The outlook for the 2019 Spending Review

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Presentation given at the Institute for Government/Institute for Fiscal Studies event “The 2019 Spring Statement and Spending Review”

11 February 2019
The 2019 Spending Review

Much we don’t yet know

• What years will be covered?
• What spending will be in scope?
• What will the spending envelope be?

Could announce these in the forthcoming Spring Statement, or at a later point before the summer

• Final Spending Review allocations to follow in the Autumn Budget?

Following is predicated on the October 2018 Budget forecasts

• This improved the outlook for receipts by £18 billion in 2022–23
• Last week the BoE downgraded 2019 growth by ½%: if the OBR did the same this would increase borrowing by around £5 billion to £7 billion
Public sector receipts and spending since 1997–98

Notes and sources: Figure 2a of Emmerson, Pope and Zaranko (2019).
Components of public spending in 2017−18

- £288.6bn, Resource DEL, 36.4%
- £44.3bn, Capital DEL, 5.6%
- £122.6bn, AME: pensioner benefits, 15.4%
- £96.2bn, AME: working-age benefits, 12.1%
- £90.6bn, AME: devolved spending, 11.4%
- £41.5bn, AME: debt interest, 5.2%
- £109.9bn, AME: other, 13.8%
- £41.5bn, AME: debt interest, 5.2%

Notes and sources: Figure 3 of Emmerson, Pope and Zaranko (2019).
Total departmental expenditure

Percentage of national income

Real terms (right axis)

% of GDP (left axis)

Notes and sources: Figure 4 of Emmerson, Pope and Zaranko (2019).
Real-terms departmental budget changes, 2010–11 to 2019–20

Notes and sources: Figure 6 of Emmerson, Pope and Zaranko (2019).
Forecast change in day-to-day public service spending

Indexed values (2009–10 = 100)

Notes and sources: Figure 8 of Emmerson, Pope and Zaranko (2019).
Protected areas of spending

Several spending commitments will constrain Spending Review

• NHS: day-to-day budget of NHS England to increase by £20.5 billion between 2018–19 and 2023–24
Real-terms Department of Health and Social Care spending

Indexed values (2009–10 = 100)

Total
Per capita spending
Age-adjusted per capita spending

Notes and sources: Figure 9 of Emmerson, Pope and Zaranko (2019).
Protected areas of spending

Several spending commitments will constrain Spending Review

- NHS: day-to-day budget of NHS England to increase by £20.5 billion between 2018-19 and 2023-24
- Defence: commitment to continue to spend at least 2% of GDP
- Overseas aid: commitment to continue to spend 0.7% of GNI

Together these comprise over half (£156 billion) of day-to-day departmental spending

- Spending Review could largely be about just one-fifth of spending
- Current spending plans, combined with these commitments, imply cuts to unprotected areas
Forecast change in ‘unprotected’ day-to-day public service spending

Real ‘unprotected’ RDEL
Real ‘unprotected’ RDEL as % national income
Real ‘unprotected’ RDEL per capita

Indexed values (2009–10 = 100)

Notes and sources: Figure 10 of Emmerson, Pope and Zaranko (2019).
Fiscal policy and Brexit

Over the longer-term GDP most likely lower, and the underlying public finances weaker, as a result of Brexit
  • Eventually necessitating a combination of tax rises and spending cuts

But an economically bad Brexit might not mean a tighter SR2019

If there is a hit to demand that is greater than the hit to supply:
  • Almost certainly allow automatic stabilisers to operate
  • Given already low interest rates, case for active temporary fiscal stimulus to boost consumer spending and business investment

Additional spending to help deal with impacts of a disorderly Brexit:
  • Border issues
  • Temporary support to particularly hard hit industries / areas?
Conclusions

Many departments have experienced deep cuts since 2010
• Overall DELs cut by 10%, or £40 billion, in real-terms

Spending Review 2019 to set spending plans for years beyond 2019–20
• Government committed to an extra £20 billion on the NHS by 2023–24
• Given protections for defence and overseas aid over half of day-to-day department spending already largely decided

Chancellor needs to set overall spending envelope
• Provisional figures imply continued cuts to unprotected services, albeit at a slower pace than seen since 2010

A disorderly Brexit would eventually require additional tax rises and/or spending cuts
• But not necessarily over the coming Spending Review: in fact spending could be increased rather than reduced
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