Risks to spending

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Public spending to fall to a low level by historical standards

Public services outside health to be cut to lowest level since (at least) 1948

Notes and sources: see Figures 6.1 and 6.5 of The IFS Green Budget: February 2016.
Spending on public services set to see further significant cuts

- Departmental spending by central government
  - to be cut by 2.3% in real terms between 2015–16 and 2019–20
  - on top of 10.4% cut already seen since 2010–11
  - average cut per year (0.6%) to be slower than since 2010–11 (2.2%)
Changes in departmental spending: over 4 years and over 9 years

Notes and sources: see Table 6.1 and Figure 6.2 of The IFS Green Budget: February 2016.
Spending on public services set to see further significant cuts

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- Some public services also financed through locally-raised revenues: including these revenues, cuts look smaller
  - DEL+LASFE to be cut by 1.0% over next four years
  - on top of 8.3% cut already seen since 2010–11
Can these plans be delivered?

• Cuts over next 4 years significantly slower than over last 5 years
• Since 2010–11, departments have underspent their allocated budgets
  – OBR’s current borrowing forecast assumes they continue to do so (e.g. £4 billion in 2019–20)
• Risks
  – likely that cuts that were easy to identify and deliver were made first
  – rising demand for public services
Rising demand for public services

Growth in DEL+LASFE since 2010–11, population-adjusted: –14.9%

Growth in DEL+LASFE since 2010–11: –9.3%

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Notes and sources: see Table 6.2 of *The IFS Green Budget: February 2016*. 
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• Since 2010–11, departments have underspent their allocated budgets
  – OBR’s current borrowing forecast assumes they continue to do so (e.g. £4 billion in 2019–20)
• Risks
  – likely that cuts that were easy to identify and deliver were made first
  – rising demand for public services
  – recruitment and retention of adequately motivated, sufficiently high quality staff
Squeezing public spending by holding down public sector wages

Estimated gap between public and private sector hourly pay

- Raw mean difference
- Projection based on 1% pay award for four years from 2016–17

Notes and sources: see Figure 6.4 of The IFS Green Budget: February 2016.
Other risks: additional costs of employment

• In 2016–17, contracting out for defined benefit schemes ends
  – increases employees’ NICs: up to £480 per year
  – estimated total cost to public sector employers: £3.3 billion

• Other pressures
  – National Living Wage
  – apprenticeship levy
  – requirement to hire apprentices
Risks to social security spending

- Social security spending to be reduced by £9 billion in real terms over next 5 years
  - £1 billion increase in spending on pensioner benefits
  - £10 billion decrease in spending on working age benefits
- Welfare cap in theory restricts upside risk on this area of spending
  - Breach in November 2015 suggests does not impose much constraint
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• Risks
  – further 4-year freeze in benefit rates will reduce levels significantly in real terms: has not been attempted in last 30 years
  – further delays in transition from Disability Living Allowance to Personal Independence Payments would increase spending
Revisions to expected costs of disability benefits

£ billion

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Notes and sources: see Figure 6.7 of The IFS Green Budget: February 2016.
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  - Delays to roll out of Universal Credit have ambiguous effect on spending: depends which aspect is delayed
Risks to debt interest spending

• Public spending sensitive to interest rates and inflation

• 1ppt increase (reduction) in gilt and short rates (from April 2016)
  – would increase (reduce) spending in 2019–20 by around £8 billion

• 1ppt increase (fall) in RPI inflation (from April 2016)
  – would increase (reduce) spending in 2019–20 by around £5 billion
Summary

• Good reasons to aim to reduce debt as a share of national income
• But commitment to deliver budget surpluses from 2019–20 risky
• Many risks to revenues, e.g.
  – recent equity price falls could depress capital tax receipts by £2 billion
  – manifesto commitments to cut income tax will cost £8 billion
  – continued inability to index fuel duty rates would cost £3 billion
• Many risks to spending, e.g.
  – further deep cuts planned to some areas of public services
  – population growth & ageing will put additional pressure on services
  – social security and debt interest spend could exceed current forecasts