



Bee Boileau

Public service spending: small changes, big challenges

27th March 2025

@TheIFS



Economic
and Social
Research Council

What was announced?

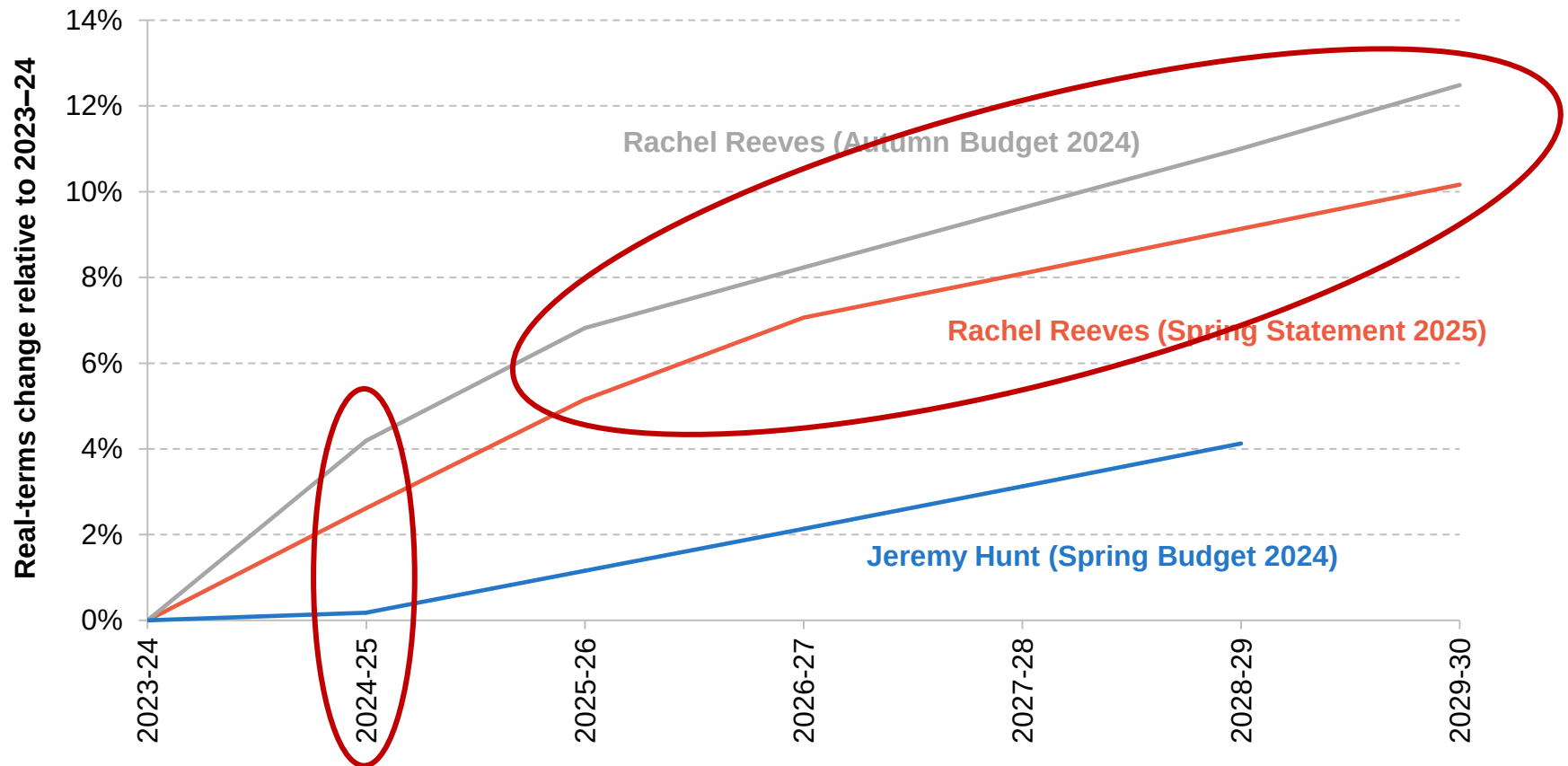
- Plans changed very little in aggregate since October
 - Cash plans left largely intact (some degree of fine-tuning)
 - Higher inflation erodes real growth this year

- What has changed?
 - Transfer from aid spending to defence spending
 - Ambitious cuts to administration spending, and planned savings from 'transformation'
 - Small increase to capital spending (on top of defence shift)

- ... not very much, all in all

Similar path for day-to-day spending

Planned path for day-to-day public service spending at Spring Budget 2024, Autumn Budget 2024, and Spring Statement 2025



Note: Dashed lines denote years without detailed departmental settlements. The figure shows the cumulative real-terms change in resource departmental expenditure limits, adjusting for additional funding relating to changes in the discount rate used to determine employer pension contributions (SCAPE) and changes in employer National Insurance contributions. All values calculated using real growth as planned at the time of the fiscal event in question.

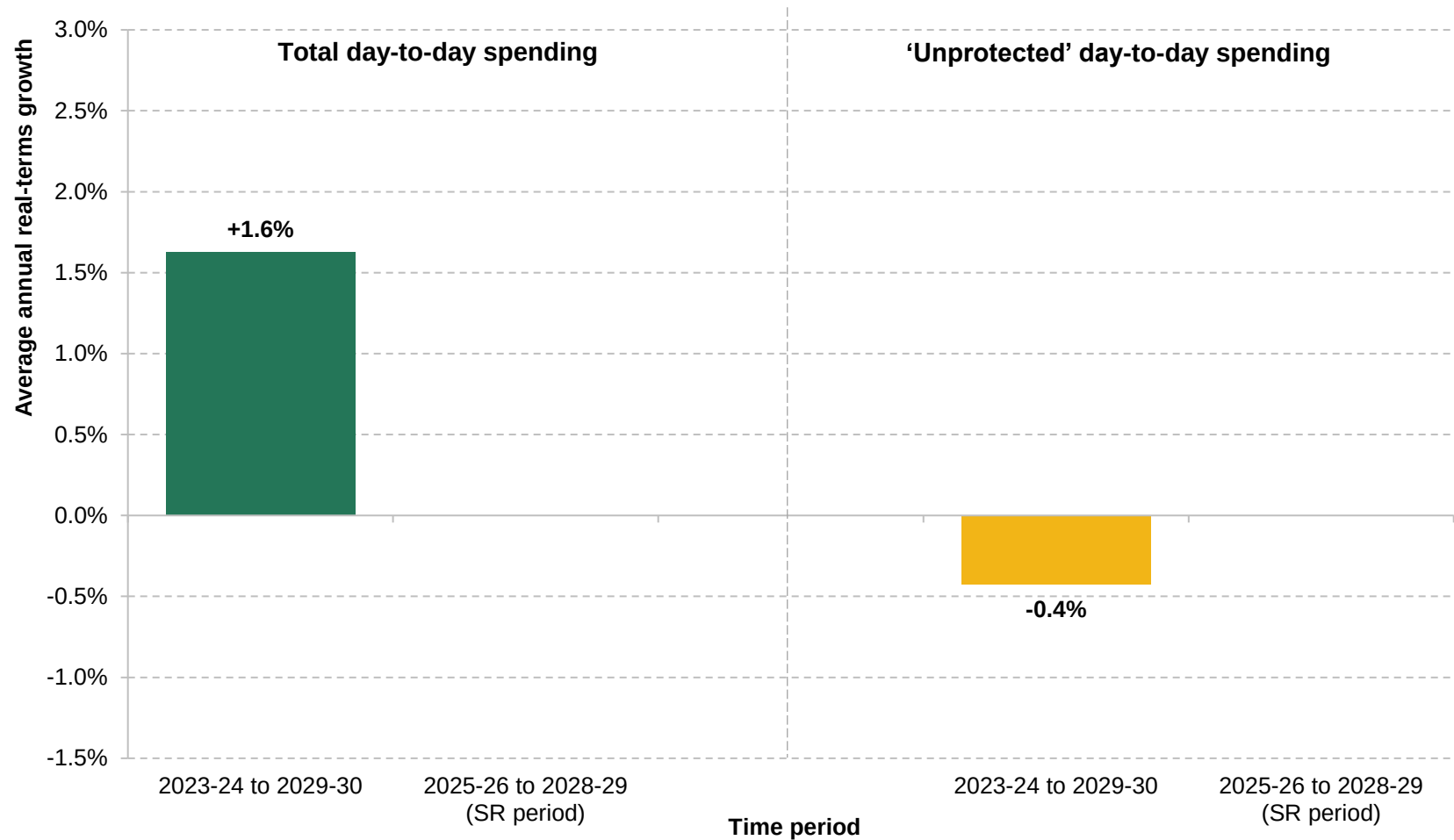
Are these plans deliverable?

On the one hand...

- **Implied cuts to ‘unprotected’ budgets remain**
- **Defence pressures**

Cuts to unprotected

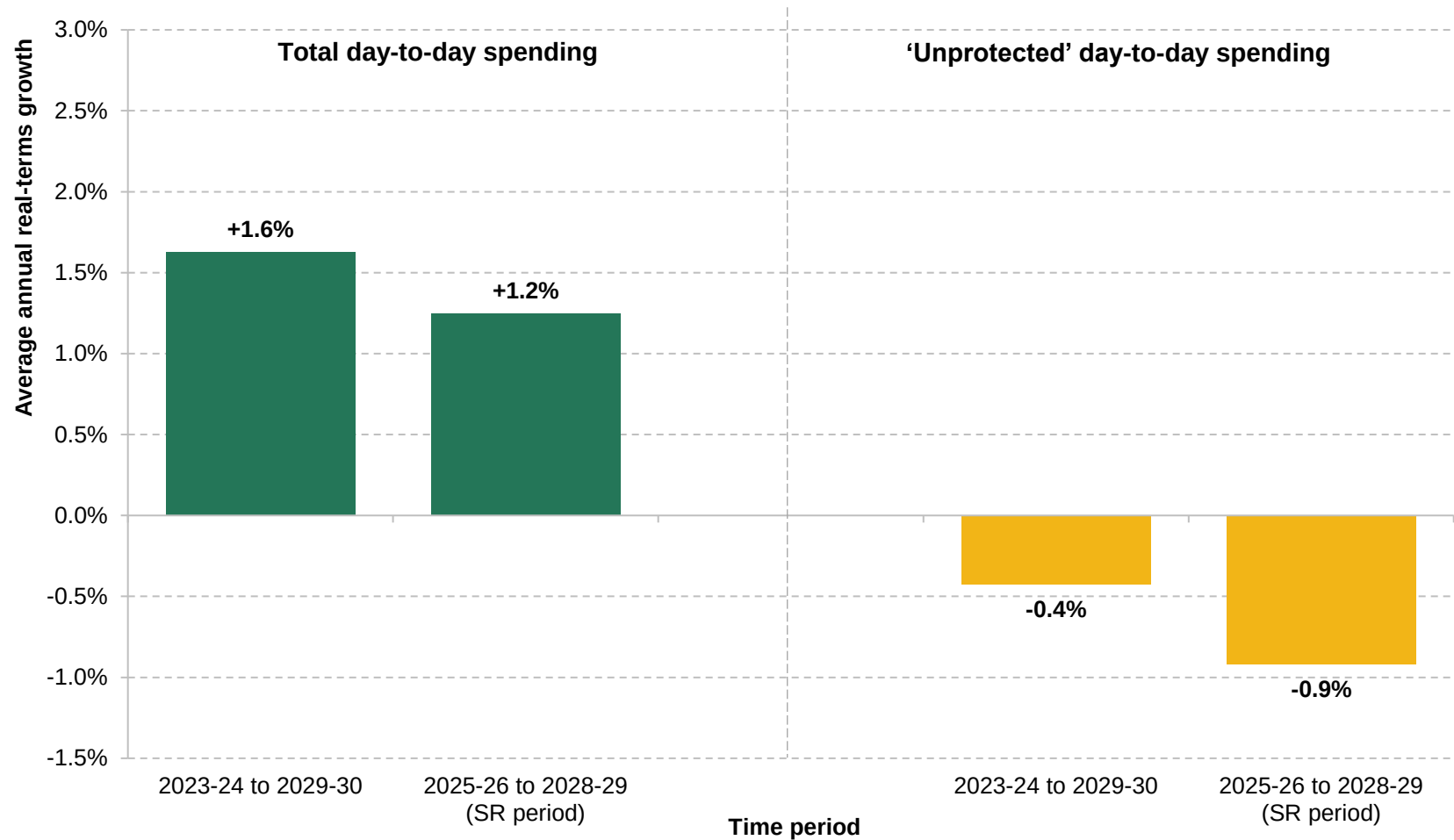
Real average annual changes to total spending and unprotected spending



Note: Calculations are based on assumptions for the likely path for health, defence, childcare and aid spending, based on government commitments.

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- Implied cuts to 'unprotected' budgets remain
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- **Would need public sector pay restraint and/or headcount cuts**
- **Admin savings can only take you so far**

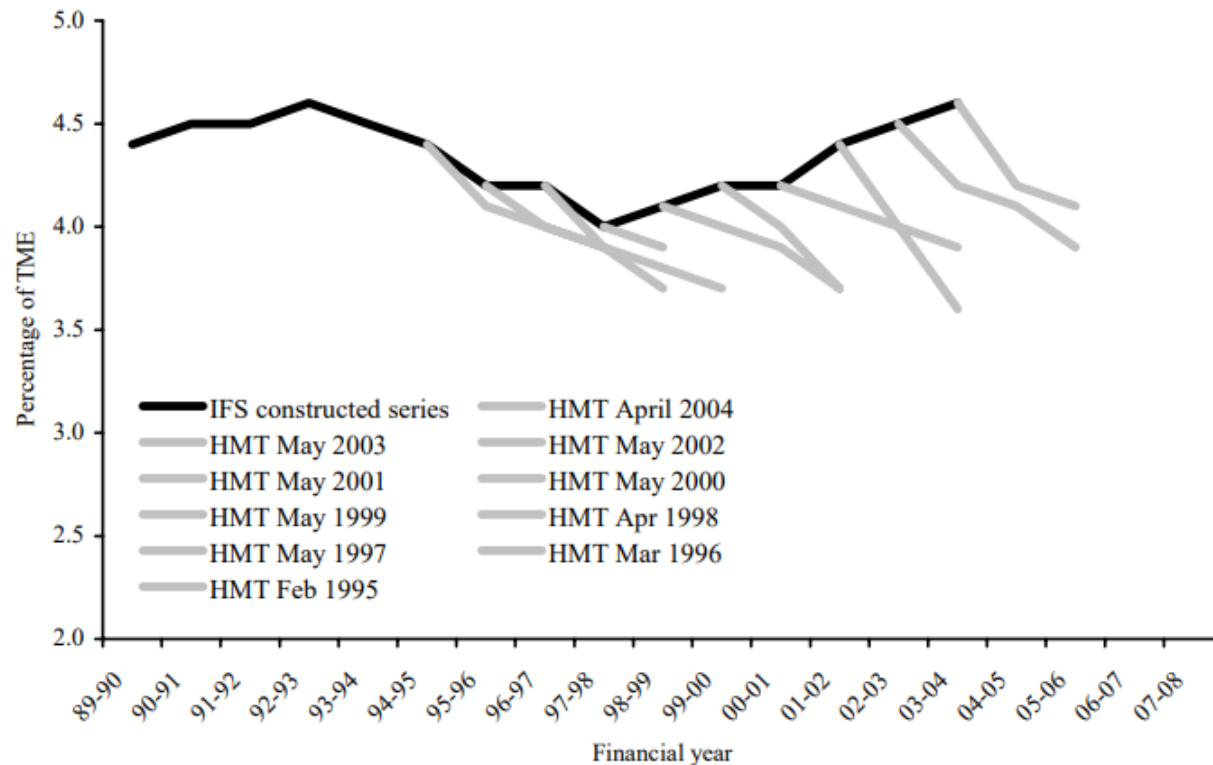
Cuts to administration budgets



- Plans to cut £2.2 billion from administration budgets by 2029–30, around 15% of current administration spending
 - Would more than reverse increase since start of pandemic
 - Comparable cut by coalition government: 23% from 2011–12 to 2014–15
 - Efforts to reduce admin spend in the 2000s were less successful

Cutting administration budgets not always easy...

Figure 2. Previous out-turns and projections for administrative spending. (Out-turns from 1989–90 to 2003–04, projections taken from each year since 1995).



Source: HM Treasury; IFS calculations.

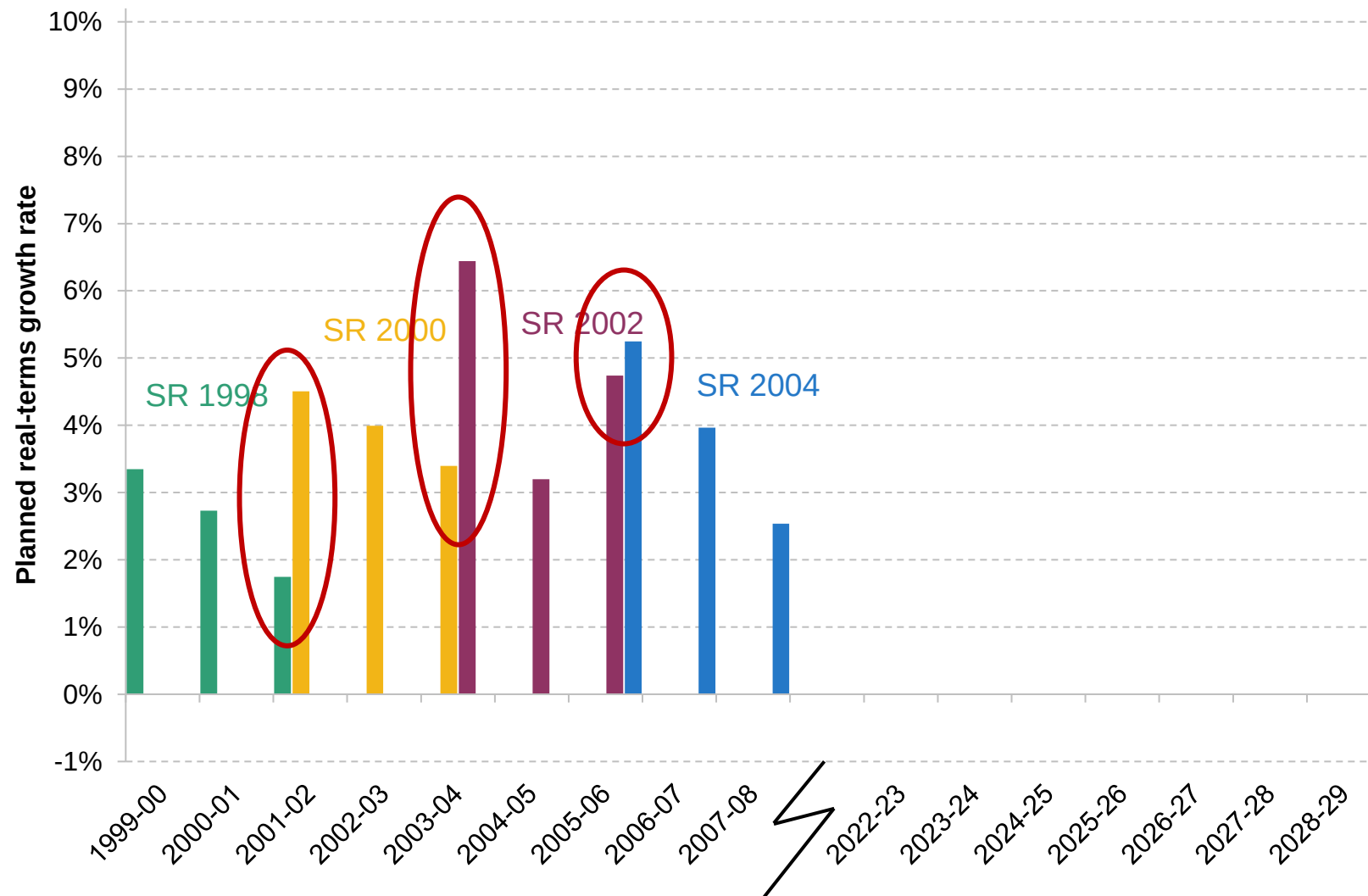
Source: Emmerson, 2004

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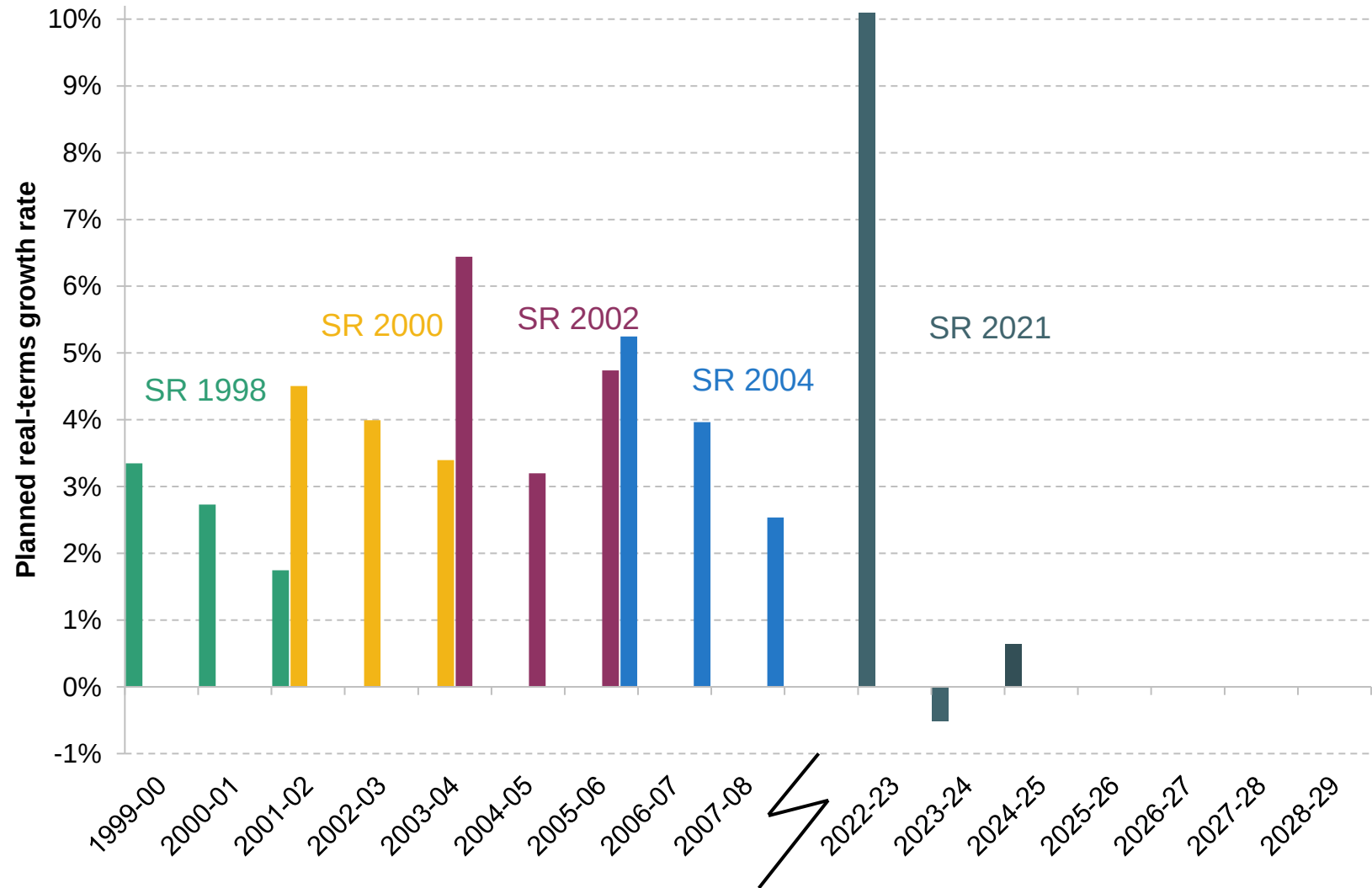
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- **Plans very front-loaded**

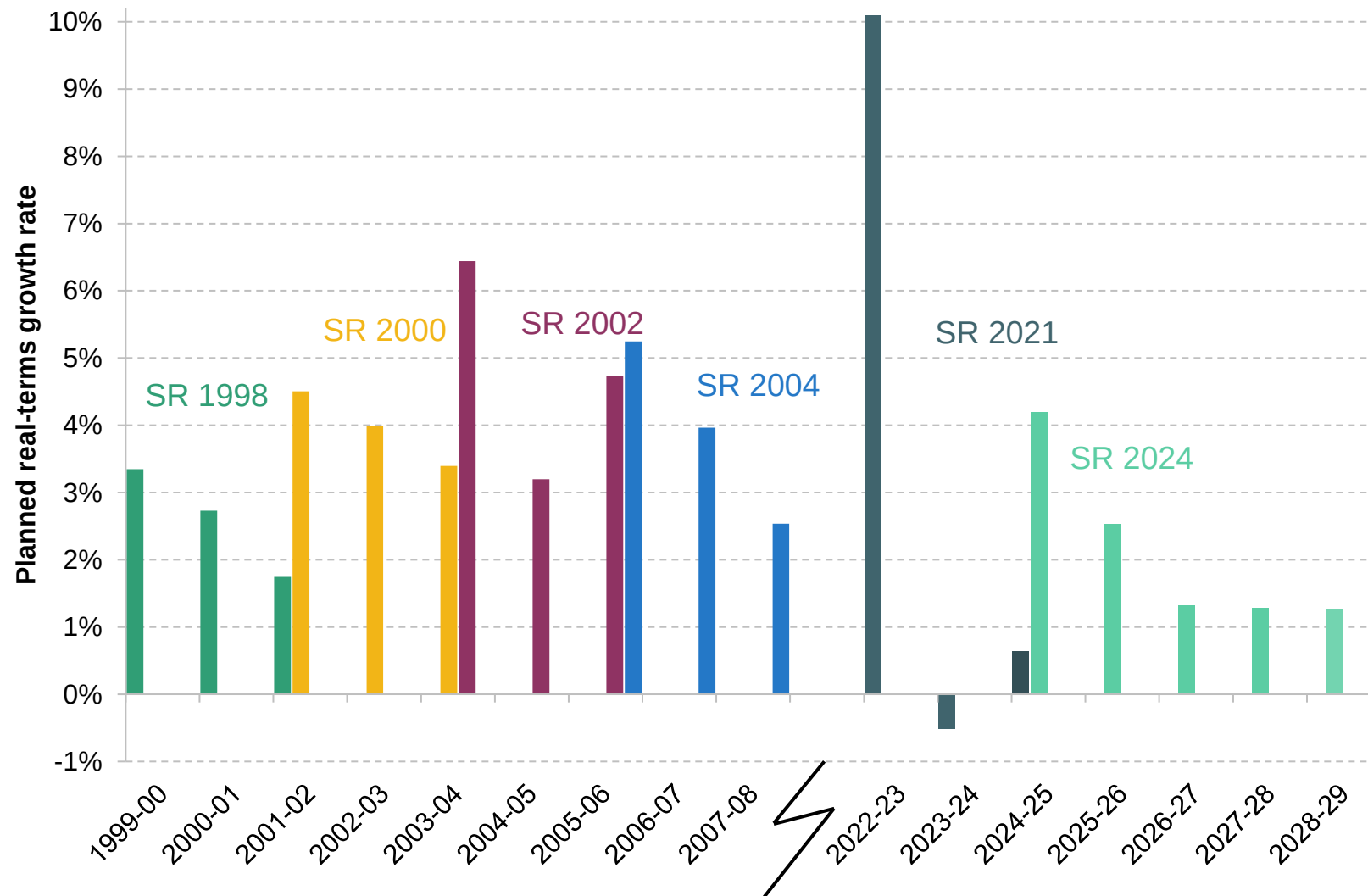
Yet more front-loading



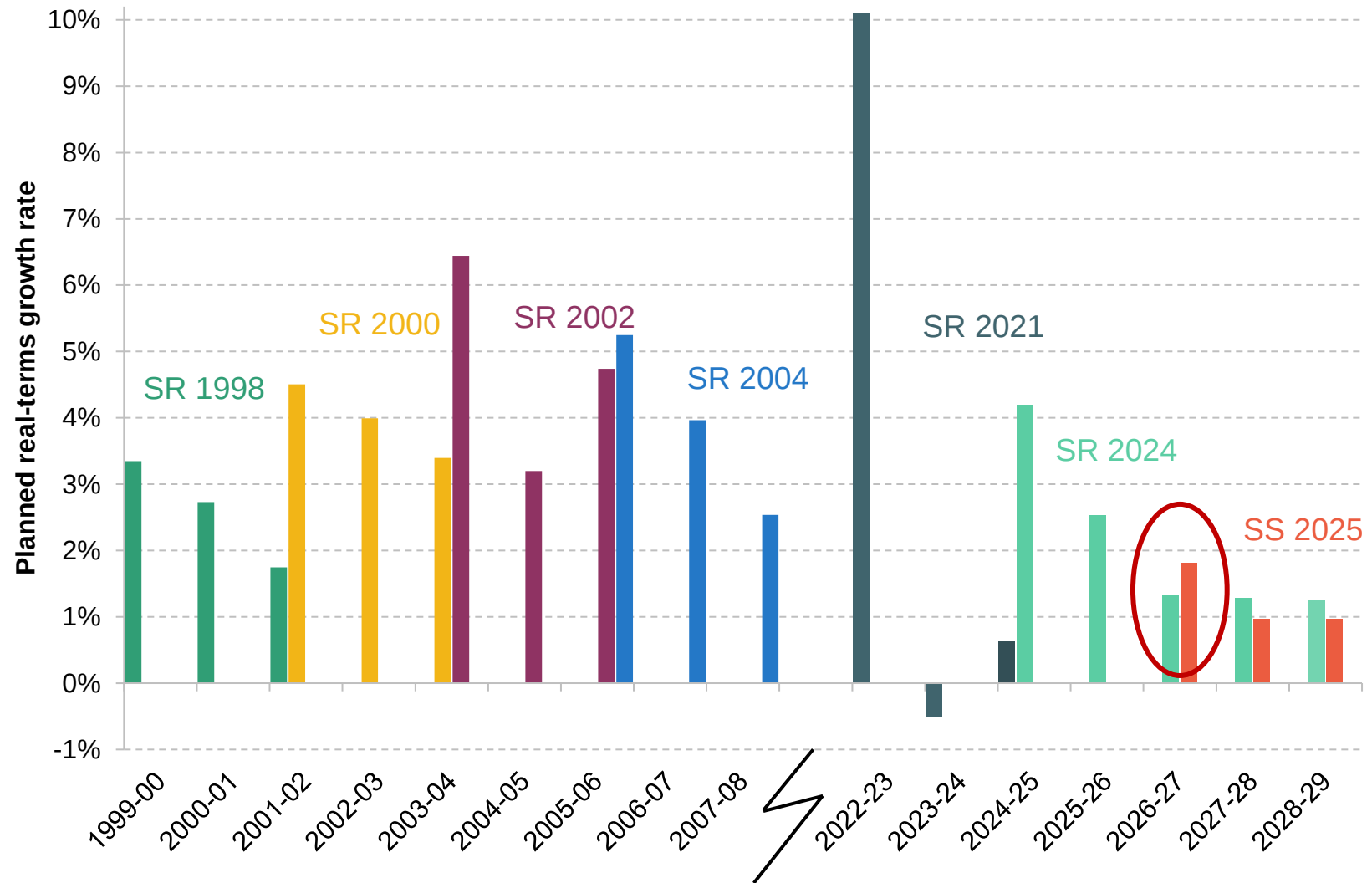
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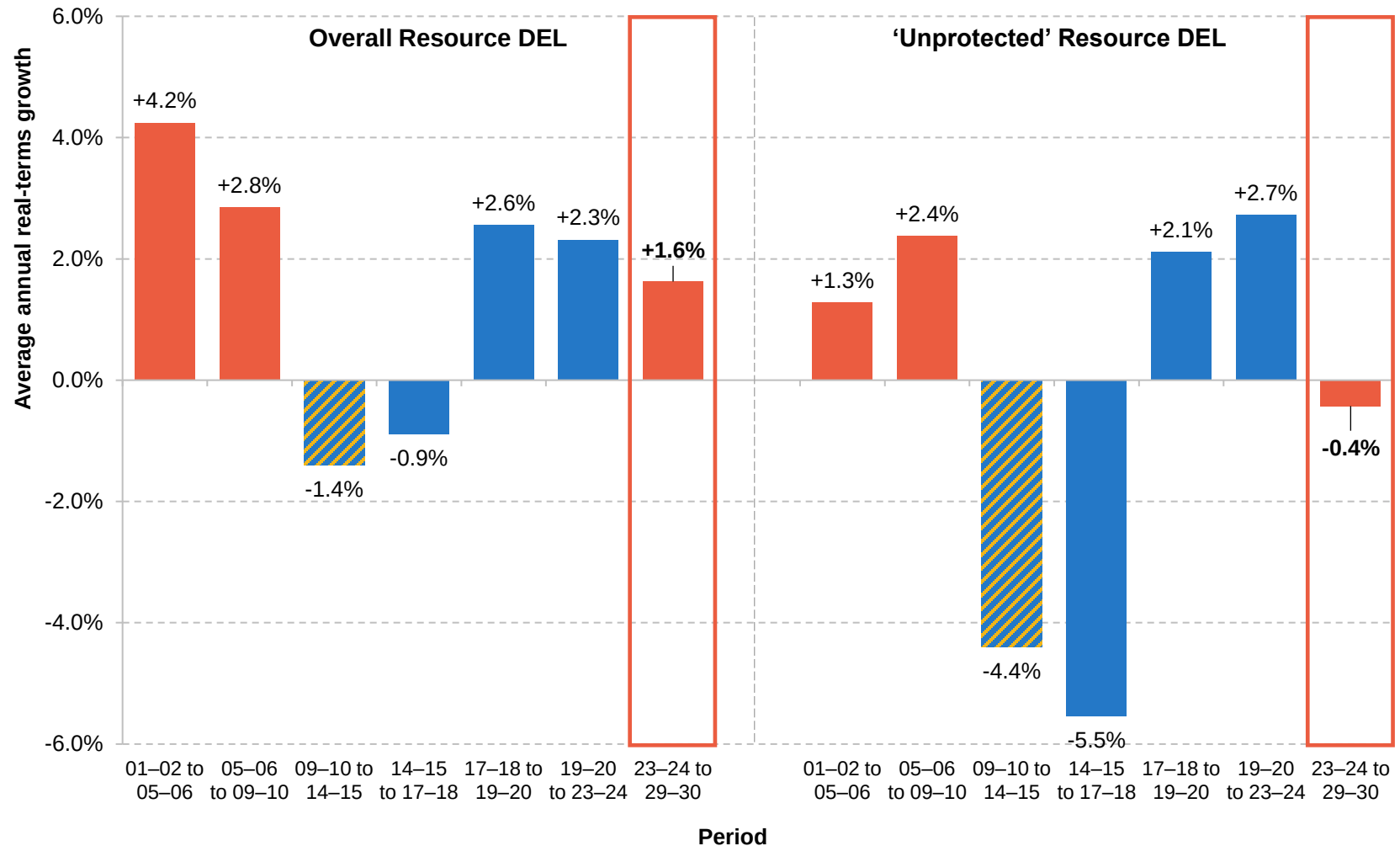
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On the other...

- **Spending still rising over the parliament as a whole**
- **Implied unprotected cuts nowhere near scale of early 2010s**

Spending in historical context

Average real-terms change in overall day-to-day public service spending (left) and 'unprotected' day-to-day spending (right), by period



Note: see appendix slide on website

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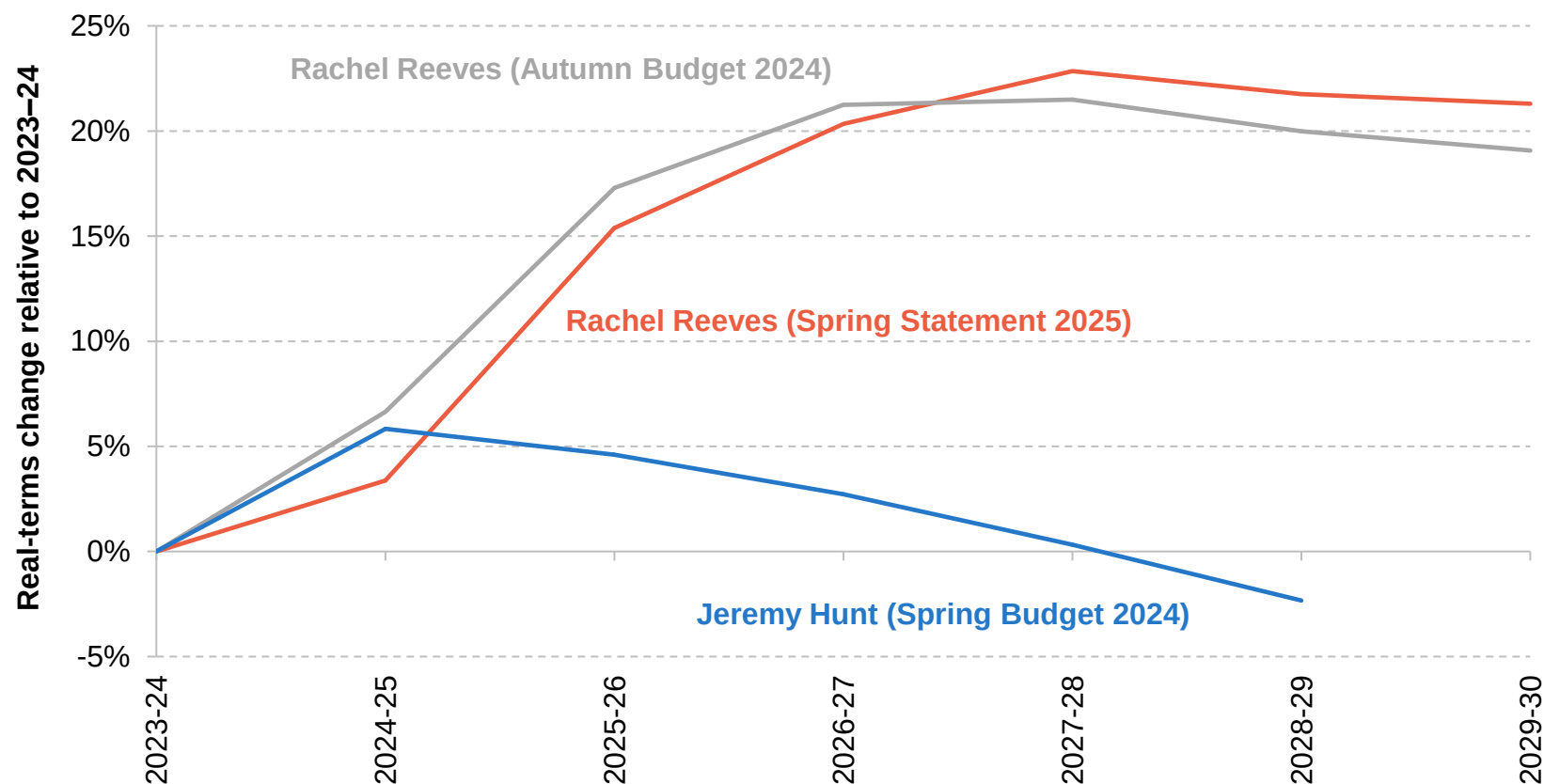
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- Some grounds for optimism on public sector productivity
- **Funding to deliver admin savings and productivity improvements**

Plans for capital spending

Planned path for capital public service spending at Spring Budget 2024, Autumn Budget 2024, Spring Statement 2025



Note: Dashed lines denote years without detailed departmental settlements. The figure shows the cumulative real-terms change in capital departmental expenditure limits. All values calculated using real growth as planned at the time of the fiscal event in question.

Conclusion



- Spending plans tweaked a little, big picture largely unchanged
- Tough, consequential decisions to be made at the Spending Review
- Defence increases may need to go further and faster – represents a huge risk to the deliverability of these spending plans
- The decision to protect investment spending in difficult fiscal conditions is commendable

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ODA-MoD I can't believe it

- Spring Statement confirmed cuts to aid spending (ODA) alongside similarly sized increases in defence spending (MoD)
 - Presented as a simple switch from one to the other
 - A bigger chunk of defence budget is capital – doesn't score against fiscal rule
 - Makes main fiscal rule easier to meet
- Key point: **without this change, meeting the fiscal rule by the same margin would have required bigger cuts to other departments**
- HMT estimate of £2.6 billion 'saving' against fiscal rule in 2029–30 depends on:
 1. Fact that >90% of the increase in defence spending is for capital
 - Compares to 35% of existing defence budget – a stark difference
 2. The particular choice of baseline used for HMT calcs
- Raises the question of what role (if any) fiscal rules played in deciding 1. and 2.

Notes to chart on slide 16

- For the period up to 2023–24, overall resource DEL refers to OBR definition of PSCE in RDEL, adjusted for historical discontinuities. For the period from 2023–24 onwards, it refers to the HM Treasury definition of resource DEL excluding depreciation, adjusted for additional funding relating to changes in the discount rate used to determine employer pension contributions (SCAPE) and changes in employer National Insurance contributions. Health refers to Department of Health and Social Care RDEL; Defence refers to Ministry of Defence RDEL. ‘Unprotected’ spending refers to overall RDEL excluding health, defence, the resource component of overseas aid, and the block grants to the devolved governments, except for the 2023–24 to 2029–30 parliament, which also adjusts for spending on the expansion of childcare provision. Calculations for 2023–24 to 2029–30 are based on assumptions for the likely path for health, defence, childcare and aid spending, based on government commitments.