Summary

This paper sets out background information on the UK Government's fiscal consolidation to date. It also discusses the scale of planned cuts under a range of scenarios. The key points are:

- Between 2009-10 and 2019-20, the Office for Budget Responsibility (OBR) reports that the cuts to spending on public services, capital investment and welfare planned by the UK Government will be equivalent to 11.3% of GDP (around £202 billion in today's terms).
- This implies that cuts to day-to-day public spending – i.e. excluding capital and welfare – alone will be equivalent to £1,800 per person between 2009-10 and 2019-20.
- The cuts to welfare have had the greatest impact on some of the poorest in our society.
- By the end of 2014-15, less than half of this fiscal consolidation planned by the current UK Government will be complete. Cuts to public services and welfare between 2014-15 and 2019-20 are forecast to be equivalent to 5.7% of GDP – £102 billion in today's terms.
- Scotland's cumulative share of the cuts to day-to-day public spending over the 5 years to 2019-20 is forecast to be worth around £14.5 billion compared to 2014-15 levels.
- The scale and composition of future spending cuts will depend in part on the composition of the next UK Government. The parties of the UK Coalition and the official opposition have all voted in favour of the revised Charter for Fiscal Responsibility. To meet this Charter, HM Treasury estimate that £30 billion in further fiscal consolidation is required in 2016-17 and 2017-18
- The First Minister has proposed an alternative approach which would allow for a slower pace of deficit reduction, whilst providing real terms growth in public spending. This would lead to an additional £180 billion of expenditure at the UK level between 2016-17 and 2019-20 compared to current UK Government plans - around £14 billion of which would flow to Scotland.

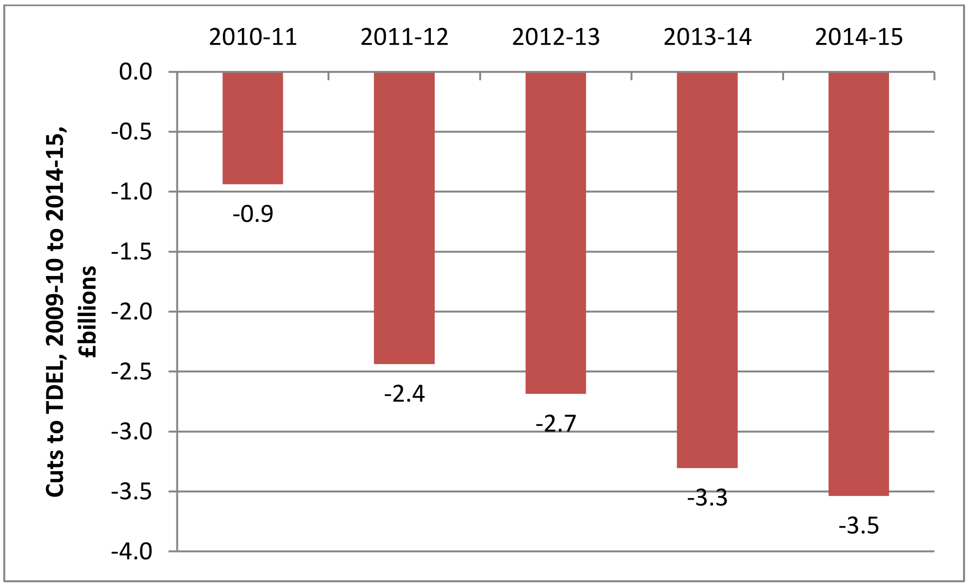
Fiscal Consolidation to date

Public Spending

1. Since 2010, the UK Government has implemented significant cuts to both departmental expenditure and spending on welfare as part of a programme of fiscal consolidation. The aim has been to improve the budget balance - the difference between revenue and spending. The cuts to public services, welfare and capital investment have totalled 5.6% of GDP.[1]
2. The OBR estimates that around two-thirds of the cut to the budget deficit have come from reductions in day to day spending on public services.[2] Between 2009-10 and 2014-15 these are estimated to have been equivalent to 3.5% of GDP.[3] This equates to approximately £63 billion in today's prices.[4] Cuts to capital spending have been equivalent to 1.4% of GDP – equivalent to £25 billion in today's terms.
3. These cuts have had a significant impact on the level of public spending in Scotland.
4. Between 2009-10 and 2014-15, the Scottish Government's departmental budget has fallen by around 11% in real terms, within this capital expenditure has fallen by around 34% in real terms.[5]
5. As illustrated these cuts mean that the Scottish departmental budget in 2014-15 is approximately £3.5 billion lower, in real terms, than it was in 2009-10.

[1] OBR Economic and Fiscal outlook, December 2014
[2] Day to day spending covers the running costs of public services such as schools, hospitals, social care and the justice system and also includes the costs of administration of these such as the cost of public sector pay.
[3] OBR Economic and Fiscal Outlook, December 2014
[4] All cash estimates use the 2nd estimate of UK GDP published by ONS, 26 Feb 2015 applied to the OBR's estimated percentage shares of GDP.
[5] The Scottish Departmental Expenditure Limit (DEL) Budget

Chart 1: Real Terms Cut to Scottish Total DEL Budget Compared to 2009-10 (in 2014-15 prices)



Source: Scottish Government

Welfare Spending

6. Alongside these cuts to day-to-day services, there have also been significant cuts to welfare. The value of many benefits has been reduced and entitlement to others curtailed.

7. In total, the OBR reports that the cuts to welfare spending between 2009-10 and 2014-15 are estimated to be worth 0.7% of GDP. This is equivalent to approximately £12.5 billion in today's terms.[6]

8. The Scottish Government has estimated that UK Government changes to welfare will reduce benefit expenditure in Scotland by around £2.5 billion in 2015-16.[7] Over the six years from 2010-11 to 2015-16, the cumulative impact of all welfare reform changes will result in the Scottish welfare bill being reduced by around £6 billion. The cuts are spread across different areas of the benefit system. The largest reduction in expenditure (around 40%) is from the change to how benefits are uprated. This will reduce incomes for those in receipt of non-pensioner benefits, with only those over state pension age being largely exempt from the changes.

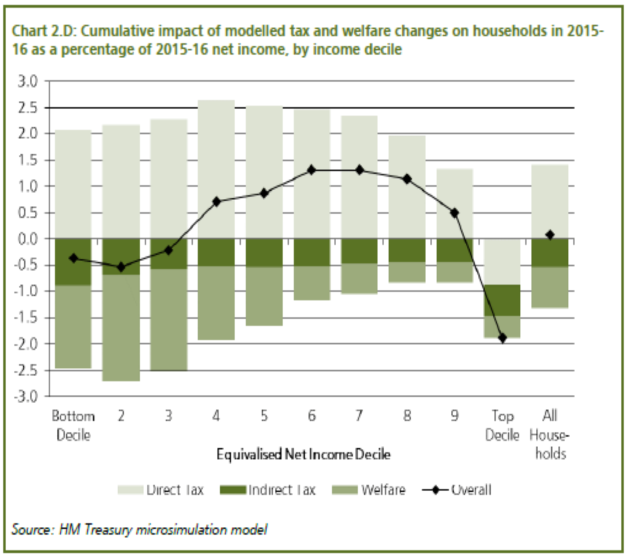
9. Those on the lowest incomes are amongst the most affected by the UK Government's austerity programme. Analysis from the Treasury shows that those with household income in the lowest 20 per cent of the population are bearing a greater than average burden of the ongoing austerity programme.[8] This is illustrated in the charts below. The first chart shows the impact on households of tax and benefit policies announced since June 2010. The second chart incorporates changes to in-kind public spending such as health care and education

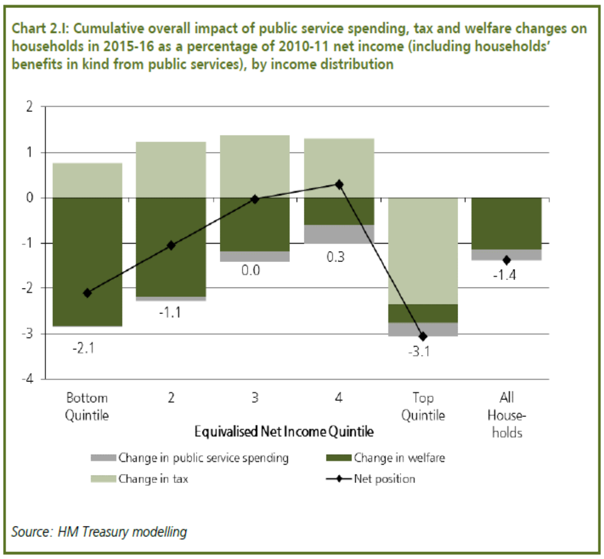
[6] OBR Economic and Fiscal Outlook and ONS

[7] These estimates are based on all changes to welfare expenditure that have been announced by the UK Government.

[8] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382310/AS2014_distributional_analysis_final.pdf

Chart 3: Impact of changes to tax, welfare and public spending on households





Record on the Public Finances

10. The aim of the fiscal consolidation programme has been to cut borrowing and net debt.

11. The Scottish Government has argued that whilst it has been necessary to take action to tackle the legacy of borrowing and debt inherited from the previous UK Government, the scale of cuts goes far beyond those required to deliver sustainable public finances.

12. The Scottish Government has also highlighted that such cuts not only have the potential to harm public services but potentially delay the economic recovery and make the objective of tackling the public finances that much more difficult.

13. Indeed, the scale of the reduction in public sector borrowing since 2009-10 has been slower than the UK Government first planned. The UK Government has repeatedly had to revise its fiscal forecasts and move back when it expects to meet its targets. Economic growth has also been slower than predicted throughout most of this Parliament.

14. For example, at the June 2010 Budget, the Chancellor stated that the UK Government was "*on track to have debt falling and a balanced structural current budget by the end of this Parliament*".[9]

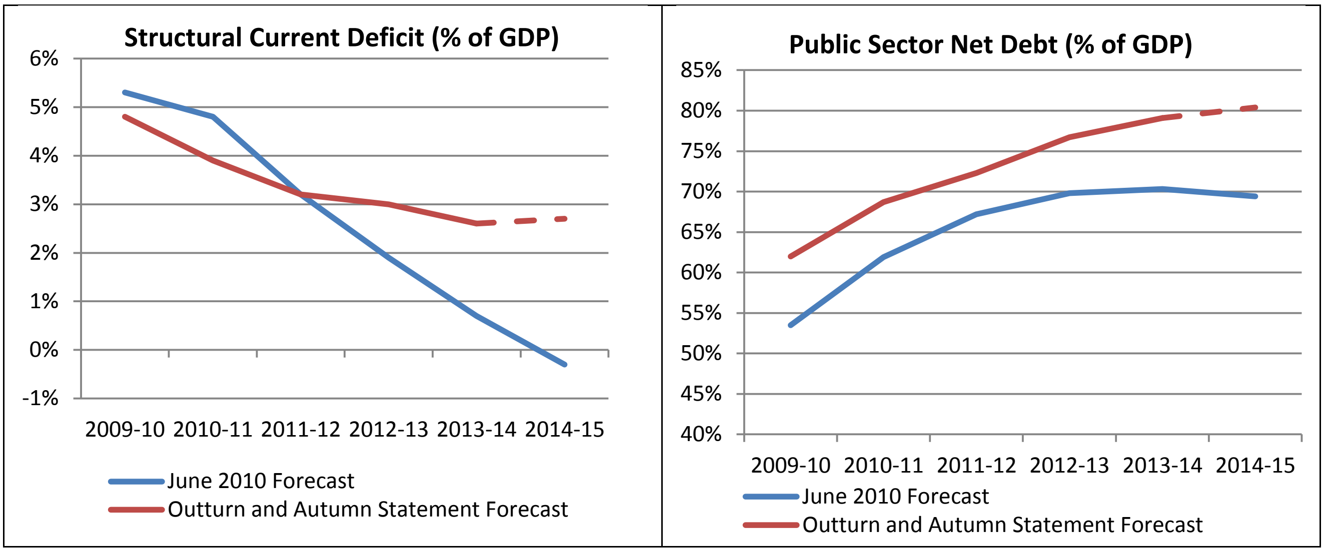
15. However, as the charts below summarise, the pace of deficit reduction has been slower than expected. Rather than debt starting to fall as a share of GDP in 2014-15, it is now forecast to not start declining until at least 2016-17.[10]

16. Likewise, instead of running a small structural current budget surplus of 0.3% of GDP (around £5 billion) in 2014-15, the UK Government is now forecast to run a structural current deficit of almost £50 billion (2.7% of GDP).

[9] http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm100622/debtext/100622-0005.htm

[10] OBR Budget Forecast, June 2010, Table C6 and OBR Economic and Fiscal Outlook, December 2014, Table 4.47.

Chart 4: Path of Structural Current Deficit and Public Sector Net Debt forecast in June 2010 and December 2014



Source: OBR Economic and Fiscal Outlook June 2010 and December 2014, OBR Public Finances Databank. Note that a positive figures indicates a deficit and a negative figure a surplus on the structural current budget. The level change in the debt to GDP ratio forecasts is partly due to accounting revisions (ESA10 and changes to public finance statistics) so that figures are not directly comparable.

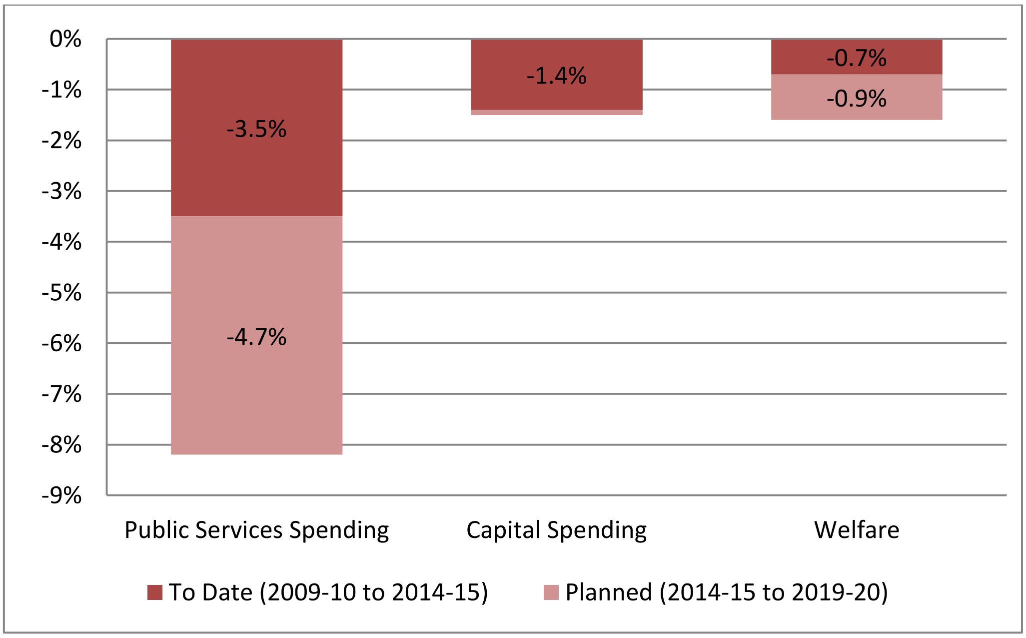
Proposed cuts over the next Parliament

Current Plans

17. Further spending cuts are scheduled for the coming years. The OBR estimates that by the end of 2014-15, just 46% of the fiscal consolidation planned by the current UK Government will be complete.[11]

18. The OBR report that the UK Government's consolidation plans imply further cuts to day to day spending and administration, capital and welfare as set out in the chart below.[12]

Chart 5 - UK Government Deficit Reduction from Welfare and Departmental Spending Cuts (% of GDP)



Source: Derived from OBR Economic and Fiscal Outlook, Chart 4.9

[11] OBR Economic and Fiscal Outlook, December 2014
[12] Ibid, p184 and based on latest ONS estimate of 2014 GDP

19. The OBR estimate that such cuts would mean that total public spending would fall to 35.2% of GDP by 2019-20 and would "*probably be the lowest in around 80 years*".[13]

20. To put this in context, and even excluding the cuts to welfare and capital spending, the OBR estimates that Westminster funding for day-to-day public services is forecast to fall between 2009-10 and 2019-20 by the equivalent of around £1,800 per head. Between 2014-15 and 2019-20 alone, day-to-day spending per head is forecast to fall by £1,000 per head. In Scotland this would be equivalent to a cumulative cut of around £14.5 billion to its budget for public services over the 5 years to 2019-20, compared to 2014-15 levels.[14]

Alternative Plans

21. The scale and composition of future spending cuts will depend in part on the composition of the next UK Government. A future UK Government may choose to add to the plans set out above, scale them back, or allow additional room for tax rises/cuts.

22. What is known however, is that the parties of the UK Coalition and the official opposition have all voted in favour of the revised Charter for Fiscal Responsibility. This Charter, which revises the Treasury's mandate for fiscal policy, consists of the following:

    (i) the **Deficit target** - this aims "to achieve cyclically adjusted current balance by the end of the third year of the rolling, 5 year forecast period" (currently 2017-18).

    (ii) the **Supplementary target** – this aims "for public sector net debt as a percentage of GDP to be falling in 2016-17".

23. To meet this Charter, HM Treasury estimate that £30 billion in further fiscal consolidation is required in 2016-17 and 2017-18.[15]

24. The First Minister has set out an alternative plan both to this Charter and the current UK Government's plan. This is based upon the approach of reducing the deficit more slowly and investing in public services and protecting the most vulnerable from further cuts. This would limit growth in UK-wide spending to 0.5% a year in real terms from 2016-17 to 2019-20 and would still reduce the deficit but provide a responsible increase in investment in public services.

25. Compared to current UK plans, this would provide around £180 billion in additional public spending in the 4 years up to and including 2019-20. In Scotland, this plan would free up around £14 billion in additional resources over this period.

Conclusion

26. The UK Government has undertaken a significant programme of cuts to public spending, capital investment and the welfare system as part of its programme of deficit reduction. By the end of 2014-15, these cuts are estimated to be worth 5.6% of GDP (around £100 billion).

27. In the years from 2014-15 to 2019-20, the current UK Government's plans imply further cuts to public services and welfare equivalent to 5.7% of GDP – £102 billion in today's terms.

28. The Scottish Government advocates a more balanced approach which would return the public finances to a sustainable path whilst continuing to invest in public services. It would also provide greater opportunity to protect the most vulnerable in society. Moreover, past experience has shown that the scale of austerity cuts by the UK Government has not had the desired impact on tackling the deficit. A responsible approach to managing public spending and helping household incomes will help support the economy, and in turn, have a better chance of restoring the public finances to health.

[13] ibid, p133
[14] Scottish Government calculations – Scottish RDEL as percentage of UK RDEL share of OBR estimated cuts to UK RDEL over period 2015-16 to 2019-20 under UK Government plans as at Autumn Statement 2014.
[15] https://www.gov.uk/government/news/updated-charter-for-budget-responsibility