

Institute for Fiscal Studies



even

Department spending post 2014-15: more
cuts to come

Paul Johnson

(For Fabian Commission December 11 2012)

Size of the problem has increased

Estimated underlying increase in structural borrowing since March 2008, %GDP

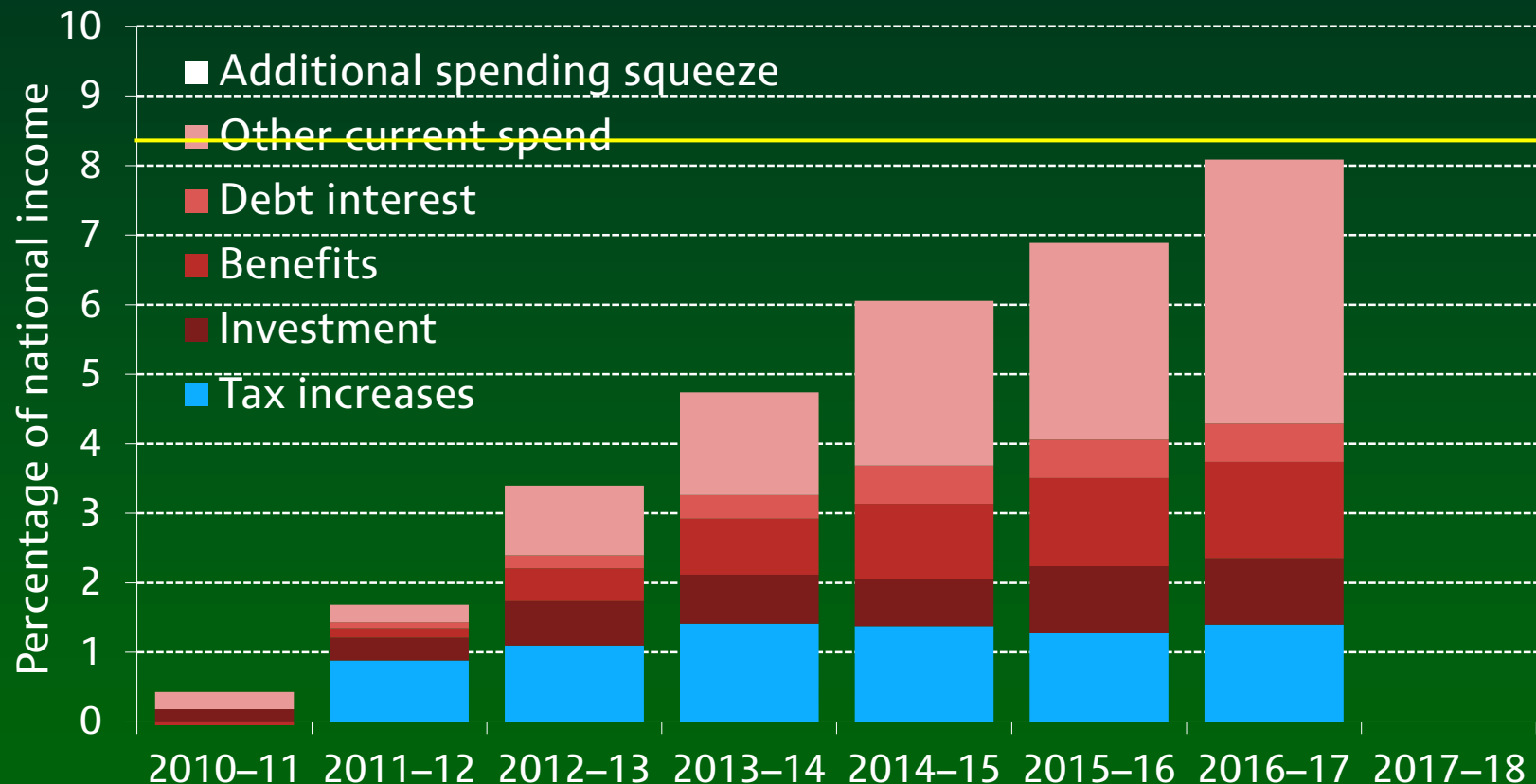


£129bn

£50bn £100bn £91bn £83bn £91bn £89bn £92bn £117bn £118bn

The cure (December 2012): 9.2% national income consolidation over 8 years (£144bn)

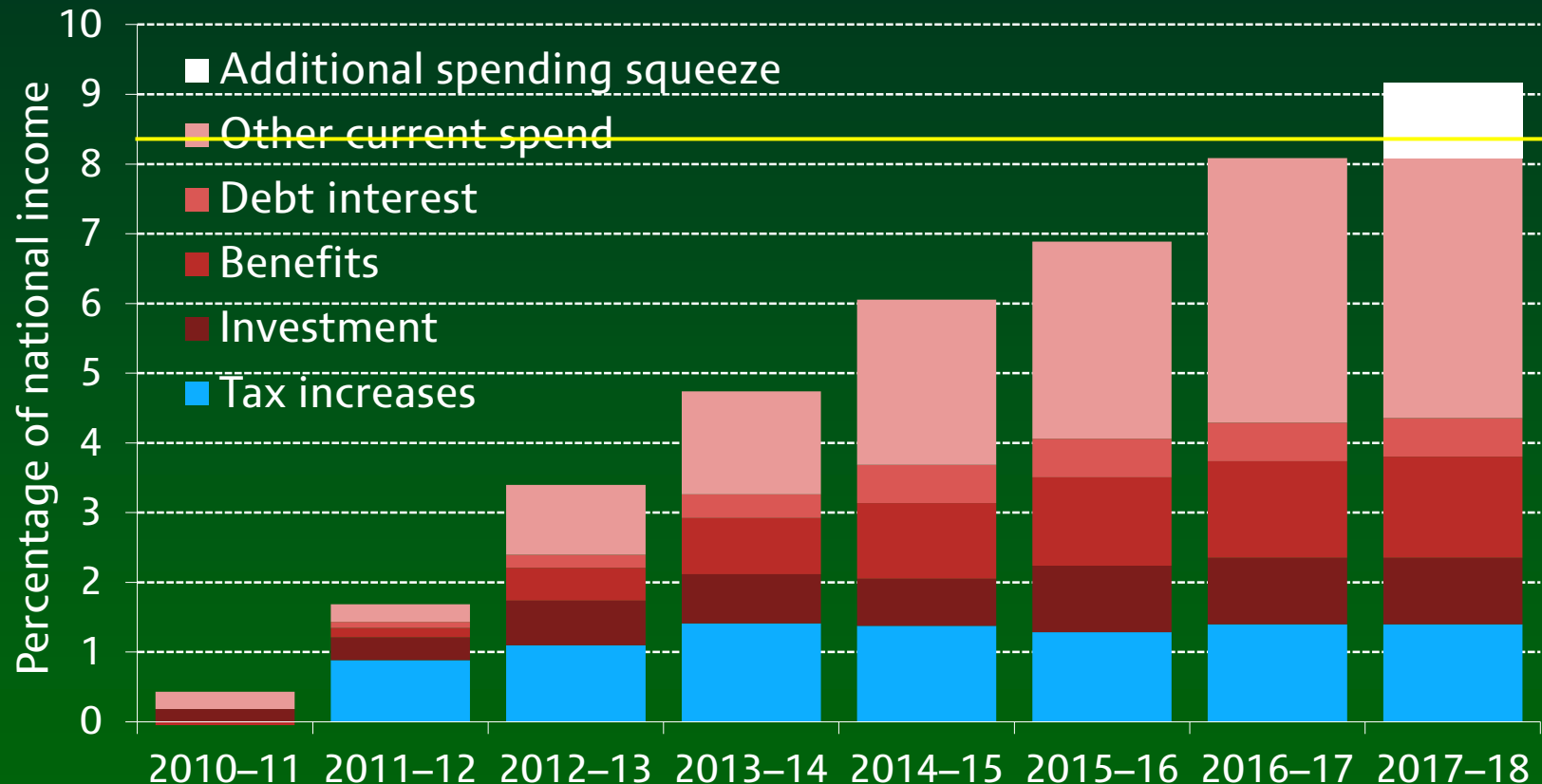
Dec 2012: 8.2% national income (£129bn) hole in public finances



- Measures announced yesterday have little impact before 2017-18

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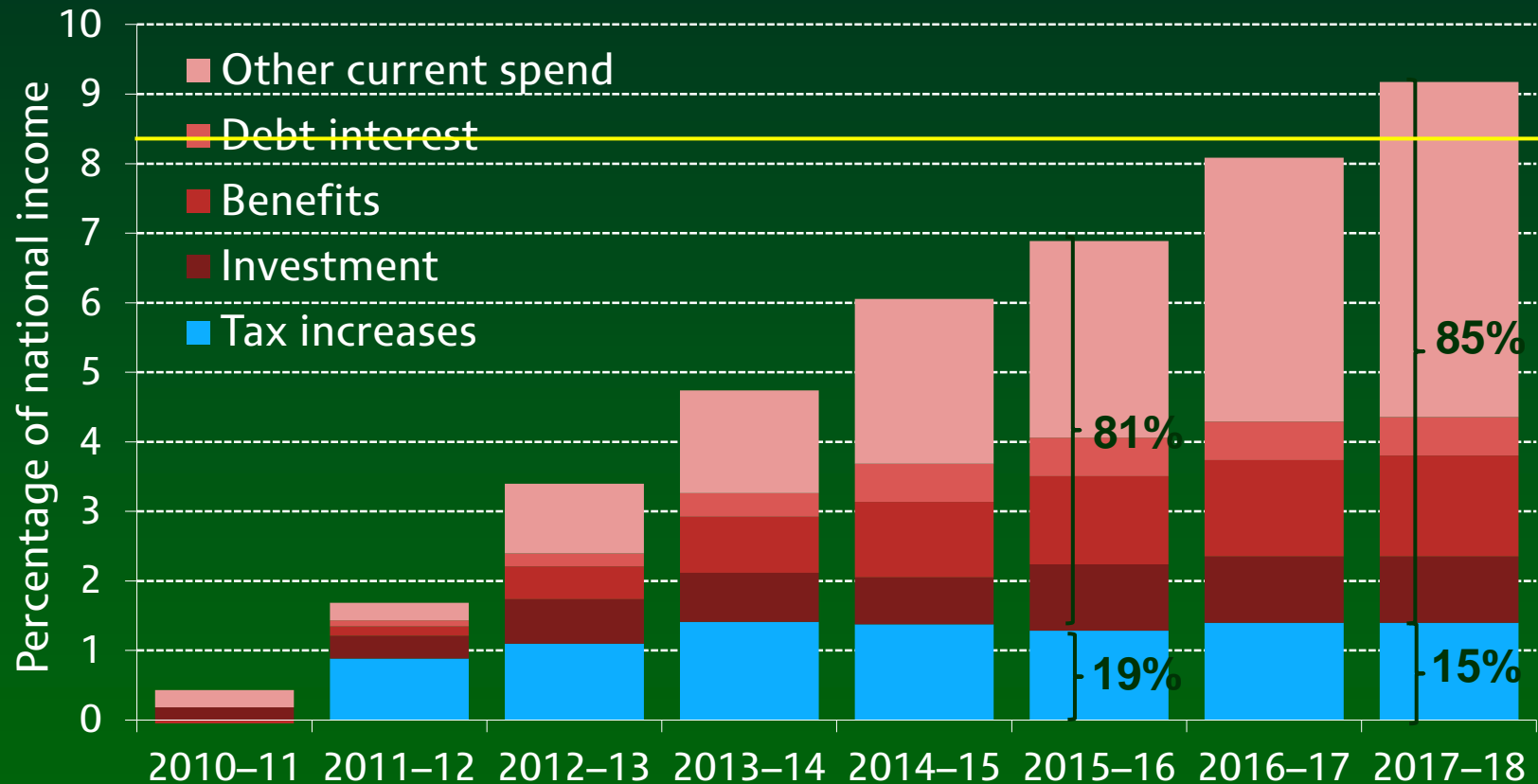


- Measures announced yesterday have little impact before 2017-18
- Additional spending cut in 2017-18: 1.1% of GDP (£17bn)

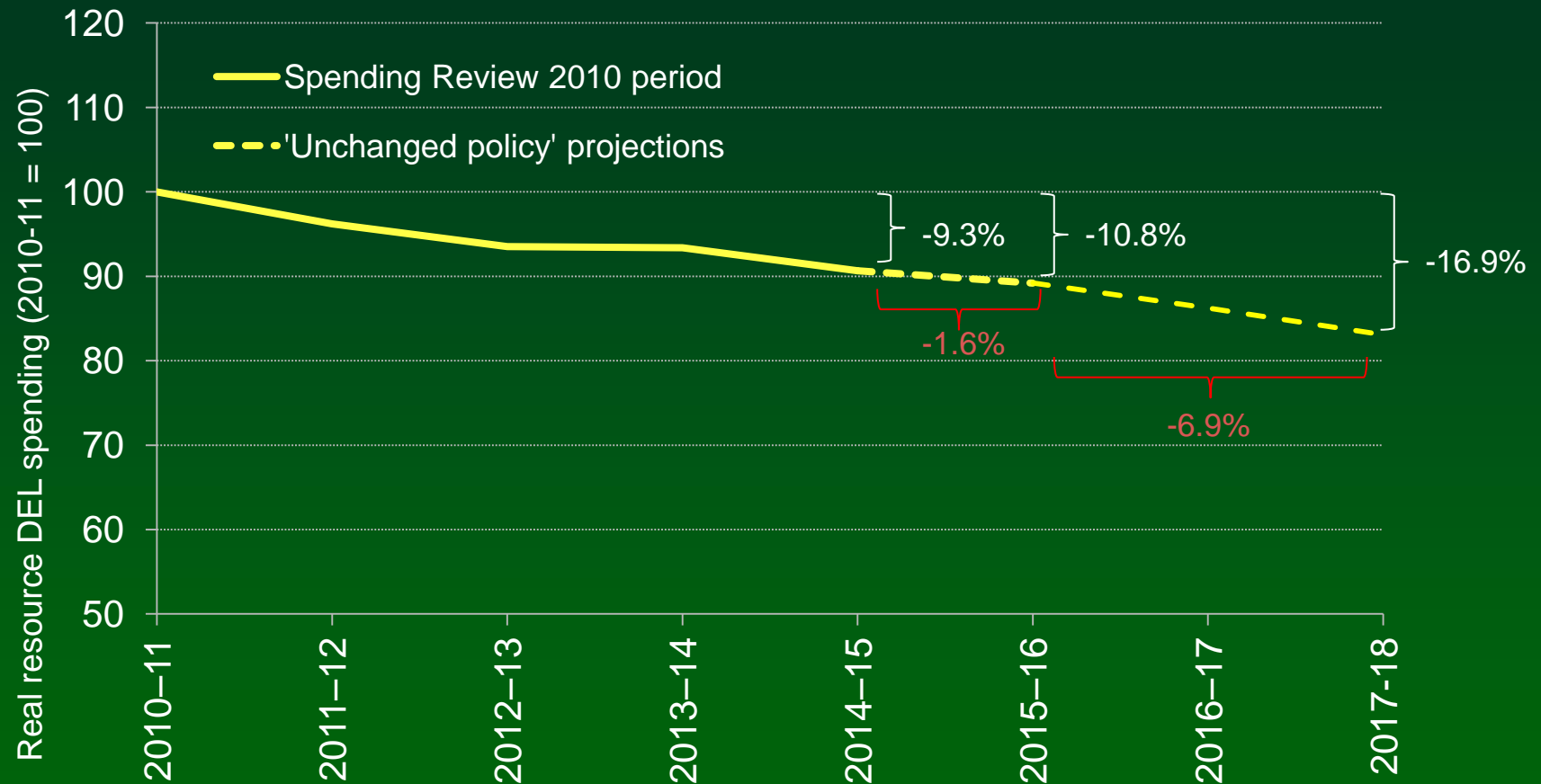


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Dec 2012: 8.2% national income (£129bn) hole in public finances



Real change in resource DEL



Note: Figure shows resource Departmental Expenditure Limits (DELs) including depreciation under current policies, assuming no further changes to welfare policies or total government spending.



Spending Review to come early next year

- “Spending on health, schools and ODA will be protected from further reductions”

	Total DEL	<i>Of which:</i>			
		NHS	Schools	Aid	Other DEL
Real percentage change in resource spending between 2014-15 and...					
... 2015-16	-1.6	0.0	0.0	2.3	-3.2
... 2017-18	-8.4	0.0	0.0	8.2	-16.2
Real percentage change in resource spending between 2010-11 and...					
... 2014-15	-9.3	2.9	0.6	31.0	-18.3
... 2015-16	-10.8	2.9	0.6	34.0	-20.9
... 2017-18	-16.9	2.9	0.6	41.7	-31.5

Notes: Projected spending cuts assume no further welfare spending cuts or changes to total government spending. 2014-15 spending baselines used are English NHS budget and DfID budget from PESA 2012, and schools spending from Chowdry and Sibieta (2011),

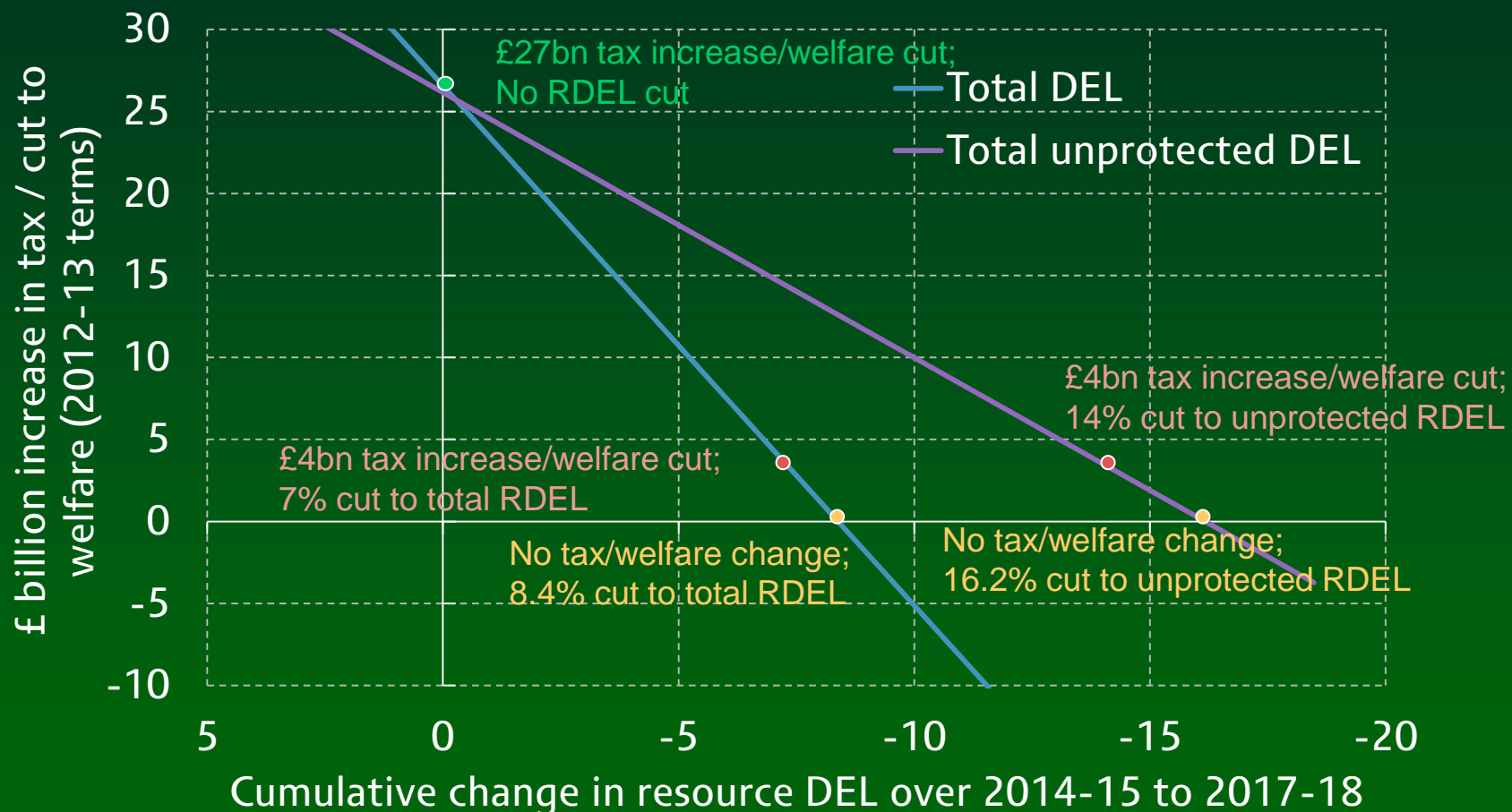
Where could cut in 'unprotected DEL' fall?

- Real cut of 3.2% to 'unprotected' resource DEL in 2015-16 equates to a total budget reduction of £5.5 billion
- (Cut of 16.2% would equate to a cut of £28 billion)
- Where could such a budget reduction come from given that the protected elements account for 46.9% of resource DEL?

Department	2014-15 Budget (£ billion, 2012-13 prices)
Defence	32.1
CLG Local Government	21.0
Business, Innovation and Skills	16.5
Education (excluding schools)	12.5
Home Office	7.5
Work and Pensions	7.5
Justice	7.2
Transport	5.2

Note: Devolved administrations and departments with 2014-15 budgets of less than £5 billion are not shown

Cuts to resource DELs could be reduced by tax increases and/or welfare cuts



Summary

- Spending Review in early 2013 to set departmental budgets for 2015-16
 - Total resource DEL to be cut by 1.6% in real terms
 - Government pledged to protect NHS, schools and aid spending, leaving other ‘unprotected’ resource DEL facing cuts of 3.2%
 - Total real cut to ‘unprotected’ resource DEL since 2010-11 of 20.9%
- Further real cuts to departmental spending to come in 2016-17 and 2017-18
 - Without tax increases or welfare cuts then if NHS, schools and aid still protected, ‘unprotected’ resource DELs would face cumulative cut of 31.5% since 2010-11
- Tax increases or welfare spending cuts could reduce the pressure on resource DELs in 2016-17 and 2017-18
 - Cutting resource DELs at the same rate as over the SR2010 period (7% real cut over the two years) would require £4 billion to be raised
 - Would still leave ‘unprotected’ resource DELs facing a cut of 29.7% since 2010-11