Public services: the axe comes soon

Carl Emmerson
Public spending: summary

• Budget added to departmental spending in 2010–11
  – increased spending on higher education and roads

• Over four years from April 2011:
  – little change since Pre-Budget Report
  – additional spending in 2010–11 slightly increases cuts thereafter
  – current policies imply deep cuts to spending on public services

• Announced real cuts to public sector pay and axing of some lower value spending will help
  – additional contribution of efficiency savings less clear
Growth in components of spending: 2011–12 to 2014–15

- Total Managed Expenditure
  - Of which:
    - Debt interest: 12.7%
    - Social security: 1.1%
    - Other AME: 3.1%
    - Departmental Expenditure Limits: -3.1%

Source: IFS calculations based on figures from HM Treasury
Public services spending: back down the hill

Sources: HM Treasury; IFS calculations.
But some areas are to be ‘protected’...

- Overseas Development Assistance
  - meet 2013 target of spending 0.7% of Gross National Income

In 2011–12 and 2012–13:

- Health
  - real freeze in “front-line” NHS spending

- Education
  - 0.7% real increase in “front-line” schools spending
  - 0.9% real increase in “front-line” spending on 16-19 participation
  - real freeze in “front-line” spending on Sure Start

- Treasury still haven’t provided costings for these commitments
Cumulative spending changes to 2012–13

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Source: IFS calculations based on figures from HM Treasury
Cumulative spending changes to 2014–15?

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Source: IFS calculations based on figures from HM Treasury
Claimed savings so far

- Cuts to DELs total £25bn by 2012–13 rising to £46bn by 2014–15
- By 2012–13 Treasury estimates:
  - 1% cap on public-sector pay to reduce spending by £3.4bn
  - cuts to lower value spending worth £5bn
  - cap on employer-pension contributions saves £1bn
  - efficiency savings of £11bn
- Do these contribute to deficit reduction and has the financial crisis led to them happening?
  - lower public sector pay: yes and yes
  - cuts to lower value spending: yes and quite possibly
  - public sector pensions: yes and very doubtful
  - efficiency saving: unclear in either case

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Efficiency savings

- Treasury claims £11bn by 2012–13
- Had the financial crisis not happened what would have been claimed over this period?
  - targeted £21.5bn between 2004–05 and 2007–08 under Gershon Review and claims achieved £26.5bn
  - targeted £30bn between 2007–08 and 2010–11 under 2007 CSR and increased this to £35bn under Operational Efficiency Programme
- Will efficiency savings be delivered as expected?
  - £26.5bn: NAO audit half-way through suggested: 25% did not adequately demonstrate true efficiencies, another 50% questionable
  - £35bn: less than one-third (£10.8bn) found by Autumn 2009, another £24bn needed before April 2011
Deficit reduction and efficiency savings

• Without spending limits being set not possible to say what the contribution of each department is to the deficit reduction
• Genuine efficiency savings within ‘protected’ budgets boost service quality in those areas rather than reduce borrowing
Efficiency savings (2012–13)

- Health: £4.4bn
- CLG Local Government: £2.1bn
- Children Schools and Families: £1.1bn
- Defence: £0.7bn
- Work and Pensions: £0.4bn
- Home Office: Arm's length: £0.4bn
- Home Office: Police: £0.3bn
- Justice: £0.3bn
- Business, Innovation and Skills: £0.3bn
- CLG Communities: £0.2bn
- Environment, Food and Rural Affairs: £0.2bn
- International Development: £0.2bn
- Transport: £0.1bn
- Culture, Media and Sport: £0.1bn
- Energy and Climate Change: £0.0bn
- Cabinet Office: £0.0bn

Total across these departments £10.7bn, split 50/50 ‘protected’ and ‘unprotected’

Source: Various departmental websites; IFS calculations
Efficiency savings (2012–13)

- CLG Local Government: 8.0%
- Home Office: 6.7%
- Environment, Food and Rural Affairs: 6.3%
- Health: 4.0%
- Work and Pensions: 3.7%
- Justice: 3.6%
- Culture, Media and Sport: 2.8%
- International Development: 1.9%
- Children Schools and Families: 1.9%
- CLG Communities: 1.9%
- Defence: 1.7%
- Business, Innovation and Skills: 1.4%
- Cabinet Office: 1.0%
- Energy and Climate Change: 0.9%
- Transport: 0.6%

Source: Various departmental websites; IFS calculations

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Public spending: summary

• Little change since PBR; over four years from April 2011
  – total public spending broadly flat after economy-wide inflation
  – debt interest and, under current policies, welfare benefits and other annually managed expenditure to continue rising
  – implies deep cuts for public service spending
  – and much deeper cuts elsewhere if large areas such as the NHS and schools exempted from cuts

• Announced real cuts to public sector pay and axing of some lower value spending will help
  – cuts to employer-contributions to public-service pensions
  – additional contribution of efficiency savings less clear

• Significant welfare spending cuts or further tax rises could alleviate the pain