

CIPFA / SOLACE Budget Response - March 2010

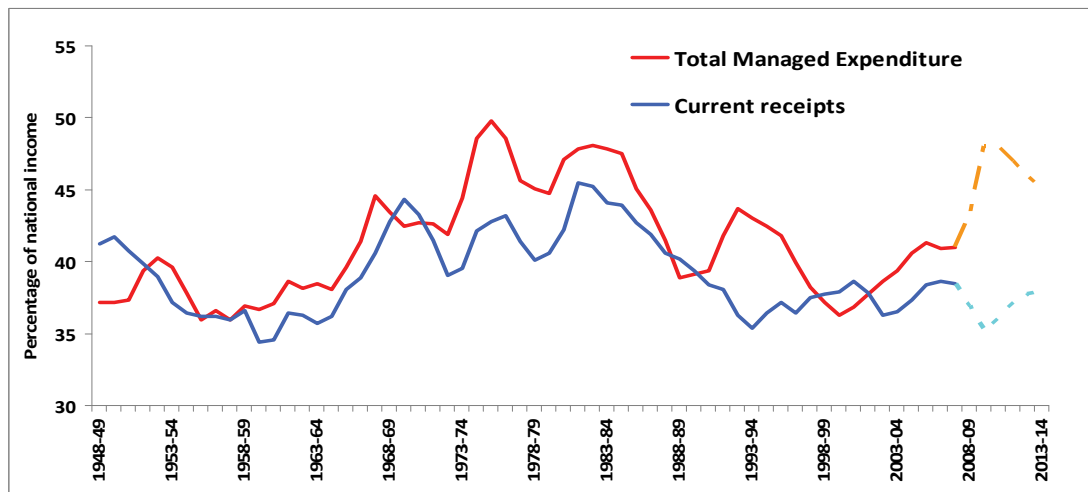
Immediately following the Pre-Budget Report in December 2009, CIPFA and SOLACE published *After the Downturn*¹, a major report exploring both the scale of spending reductions required to rebalance the UK public finances and the strategies available to Government and public service organisations to deal with them.

This briefing updates the economic analysis in the light of the 2010 Budget Statement and revisits and confirms the continuing relevance of *After the Downturn's* conclusions. In particular, very significant decisions about cuts in public spending will need to be made following the General Election.

- **The state of the public finances**

Budget 2010 forecasts predict total managed expenditure of the order of 48% of GDP in 2009/10 while receipts will remain at very depressed levels.

Figure 1 TME vs current receipts

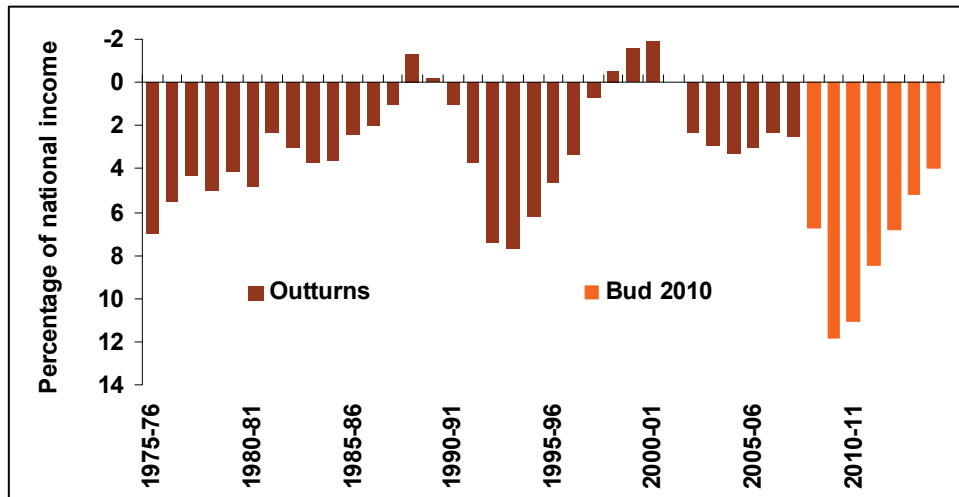


Note: Excludes unrealised losses on financial interventions. Source: HM Treasury

The Budget Statement forecasts annual borrowing of £167bn (11.8% of GDP) in 2009/10. This reflects a slightly improved position compared with the 2009 Pre-Budget Report (£178bn, 12.6% of GDP). Historically high levels of borrowing continue to be forecast for the succeeding years.

¹ To view *After the downturn – Managing a significant and sustained adjustment in public sector funding*, go to <http://www.cipfa.org.uk/pt/cipfasolace>

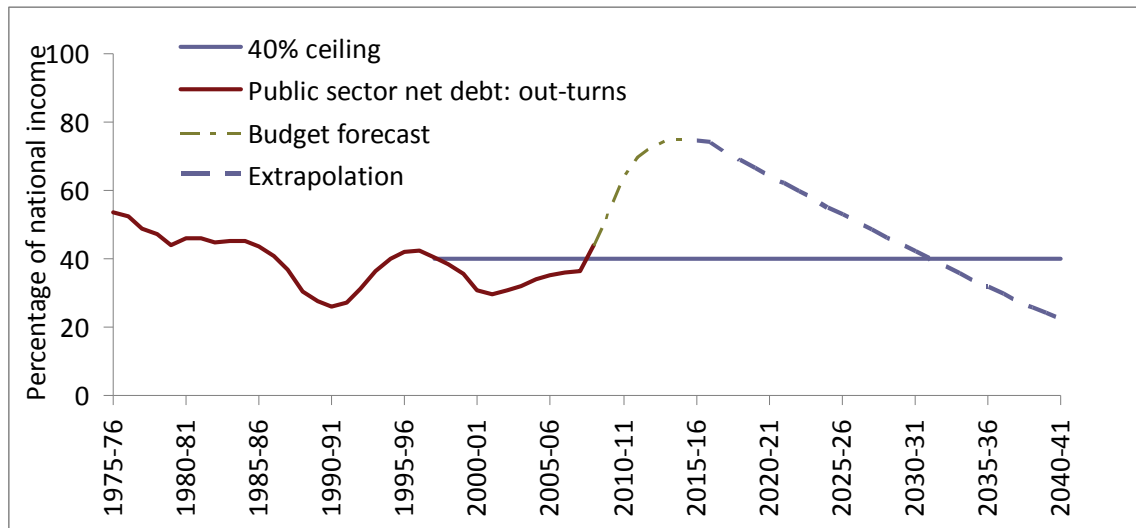
Figure 2 Annual borrowing as % of GDP



Note: Excludes unrealised losses on financial interventions. Source: HM Treasury

Therefore, public sector net debt is forecast to rise to 75% of GDP by 2014/15. A prolonged period of careful management of the public finances will be required if the UK is to return to conventional net debt levels.

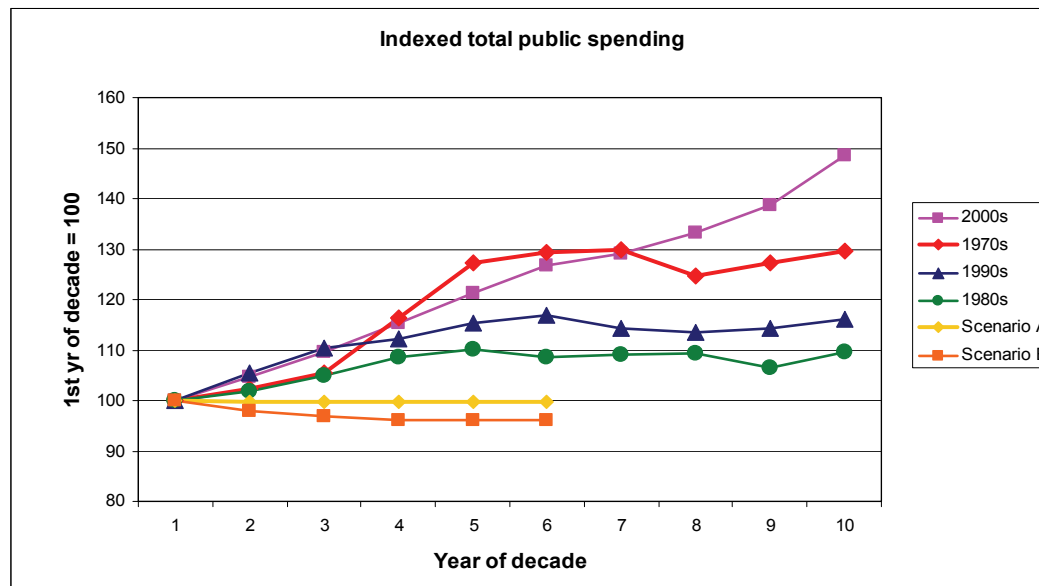
Figure 3 Aggregate net debt



Note: Excludes unrealised losses on financial interventions. Source: HM Treasury; IFS calculations

The fact that 2009/10 borrowing is expected to be somewhat lower than the Pre-Budget Report forecast is clearly encouraging. Nevertheless very significant spending reductions are likely to be required in order to rebalance the public finances over time. *After the Downturn* rehearsed two scenarios involving headline reductions of the order of 7.5% and 15% over the three years following the General Election. It also drew attention to the potentially deeper cuts which might be required if Government decide to protect significant spending budgets. Both scenarios involve sustained cuts in spending on a scale unprecedented in recent times.

Figure 4 – Total public spending in real terms



Our scenarios continue to be relevant and realistic for the period ahead. In particular it remains important to consider the possibility of higher levels of reductions of the order of 15% over three years given that economic conditions remain extremely uncertain.

Emphasis continues to be placed on the need to maximise efficiency savings throughout the public sector. However, further, more radical steps will still need to be taken in the period following the General Election. In our view, the three strategic options identified in After the Downturn will need to be addressed by Government and public service organisations:

- Redefining the relationship between the state and the individual – a reconsideration of three variables: the services provided by the State; the people to whom they are provided; and the way they are funded.
- A significant de-layering of the public sector with many more decisions taken locally with minimal oversight – transferring greater power and responsibility to local public bodies and reducing much costly central government control and oversight.
- A major initiative to maximise economies by much more effective collaboration between public bodies – encouraging efficiencies by better joining-up between public bodies, reducing duplication and removing blockages.

While individual public service organisations can and should begin to develop plans for managing the funding challenges ahead, an urgent priority for Government, post the General Election, must be the development and publication of new medium term spending plans for all services.