



# Institute for Fiscal Studies



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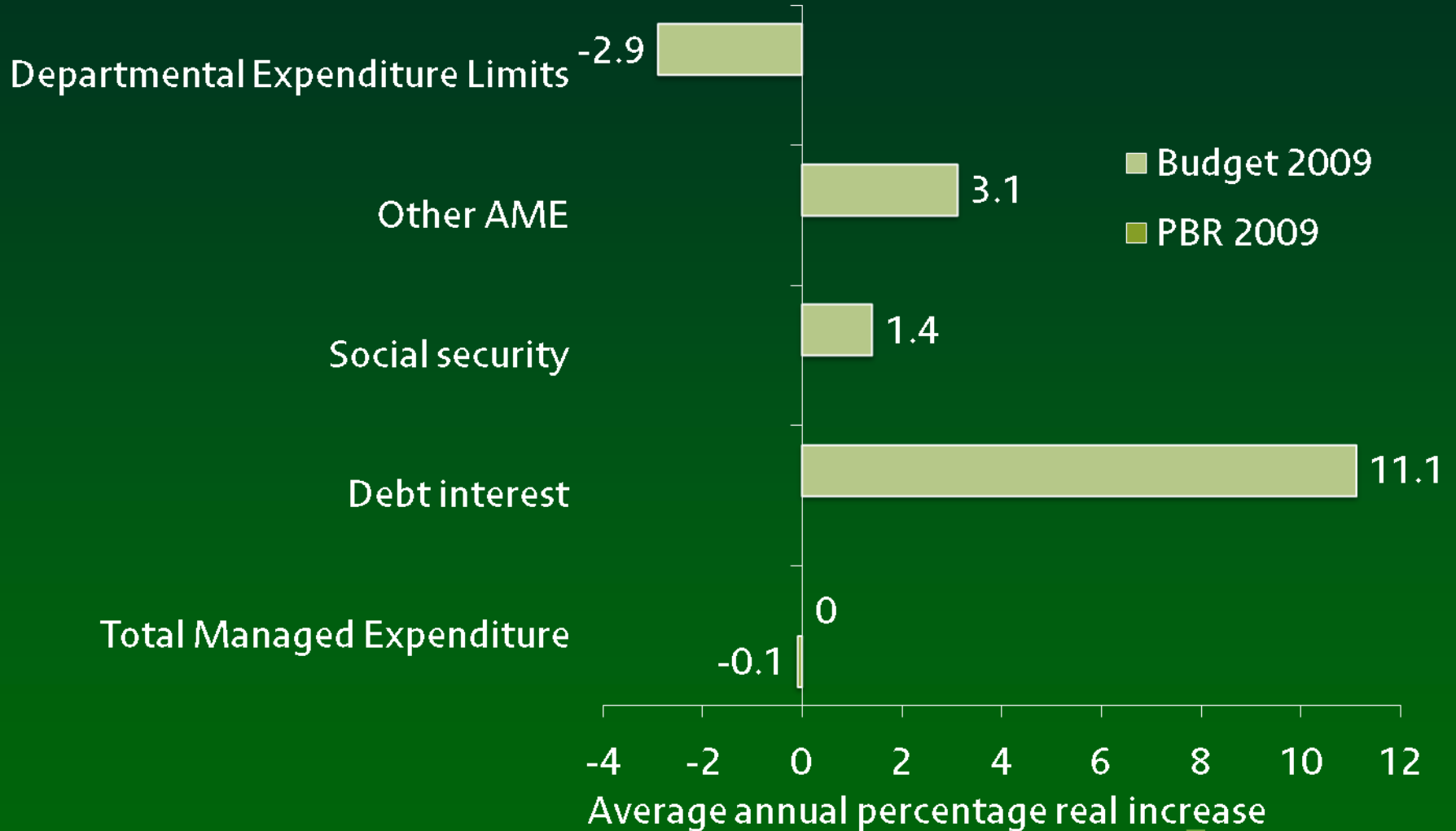
## Public spending

Gemma Tetlow

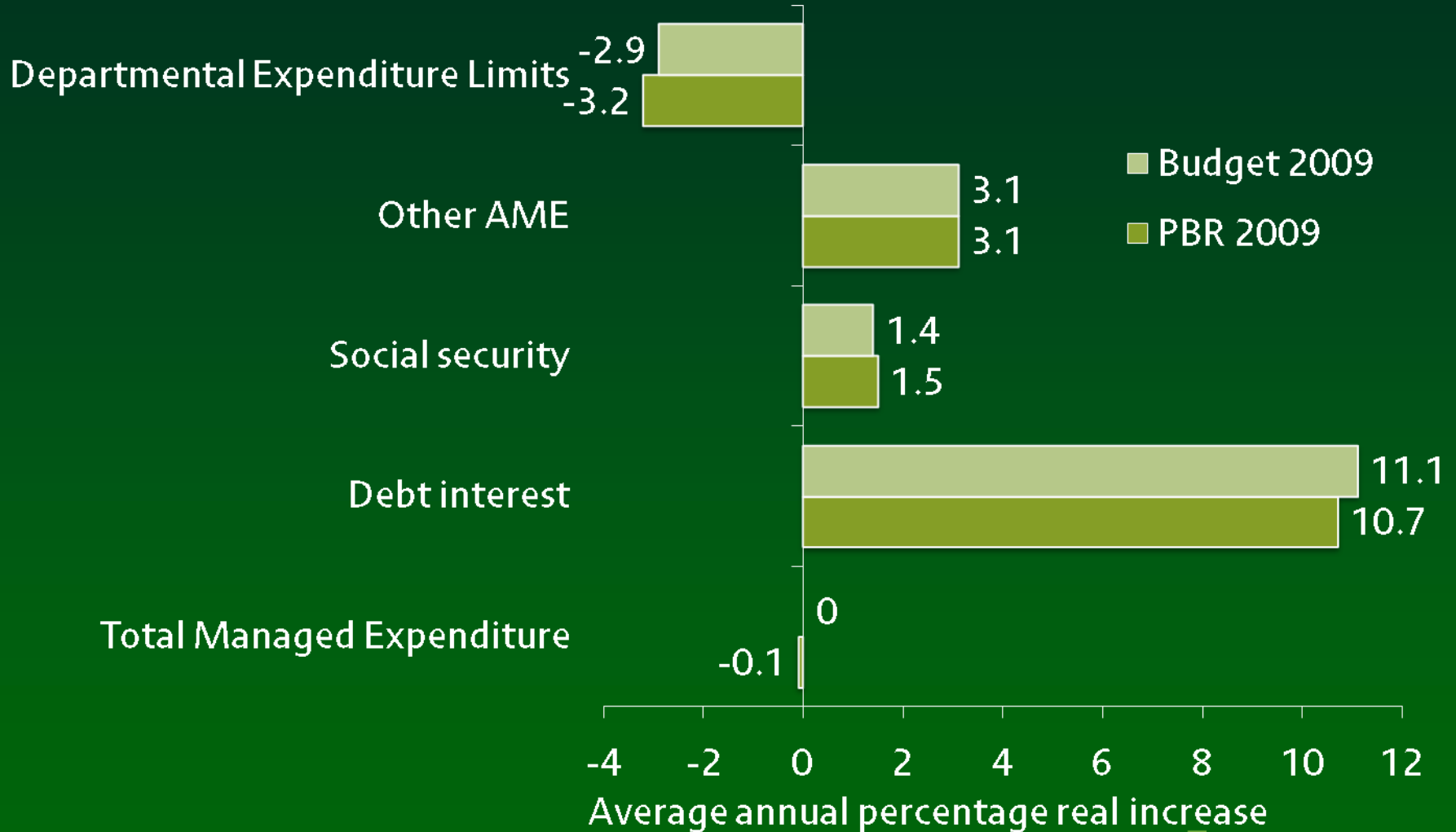
# Outlook for the next spending review

- Big picture: spending growth 2011–12 to 2013–14
  - Total spending: frozen in real terms
  - Current spending: +0.8% p.a.
  - Investment spending: –19.2% p.a.
- Spending Review 2010 period: 2011–12 to 2013–14
  - Squeeze on departmental spending tighter, mostly reflects additional military spending in the “base” year
  - Spending in several priority areas to be ‘protected’ for first two years

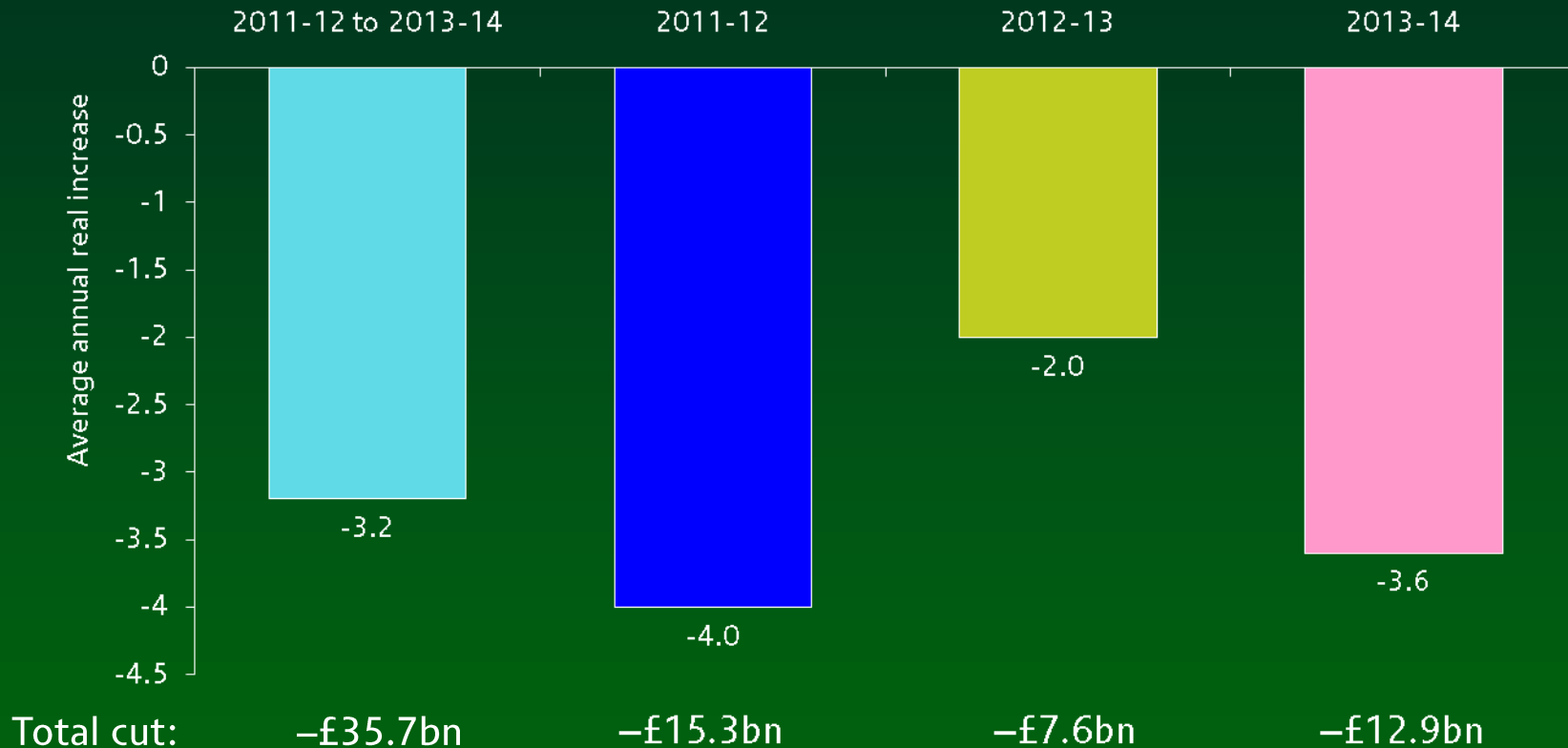
# Growth in components of spending: 2011–12 to 2013–14



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# Departmental spending: When will the pain be felt?



# What cuts to departmental spending have they identified?

- Total cut required by 2013–14: £35.7bn
- Cuts already claimed, by 2012–13
  - Efficiency savings: £11bn
  - Tight control of public sector pay: £3.4bn
  - Reforms to public sector pensions: £1bn
  - Cuts to lower priority budgets: £5bn
- Additional cut claimed for 2013–14
  - Efficiency savings: £1bn
- Remaining gap?
  - About £15bn

# Past record on efficiency savings

- Spending Review 2004 period
  - £26.5bn efficiency savings claimed
  - NAO audit half-way through suggested: 25% did not adequately demonstrate true efficiencies, another 50% questionable
- Comprehensive Spending Review 2007 period
  - £35bn efficiency savings promised
  - PBR 2009 confirms £8.5bn delivered by mid-2009/10
  - Another £26.5bn to come before end 2010–11?

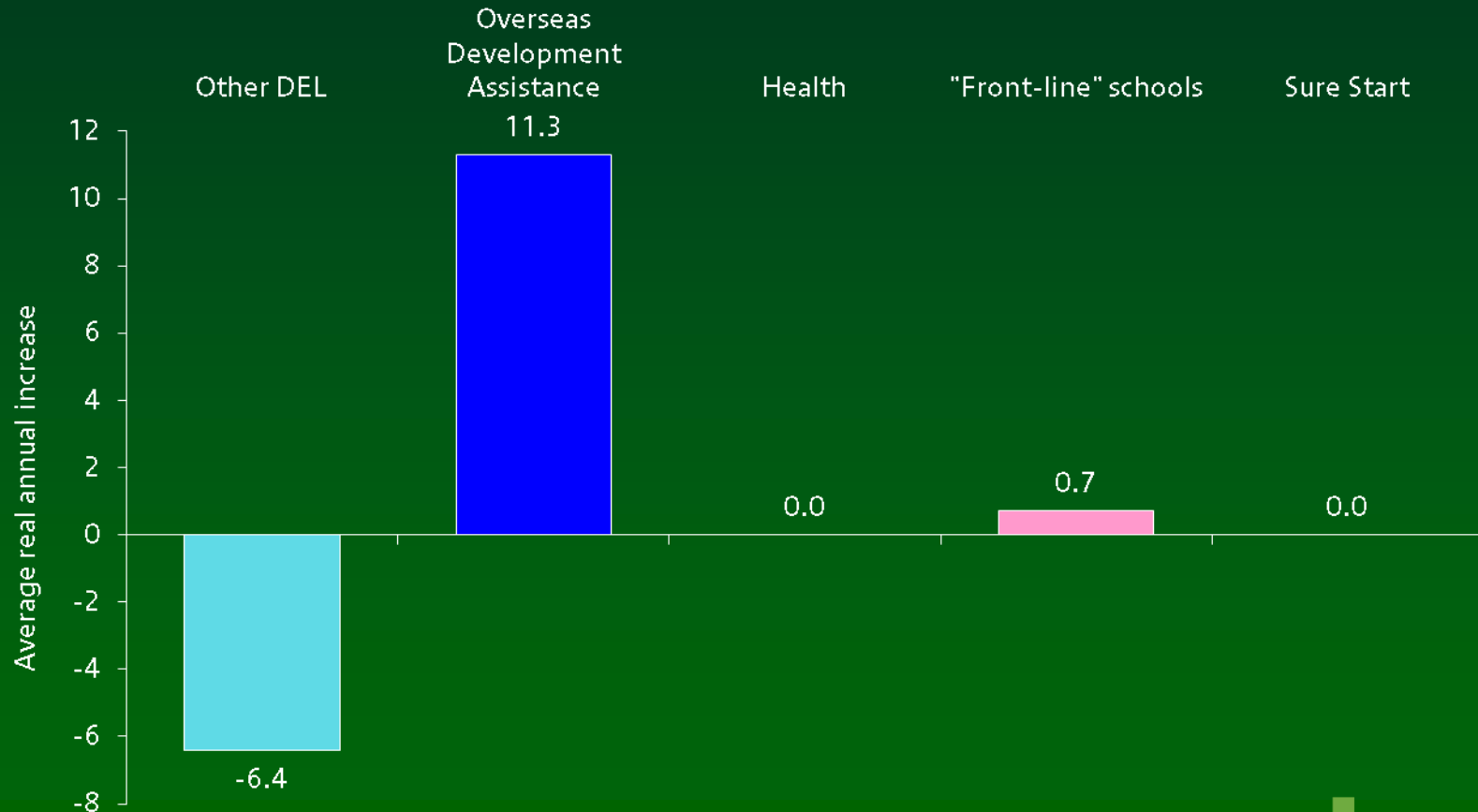
## But some areas are to be ‘protected’...

- Health
  - Real freeze in near cash NHS spending in 2011–12 and 2012–13
- Schools
  - 0.7% real increase in “front-line” schools spending in 2011–12 and 2012–13
  - Costs an additional £0.7bn in 2012–13
- Sure Start
  - Real freeze in spending in 2011–12 and 2012–13
- Overseas Development Assistance
  - Meet 2013 target of spending 0.7% of Gross National Income
  - Requires average real growth of 11.3%
  - Additional £1.9bn by 2012–13, plus further £1.1bn in 2013–14



# Implications for other departments?

Average annual real growth: 2011–12 and 2012–13

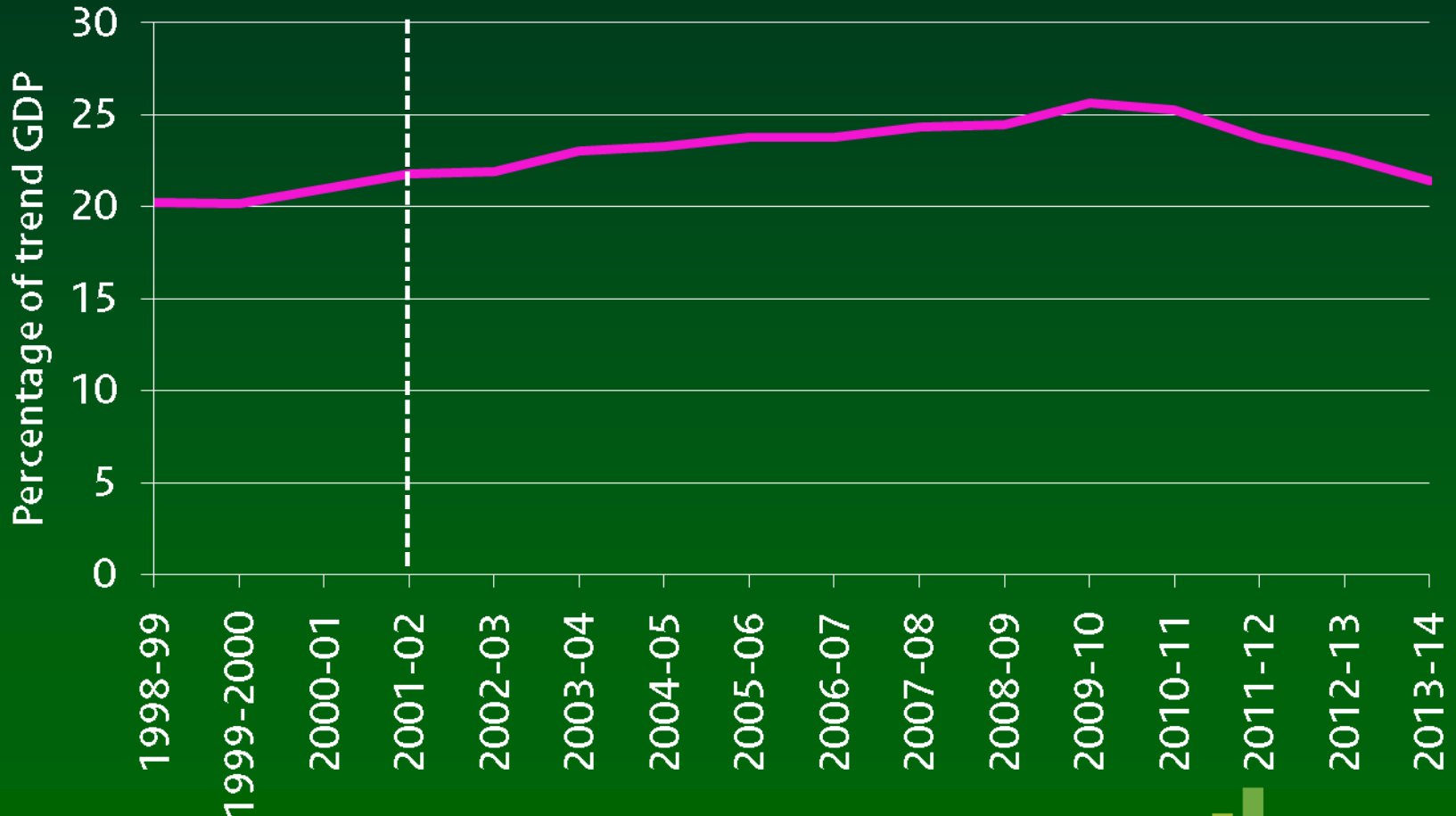


–£25.5bn, cumulative cut 12.3%

# Summary of implications for other DELs

- By 2012–13:
  - Cuts to real DEL of £22.9bn
  - Pledges to increase some real spending mean additional £2.6bn must be found elsewhere
  - Total cuts required: £25.5bn
  - Any of the currently identified savings (totalling £20.4bn) that fall within protected budgets cannot contribute to the spending cut
- In 2013–14:
  - If meet ODA target, additional cut to other DEL required: £14.0bn
  - Equates to further 4.0% real cut for non-ODA DEL
  - Additional efficiency savings identified: £1bn
- Significant unprotected areas:
  - Defence, Higher Education, Transport and Housing

# Public service spending increase in Labour's second and third terms reversed



# Where do the Conservatives plans stand?

- Pledges on DEL:
  - Meet ODA target
  - Freeze NHS spending
- If match Labour's plans for total spending:
  - Cut required elsewhere by 2013–14: £38.8bn
- Osborne's conference speech claimed £7bn of cuts
- Caveats:
  - Any of these found within NHS budget do not save money overall
  - Not all are necessarily additional to the Government's proposals
  - Presumably will adopt any genuine Government efficiency savings
- Remaining gap?
  - £10.4bn–£21.4bn

# Summary (1)

- Total public spending broadly flat in real terms over 2011–12 to 2013–14
  - current spending to grow, deep cuts to investment spending
- Under current policies some spending likely to grow
  - debt interest (10.7% p.a.), social security spending (1.5% p.a.) and other Annually Managed Expenditure (3.1% p.a.)
- Implies cuts to central government spending on public services
  - Departmental Expenditure Limits could fall by 3.2% a year
  - £36bn lower in 2013–14 compared to 2010–11
  - £15bn larger than total of efficiency savings and cuts claimed so far

## Summary (2)

- Over first two years 2011–12 and 2012–13
  - Departmental Expenditure Limits to be cut by 3.0% a year, or £22.9bn in total
  - ‘Front-line’ health, schools, Sure Start and Overseas Aid pledge all ‘protected’
  - other areas facing average cuts of 6.4% a year, or £25.5bn in total
  - severe cuts to fall elsewhere, potentially in areas such as defence, higher education, transport and housing
- All of the increase in central government spending on public services over Labour’s second and third term reversed by 2013–14
  - potentially first term increases also to be reversed by 2017–18