



Government Spending – How deep is your cut?

- Much has been made about the ‘savage’ nature of government spending cuts within the coalition government’s fiscal consolidation plan. But how big are the cuts?
- In nominal, or cash terms, total government spending will increase from £690 billion in 2010/11 to £744 billion in 2014/15: an increase in annual spending of £54 billion.
- On current forecasts of inflation, this means that annual government spending will be cut by just over £21 billion per year by the end of the Parliament (representing a cut of just over 3% in government spending).
- But despite the relatively modest nature of the cuts, the squeeze on some departments will be greater than others, due to both the increasing burden of interest payments, and the protected Health and International Aid budgets.
- Health spending will be 1.4% higher in 2014/15 than 2010/11 in real terms, with spending increasing from £122.4 billion to £124.1 billion. Meanwhile, DfID spending will increase from £6.4 billion to £10.3 billion in real terms (an increase of 61.5%).
- The burden of interest payments will also increase from £43.1 billion per year in 2010/11 to £56.1 billion in real terms. Thus, by the end of the Parliament we will be paying £153 million per day in interest payments (up from £118 million in 2010/11).
- Due to these factors, unprotected departments will be spending £39.1 billion less by 2014/15 in real terms, a cut of 8% in their total budgets.
- However, when looked at in a historical context, these cuts still do not look dramatic or savage. Overall public spending in 2014/15 will still be 51% higher in real terms than in 1996/97, with even the now unprotected departments enjoying 36% higher expenditure than the same year.
- Thus, far from being savage, the real cuts to public expenditure simply unwind a small part of earlier profligacy (see below)

£bn	Real government spending			Change in real expenditure	
	1996-97	2010-11	2014-15	1996/97 - 2014/15	2010/11-2014/15
Health	57.1	122.4	124.1	+114.5%	+1.3%
DfID	1.5	6.4	10.3	+314.0%	+61.5%
Protected spending	58.6	128.8	134.4	+119.8%	+4.3%
Pensions	69.4	122.6	119.1	+76.6%	-2.8%
Education	52.3	83.6	76.0	+59.9%	-9.0%
Defence	35.4	45.7	49.4	+29.0%	+8.2%
Welfare	90.5	113.1	103.5	+25.0%	-8.5%
Protection	21.6	34.5	26.6	+59.4%	-22.9%
Transport	14.1	20.3	17.3	+44.4%	-14.5%
General Government	9.1	24.3	21.8	+166.0%	-10.5%
All other	53.5	73.5	64.2	+37.3%	-12.7%
Unprotected Spending	346.0	517.6	478.0	+49.6%	-7.7%
Spending before interest	404.6	646.4	612.3	+59.8%	-5.3%
Interest	39.5	43.1	56.1	+9.1%	+30.1%
TOTAL SPENDING	444.1	689.5	668.4	+55.3%	-3.1%

Source: Tullet Prebon UK Economic & Fiscal database (originally calculated from HM Treasury data)