The Summer budget: Taxes up, borrowing up, departmental spending up

Rowena Crawford
### Changes in borrowing forecasts since March

**Public sector net borrowing, £ billion**

<table>
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</thead>
<tbody>
<tr>
<td><strong>Budget March 2015</strong></td>
<td>90.2</td>
<td>75.3</td>
<td>39.4</td>
<td>12.8</td>
<td>-5.2</td>
<td>-7.0</td>
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<tr>
<td>Forecasting changes</td>
<td>-2.9</td>
<td>1.4</td>
<td>3.5</td>
<td>5.4</td>
<td>7.4</td>
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<tr>
<td>Tax takeaways</td>
<td>-1.1</td>
<td>-7.0</td>
<td>-10.9</td>
<td>-14.1</td>
<td>-14.1</td>
<td>-15.9</td>
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<tr>
<td>Tax giveaways</td>
<td>+0.1</td>
<td>+3.0</td>
<td>+5.8</td>
<td>+7.3</td>
<td>+8.3</td>
<td>+9.4</td>
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<tr>
<td>Net benefit takeaways</td>
<td>-0.3</td>
<td>-5.6</td>
<td>-6.9</td>
<td>-9.7</td>
<td>-12.5</td>
<td>-13.4</td>
<td></td>
</tr>
<tr>
<td>Departmental spending giveaway</td>
<td>-2.3</td>
<td>15.4</td>
<td>24.9</td>
<td>27.5</td>
<td>10.5</td>
<td></td>
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<tr>
<td>Other (incl. indirect effect)</td>
<td>0.7</td>
<td>-3.4</td>
<td>-4.8</td>
<td>-4.7</td>
<td>-2.5</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td><strong>Budget July 2015</strong></td>
<td>89.2</td>
<td>69.5</td>
<td>43.1</td>
<td>24.3</td>
<td>6.4</td>
<td>-10.0</td>
<td>-11.6</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>-1.0</td>
<td>-5.8</td>
<td>3.7</td>
<td>11.5</td>
<td>11.6</td>
<td>-3.0</td>
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The new “Charter for Budget Responsibility”

• New fiscal mandate
  – surplus on public sector net borrowing in 2019–20
  – once this is achieved in 2019–20, run a surplus each subsequent year as long as the economy remains in ‘normal times’

• New supplementary target
  – public sector net debt to fall as a share of GDP in each year from 2015–16 to 2019–20

• Targets apply as long as real GDP growth remains at or above 1% per year
  – if OBR judges that economy has been hit by a shock that reduces growth below this level, rules will be suspended
  – government would then be required to set a plan to return to surplus following the shock
Implied path for real departmental spending

Budget, March 2015
Budget, July 2015
IFS: Conservative manifesto

-11.7%
-7.1%
-4.2%, £15bn
Implementing their manifesto plans?

• Departmental spending in 2018-19 ~£13bn higher than our analysis of their manifesto suggested
  – Borrowing and tax receipts higher than expected (around £11bn and £10bn respectively)
  – Partially offset by smaller than expected benefit cuts (around £3bn) and higher other non-departmental spending (around £5bn)

• Departmental spending in the longer run lower than our analysis of their manifesto suggested
  – By around £4bn in 2019-20
  – Receipts higher than expected (around £9bn)
  – More than offset by borrowing lower than expected (around £6bn) and other non-departmental spending higher than expected (£7bn)
Spending Review 2015

• Budget did not:
  – Formally set the departmental spending envelope
  – Announce what period the Spending Review would cover

• Protected so far:
  – NHS spending: Extra £8bn by 2020-21
  – Aid spending: 0.7% national income on aid each year
  – Schools: Manifesto pledged to maintain cash spending per pupil
  – Defence: MoD budget to grow by 0.5% per year in real terms
Spending Review 2015

• Budget plans for departmental spending imply real terms cuts between 2015-16 and 2019-20 of:
  – Total departmental spending: £11bn or 3.2%
  – DEL less NHS, aid and schools: £19bn or 9.9%
  – DEL less NHS, aid, schools and MoD: £19bn or 12.6%

• Would take the real terms cuts between 2010-11 and 2019-20 to:
  – Total departmental spending: £50bn or 12.6%
  – DEL less NHS, aid and schools: £71bn or 29.3%
  – DEL less NHS, aid, schools and MoD: £66bn or 32.8%

• Additional pressures:
  – Extra spending in some areas: childcare, social care, security
  – Increased NICs and pension contributions for public sector employers

• Cap on public sector pay reduces pressure from pay bill
Falling value of public pay relative to private sector

Notes: Data up to 2014–15 estimated using Labour Force Survey. Projections are based on OBR forecasts. The second projection adjusts OBR forecasts for the announcement of 1% pay awards from 2016–17 to 2019–20, which was made by HM Treasury after the OBR produced its July 2015 forecasts.

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Summary

- Chancellor to borrow more than forecast in the March Budget in each of the next three years but less in 2019-20
  - Despite this debt is forecast to be lower than forecast in March each year from 2015-16 – due to asset sales
- Departmental spending cuts forecast to be more gradual over the parliament than manifesto implied (but slightly larger by 2019-20)
- Spending Review likely to be seeking cut of £19bn from departments outside of the NHS, aid, schools and MoD by 2019-20
  - Real cut to these areas of 12.6% since 2015-16, 32.8% since 2010-11
- Cap on public sector pay increases of 1% for a further 4 years
  - Could reduce cuts to general government employment over 2014-15 to 2019-20 to 200,000 rather than the 400,000 forecast by OBR
  - But reduces attractiveness of working in the public sector which might make it harder to recruit and retain quality workers