The planning and control of UK public expenditure, 1993–2015

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16 July 2018
Introduction

How effective was the UK government at controlling public spending between 1993 and 2015?

- A question of significant public interest

- We compare plans and outturns to assess the predictability of spending over the period
  - By no means the only measure of control
  - Deviations from plan not necessarily indicative of a ‘lack of control’
  - Quantitative analysis with qualitative interpretations
Key messages

Plans are not breached, they are changed

Multi-year budgets set at spending reviews look to have improved predictability, but haven’t always been stuck to – particularly since 2008

The Treasury is not constrained by the spending framework

Successive governments have struggled to meet investment plans

Spending priorities have been remarkably stable over time
Plans are not breached, they are changed

Spending differs from plans primarily because those plans change

• Plans tend to change in the direction of the government’s overarching fiscal objectives
  – Downwards revisions in 1990s and 2010s
  – Top-ups in 2000s

There are clearly strong incentives for departments not to overspend

• Very few examples of spending exceeding final plans
• Sizeable underspends in the face of budget cuts
Mean expenditure forecast errors, by period and time horizon

- In year
- One year out
- Two years out
- Three years out

- Overspend
- Underspend

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Multi-year budgets: firm and fixed?

Multi-year spending plans have long been a feature of the system
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  - But prior to 1998, years two and three were purely indicative and could be revised at subsequent Budgets

- The data suggest a clear correlation between the introduction of the new regime and the predictability of departments’ future budgets
  - Plans adhered to for most of the 2000s (albeit with top-ups in overlapping spending review periods)

- Since 2008, plans cannot reasonably be described as having been ‘firm and fixed’
Adjusted NCT and DEL forecast errors, by fiscal event

Note: Adjusted NCT refers to new control total less local authority self-financed expenditure and social security.
The Treasury doesn’t face binding constraints

Features of the framework intended to constrain Treasury behaviour are only as robust as the political will behind them

- Tinkering with plans outside of spending reviews
- Transfers from capital to resource budgets
- Flexibility with fiscal rules
- End Year Flexibility
  - Underspends used to increase spending elsewhere
  - Almost £20 billion of accumulated EYF wiped out in 2010
Accumulated underspending through End Year Flexibility

£22.6 billion
>7% of Total DEL

Financial year

£ billion

Capital
Resource

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Capital spending: a recurring challenge

Governments have consistently struggled to control capital spending

- Public sector net investment has almost always undershot plans
  - This has been the case whether capital spending was being cut or increased over time

- Particularly relevant given the current government’s ambitions to increase net investment to high levels by recent historical standards
Public Sector Net Investment, 1992–93 to 2010–11

Average one year forecast error: −31.7%

Average one year forecast error: −12.9%

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Spending priorities haven’t changed much

Ranking of planned growth in TDEL and selected departments

- Transport
- International Development
- Education
- Health
- Total DEL
- Home Office
- Local Government
- Defence

CSR 98  SR 00  SR 02  SR 04  CSR 07  SR 10  SR 13

Spending Review

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