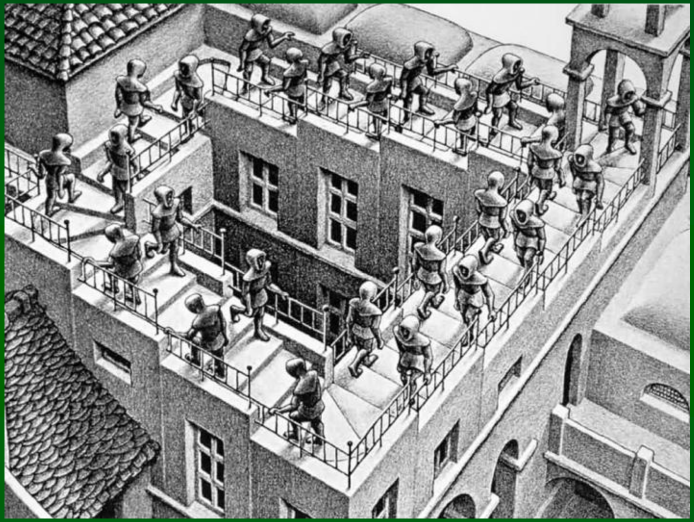


Still five more years of austerity to go?

Gemma Tetlow

IFS hosts two ESRC Research Centres

Big picture

- Forecast for borrowing this year revised up a bit
  – Tax receipts £8bn lower than expected in March
  – But lower inflation and lower interest rates reduce spending by £2bn
- Forecast for tax receipts revised down by £25bn by 2018–19
  – Largely because of weaker earnings growth, lower effective tax rates
- But spending has also been revised down by £24bn by 2018–19
  – About £5bn from lower welfare spending
  – About £16bn from lower debt interest spending
- Measures to raise money appear to offset measures that give money away
  – But… giveaways look more permanent (and more certain) than some of the takeaways
- An extra year's squeeze on spending in 2019–20…
  – Lower medium-term borrowing than aimed for in March

Institute for Fiscal Studies

Changes in borrowing forecasts since March 2014

Public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Budget 2014	**99.3**	**86.4**	**68.3**	**41.5**	**15.8**	**–3.7**	
Forecasting changes							
Measures from the scorecard							
Spending cuts not on scorecard							
AS 2014	**97.5**	**91.3**	**75.9**	**40.9**	**14.5**	**–4.0**	**–23.1**

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Changes in borrowing forecasts since March 2014

Public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Budget 2014	**99.3**	**86.4**	**68.3**	**41.5**	**15.8**	**–3.7**	
Forecasting changes	–1.7	5.7	6.6	–0.1	0.8	1.8	
Measures from the scorecard							
Spending cuts not on scorecard							
AS 2014	**97.5**	**91.3**	**75.9**	**40.9**	**14.5**	**–4.0**	**–23.1**

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Forecasting changes reduce revenues but also reduce spending…

Effect of forecasting changes on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Forecasting changes	**–1.7**	**5.7**	**6.6**	**–0.1**	**0.8**	**1.8**
Changes to forecast receipts	–1.6	7.7	14.3	18.9	22.7	25.3
Changes to forecast spending	–0.1	–2.0	–7.7	–19.0	–21.9	–23.5

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Forecasting changes reduce revenues but also reduce spending…

Effect of forecasting changes on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Forecasting changes	**–1.7**	**5.7**	**6.6**	**–0.1**	**0.8**	**1.8**
Changes to forecast receipts	–1.6	7.7	14.3	18.9	22.7	25.3
Lower earnings	0.0	2.8	7.2	9.3	8.9	9.0
Lower effective PAYE/NICs tax rates	0.0	2.5	2.6	3.6	4.1	4.2
Lower savings income tax	0.0	0.3	1.2	1.9	2.4	2.9
Other	–1.6	2.1	3.3	4.1	7.3	9.2
Changes to forecast spending	–0.1	–2.0	–7.7	–19.0	–21.9	–23.5

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Forecasting changes reduce revenues but also reduce spending…

Effect of forecasting changes on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Forecasting changes	**–1.7**	**5.7**	**6.6**	**–0.1**	**0.8**	**1.8**
Changes to forecast receipts	–1.6	7.7	14.3	18.9	22.7	25.3
Changes to forecast spending	–0.1	–2.0	–7.7	–19.0	–21.9	–23.5
Lower inflation	0.0	–3.2	–5.0	–5.3	–4.8	–4.7
Lower unemployment	0.0	–0.6	–1.3	–1.2	–0.8	–0.6
Modelling changes to social security	0.0	0.9	1.0	1.5	1.3	0.8

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

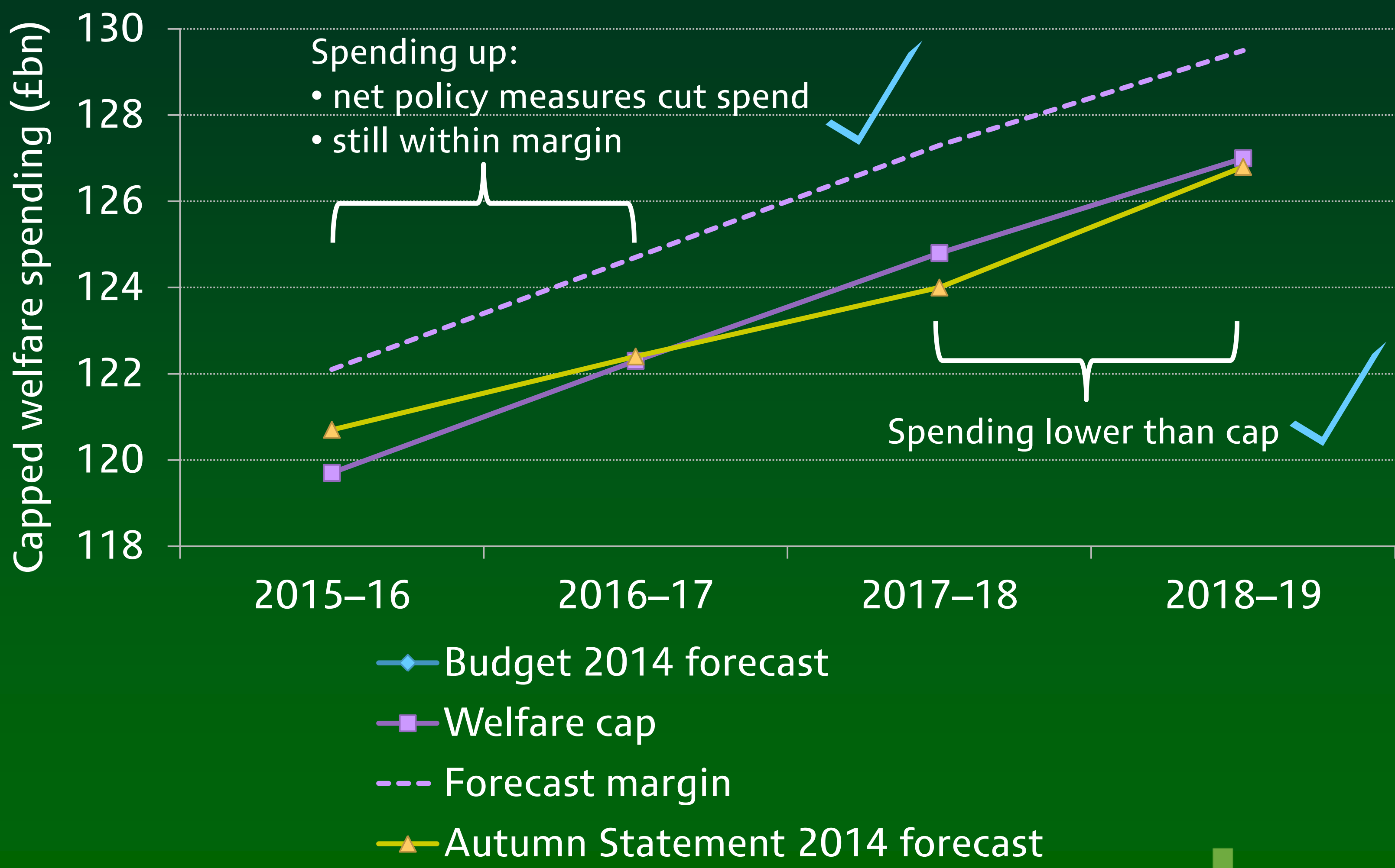
Institute for Fiscal Studies

What happened to forecast welfare spending?

- Third fiscal target: welfare spending ‘in scope’ must not exceed the cap set out in Budget 2014
  - 2% margin for forecasting changes
- Total welfare spending £1.1bn higher in 2014–15 than thought back in March, but lower in all years after that
- Spending on incapacity and disability benefits £1.6bn a year higher on average…
  - government saving less than expected from structural reforms
- …but in the long run this is outweighed by macroeconomic factors
  - lower unemployment reduces spending
  - lower CPI inflation feeds through to lower uprating
  - lower earnings growth reduces the “triple lock” for state pensions

Institute for Fiscal Studies

What does this mean for the welfare cap?



Institute for Fiscal Studies

Forecasting changes reduce revenues but also reduce spending…

Effect of forecasting changes on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Forecasting changes	**–1.7**	**5.7**	**6.6**	**–0.1**	**0.8**	**1.8**
Changes to forecast receipts	–1.6	7.7	14.3	18.9	22.7	25.3
Changes to forecast spending	–0.1	–2.0	–7.7	–19.0	–21.9	–23.5
Lower inflation	0.0	–3.2	–5.0	–5.3	–4.8	–4.7
Lower unemployment	0.0	–0.6	–1.3	–1.2	–0.8	–0.6
Modelling changes to social security	0.0	0.9	1.0	1.5	1.3	0.8
Lower gilt rates and short rates	0.0	–0.6	–2.3	–4.3	–5.9	–7.0
Other debt interest changes	0.0	–1.6	–3.8	–6.0	–5.9	–5.9
Later unwinding of APF	0.0	0.0	0.1	0.0	–0.9	–1.5

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Forecasting changes reduce revenues but also reduce spending…

Effect of forecasting changes on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Forecasting changes	**–1.7**	**5.7**	**6.6**	**–0.1**	**0.8**	**1.8**
Changes to forecast receipts	–1.6	7.7	14.3	18.9	22.7	25.3
Changes to forecast spending	–0.1	–2.0	–7.7	–19.0	–21.9	–23.5
Lower inflation	0.0	–3.2	–5.0	–5.3	–4.8	–4.7
Lower unemployment	0.0	–0.6	–1.3	–1.2	–0.8	–0.6
Modelling changes to social security	0.0	0.9	1.0	1.5	1.3	0.8
Lower gilt rates and short rates	0.0	–0.6	–2.3	–4.3	–5.9	–7.0
Other debt interest changes	0.0	–1.6	–3.8	–6.0	–5.9	–5.9
Later unwinding of APF	0.0	0.0	0.1	0.0	–0.9	–1.5
‘Forecasting’ changes to DEL	2.4	–0.7	1.6	–7.1	–6.0	–4.3

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Changes in borrowing forecasts since March 2014

Public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Budget 2014	**99.3**	**86.4**	**68.3**	**41.5**	**15.8**	**–3.7**	
Forecasting changes	–1.7	5.7	6.6	–0.1	0.8	1.8	
Measures from the scorecard		–0.9	1.0	–0.1	–0.4	–0.5	–0.4
Spending cuts not on scorecard							
AS 2014	**97.5**	**91.3**	**75.9**	**40.9**	**14.5**	**–4.0**	**–23.1**

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

The scorecard: giveaways paid for by takeaways

Effect on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Measures from the scorecard		**–0.9**	**1.0**	**–0.1**	**–0.4**	**–0.5**	**–0.4**
Tax giveaway		0.4	2.1	2.3	2.0	1.9	2.0
Tax takeaway		–1.1	–1.5	–2.1	–2.2	–2.2	–1.9
Spend giveaway							
Spend takeaway							

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

The scorecard: giveaways paid for by takeaways

Effect on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Measures from the scorecard		**–0.9**	**1.0**	**–0.1**	**–0.4**	**–0.5**	**–0.4**
Tax giveaway		0.4	2.1	2.3	2.0	1.9	2.0
Tax takeaway		–1.1	–1.5	–2.1	–2.2	–2.2	–1.9
Spend giveaway		0.1	1.2	0.3	0.3	0.3	0.0
Spend takeaway		–0.3	–0.7	–0.6	–0.6	–0.6	–0.6

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Bad habits 1: Permanent giveaways funded by temporary revenue raisers

- Budget 2013:
  - Personal allowance increase and fuel duty freeze "funded" by ending contracting out for defined benefit schemes
  - Latter policy raises money in short-term but matched by similar liabilities in the longer-term
- AS 2013:
  - New student loans "financed by selling the old student loan book"
  - Economically nonsense as selling an asset for what it is worth does not strengthen the public finances
- Budget 2014:
  - Personal allowance increase, changes to savings taxation, alcohol duty cuts "funded" by voluntary NICs, DC pension reforms, accelerated payments
- AS 2014:
  - Personal allowance increase, stamp duty cut, employers' NICs cut partly "paid for" by bank losses restriction

Institute for Fiscal Studies

Bad habits 2: Permanent spending commitments, but with no (or only temporary) additional money

- Budget 2013:
  - Ending contracting out into DB pensions increases public sector employer NICs (£3.7bn a year)
  - Dilnot social care funding (£1.0bn a year)
  - Tax-free childcare scheme (£0.8bn a year)
- AS 2013:
  - Free school meals extension (£0.8bn a year)
  - Scrapping cap on HE student numbers (£0.7bn a year from 2018–19)
  - Energy prices and efficiency measures (£0.4bn a year)
- Budget 2014:
  - Higher contributions to public service pension schemes (£1bn a year)
- AS 2014:
  - Higher contributions to public service pension schemes (£0.4bn a year)

Changes in borrowing forecasts since March 2014

Public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Budget 2014	**99.3**	**86.4**	**68.3**	**41.5**	**15.8**	**–3.7**	
Forecasting changes	–1.7	5.7	6.6	–0.1	0.8	1.8	
Measures from the scorecard		–0.9	1.0	–0.1	–0.4	–0.5	–0.4
Spending cuts not on scorecard							
AS 2014	**97.5**	**91.3**	**75.9**	**40.9**	**14.5**	**–4.0**	**–23.1**

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

Changes in borrowing forecasts since March 2014

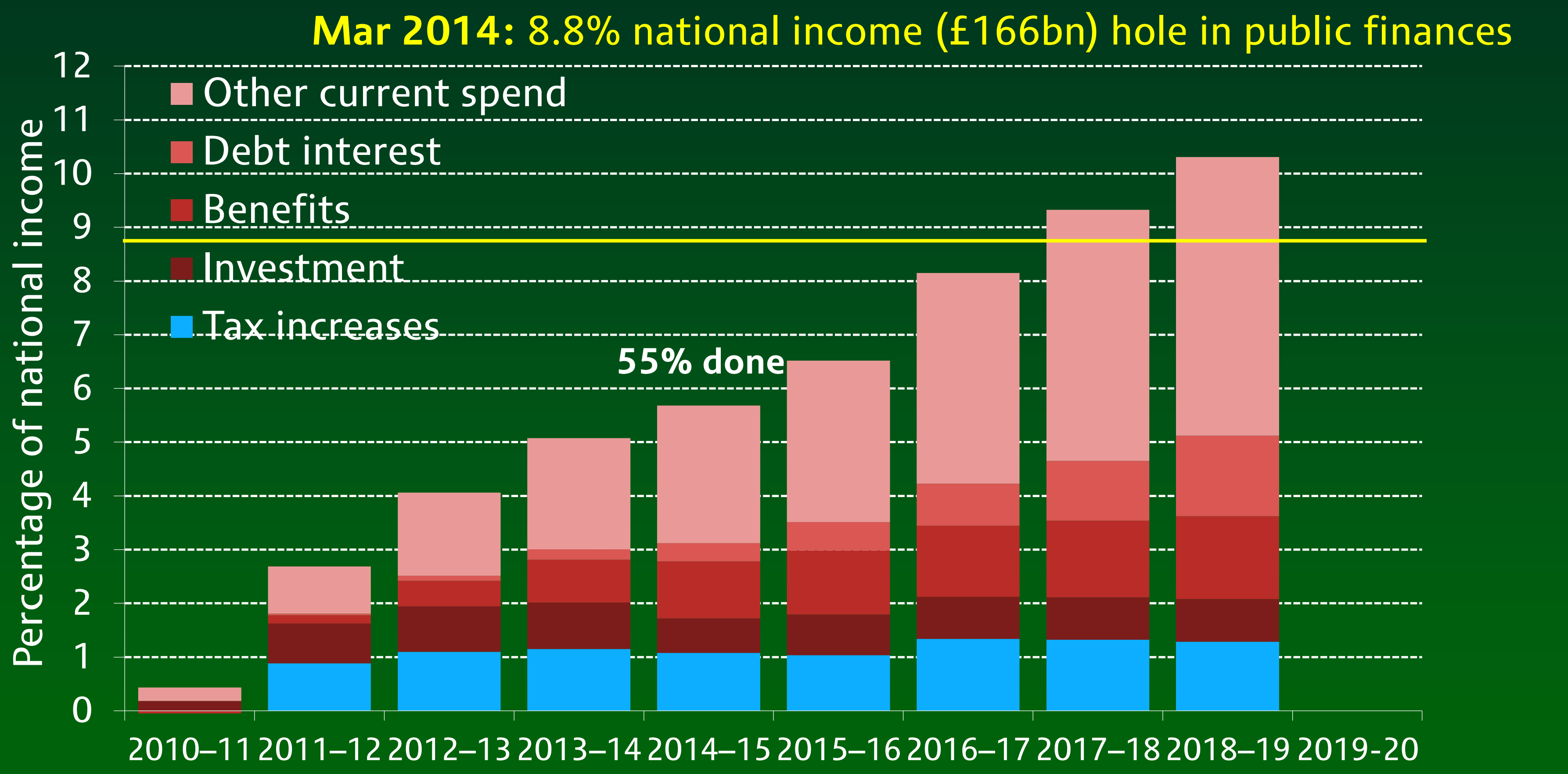
Public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Budget 2014	**99.3**	**86.4**	**68.3**	**41.5**	**15.8**	**–3.7**	
Forecasting changes	–1.7	5.7	6.6	–0.1	0.8	1.8	
Measures from the scorecard		–0.9	1.0	–0.1	–0.4	–0.5	–0.4
Spending cuts not on scorecard				–0.4	–1.6	–1.7	–16.2
AS 2014	**97.5**	**91.3**	**75.9**	**40.9**	**14.5**	**–4.0**	**–23.1**

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

Institute for Fiscal Studies

The cure (March 2014): 10.3% national income consolidation over 9 years (£194bn)



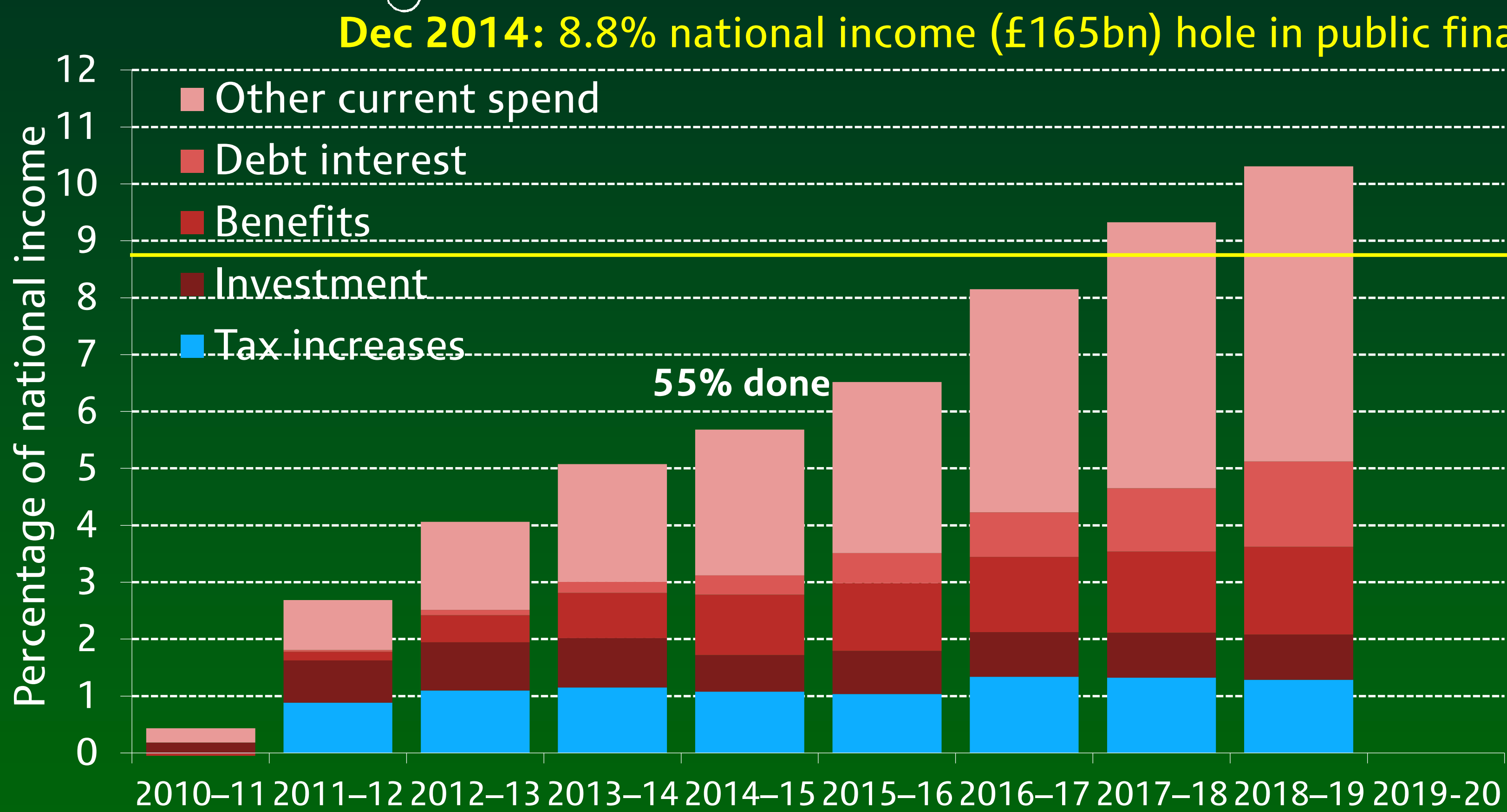
Notes: All monetary figures are expressed in 2015–16 terms.
Sources: HM Treasury; OBR; Author's calculations.

Institute for Fiscal Studies

December ~~March~~ 11.1% ~~10.3%~~ £209bn ~~£194bn~~ 10 years ~~9 years~~

The cure (~~March~~ 2014): ~~10.3%~~ national income consolidation over ~~9~~ years (~~£194bn~~)

December 11.1% 10 years £209bn



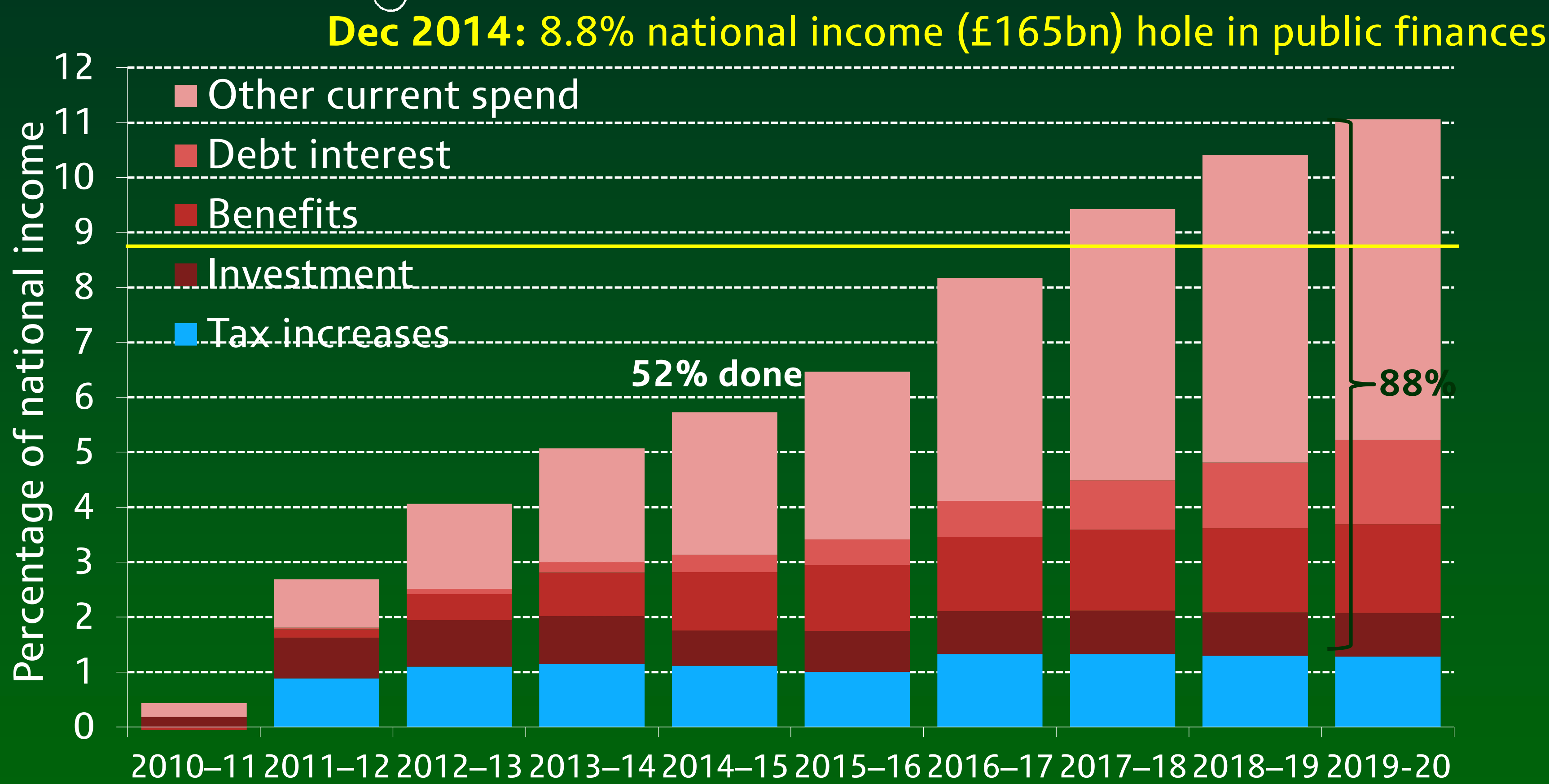
Notes: All monetary figures are expressed in 2015–16 terms.
Sources: HM Treasury; OBR; Author's calculations.

Institute for Fiscal Studies

December 11.1%

The cure (~~March~~ 2014): 1~~0.3~~% national income consolidation over ~~9~~ years (£1~~9~~4bn) £209bn

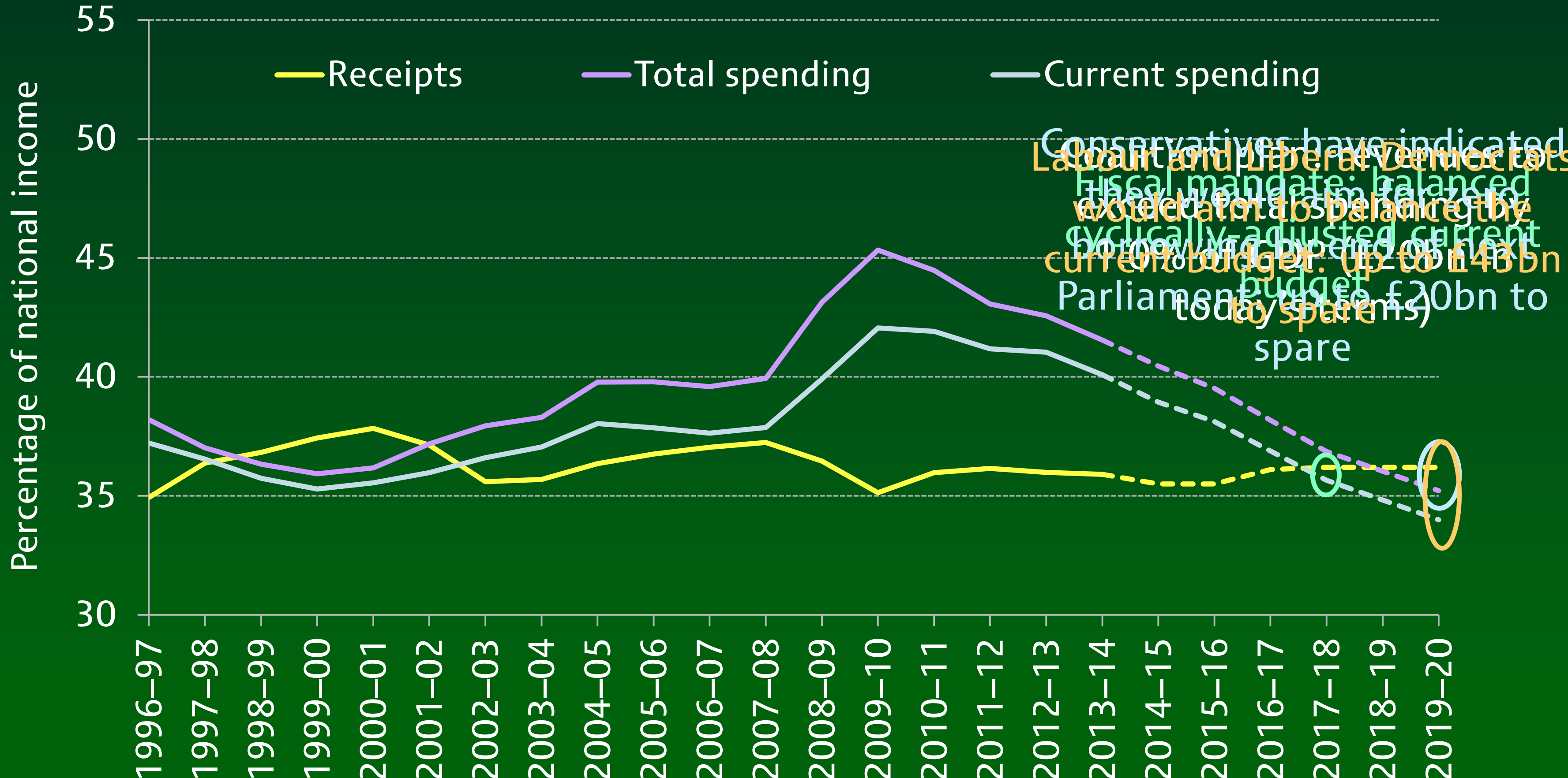
10 years



Notes: All monetary figures are expressed in 2015–16 terms.
Sources: HM Treasury; OBR; Author's calculations.

Institute for Fiscal Studies

Meeting fiscal targets?



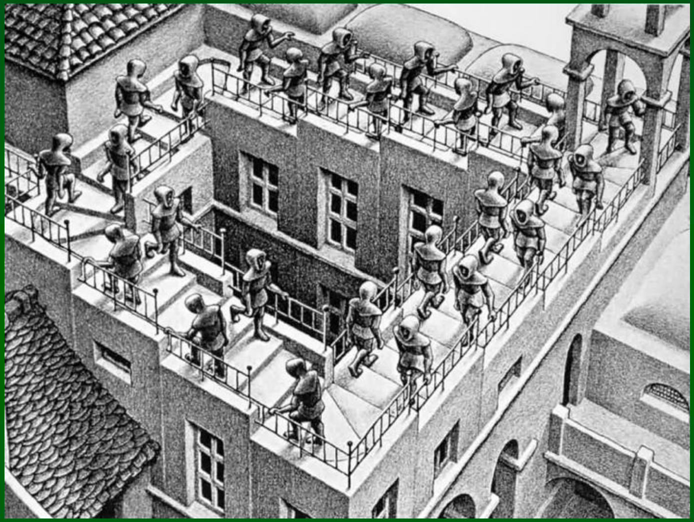
Note: Figures exclude the Royal Mail Pension Plan transfer. All monetary figures are in 2015–16 terms.
Source: ONS; OBR; Author's calculations.

Institute for Fiscal Studies

Summary

- Underlying forecast for borrowing little changed since Budget
  - Large downward revision to expected revenues
  - Offset by similarly large downward revision to expected spending
- Scorecard measures revenue neutral over the next parliament
  - But permanent tax cuts have been partly paid for by temporary tax takeaways
  - Additional spending requirements placed on some departments without extra money
- Extra year of spending cuts in 2019–20
  - Now aiming for tighter fiscal position in the medium-run
  - But has increased cuts required to public services (or other tax rises or welfare cuts required)

Institute for Fiscal Studies



Still five more years of austerity to go?

Gemma Tetlow

IFS hosts two ESRC Research Centres