Spring Statement 2019: modest windfall banked (for now)
Borrowing forecast revised down again

Forecasts for Public Sector Net Borrowing

- Lower debt interest spending
- Higher income tax and NIC revenues

Source: Office for Budget Responsibility *Economic and Fiscal Outlook.*

Spring Statement 2019: modest windfall banked (for now)
Faster growth in earnings towards the top of the distribution, boosting revenues

Source: Author’s calculations using data from the Annual Survey of Hours and Earnings.

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Faster growth in earnings towards the top of the distribution, boosting revenues

Real-time information data show earnings among top 0.1% between April and September 2018 up 5.9% (nominal) on a year earlier, compared to 3.7% overall.

Source: Author’s calculations using data from the Annual Survey of Hours and Earnings.
Chancellor chose to bank most of the windfall

Forecasts for Public Sector Net Borrowing

Source: Office for Budget Responsibility *Economic and Fiscal Outlook*

Spring Statement 2019: modest windfall banked (for now)
Deficit forecast much lower than a year ago

Forecasts for Public Sector Net Borrowing

- Deficit forecast £14bn lower than 12 months ago
- Biggest March to March revision by the OBR for coming year, and twice as big as average

Source: Office for Budget Responsibility *Economic and Fiscal Outlook*

Spring Statement 2019: modest windfall banked (for now)
Deficit forecast much higher than 3 years ago

Forecasts for Public Sector Net Borrowing

March 2016

March 2018

March 2019

£ billion

Deficit forecast £32bn higher than 3 years ago

Source: Office for Budget Responsibility *Economic and Fiscal Outlook*

Spring Statement 2019: modest windfall banked (for now)
Fiscal targets (1/2)

Three targets set for current parliament

• cyclical borrowing below 2% of GDP in 2020–21
Currently on course to meet fiscal mandate with some room to spare

Cyclically adjusted public sector net borrowing

2% of national income ceiling in 2020-21

£26.6bn

Source: Office for Budget Responsibility Economic and Fiscal Outlook

Spring Statement 2019: modest windfall banked (for now)
Improvement to student loan accounting will increase headline borrowing significantly

Cyclically adjusted public sector net borrowing

March 2019 forecast
Additional borrowing from student loan change

2% of national income ceiling in 2020–21

£15bn
£26.6bn

Source: Office for Budget Responsibility *Economic and Fiscal Outlook*

Spring Statement 2019: modest windfall banked (for now)
Fiscal targets (1/2)

Three targets set for current parliament
- cyclical borrowing below 2% of GDP in 2020–21
- debt to fall as a share of GDP in 2020–21
- welfare spending below cash cap in 2022–23

On course to meet all three
- but in two years time none can be breached in the current parliament

Chancellor did not mention goal of “a balanced budget by the middle of the next decade”
- not currently on course to meet this
- and far from clear that policy is being set with this in mind
Is it time for a new set of fiscal targets?
• maybe not: no target better than a bad target?

But, perhaps, the Chancellor does have a target in mind?
• “always continuing to keep our debt falling”

Last two years of the forecast horizon see debt/GDP ratio falling by 1% of GDP a year
• low drop given small deficit; due to combination of low growth and loans not scored against the deficit

Borrowing an additional £15bn per year this would halve the reduction in debt/GDP ratio to 0.5% of GDP a year
Minor spending changes announced yesterday

Extra spending announced in response to higher expected inflation
• extra £1.7 billion in 2023–24 relative to October plans
• £0.8 billion of which is for the NHS, to maintain £20.5 billion real increase agreed last summer

DHSC continues to shift money from capital to day-to-day budgets
• third year in a row this has been happened (£1.2 billion in 2016–17, £1.0 billion in 2017–18, £0.5 billion in 2018–19)

£1.6 billion ‘Stronger Towns Fund’ to be found entirely from existing spending totals in 2019–20 and 2020–21
Forecast change in day-to-day public service spending

Source: Author’s calculations using data from Office for Budget Responsibility *Economic and Fiscal Outlook*.  
Spring Statement 2019: modest windfall banked (for now)
The forthcoming Spending Review

The Chancellor confirmed the Spending Review will cover the three years 2020–21, 2021–22 and 2022–23

- to be launched before summer recess and concluded alongside Budget

Several areas of spending are already protected

- NHS: day-to-day budget of NHS England to increase by £20.5 billion between 2018–19 and 2023–24
- Barnett formula implies extra money for Scotland, Wales and Northern Ireland
- defence: commitment to continue to spend at least 2% of GDP
- overseas aid: commitment to spend at least 0.7% of GNI

Together these comprise over half of day-to-day departmental spending

- current spending plans, combined with these commitments, imply cuts to unprotected departments
‘Unprotected’ day-to-day public service spending over the Spending Review period

Indexed values (2019–20 = 100)

- Real ‘unprotected’ RDEL (−£2.5bn)
- Real ‘unprotected’ RDEL as % national income (−£9.3bn)
- Real ‘unprotected’ RDEL per capita (−£4.8bn)

Source: Author’s calculations using data from Office for Budget Responsibility Economic and Fiscal Outlook.

Spring Statement 2019: modest windfall banked (for now)
But could choose to spend more?

Unprotected areas are current facing cuts of 0.6% per year
- 1.1% per year in per capita terms
- on top of cuts of around 3% per year since 2010–11
- much slower pace of austerity, but still challenging

Pressures to increase spending on some ‘unprotected’ areas
- schools: freezing real per-pupil spending over the review period would cost around £1 billion extra by 2022–23
- many other spending pressures

Chancellor indicated he could decide to spend more
- indicated that an orderly EU exit could mean a boost to spending on public services: the so-called “deal dividend”
What if there was an extra £15 billion for public services?

Illustrative figure

Overall day-to-day spending would grow by 2.8% per year
• versus 1.2% per year on current plans

Still meet NHS and aid commitments...

... and increase defence and other unprotected budgets by 2.7% per year
• 2.2% per year in per capita terms, rising as a share of national income
• an end to austerity on public services any reasonable definition
What would that mean for borrowing?

Spring Statement 2019: modest windfall banked (for now)

Source: Author’s calculations using data from Office for Budget Responsibility Economic and Fiscal Outlook.
What if there was an extra £15 billion for public services?

Illustrative figure
• would certainly be a clear end to austerity on public services

Would keep forecast:
• borrowing below 2% of GDP, even after student loan accounting change
• debt ratio falling, though by just 0.5% of GDP a year towards end of forecast horizon

Relates to the public finance cost of Brexit so far:
• OBR revised down forecast receipts by £15 billion after referendum
• estimates that GDP around 2% lower than it would have been – for example from the BoE – suggest that, if anything, hit to receipts likely to have been greater

Spring Statement 2019: modest windfall banked (for now)
Conclusions

Modest increase in forecast receipts
• on top of a larger increase seen last Autumn

For now at least the Chancellor largely banked rather than spent the additional receipts
• provisional spending plans imply continued austerity for unprotected departments

Chancellor has headroom against his fiscal targets for this parliament, even after student loan accounting change
• could top up spending plans, end austerity for public services from March 2020, and still meet these fiscal targets
• but what about ambition to eliminate the deficit?