



PERSPECTIVE

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Public Spending Trends: winners and losers

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INTRODUCTION

Total public sector spending has increased substantially since 1997/98 and, especially, since 1999/2000. This is well documented.¹ But what is less well-documented is just how disparate the experience of the departmental “winners and losers” has been (and will continue to be if the current Government’s plans are implemented). This short Perspective seeks to redress the balance.

OVERALL TRENDS

Table 1 shows total public spending (defined as Total Managed Expenditure (TME); see annex for definition) since 1997/98.

The total increase over the decade 1997/98 to 2007/08 (on current plans) will, therefore, be nearly £260 billion, or 80% in cash terms.

There has, of course, been inflation over this period. The GDP deflator, which is conventionally adopted to convert from cash

TABLE 1 TOTAL MANAGED EXPENDITURE 1998/98 TO 2007/08 (£BN), CASH TERMS

	TME , outturns and plans	Absolute increase	% increase	TME from Spending Reviews*	TME as a % of GDP
Outturns:					
1997/98	322.1			322.1	39.2
1998/99	332.7	10.6	3.3	333.6	38.3
1999/00	343.6	10.9	3.3	340.7	37.4
2000/01	367.1	23.5	6.8	371.6	38.2
2001/02	390.5	23.4	6.4	390.1	38.9
2002/03	418.9	28.4	7.3	418.4	39.6
2003/04	459.0	40.1	9.6	454.6	41.1
Plans:					
2004/05	487.6	28.6	6.2	487.6	41.5
2005/06	520.8	33.2	6.8	520.8	41.9
2006/07	549.2	28.4	5.4	549.2	42.0
2007/08	580.0	30.8	5.6	580.0	42.3
1997/98 to 2007/08		257.9	80.0%		

Sources: HM Treasury and National Statistics, *Public Expenditure Statistical Analyses (PESA) 2004*, TSO, Cm 6201, April 2004 (for data to 2003/04); and HM Treasury, *2004 Spending Review: Stability, security and opportunity for all: investing in Britain’s long-term future (2005-2008)*, TSO, Cm 6237, July 2004 (for data from 2004/05 to 2007/08)

* Data for 1997/98 and 1998/99 from 1998 Spending Review (SR); 1999/00 and 2000/01 from 2000 SR; 2001/02 to 2003/04 from 2002 SR; and 2004/05 to 2007/08 from 2004 SR. See annex for details of the Spending Reviews.



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terms to “real terms”, rose by about 18% between 1997 and 2004 and can be expected to rise by around 25% (cumulative) over the decade to 2007/08. This suggests that public spending, in real terms, will have risen by around 55% between 1997/98 and 2007/08. This is, incidentally, faster than GDP. Consequently, the public sector share of GDP has risen overall during this period, as is also shown in the above table. All the rise has occurred since 1999/00, the final year of the Chancellor’s “prudent period”.

It should, however, be noted that inflation in the public services rises quicker than for average GDP. The implied deflator for general government final consumption has averaged around an annual 5% increase over the last three years thus absorbing much of the increase in resources. Using the GDP deflator, therefore, overstates the increase in public services output in real terms over the period. Table 1 also contains the comparison between TME outturns and TME plans in the appropriate Spending Reviews (see annex table 1 for more detail). As can be seen from

the table the numbers are very similar; the Treasury has kept commendably close to plan.

BREAKDOWN OF TME

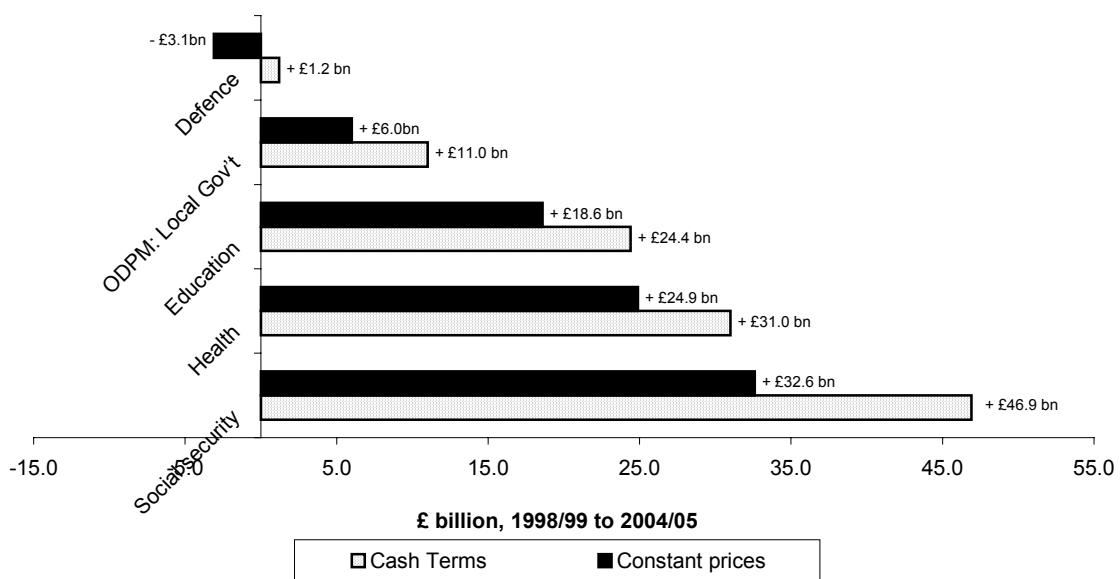
Chart 1 below shows the increase in public spending, in both cash terms and at constant prices, for key components. The chart covers the period from 1998/99 (rather than from 1997/98 as above), because the TME data are only available on a consistent basis since 1998/99.² Chart 2 shows the equivalent data for the average annual growth rates. More comprehensive time series data are included in annex table 2.

WINNERS

The contrast between the departmental winners and losers in the public spending stakes is startling. The clear “winners” over the nine years from 1998/99 to 2007/08 are:

- Social security benefits (including tax credits), with an increase of nearly £60 billion. (Nearly £15 billion of the increase relates to the Chancellor’s tax credits.) At a time of low unemployment this increase

CHART 1 TOTAL GROWTH IN SPENDING, 1998/98 TO 2004/05, IN BOTH CASH TERMS AND AT CONSTANT PRICES



Note: see Annex Tables 3 and 4 for original data, sources and explanatory notes. Note that social security payments include tax credits. Data for education includes both DfES and local authority spending.



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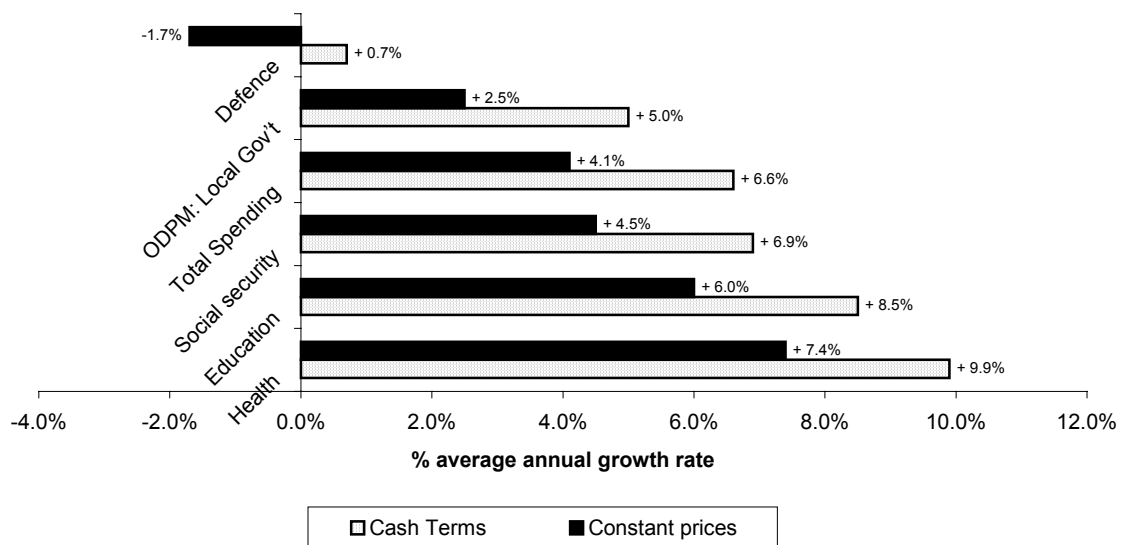
is more than a little disappointing. The current Government's much vaunted policy objectives (energetically promoted on taking power in 1997) to reform social security and reduce benefit dependency have clearly failed. It should, however, be noted that social security's share of TME will have fallen over the period.

- Health spending will have increased by nearly £54 billion, with spending in cash terms more than doubling. Health's share of TME will have risen from 12.2% (in 1998/99) to 16.3% (in 2007/08). In terms of gain as a share of TME, health is the winner.
- Education (including the, rapidly rising, spending of the DfES as well as local authority spending) will have been another huge beneficiary over the period with an overall rise of £38 billion. In cash terms the spending will have almost doubled and education's share of TME will have risen from 11.7% to 13.2%.

Concerning the smaller "winners", with smaller budgets:

- Transport expenditure will have increased sharply over the period 1998/99 to 2007/08, partly reflecting the higher funding for the railways after the *de facto* renationalisation of Railtrack in October 2001.
- DTI spending will also have risen over this period but this partly reflects the establishment of the Nuclear Decommissioning Authority in April 2005, which accounts for more than half of the projected growth in spending between 2004/05 and 2007/08.
- Recent increases in the Home Office budget reflect the higher spending on the police and asylum.
- Scotland and Wales have also proved to be beneficiaries despite (or because of) devolution.

CHART 2 AVERAGE ANNUAL GROWTH RATES 1998/98 TO 2004/05, IN BOTH CASH TERMS AND AT CONSTANT PRICES



Note: see Annex Tables 3 and 4 for full data, sources and explanatory notes. Note that social security payments include tax credits. Data for education includes both DfES and local authority spending.



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LOSERS

Turning to the losers:

- The biggest loser by far is Defence, despite the current Government's undisputed acknowledgement of the professionalism and international importance of Britain's armed forces and its active deployment of them overseas. The cash increases will not even have kept up with inflation between 1998/99 and 2007/08. Defence's share of TME will have shown a dramatic drop over the nine years under consideration – from 8.6% to 5.8%.
- The ODPM's Local Government spending (i.e. Central Government's grant to Local Authorities) has also grown slower than overall TME, thus putting pressure on many local authorities to raise more funding locally, especially through the Council Tax. The share of TME will have fallen from 1998/99 to 2007/08.

The biggest loser by far is Defence... in real terms, spending will have fallen by 0.7% since 1998/99, despite the high level of active deployment of British forces overseas during this period.

which covered most public spending, and other spending including cyclical social security and central government debt interest. See HM Treasury, *Budget 1998, New Ambitions for Britain*, FSBR, HC620, TSO, March 1998.

3. HM Treasury, *Budget 2005*, HC 372, TSO, March 2005.

Charts 1 and 2 above not only show the overall fall in defence spending (in real terms) at a time when overall spending will have been rising quickly, but it also shows how unsustainably rapidly spending will have been increasing in health and, to a lesser extent, education.

ENDNOTES

1. Ruth Lea, *The price of a profligate Chancellor: higher taxes to come*, CPS, March 2004.
2. Prior to the introduction of the current public spending concepts of DELs and AME, public spending was divided into the "control total",



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ANNEX

DEFINITIONS: TOTAL MANAGED EXPENDITURE (TME)

TME is total public sector spending, comprising public sector current expenditure and public sector gross investment (but net of sales of fixed assets). TME replaced the previous system of classifying public spending into the annual "control total" plus cyclical social security plus debt interest in 1998.

It can also be divided into:

- Departmental Expenditure Limits (DEL): three year limits for department's programme spending, and
- Annually Managed Expenditure (AME): spending that is not easily subject to firm multi-year limits. AME includes social security benefit spending, public service pension payments and central government debt interest. It also includes locally financed expenditure (LFE)

DATA SOURCES

HM Treasury, *Comprehensive Spending Review: Modern public services for Britain: investing in reform*, (1999-2002), TSO, Cm 4011, July 1998.

HM Treasury, *Spending Review 2000: Prudent for a purpose: building opportunity & security for all (2001-2004)*, TSO, Cm 4807, July 2000.

HM Treasury, *2002 Spending Review: Opportunity & security for all: investing in an enterprising, fairer Britain (2003-2006)*, TSO, Cm 5570, July 2002.

HM Treasury, *2004 Spending Review: Stability, security and opportunity for all: investing in Britain's long-term future (2005-2008)*, TSO, Cm 6237, July 2004.

HM Treasury and National Statistics, *Public Expenditure Statistical Analyses (PESA) 2004*, TSO, Cm 6201, April 2004.

ANNEX TABLE 1: DATA FOR TME (£BN), BY SPENDING REVIEW (SR)

	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
1998SR	322.1	333.6	351.6	370.0	389.7						
2000SR			340.7	371.6	392.9	415.4	439.6				
2002SR					390.1	418.4	454.6	481.5	511.4		
2004SR								487.6	520.8	549.2	580.0



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ANNEX TABLE 2: TOTAL MANAGED EXPENDITURE, KEY CATEGORIES (£BN): TIME SERIES

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Total DEL*	179.4	188.8	205.8	224.3	240.6	265.3	278.7	300.8	321.4	340.5
Of which:										
Education & skills	12.9	14.0	16.7	19.3	23.9	26.2	27.6	31.1	32.9	35.2
Health	40.5	41.8	45.5	53.4	57.5	65.5	71.5	78.5	86.0	94.4
Of which: NHS	39.8	41.2	44.9	52.5	55.7	63.7	69.4	76.4	83.8	92.1
Transport	4.6	5.1	4.8	6.8	9.0	10.7	10.4	11.0	13.6	12.9
ODPM: Local Government	32.7	34.2	35.3	37.0	37.6	41.2	43.7	46.2	48.6	51.0
Home Office	7.6	7.7	9.1	10.7	11.5	12.6	12.7	13.2	14.2	14.9
Defence	28.5	29.5	31.5	31.7	29.3	31.3	29.7	30.8	32.1	33.4
Trade & Industry	3.1	3.8	5.9	5.5	4.2	5.4	5.0	6.1	6.5	6.6
Work & Pensionst	5.2	5.8	6.1	6.6	7.9	8.4	8.2	8.3	8.2	8.1
Scotland	13.4	14.1	15.1	16.9	18.0	20.0	21.3	22.8	24.2	25.5
Wales	6.8	7.2	7.8	8.6	9.6	10.5	11.0	11.8	12.8	13.6
N Ireland Executive	4.8	5.0	5.8	5.9	6.9	7.1	7.0	7.4	7.9	8.3
Total AME†	153.3	154.8	161.2	166.2	178.3	193.7	208.3	218.9	227.8	239.5
(1) Social security benefits	95.0	99.8	101.8	109.2	113.9	120.7	123.1	127.7	132.9	140.0
(2) Tax credits	0.1	1.3	3.9	5.2	5.8	9.8	13.8	14.3	14.4	14.5
(3) = (1) + (2)	95.1	101.1	105.7	114.4	119.7	130.5	136.9	142.0	147.3	154.5
CAP	3.0	2.7	2.9	3.6	2.6	2.5	2.5	2.5	2.5	2.6
Net payments to EU institutions	3.6	2.8	3.7	0.8	2.3	2.4	2.7	3.7	4.1	4.4
CG gross debt interest	28.8	24.9	25.9	22.0	20.8	22.2	23.9	25.4	26.5	27.4
Total TME	332.7	343.6	367.1	390.5	418.9	456.0	487.6	520.8	549.2	580.0
Memorandum items:										
Total education spending**	38.8	40.8	44.4	49.7	53.8	59.5	63.2	68.1	72.3	76.8

Sources: HM Treasury and National Statistics, *Public Expenditure Statistical Analyses 2004*, TSO, Cm 6201, April 2004 (for data to 2003/04); and HM Treasury, *2004 Spending Review: Stability, security and opportunity for all: investing in Britain's long-term future (2005-2008)*, TSO, Cm 6237, July 2004 (for data from 2004/05 to 2007/08)

* DEL = Departmental Expenditure Limits

† Includes Welfare to Work expenditure financed by the Windfall Tax.

‡ AME = Annually Managed Expenditure (includes locally financed expenditure).

** Includes spending by the DfES, local authorities and devolved administrations.



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ANNEX TABLE 3: TOTAL MANAGED EXPENDITURE, KEY DATA (£BN), CASH TERMS

Public spending	1998/99 (% share of TME in brackets)	2004/05 (% share of TME in brackets)	2007/08 (% share of TME in brackets)	Change: 1998/99 to 2004/05 (% annual average growth rate in brackets)	Change: 2004/05 to 2007/08 (% annual average growth rate in brackets)	Change: 1998/99 to 2007/08 (% annual average growth rate in brackets)
Total DEL*	179.4 (53.9)	278.7 (57.2)	340.5 (58.7)	99.3 (7.6)	61.8 (6.8)	161.1 (7.3)
Of which:						
Education & skills	12.9 (3.9)	27.6 (5.7)	35.2 (6.1)	14.7 (13.5)	7.6 (8.5)	22.3 (11.8)
Health	40.5 (12.2)	71.5 (14.7)	94.4 (16.3)	31.0 (9.9)	22.9 (9.7)	53.9 (9.8)
Of which: NHS	39.8 (12.0)	69.4 (14.2)	92.1 (15.9)	29.6 (9.7)	22.7 (9.9)	52.3 (9.8)
Transport	4.6 (1.4)	10.4 (2.1)	12.9 (2.2)	5.8 (14.6)	2.5 (7.4)	8.3 (12.1)
ODPM: Local Gov't	32.7 (9.8)	43.7 (9.0)	51.0 (8.8)	11.0 (5.0)	7.3 (5.4)	18.3 (5.1)
Home Office	7.6 (2.3)	12.7 (2.6)	14.9 (2.6)	5.1 (8.9)	2.2 (5.4)	7.3 (7.8)
Defence	28.5 (8.6)	29.7 (6.1)	33.4 (5.8)	1.2 (0.7)	3.7 (3.8)	4.9 (1.75)
Trade & Industry	3.1 (0.9)	5.0 (1.0)	6.6 (1.1)	1.9 (8.3)	1.6 (9.7)	3.5 (9.6)
Work & Pensions†	5.2 (1.6)	8.2 (1.7)	8.1 (1.4)	3.0 (7.9)	-0.1 (-0.3)	2.9 (5.1)
Scotland	13.4 (4.0)	21.3 (4.4)	25.5 (4.4)	7.9 (8.1)	4.2 (6.25)	12.1 (7.4)
Wales	6.8 (2.0)	11.0 (2.3)	13.6 (2.3)	4.2 (8.4)	2.6 (7.4)	6.8 (8.0)
N Ireland Executive	4.8 (1.4)	7.0 (1.4)	8.3 (1.4)	2.2 (6.5)	1.3 (6.0)	3.5 (6.3)
Total AME‡	153.3 (46.1)	208.3 (42.7)	239.5 (41.3)	55.0 (5.3)	31.2 (4.8)	86.2 (5.1)
Of which:						
(1) Social security benefits	95.0 (28.6)	127.7 (26.2)	140.0 (24.1)	32.7 (5.0)	12.3 (3.2)	45.0 (4.4)
(2) Tax credits	0.1 (0)	14.3 (2.9)	14.5 (2.5)	14.2	0.2	14.4
(3) Social security & tax credits	95.1 (28.6)	142.0 (29.1)	154.5 (26.6)	46.9 (6.9)	12.5 (2.9)	59.4 (5.5)
CAP	3.0 (0.9)	2.5 (0.5)	2.6 (0.4)	-0.5	0.1	-0.4
Net payments to EU institutions	3.6 (1.1)	2.7 (0.6)	4.4 (0.8)	-0.9	1.7	0.8
CG gross debt interest	28.8 (8.7)	25.4 (5.2)	27.4 (4.7)	-3.4	2.0	-1.4
Total TME	332.7 (100.0)	487.6 (100.0)	580.0 (100.0)	154.9 (6.6)	92.4 (6.0)	247.3 (6.3)
Memorandum item:						
Total education**	38.8 (11.7)	63.2 (13.0)	76.8 (13.2)	24.4 (8.5)	13.6 (6.6)	38.0 (7.9)

Sources: HM Treasury and National Statistics, *Public Expenditure Statistical Analyses 2004*, TSO, Cm 6201, April 2004 (for data to 2003/04); and HM Treasury, *2004 Spending Review: Stability, security and opportunity for all: investing in Britain's long-term future (2005-2008)*, TSO, Cm 6237, July 2004 (for data from 2004/05 to 2007/08)

* DEL = Departmental Expenditure Limits

† Includes Welfare to Work expenditure financed by the Windfall Tax.

‡ AME = Annually Managed Expenditure (including locally financed expenditure).

** Includes spending by the DfES, local authorities and devolved administrations.



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ANNEX TABLE 4 PUBLIC SPENDING FOR KEY INDICATORS IN REAL TERMS, 2004/05 PRICES, USING THE GDP DEFLATOR (£BN)

	1998/99	2004/05	2007/08	Change: 1998/99 to 2004/05 (% annual average growth rate in brackets)	Change: 2004/05 to 2007/08 (% annual average growth rate in brackets)	Change: 1998/99 to 2007/08 (% annual average growth rate in brackets)
Total DEL	206.3	278.7	315.0	72.4 (5.2)	36.3 (4.1)	108.7 (4.8)
Of which:						
Education & skills	14.9	27.6	32.6	12.7 (10.8)	5.0 (5.6)	19.7 (9.1)
Health	46.6	71.5	87.3	24.9 (7.4)	15.8 (6.8)	40.7 (7.2)
Of which: NHS	45.8	69.4	85.2	23.6 (7.2)	15.8 (7.1)	39.3 (7.1)
ODPM: Local Government	37.7	43.7	47.2	6.0 (2.5)	3.5 (2.6)	9.5 (2.5)
Defence	32.8	29.7	30.9	-3.1 (-1.7)	1.2 (1.3)	-1.9 (-0.7)
AME:						
Social Security & tax credits	109.4	142.0	142.9	32.6 (4.5)	0.9 (0.3)	33.5 (3.0)
TME	383.3	487.6	536.5	104.3 (4.1)	48.9 (3.2)	153.2 (3.8)
Memorandum item:						
Total education	44.6	63.2	71.0	18.6 (6.0)	7.8 (3.8)	26.4 (5.5)

Sources: HM Treasury and National Statistics, *Public Expenditure Statistical Analyses (PESA) 2004*, Cm 6201, TSO, April 2004 and HM Treasury, *2004 Spending Review*.

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