Four more years?

Carl Emmerson looks into the detail of the continuing public service cuts announced in the latest Budget.
The July 2015 Budget set out a path for cuts to spending on public services that is less steep over the next three years than was implied by the Conservative Party manifesto. But Mr Osborne also extended the period of cuts for another year, so they now run to 2019–20, and added the Ministry of Defence to the list of departments that will avoid cuts in the forthcoming Spending Review. The result is that the remaining unprotected departments still face deep cuts that will not be easy to deliver.

The forecast path for Departmental Expenditure Limits (DELS) – that is spending by Whitehall departments on the delivery and administration of public services – is shown in the Figure opposite. Overall, DELs are forecast to be cut, relative to economy-wide inflation, by 3.2% over the next four years – a total real terms cut of £11 billion. If implemented, this would bring the total cut since 2010–11% to 12.6% or £50 billion.

Delivering cuts of 3.2% over four years might not sound particularly challenging. But the cuts are not to be applied equally across departments. The Conservative Party manifesto committed to real terms increases in spending on the NHS and overseas aid, and for cash schools spending per pupil not to be cut. The Budget added to the list of protected departments – the Ministry of Defence is to see its budget rise by 0.5% a year in real terms over the rest of this parliament in order to help the Government keep to its NATO commitment to spend at least 2% of national income on defence. Spending on the NHS, schools, overseas aid and defence currently make up 57% of total DEL, and these budgets are to be increased by a total of £8 billion (or 4%) over the next four years.

This leaves £19 billion of cuts to be found from unprotected departments, equating to an average cut of 12.6%. If implemented, this would bring the total cut to spending on unprotected departments since 2010–11 up to one-third.

These cuts – to areas of spending including grants for local government services, policing, courts, prisons and transport – will not be easy to implement. There are a number of growing pressures on public services, including the growth and ageing of the population. Public sector employers will also see their National Insurance bills increase by £3.7 billion next April (with the ending of contracting out for those in defined benefit pension arrangements) and a £1.1 billion increase in their contribution towards the cost of public service pensions. There are also areas of spending where the Government has made additional commitments – such as childcare, social care for the elderly and security – which will need to be delivered within shrinking budgets. The cuts to be found over the next four years also follow deep cuts over the last five, perhaps suggesting that any efficiency savings that were easy to identify and deliver will have already been made and any low-value programmes may have already been scrapped.

The squeeze on spending in the last parliament was in part delivered by increasing public sector pay less quickly than inflation. This pay restraint was helped by declines and then weak growth in private sector wages during and after the financial crisis. Real cuts to wages are expected to continue playing a part in delivering spending cuts: the Chancellor has announced a 1% limit on public sector pay awards for the next four years. But delivering further real cuts to public sector pay rates might prove more difficult than in the last parliament, as private sector pay growth is expected to accelerate.

Our estimates suggest that 1% pay growth for four years in the public sector would reduce average public sector wages, by 2019–20, to their lowest level relative to private sector wages in more than twenty years. Our estimates suggest that 1% pay growth for four years in the public sector would reduce average public sector wages, by 2019–20, to their lowest level relative to private sector wages in more than twenty years. Although the Budget reduced and slowed the planned cuts to public service spending over the next three years, the Government’s new commitment to increase defence spending (coupled with existing commitments on health, schools and overseas aid) and the extension of spending cuts to 2019–20, means that unprotected departments still face significant real-terms cuts over the next four years. Coming on top of five years of cuts in the last parliament, delivering these additional cuts will not be easy.

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