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Budget 2013 and public spending

Paul Johnson

Big picture

- Changes to economic forecasts have weakened public finances
  - Forecast for growth reduced: half of this expected to be temporary, half expected to be permanent
  - GDP deflator also lower
- Net effect on public borrowing of new measures announced in Budget was very small
- Chancellor now aiming for slightly weaker medium-term fiscal position than before
- Fiscal mandate still met but with less room for manoeuvre
  - Deficit falling as share of national income in each year
- Supplementary target still on course to be missed
  - Debt forecast to peak in 2016–17

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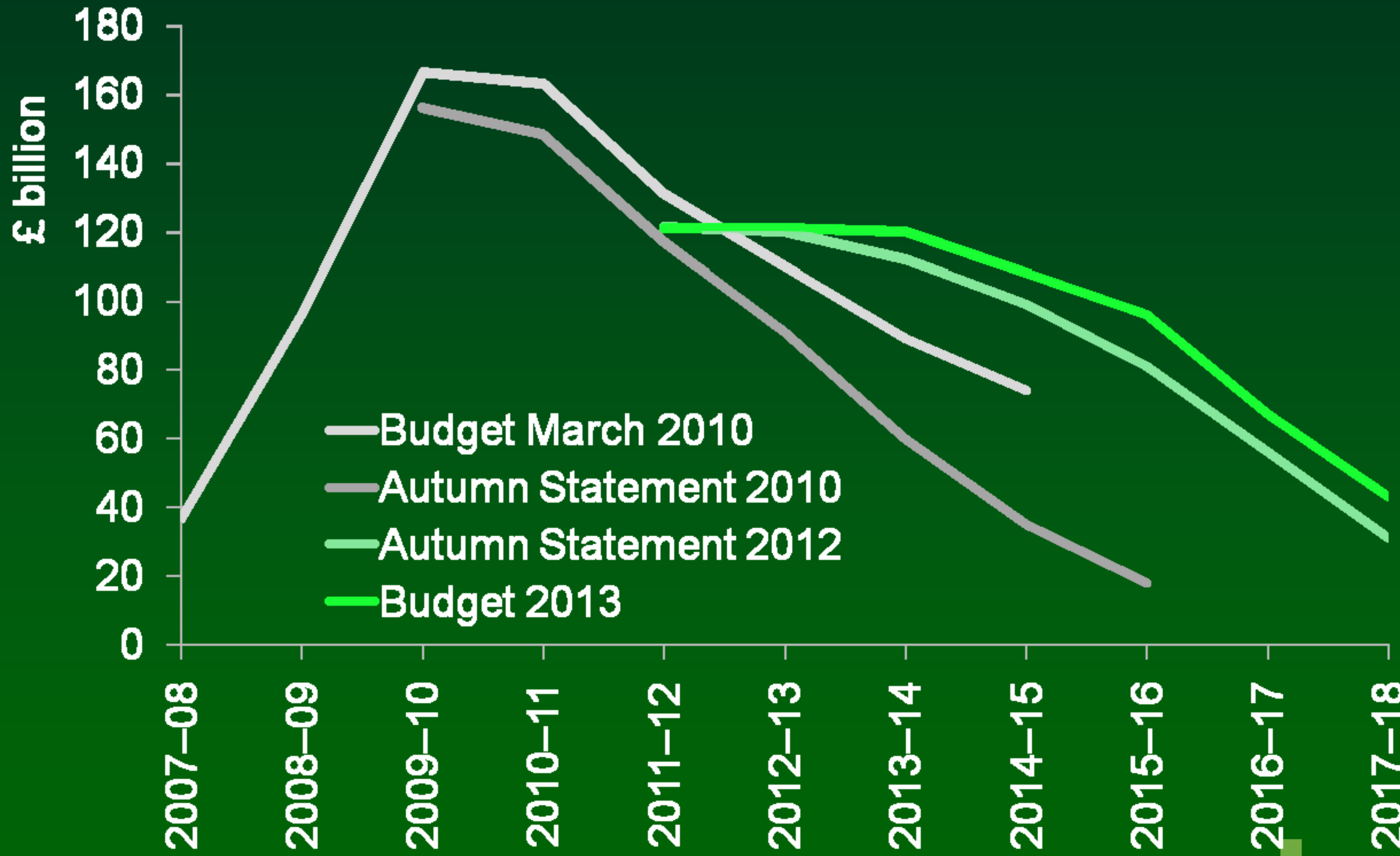
Cutting the deficit?



Notes: Excludes Royal Mail and APF transfers.

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Changes in borrowing forecasts since Dec 2012

Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18
Budget 2010	**116**	**89**	**60**	**37**	**20**		
AS 2012	**121**	**119.9**	**112**	**99**	**81**	**56**	**31**

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes the Asset Purchase Facility and the impact of the transfer of Royal Mail Pension Plan assets.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

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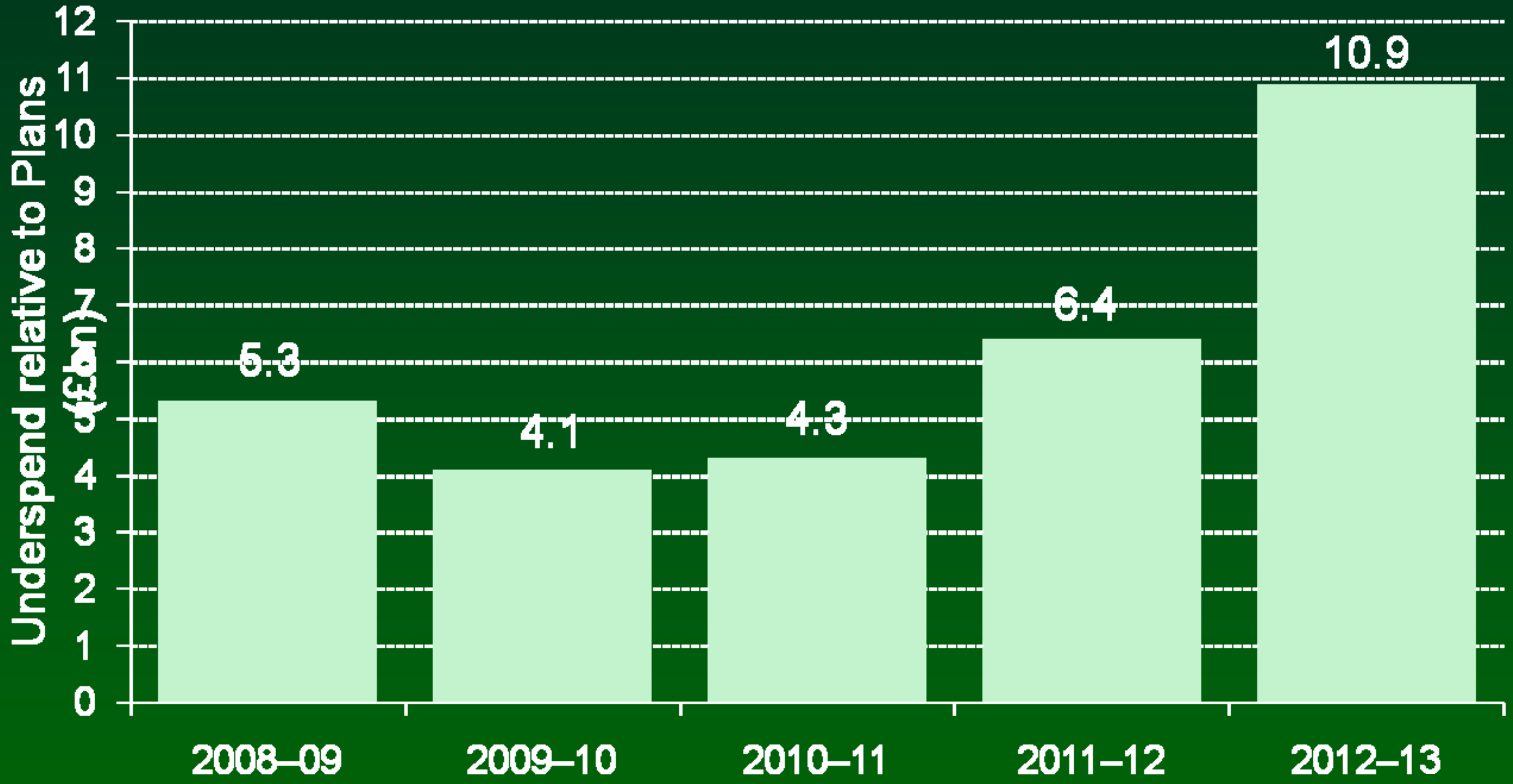
Historical Underspends



Undespends relative to ‘final’ plans up to 2010-11, and relative to PESA plans after 2011-12.

Source: OBR March 2013 EFO Fiscal Supplementary Tables Table 2.15

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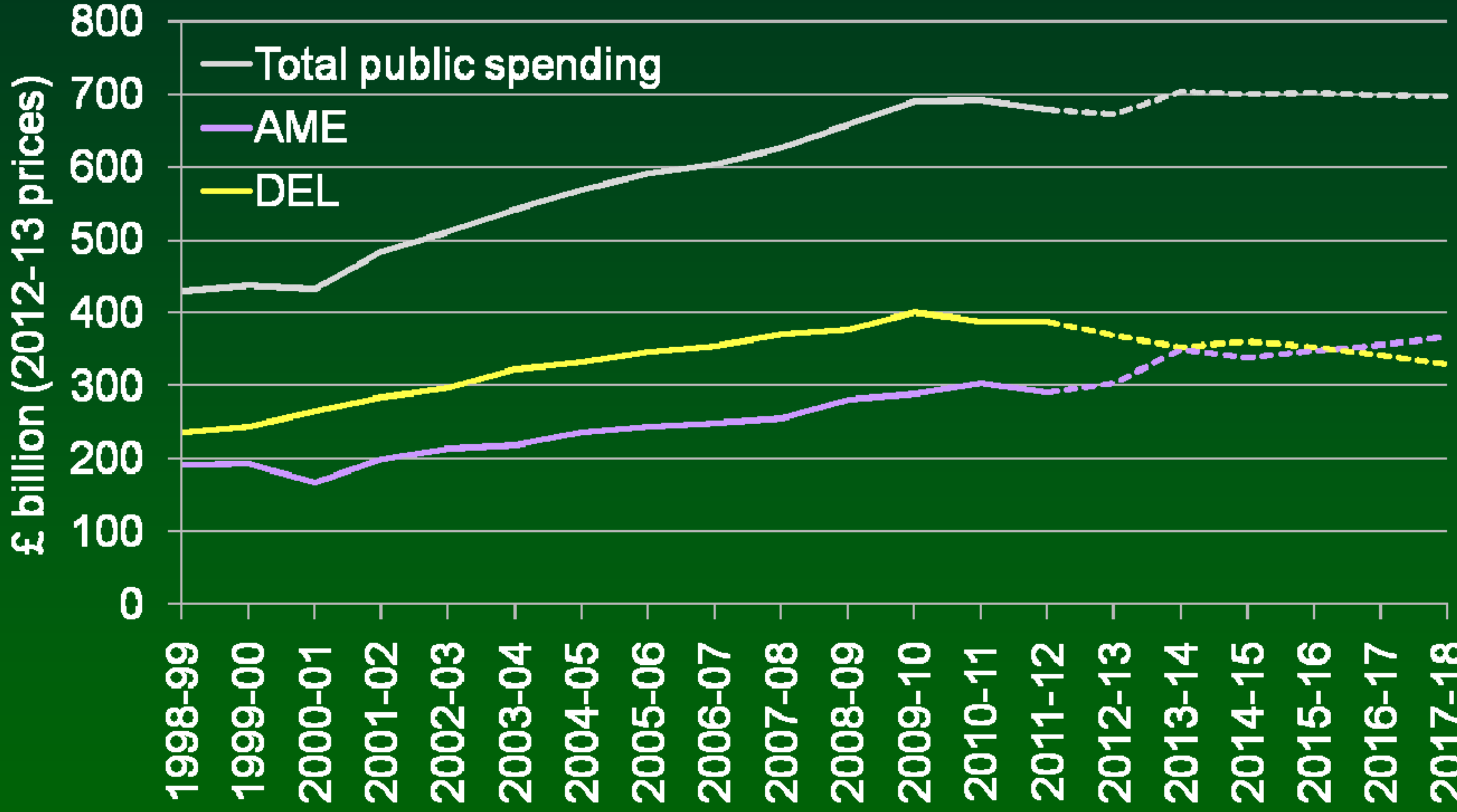
The outlook for spending



Note: DEL and AME figures from 2013-14 are adjusted for changes for local government funding for Business Rates Retention and Council Tax Benefit localisation

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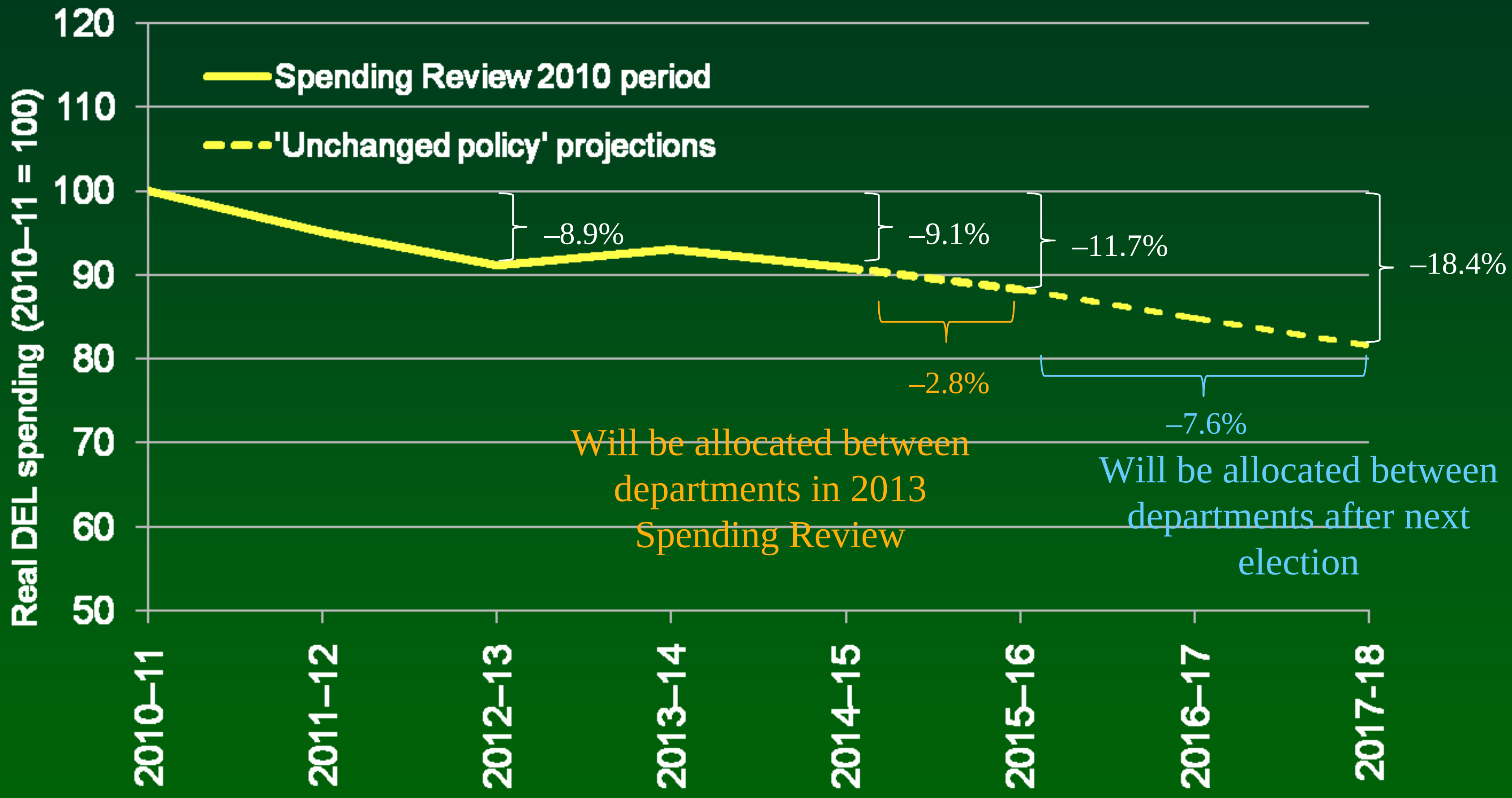
Departmental spending: SR2013 and beyond



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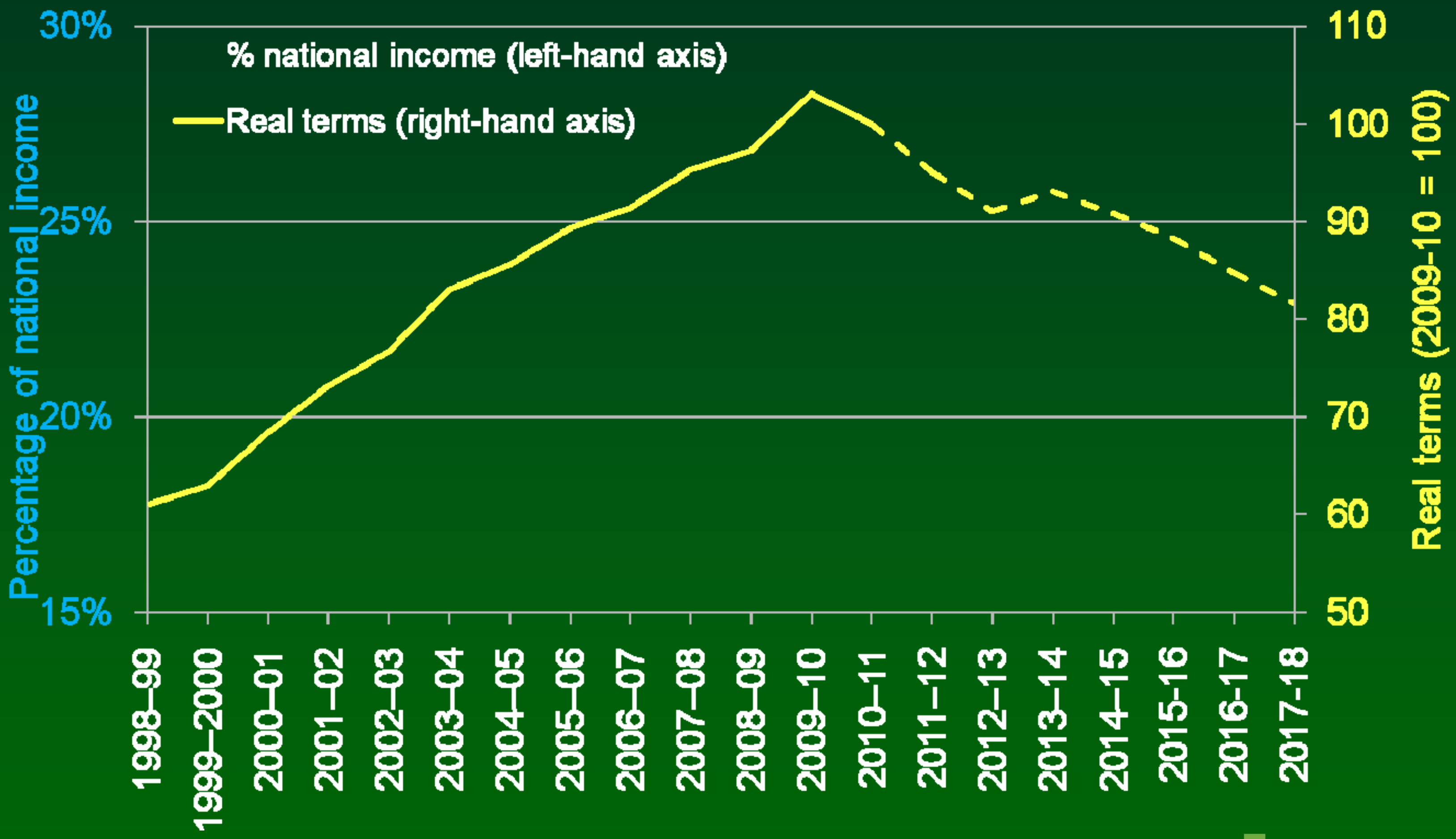
The outlook in context: DEL over time



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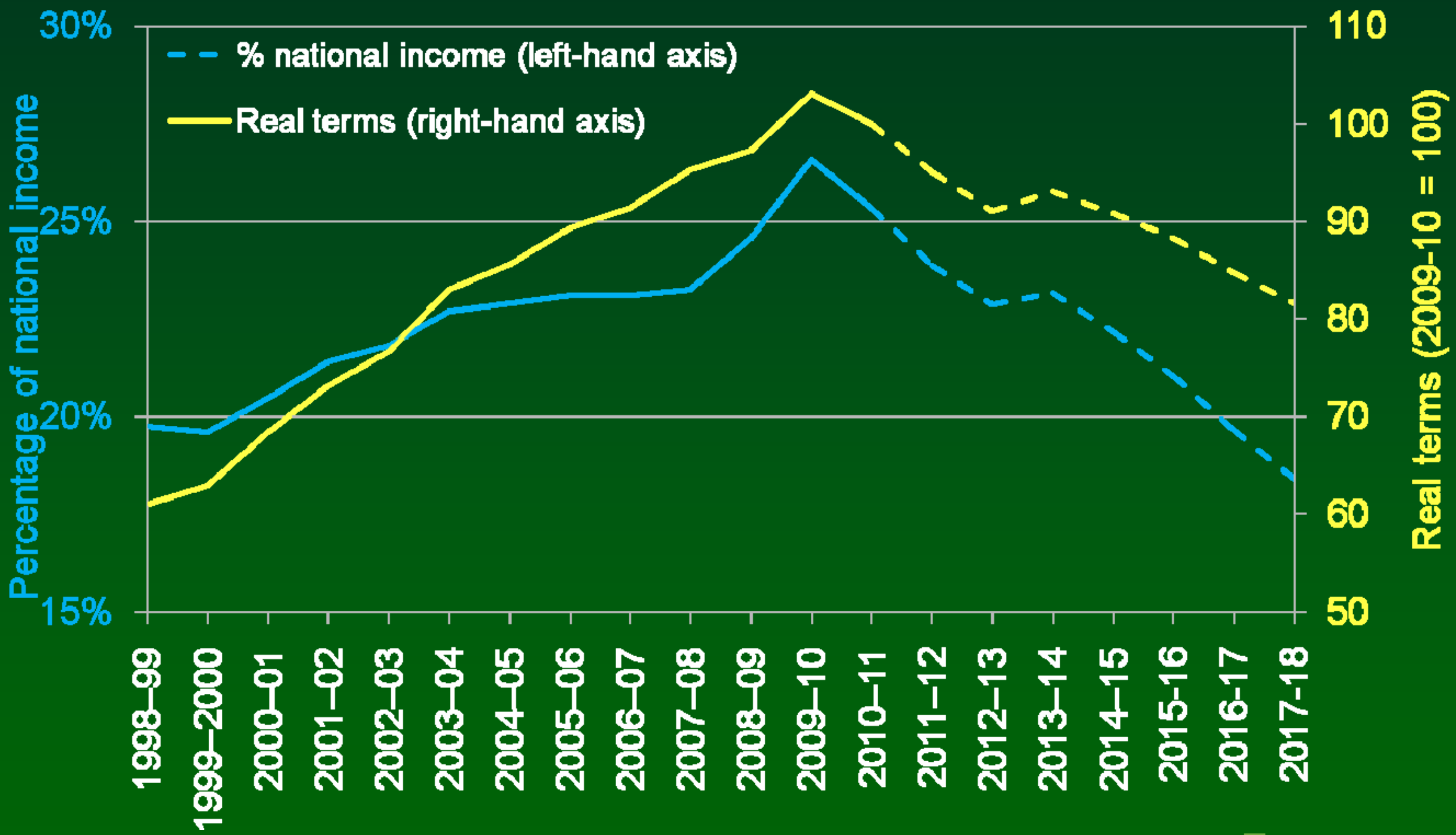

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Spending Review 2013

- Budget 2013 set the total spending envelope for 2015-16

- Given OBR forecast for non-departmental spending:
  - Total DEL will be cut by 2.8% in real terms (compared to 2.4% a year over SR2010)
    - Resource DEL by 2.7%, Capital DEL by 3.3%
  - To return to 2.4% real cut would require an extra £1 billion from welfare spending/other non-departmental spending (or tax increases)
  - To avoid any real cut to DEL would require an extra £9 billion

Spending Review 2013

- Spending Review on June 26 to allocate DEL between departments
  - "Health, schools and Official Development Assistance will be protected"
  - Average cut across all other areas will be 5.2% (5.5% resource and 4.0% capital) assuming no change to total DEL forecast
  - If also protect defence, average cut across other areas would be 6.2% (6.4% resource and 5.2% capital)

- Do-It-Yourself spending review spreadsheet available online for you to make your own allocations:
  - http://www.ifs.org.uk/ff/spending_review2013.xlsm
  - (Note: you need to enable macros for the buttons to work!)

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- Budget 2013 states: "Fiscal consolidation for 2016-17 and 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead"

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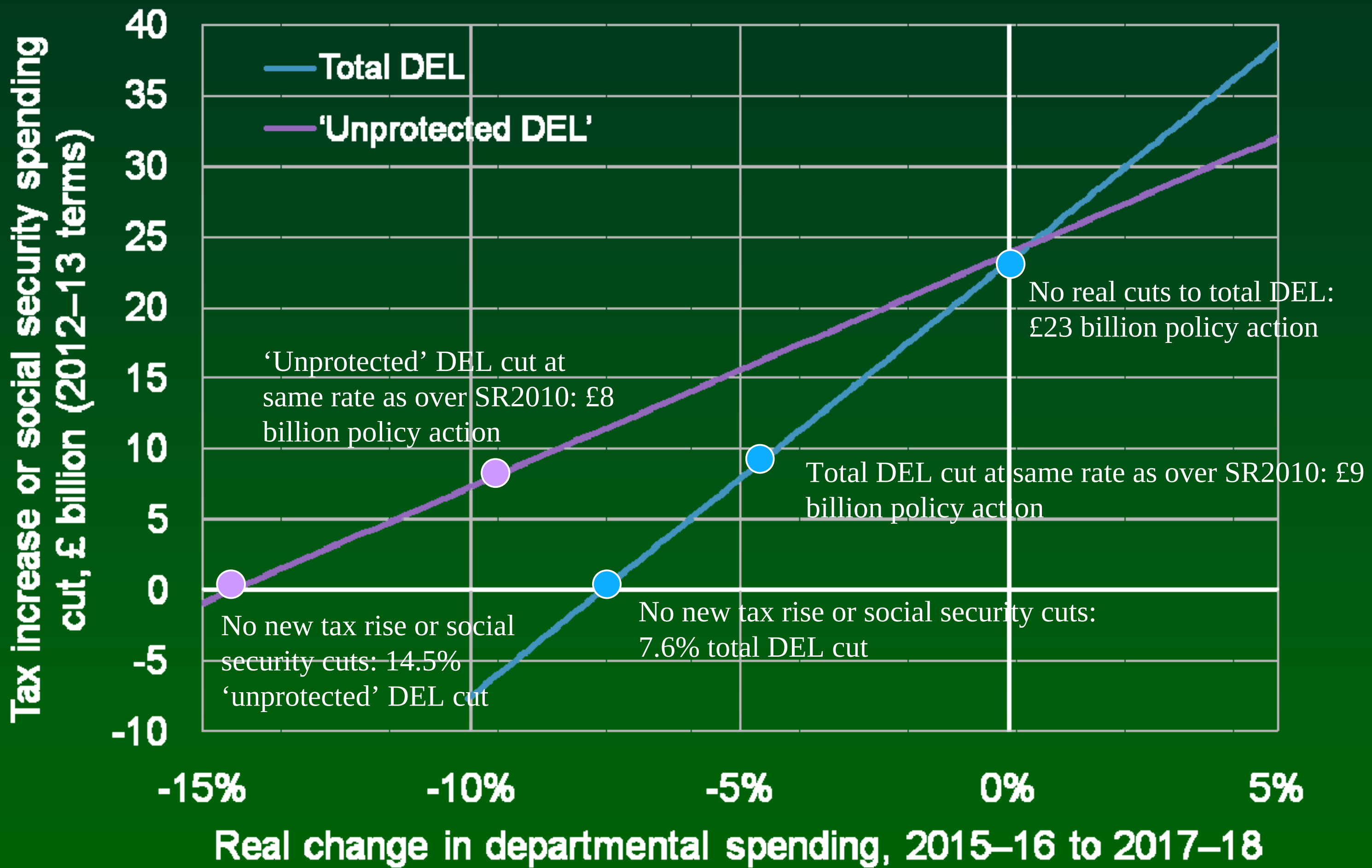
Beyond SR 2013: Trade off between DEL cuts and other policy action



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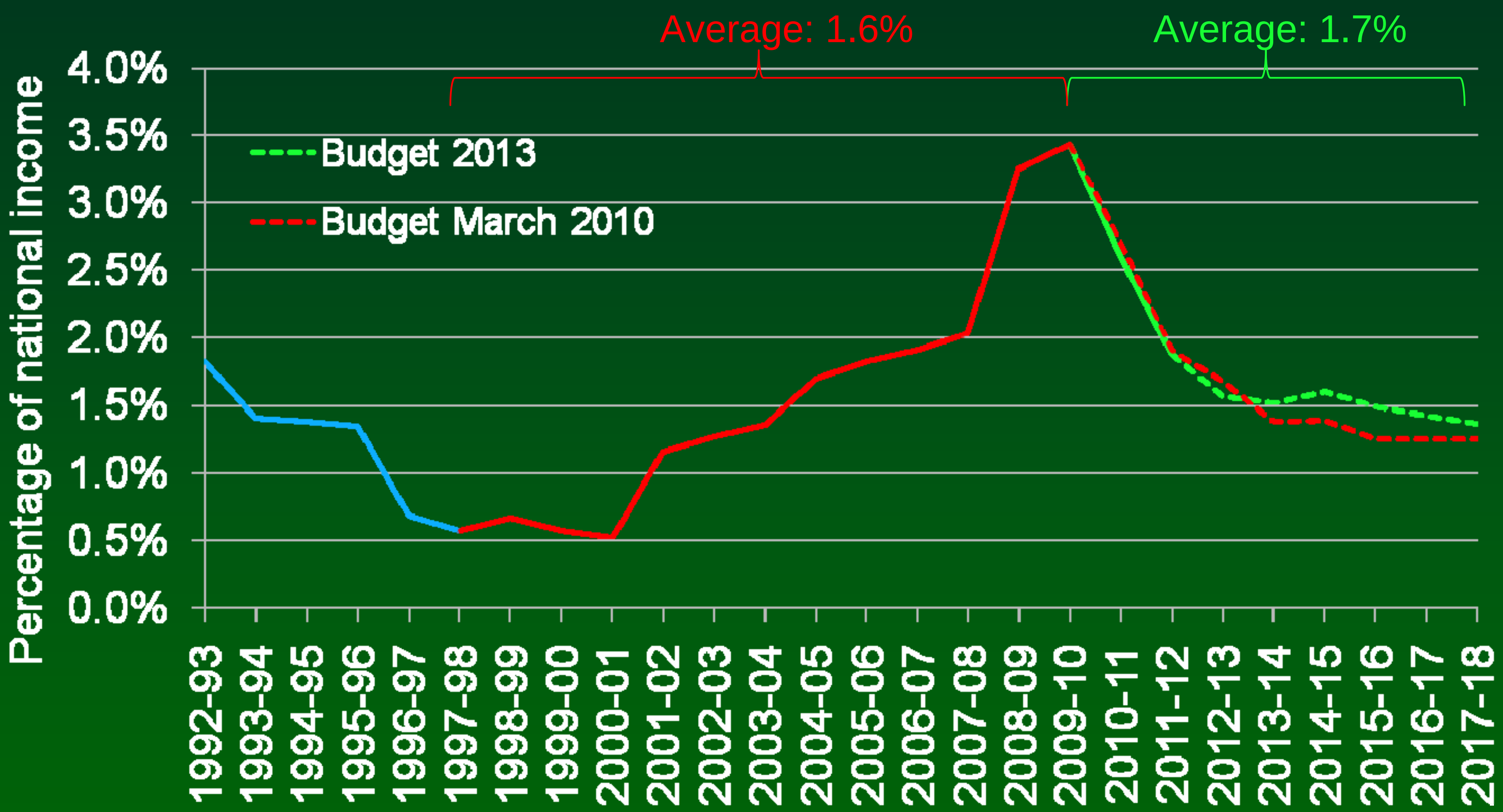
Public Sector Net Investment



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Summary

- Departmental spending forecast to be at similar level in real terms in 2014-15 as in 2012-13
- Departmental spending forecast to be cut by more than 18% in real terms from its 2010-11 level by 2017-18
  - Back to around 2002-03 level of real spending and pre-1998 level as % of national income
- Spending envelope for 2015-16 means that in the absence of policies to reduce non-departmental spending:
  - Total DEL will be cut by 2.8% in 2015-16, unprotected DEL by 5.2%
- Maintaining SR2010 average of 2.4% annual cut to DEL beyond 2014-15 would require:
  - Additional £1 billion non-departmental spending cut in 2015-16
  - Further £9 billion non-departmental spending cut / tax increase / borrowing increase by 2017-18

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