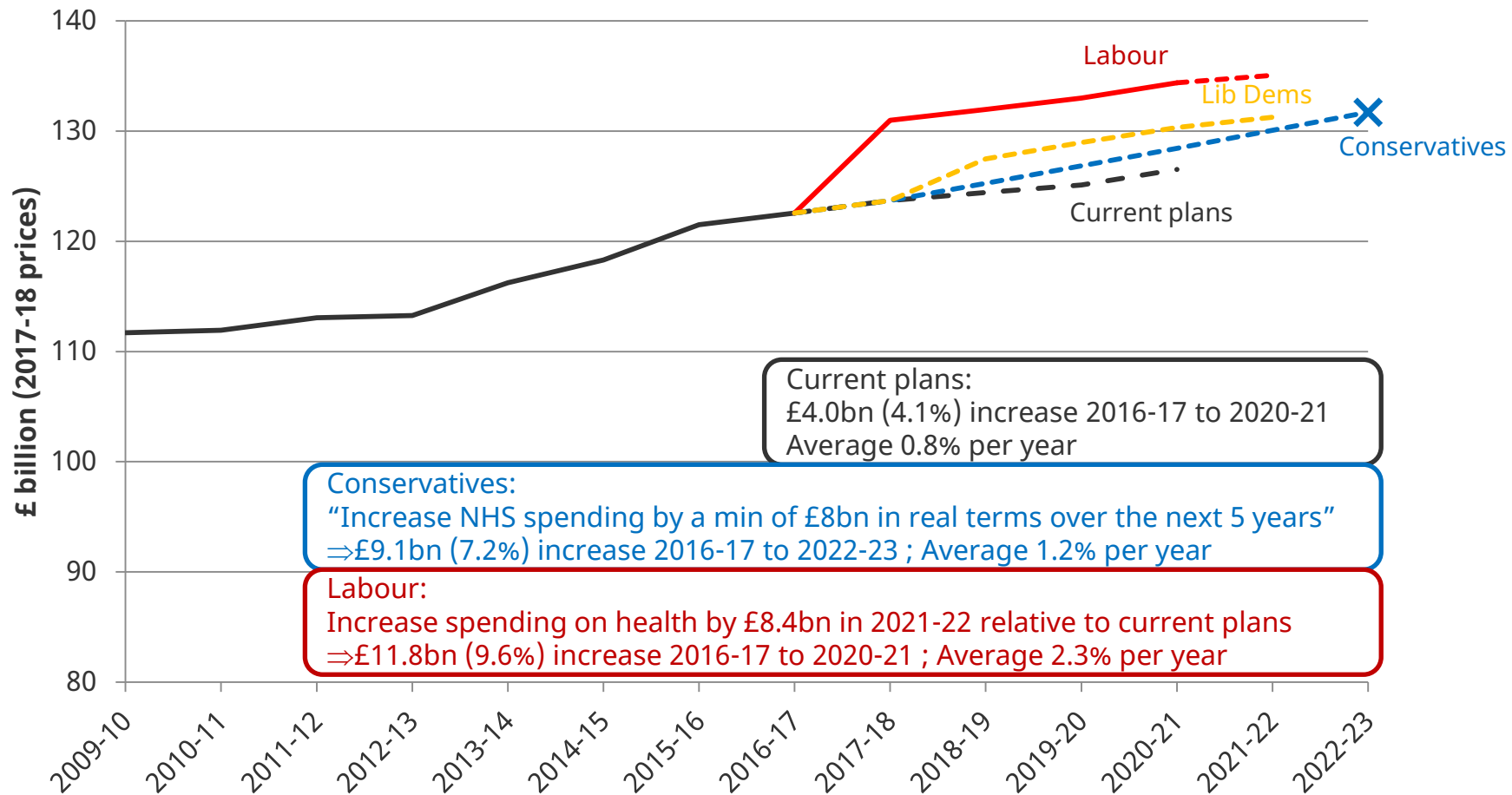
- Reduces cost of university education
  - Higher earning graduates gain more than lower earning graduates
- Labour costing implies cap on student numbers at the current level
  - £14.6bn short run cost if student numbers increased 3% per year

## Impact on institutions

- Risk that budgetary pressure in future could reduce university funding
- Labour costing appears to assume new 'tuition fee grants' are kept constant in nominal terms (while fees are set to rise with RPIX inflation)
  - Would leave universities with 30% less funding per year per student by 2021-22 than under current plans
  - £15.3bn SR cost if increase grants in line with RPIX (£16.7bn with student growth)
- Government could target funding at particular subjects or institutions

# Health

## Real English Department of Health spending



Current plans:  
£4.0bn (4.1%) increase 2016-17 to 2020-21  
Average 0.8% per year

Conservatives:  
"Increase NHS spending by a min of £8bn in real terms over the next 5 years"  
⇒£9.1bn (7.2%) increase 2016-17 to 2022-23 ; Average 1.2% per year

Labour:  
Increase spending on health by £8.4bn in 2021-22 relative to current plans  
⇒£11.8bn (9.6%) increase 2016-17 to 2020-21 ; Average 2.3% per year



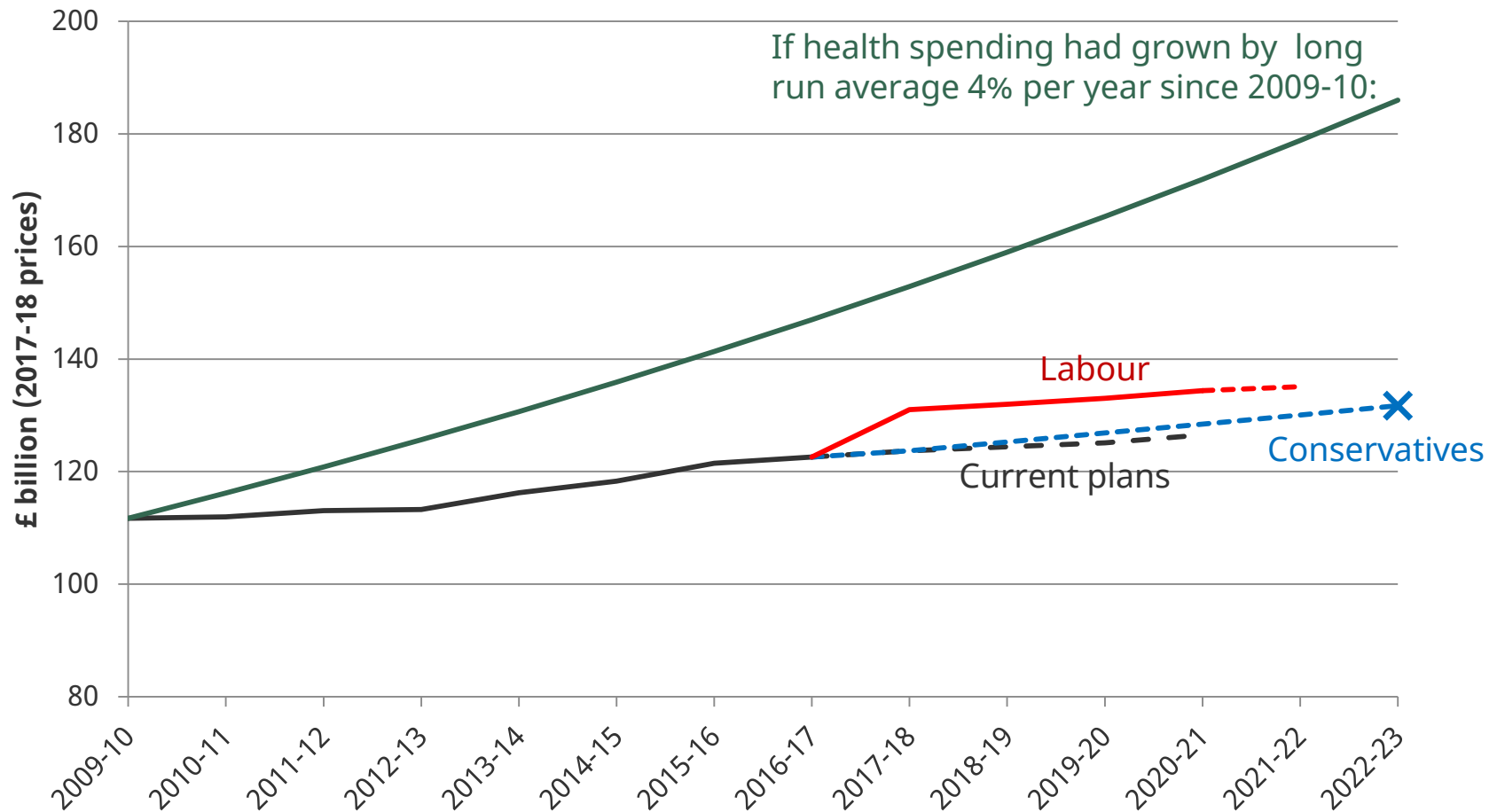
# Health – context

## For comparison:

- Need av. 0.7% per year 16-17 to 22-23 to keep pace with population growth
- Need av. 1.2% per year to keep pace with age-adjusted population growth
- Historically real UK health spending has grown by average 4% per year

# Labour and Conservatives both propose modest increases in health spending

## Real English Department of Health spending



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**Either parties' spending plans will be difficult for the NHS if costs and expectations continue to rise**

**The next government needs to start to consider seriously the long run implications of current spending levels and what a solution might be**

- OBR projections indicate health spending under “current policy” could need to rise by 5.3% of national income between 2016-17 and 2066-67
- Funding this would require considerable tax increases or cuts elsewhere
- Alternatively it might be time to think seriously about sustainable ways to reduce the growth of health spending

## Two main problems with social care in England:

- Lack of available insurance
- Level of funding available for those entitled to state support

## Care Act due to introduce a cap on private contribution to lifetime costs in 2020

- Increases certainty for individuals, may increase availability of insurance

## Conservatives: unclear policy!

- “O-turn” on care costs cap – now planning to implement one?
- Change to asset means test – no costing provided; losers (& winners?) depend on assets, income, needs and care package

## Labour: Ambition for a National Care Service (requires £3bn+)

- Sounds similar to Care Act: cap on private contribution to lifetime costs, increase in asset threshold below which entitled to state support, free end of life care
- Additional funding under current system £2.1bn in 2021-22
  - At least 40% taken up by cost rise from Labour’s higher minimum wage

## **Conservatives have not announced large spending policies**

## **Labour have announced significant spending policies**

- Big move towards universal state provision of education at all ages
- Significant additional spending on investment, childcare and schools (and ambitions to increase spending further)
- Several policies (in particular: higher education, childcare and public sector pay rises) could turn out more costly than Labour estimated