



Ben Zaranko, Associate Director, Institute for Fiscal Studies

10 June 2025

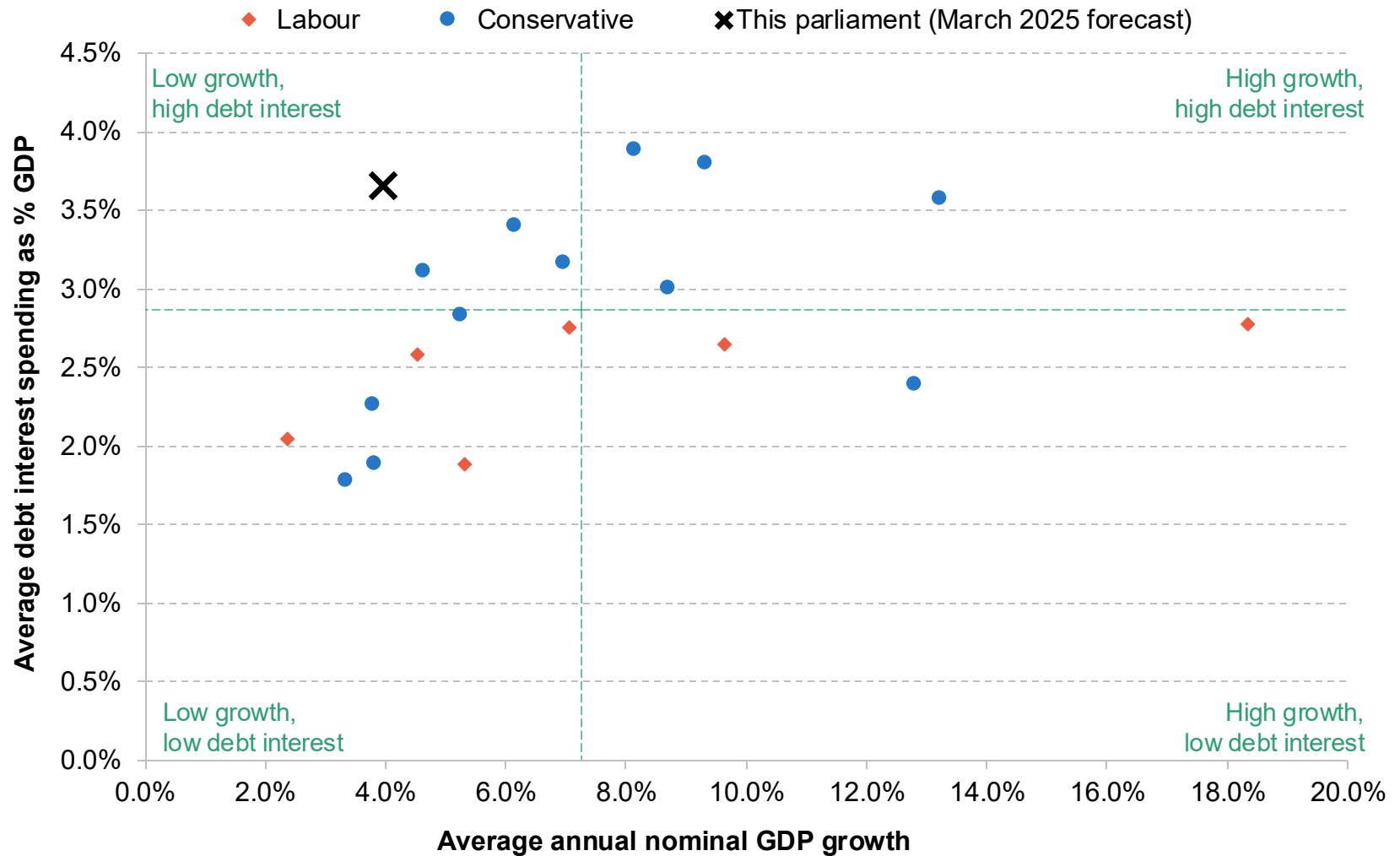
@TheIFS

# IFS pre-Spending Review briefing



Economic  
and Social  
Research Council

# The economic and fiscal backdrop



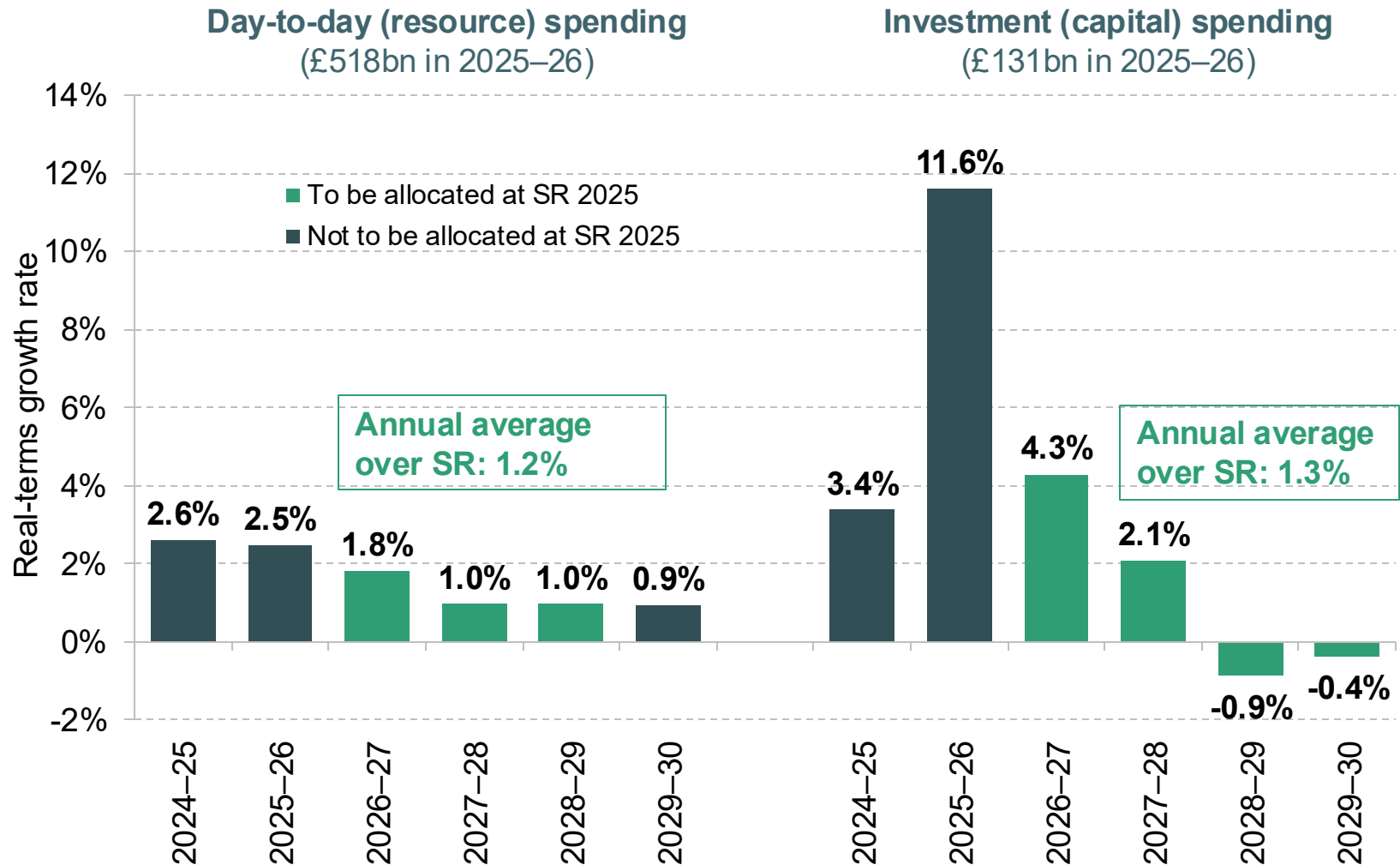
# The 2025 Spending Review



- The Spending Review is about *allocating* the spending plans (the ‘envelope’) already set out by the Treasury
- Happening outside of a Budget/fiscal event (unlike the last few)
  - Makes changes to that envelope less likely
- In theory, only covers spending on public services by departments
  - Departmental Expenditure Limits, or DEL, in the jargon
  - But could be used as an opportunity to announce other changes
    - e.g. changes to social security spending
- Plans to be set for 2026–27, 2027–28 and 2028–29
  - Plans for 2028–29 will get revisited at Spending Review 2027
  - Capital plans will run an additional year (to 2029–30)

# The envelope

Actual and planned annual growth rates in day-to-day and investment spending





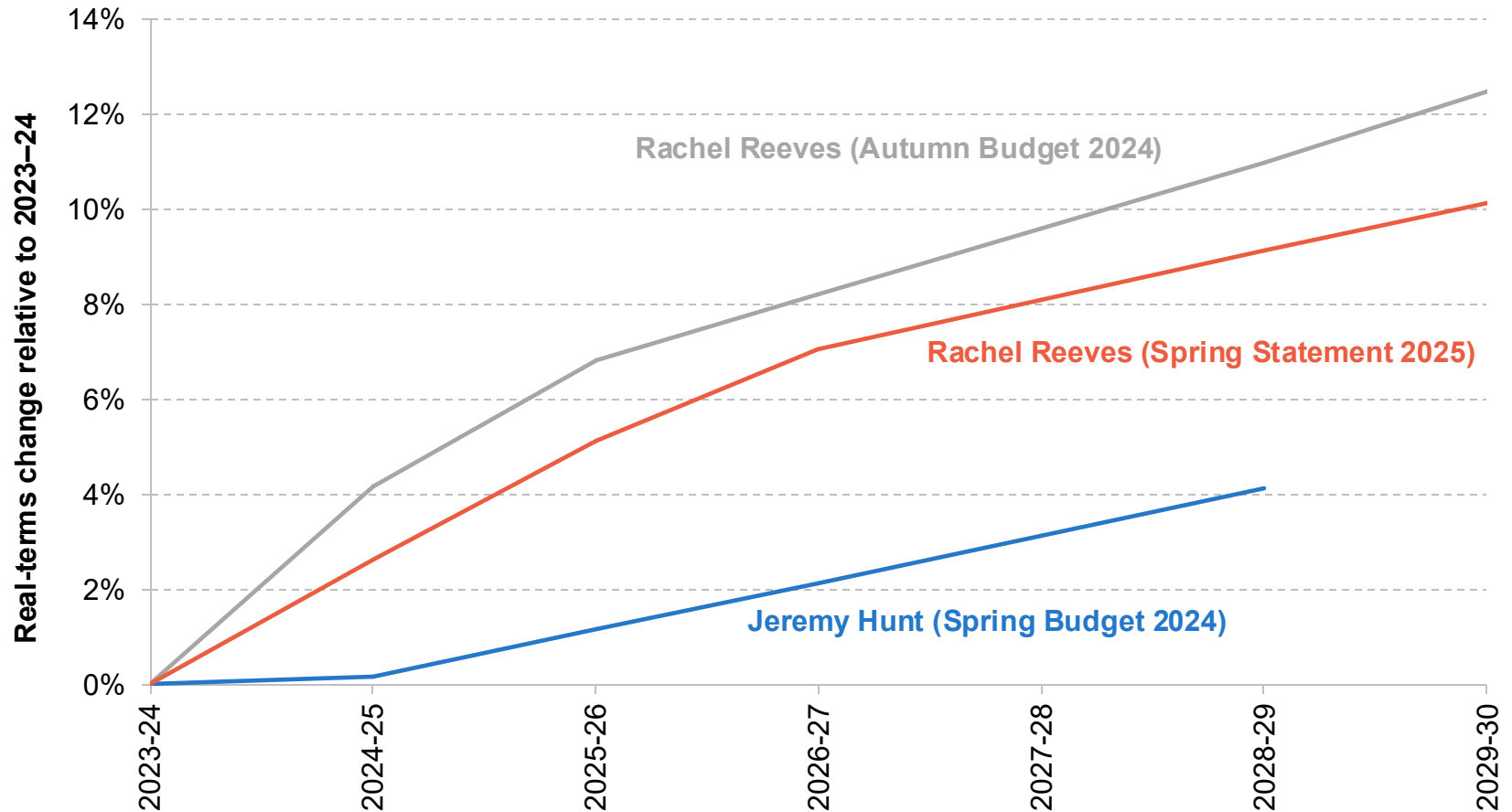
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# Day-to-day spending

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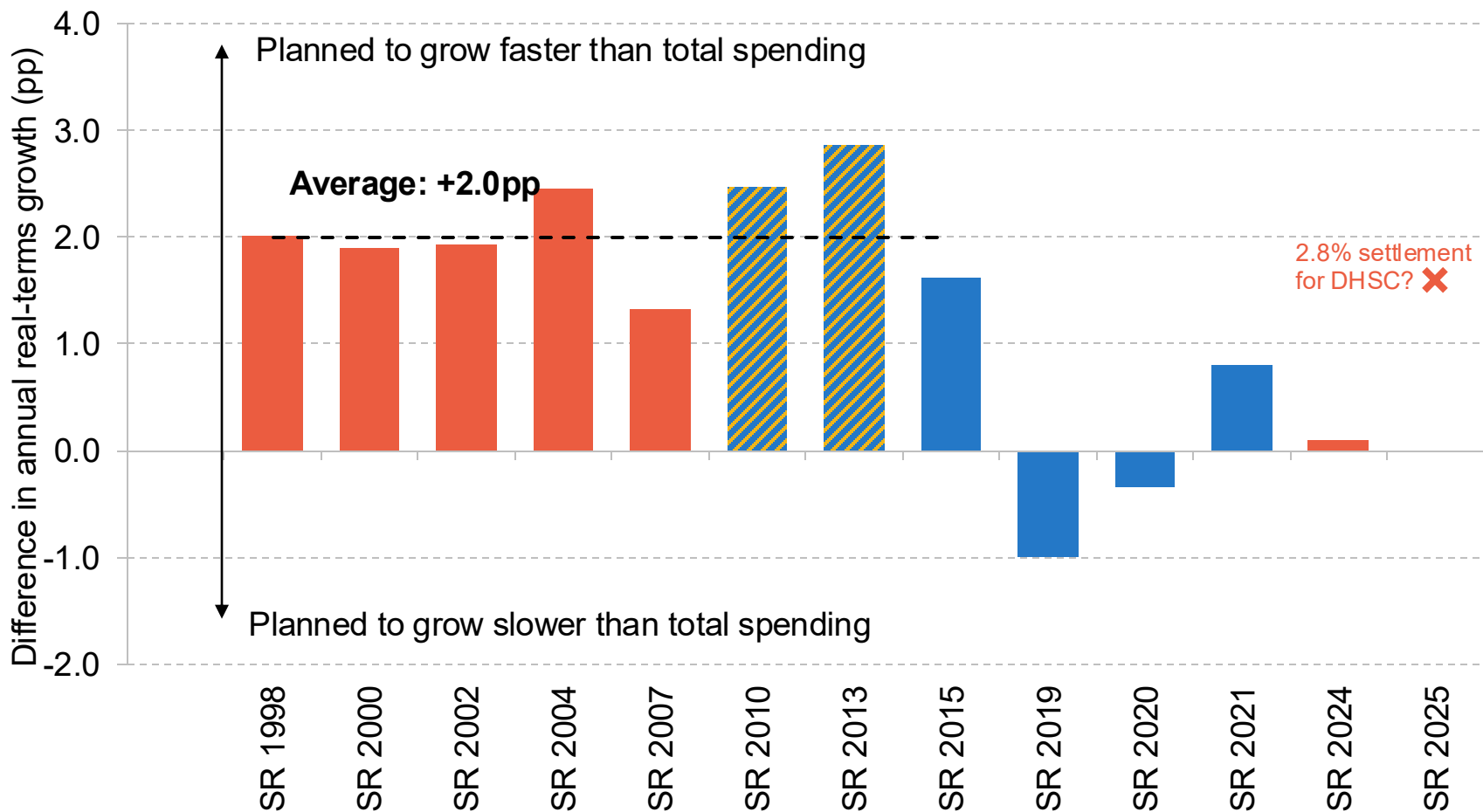
# The path for day-to-day spending

Planned path for day-to-day public service spending at Spring Budget 2024, Autumn Budget 2024, and Spring Statement 2025



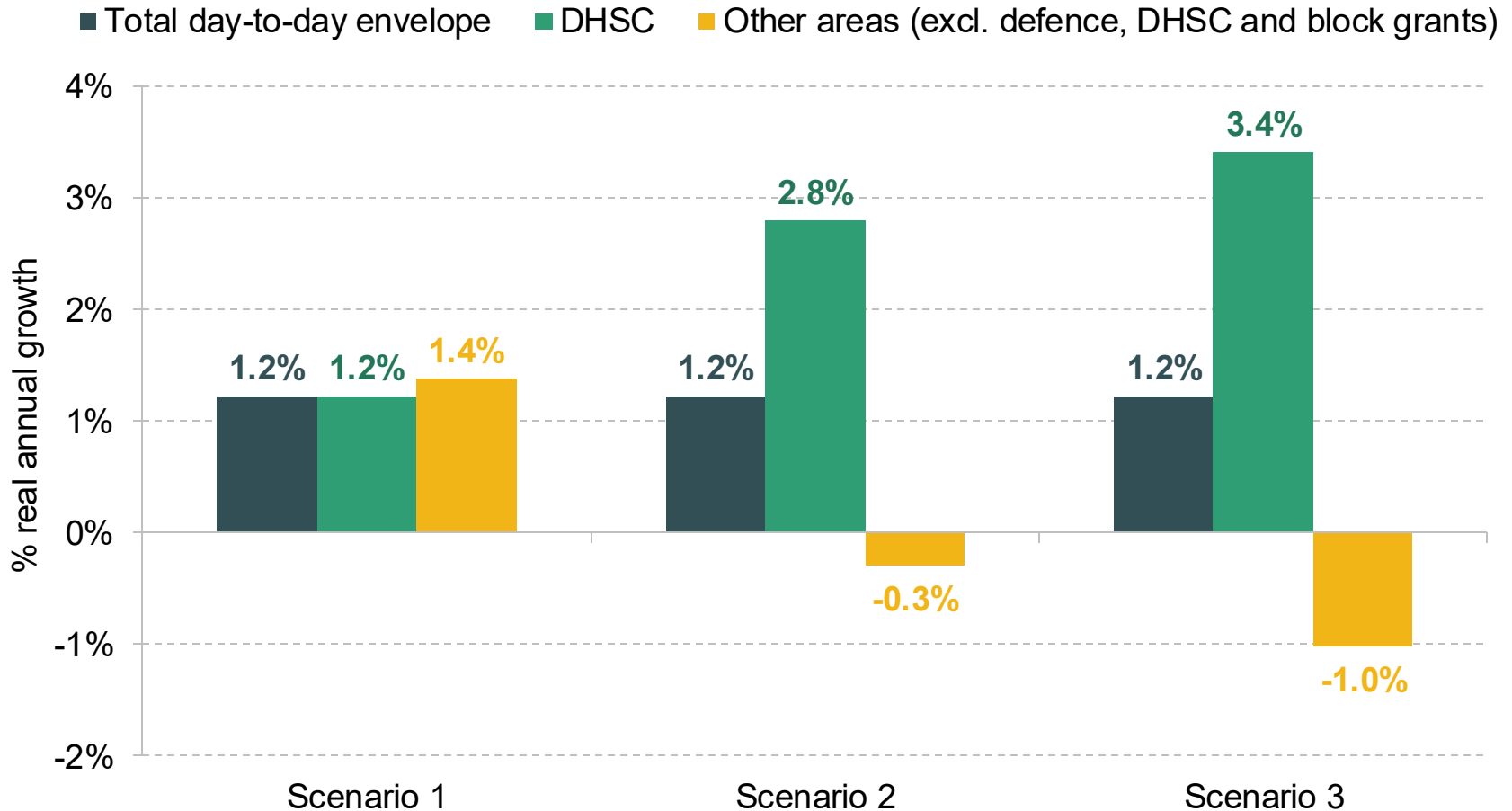
# The health budget generally rises faster than average

Difference in planned annual average real day-to-day spending growth between health and total spending at recent Spending Reviews



# Settlement for health determines what happens elsewhere

Spending growth under alternative scenarios for health spending

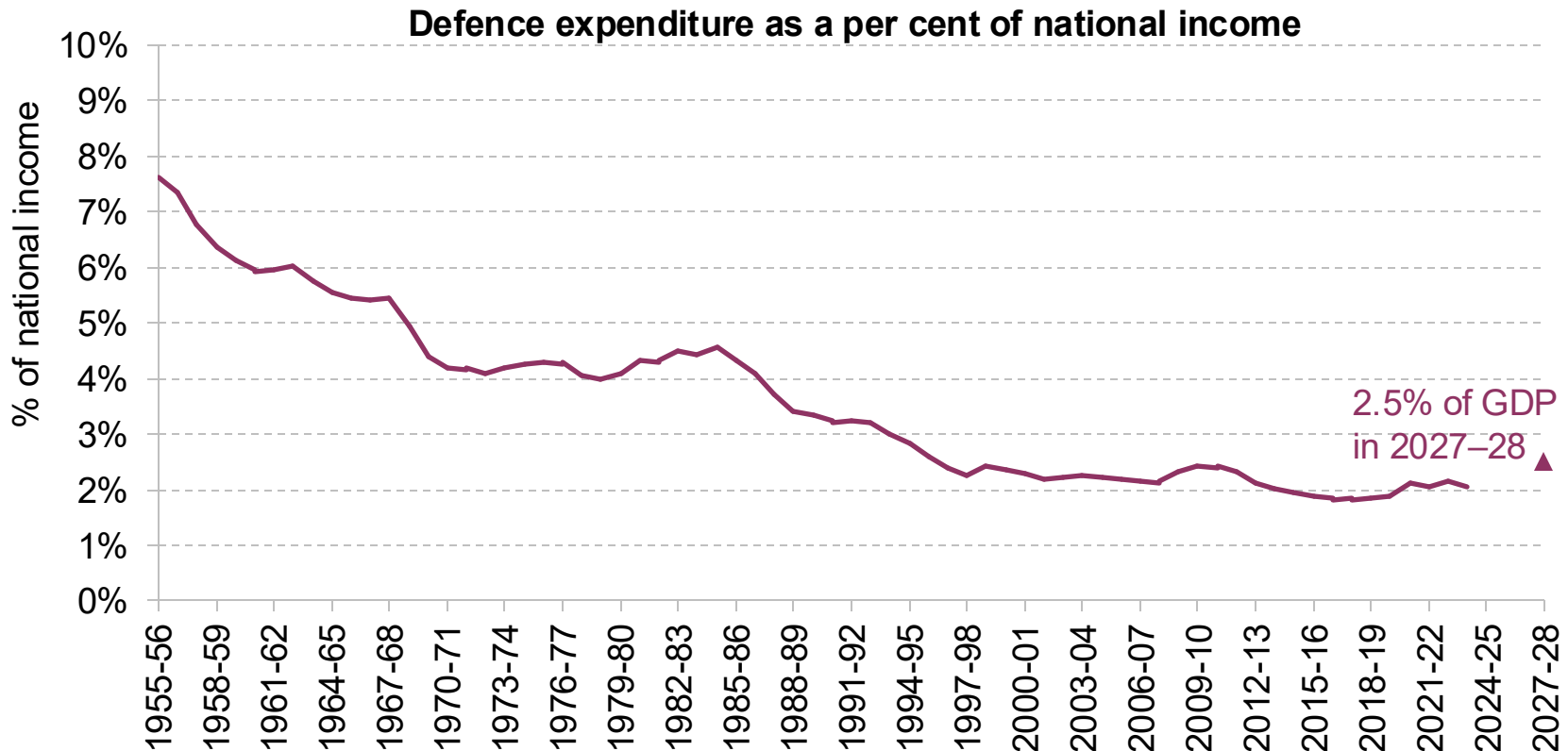




# Path for defence spending already set out

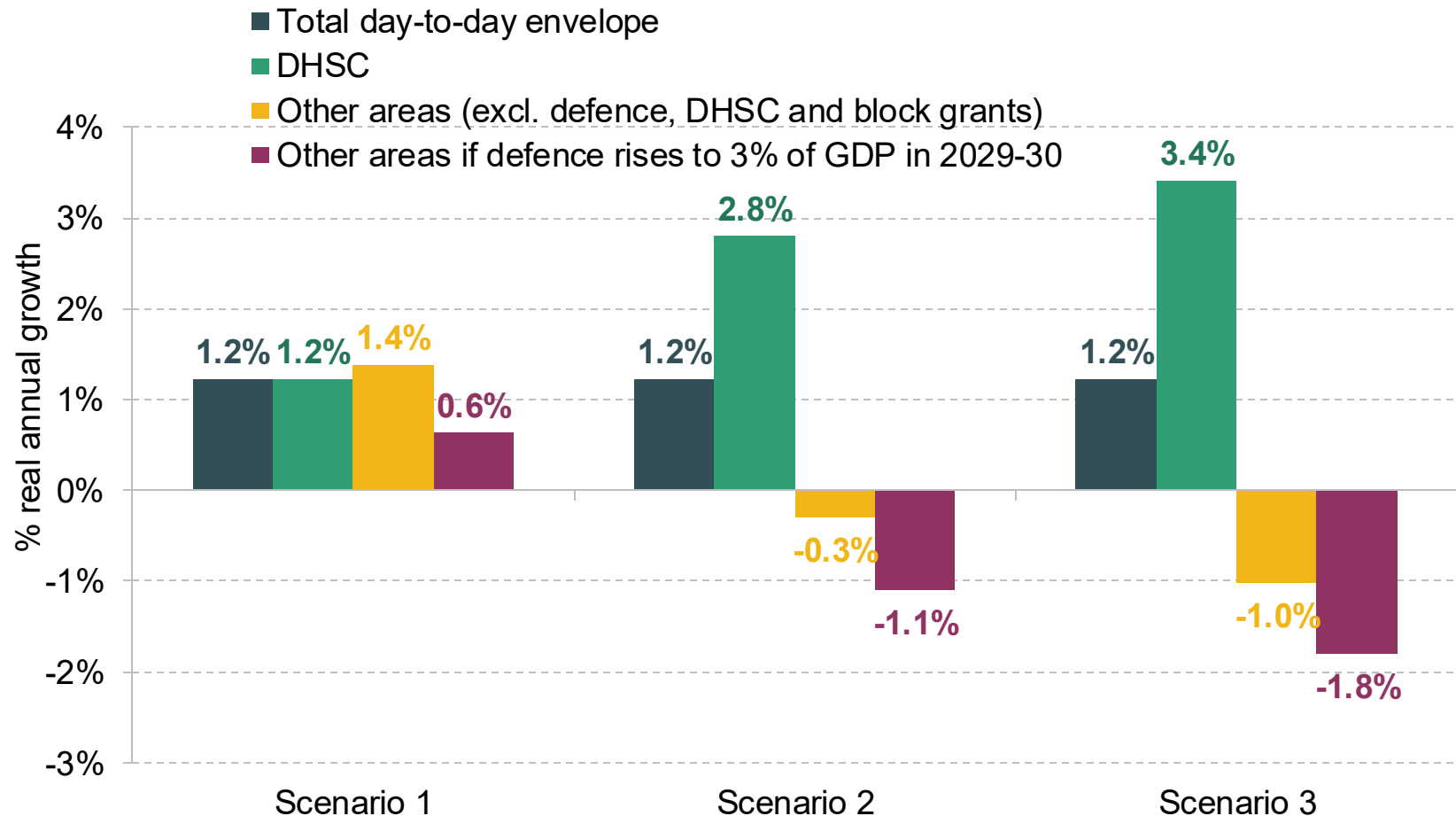


- Spring Statement document implies that MoD **resource budget will grow by 1.0%** per year in real terms, and the **capital budget by 6.8%** per year
- Enough to deliver an increase to 2.5% of GDP by 2027–28

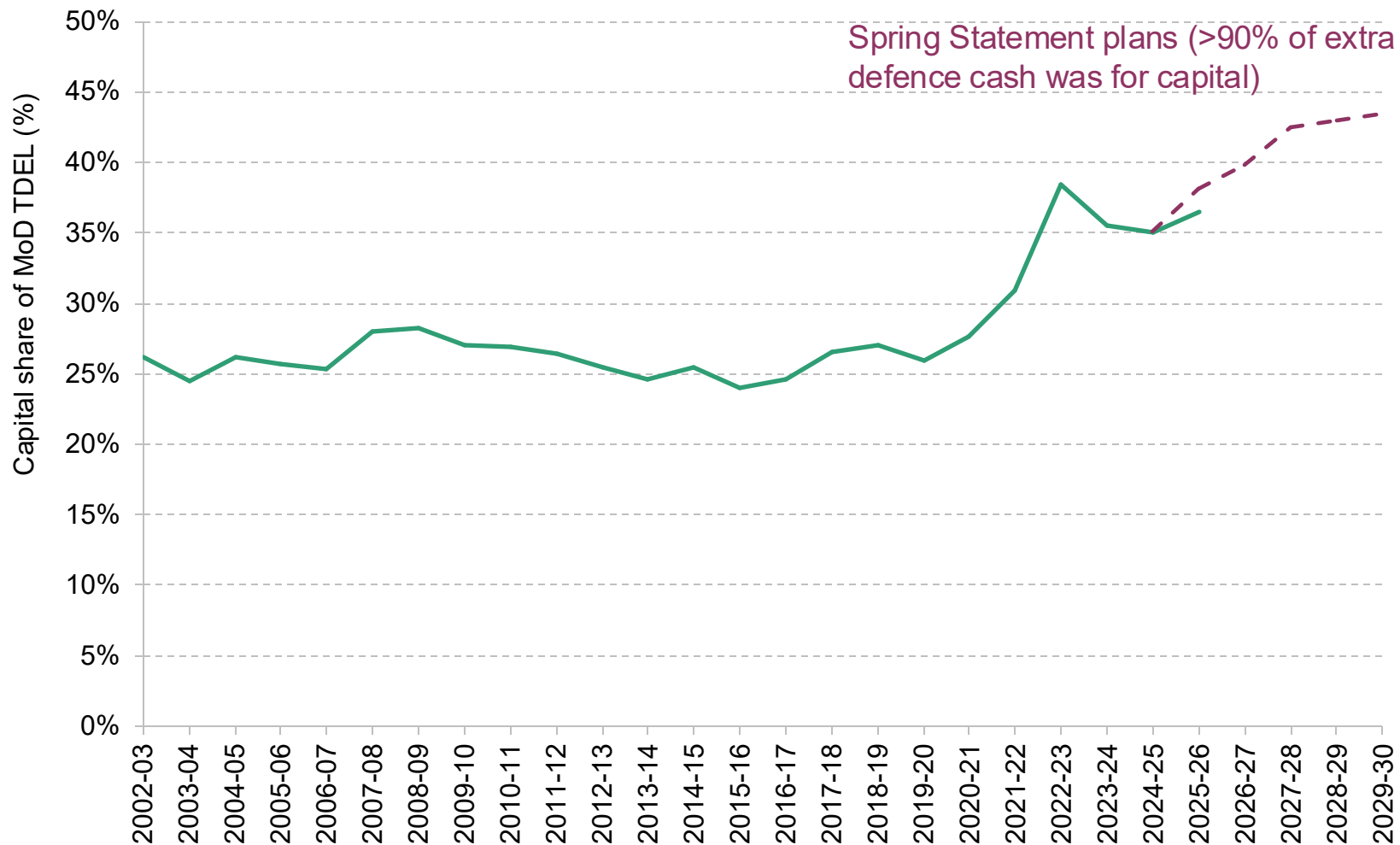


# If defence rises faster, the squeeze elsewhere is worse

Spending growth under alternative scenarios for health and defence spending



# Squeeze on day-to-day is limited by capital intensity of extra defence spending



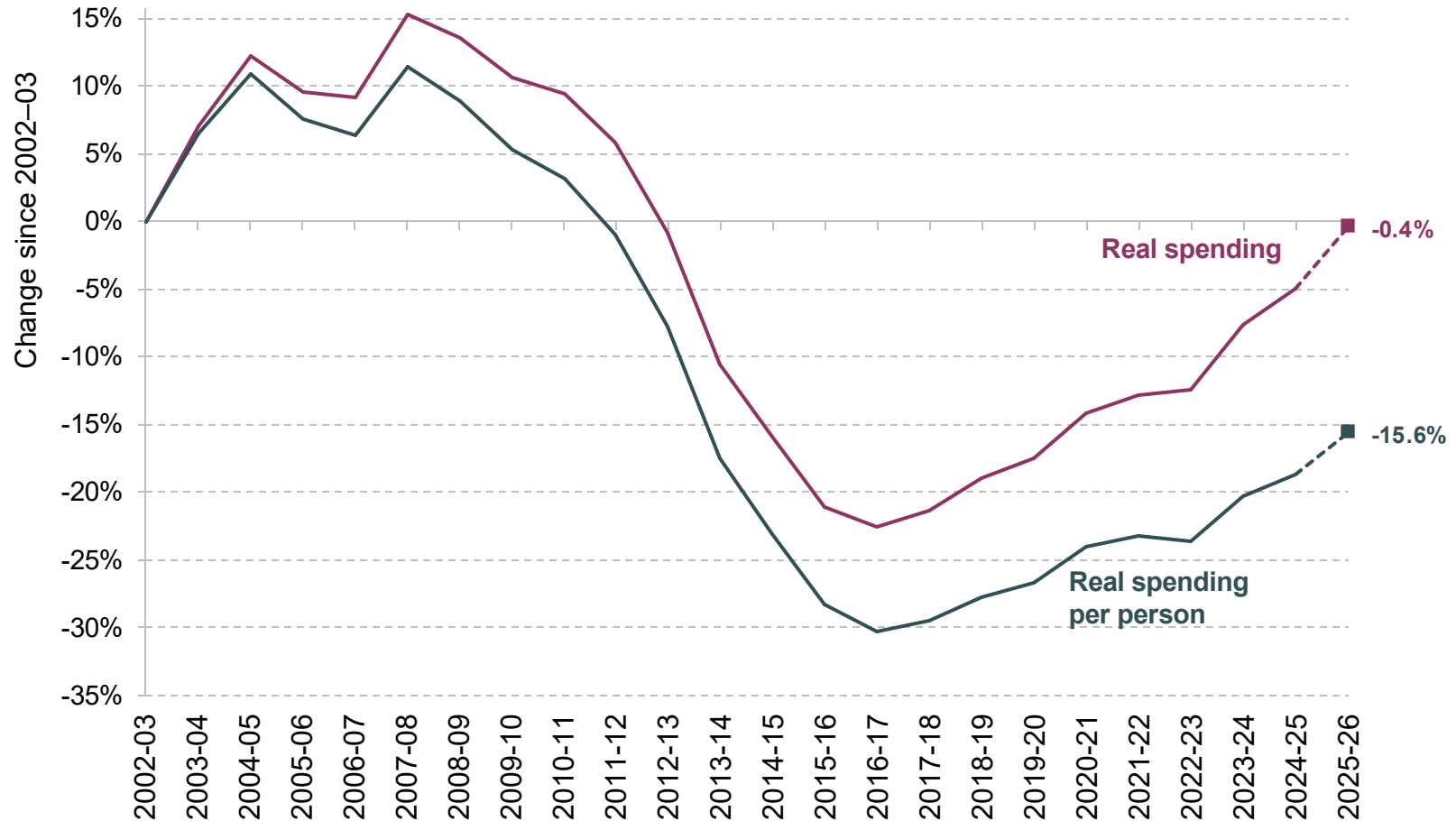
# Outlook for ‘unprotected’ areas



- It's near-certain that some areas will face cuts over next few years
  - In some cases, after big increases this year and last
  - Though some budgets remain far below pre-2010 levels

# An example of an 'unprotected' budget

Ministry of Justice day-to-day spending (indexed to 2002–03)



# Outlook for ‘unprotected’ areas

- It's near certain that some areas will face cuts over next few years
  - In some cases, after big increases this year and last
  - Though some budgets remain far below pre-2010 levels
  - A huge amount depends on what happens to NHS and defence
- Staff costs are ~ half of departments' day-to-day spending
  - Hard to see a route to real-terms cuts without pay restraint, headcount reductions, or both
- The big unknown, and the big hope: public sector productivity gains



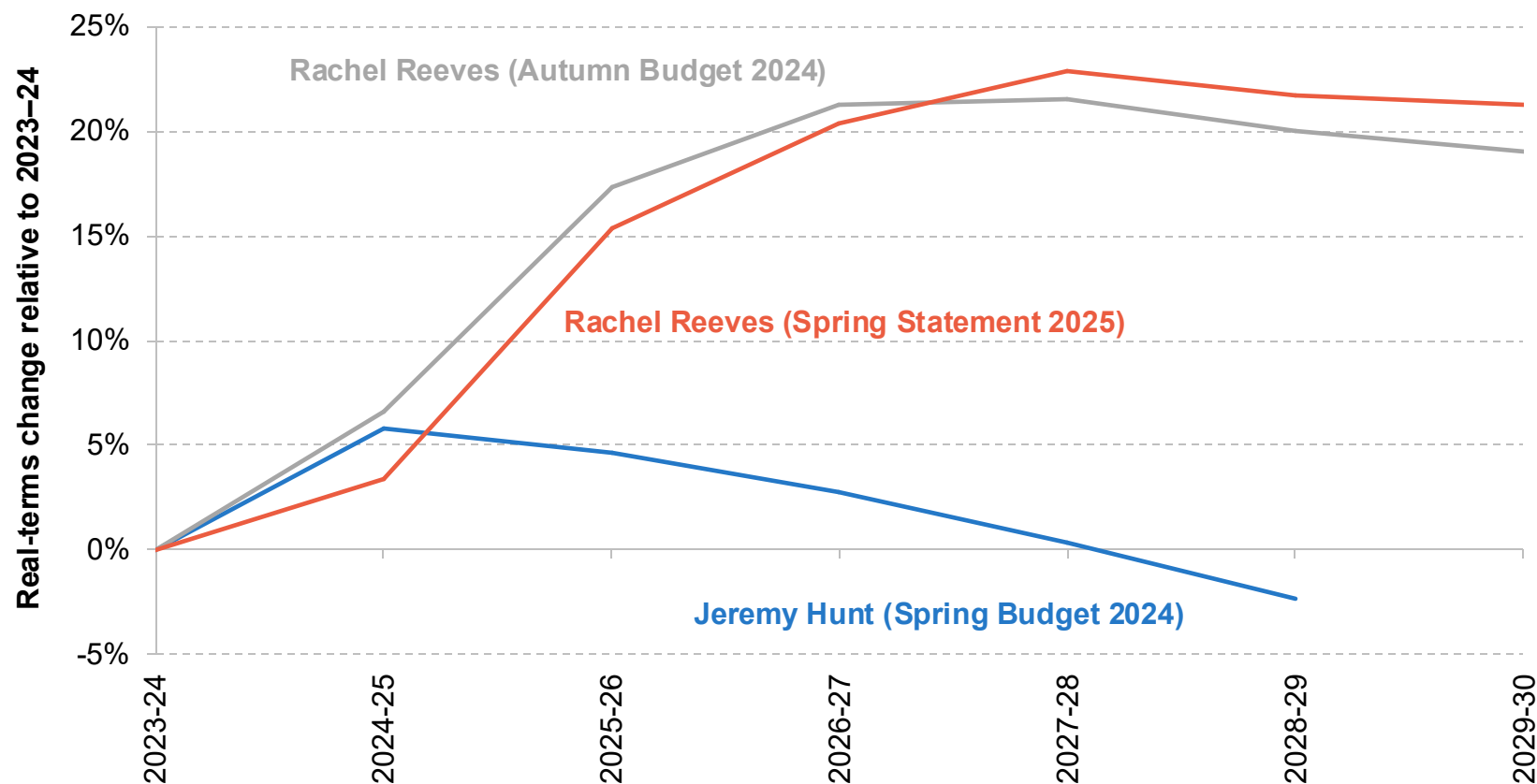
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# Capital spending

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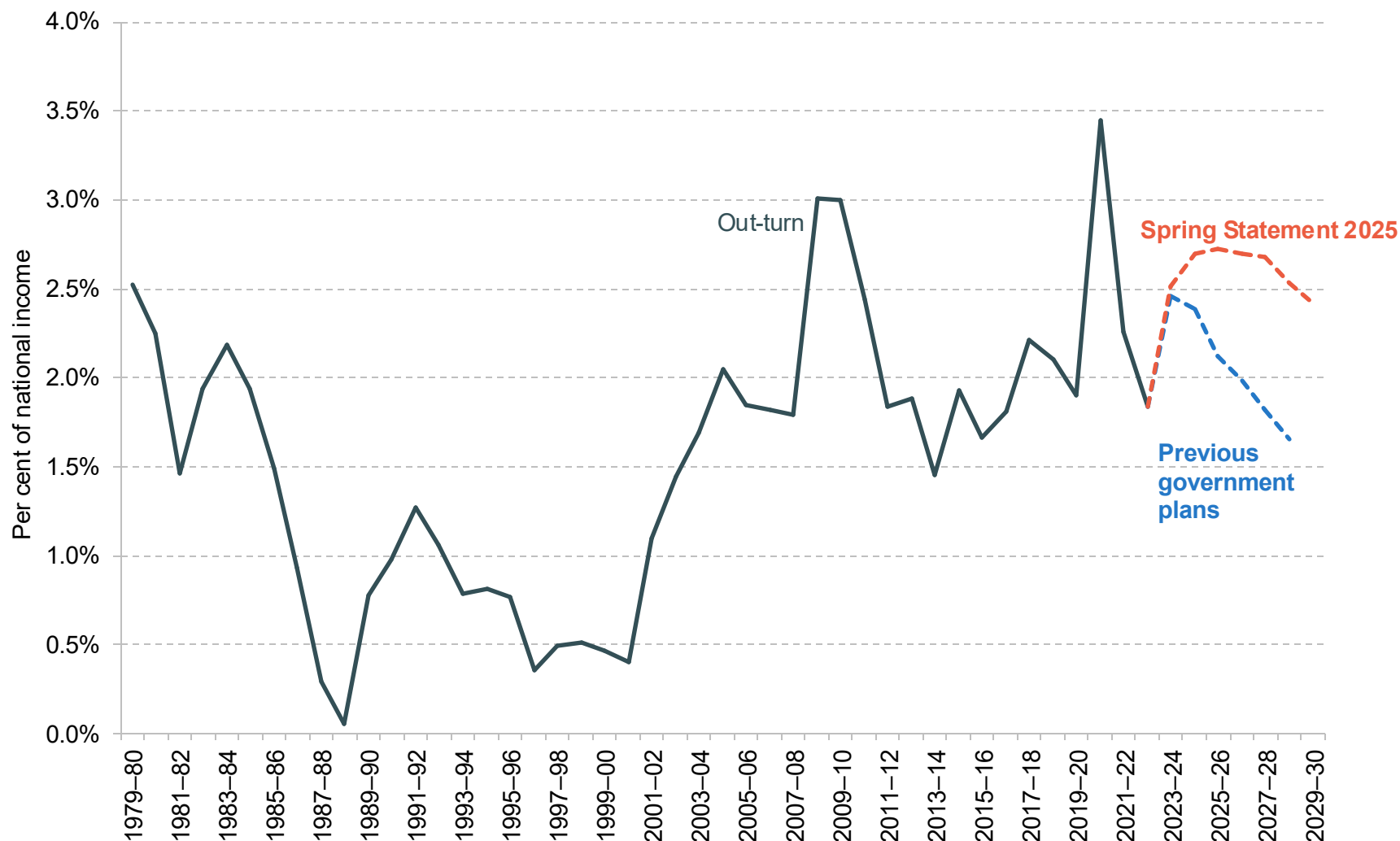
# Plans for capital spending

Planned path for capital public service spending at Spring Budget 2024, Autumn Budget 2024, Spring Statement 2025



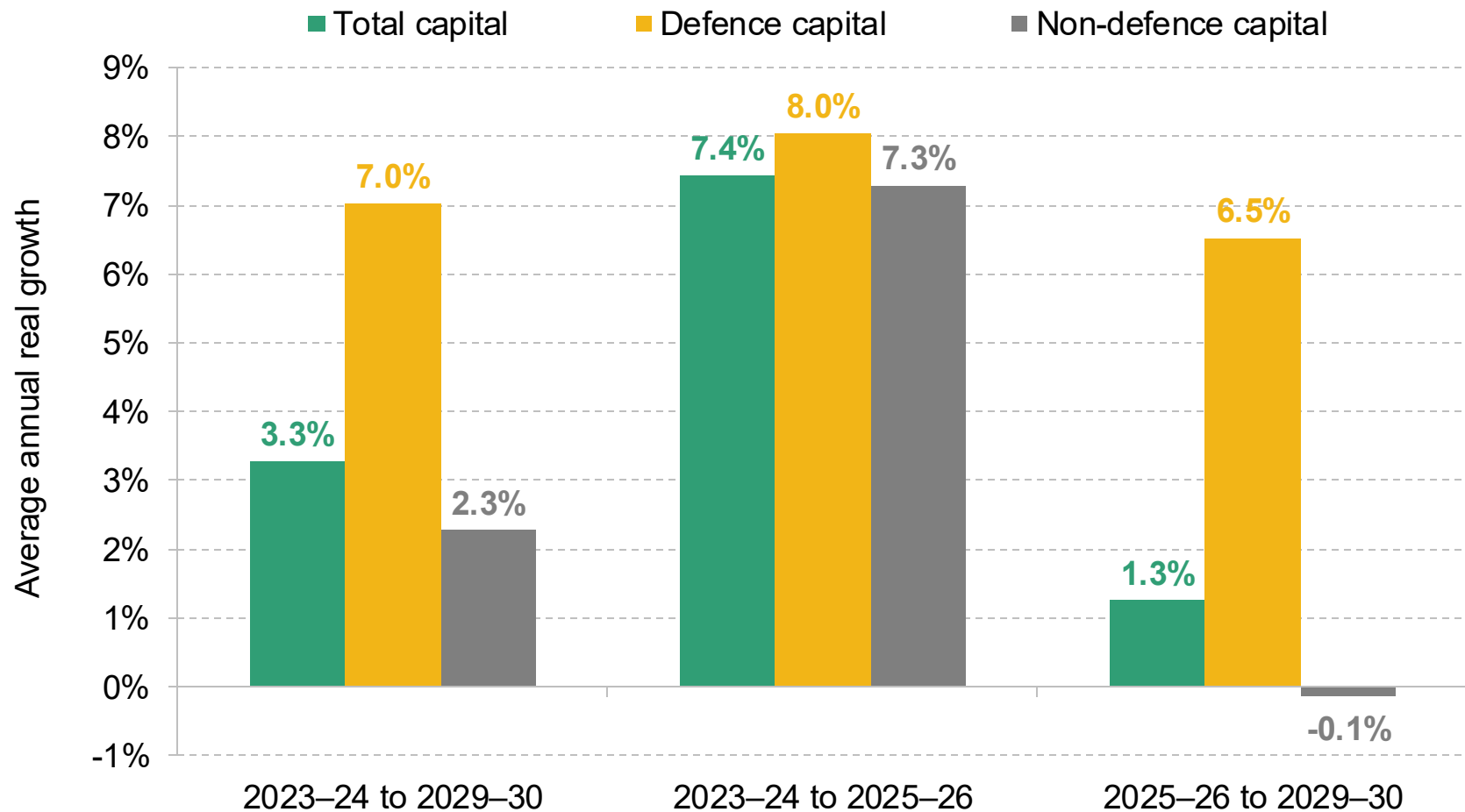


# Public sector net investment



# Defence spending will absorb much of the increase in capital spend

Average annual real growth in capital budgets



# Summing up

- Public service funding increased last year and this year, and will continue to grow – just more slowly
- Not everything can be a winner
- Funding decisions will reveal government priorities
  - How much for the NHS?
  - Does the UK need to go further than 2.5% of GDP on defence? If so, how quickly?
  - Which areas will be cut? How?
  - Lots more public investment – in what?

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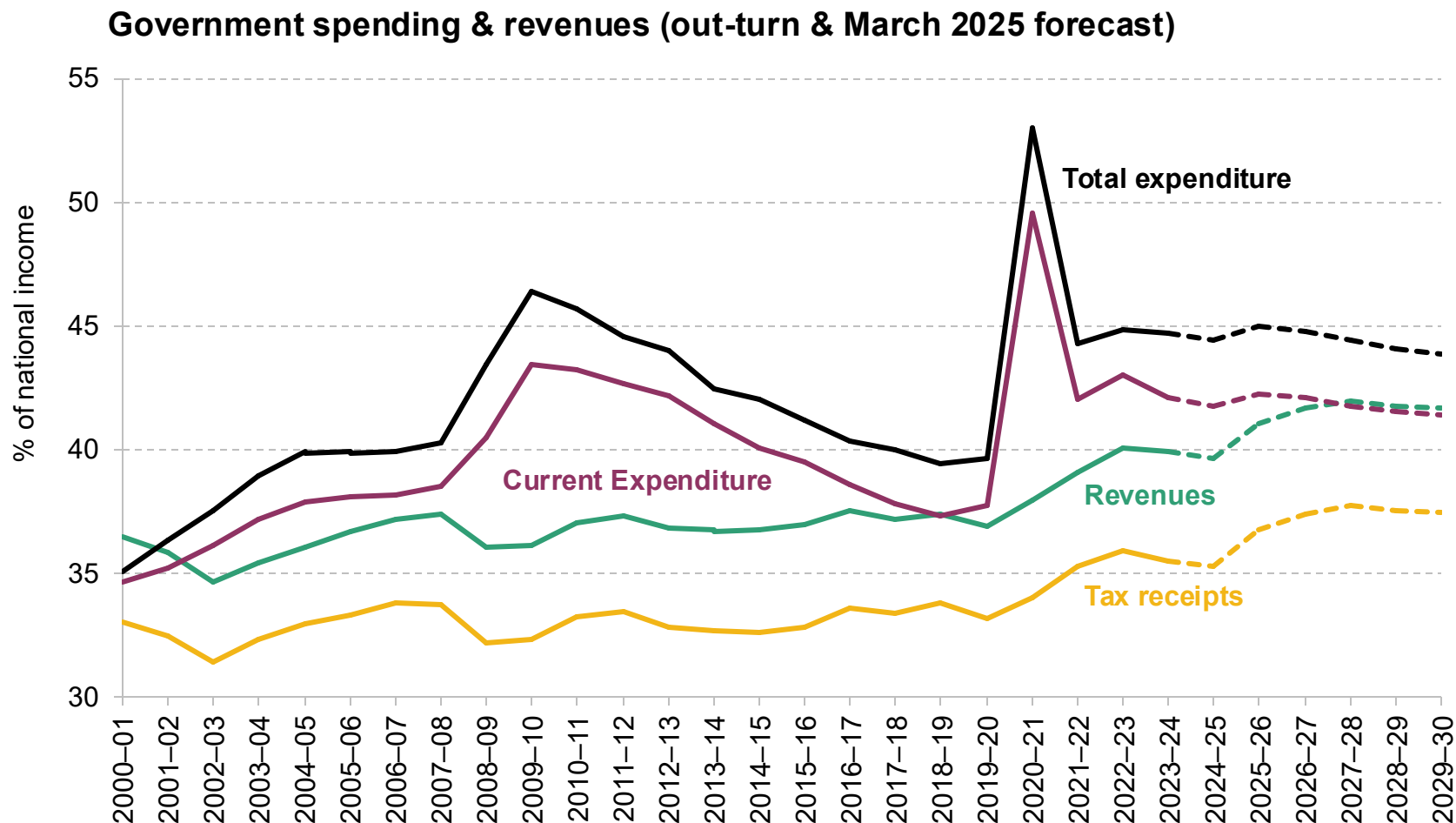


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# Extra content

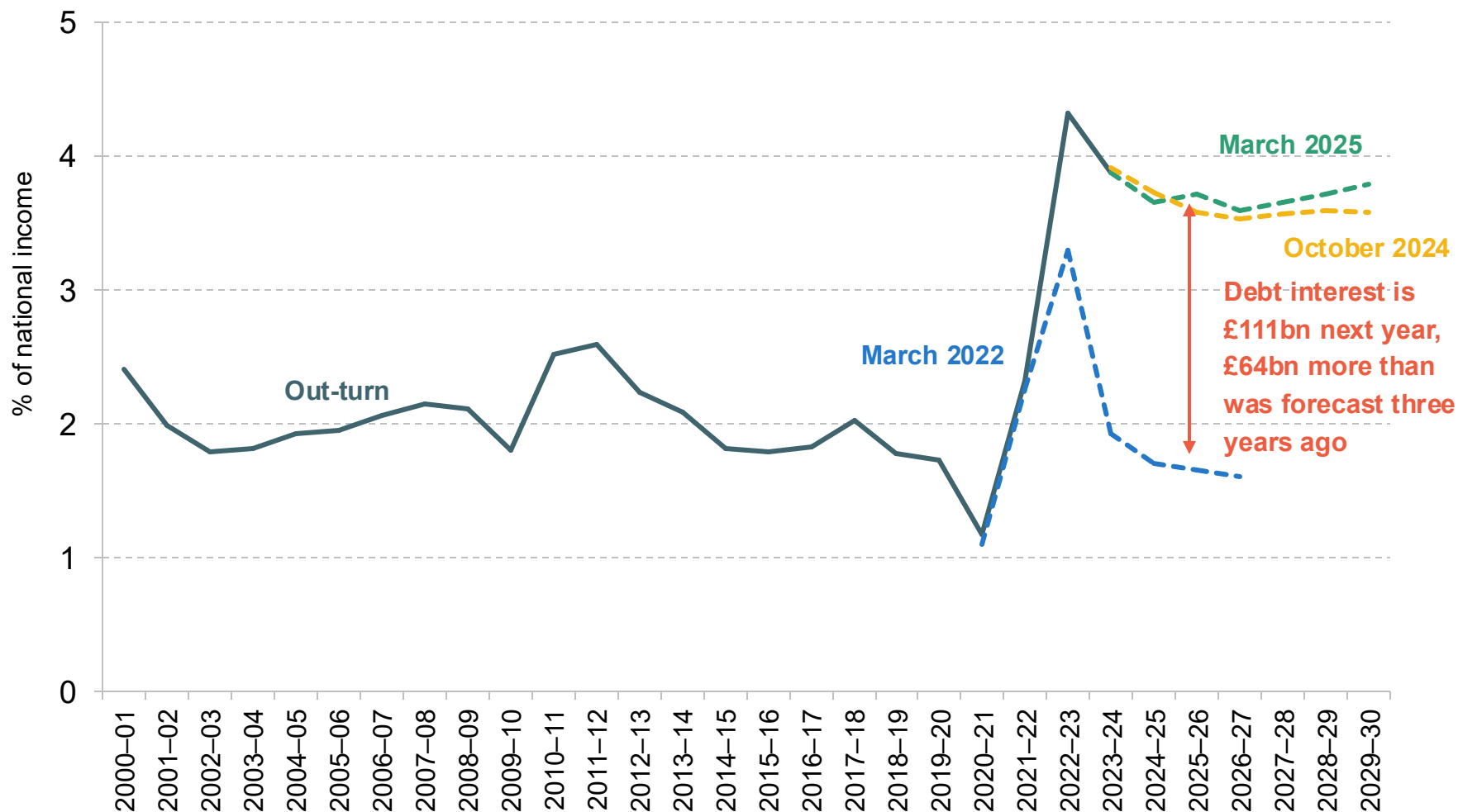
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# Size of the state



Source: Office for Budget Responsibility, Economic and Fiscal Outlook (March 2025)

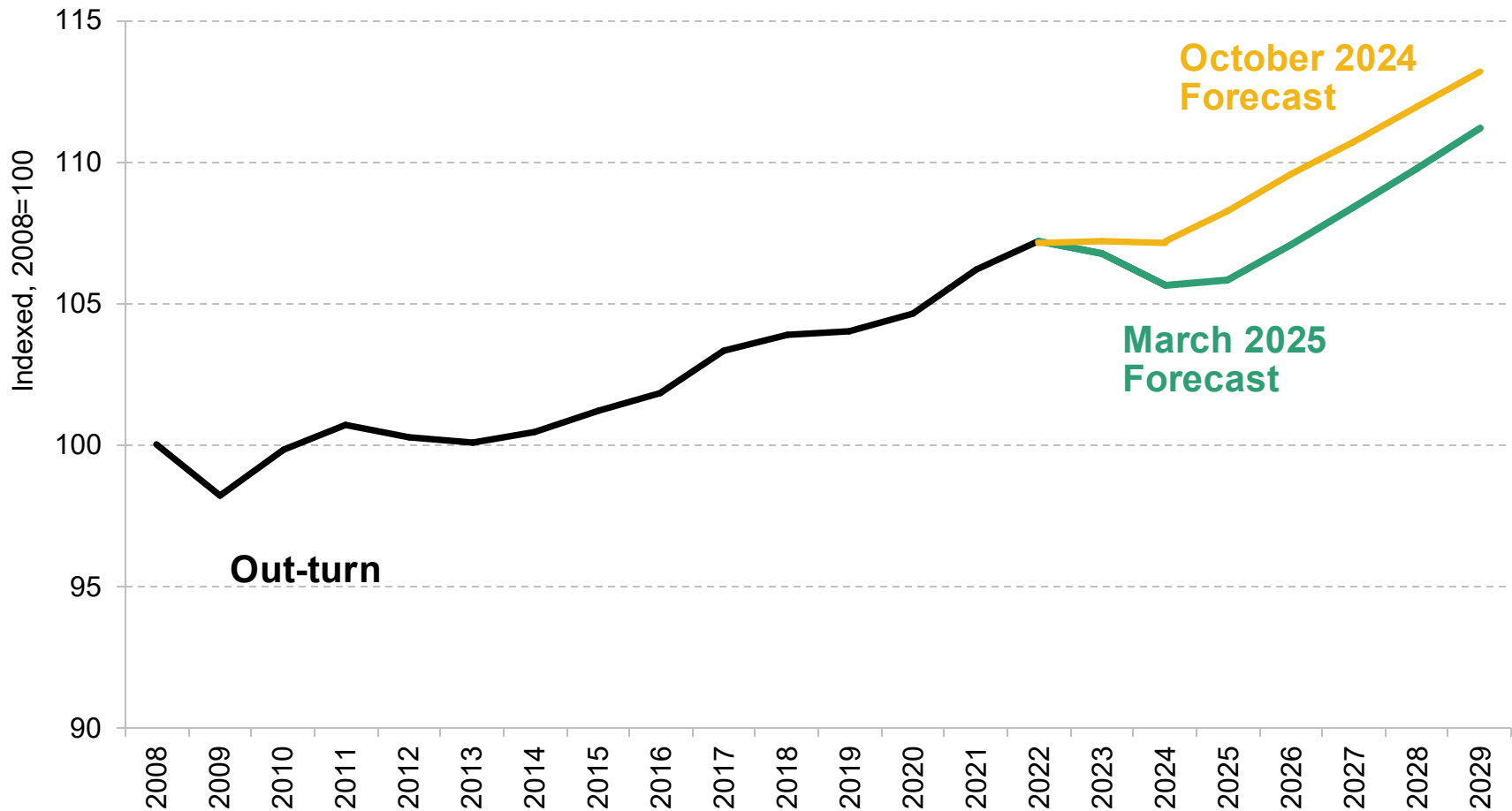
# Debt interest



Note: Central government debt interest net of APF income shown; in per cent of national income as forecast/measured at the time of the relevant forecast (disregarding later revisions).

Source: Office for Budget Responsibility, Economic and Fiscal Outlook (successive editions).

# Will productivity bounce back?

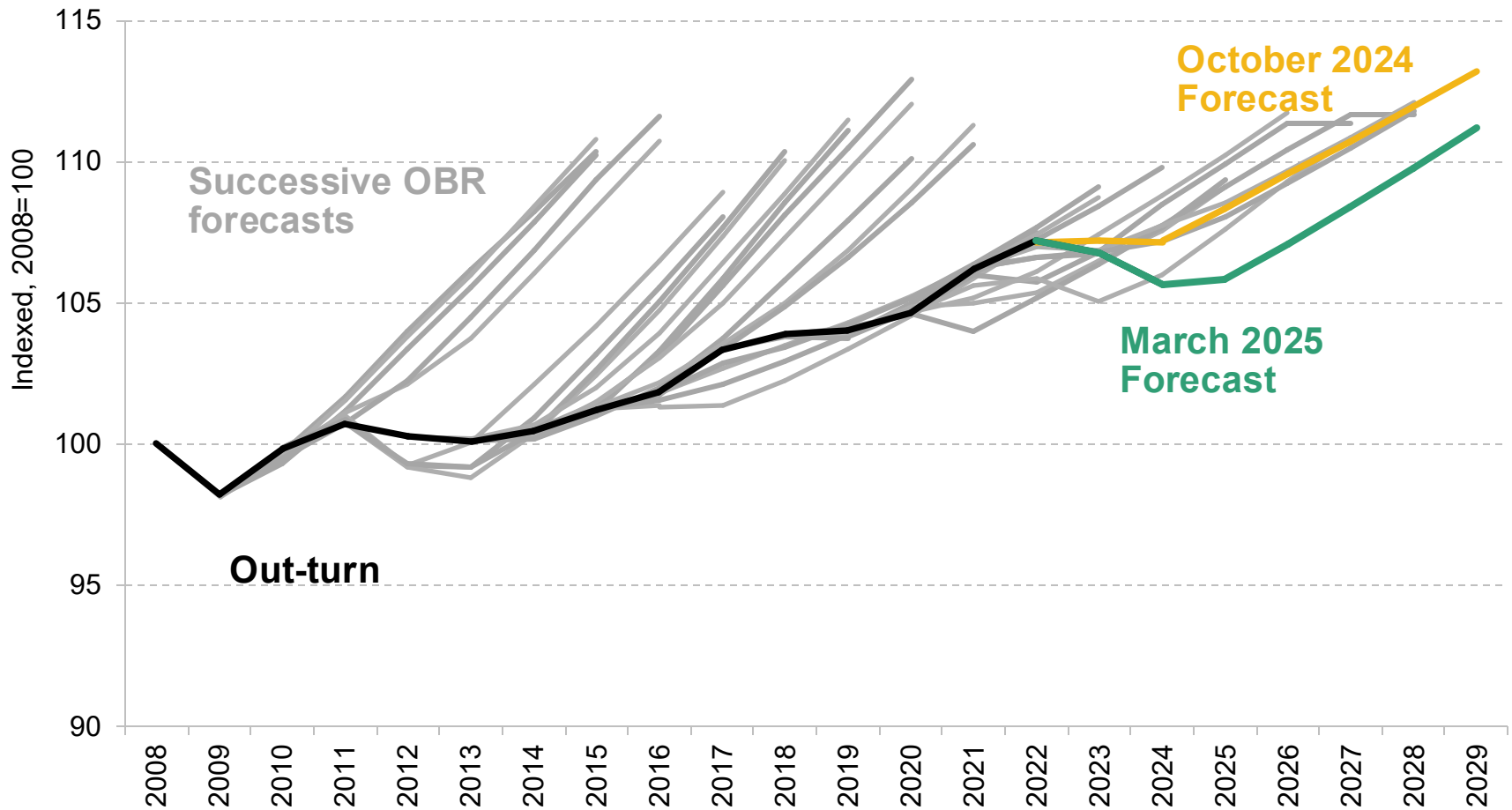


Note: Pessimistic scenario based on trend productivity, which in the long run is treated as equivalent to hourly productivity.

Source: Office for Budget Responsibility, Economic and Fiscal Outlook (successive editions).

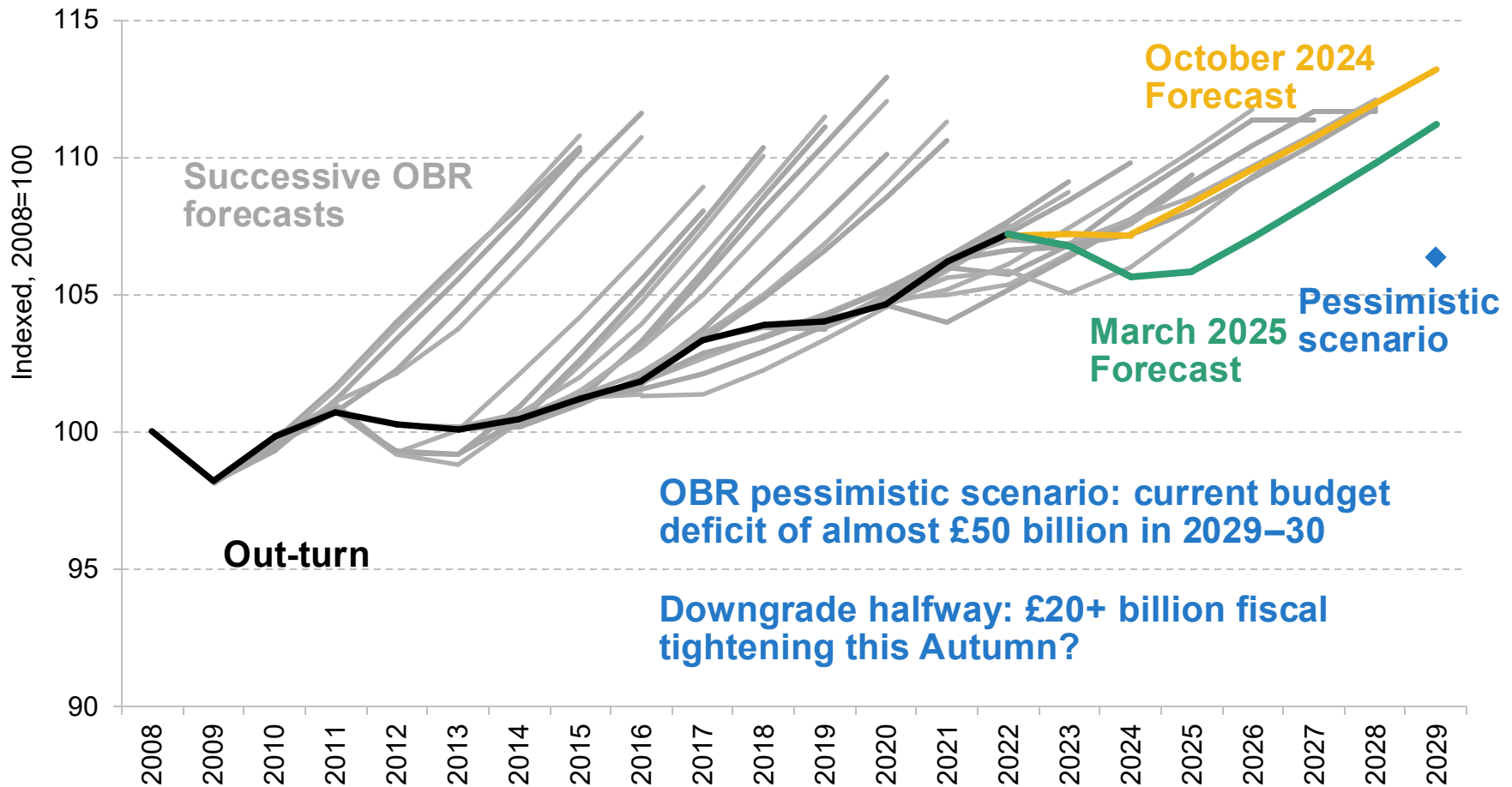


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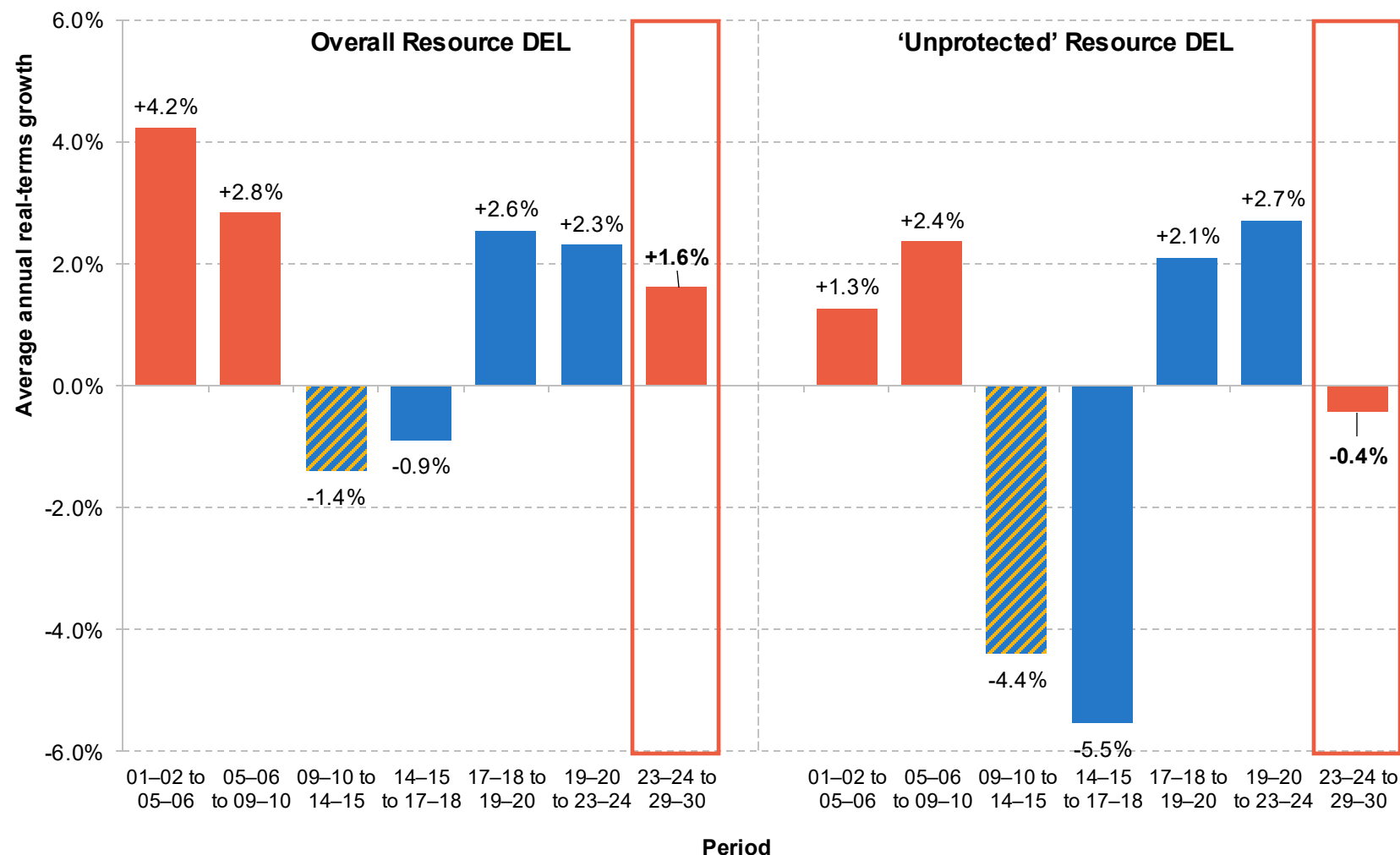


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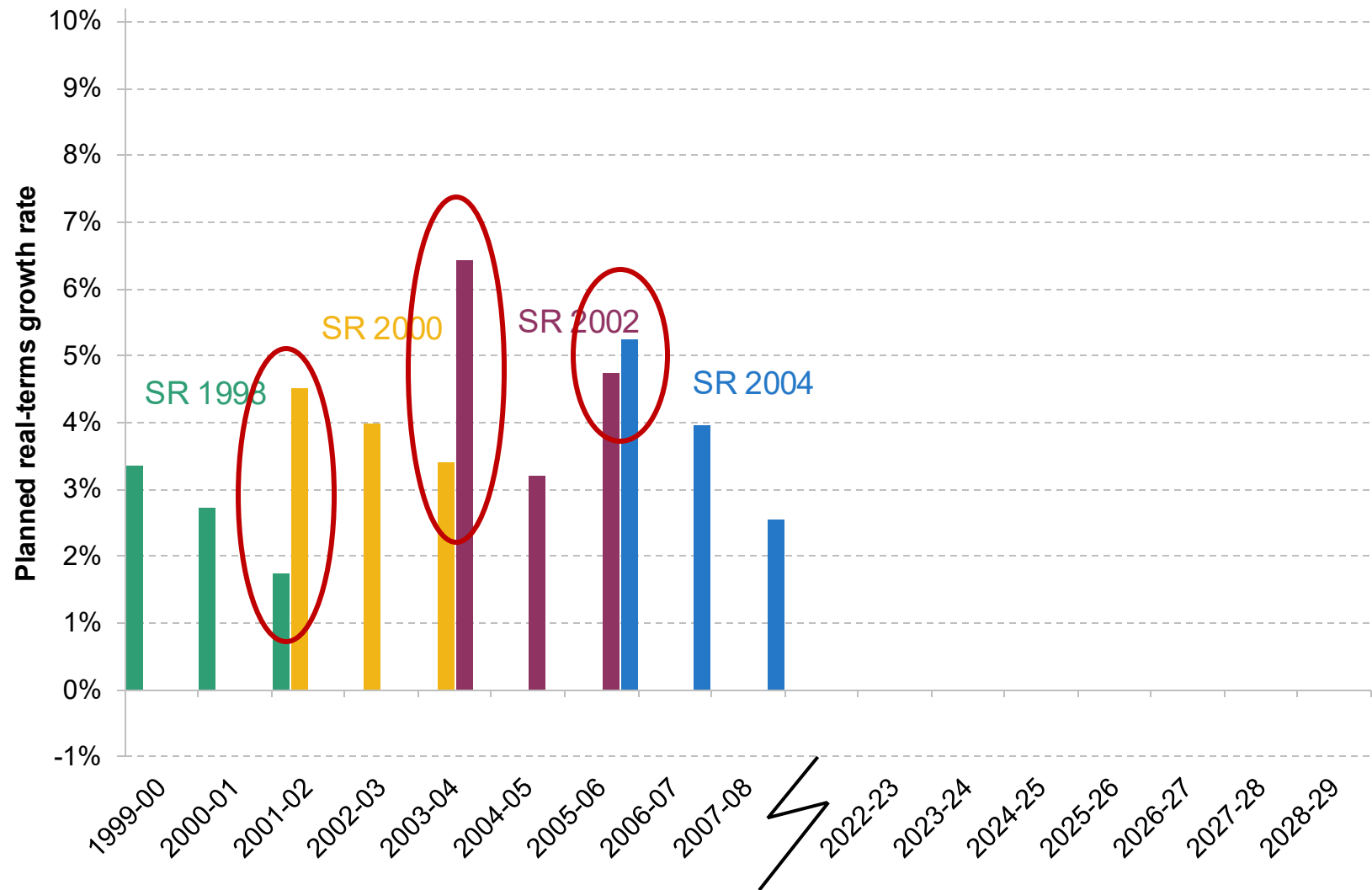
# Spending in historical context

Average real-terms change in overall day-to-day public service spending (left) and 'unprotected' day-to-day spending (right), by period

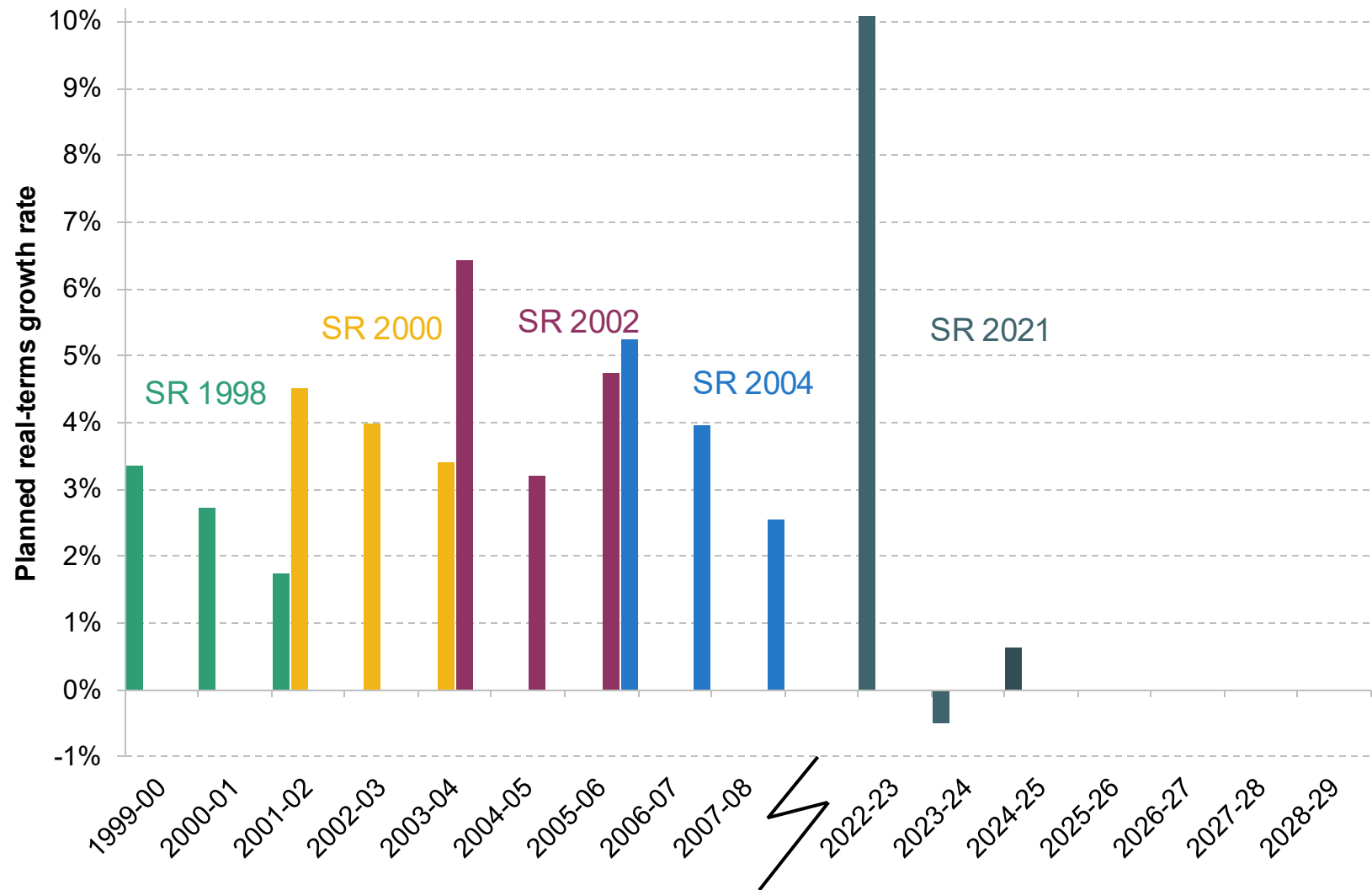


Note: see appendix slide on website

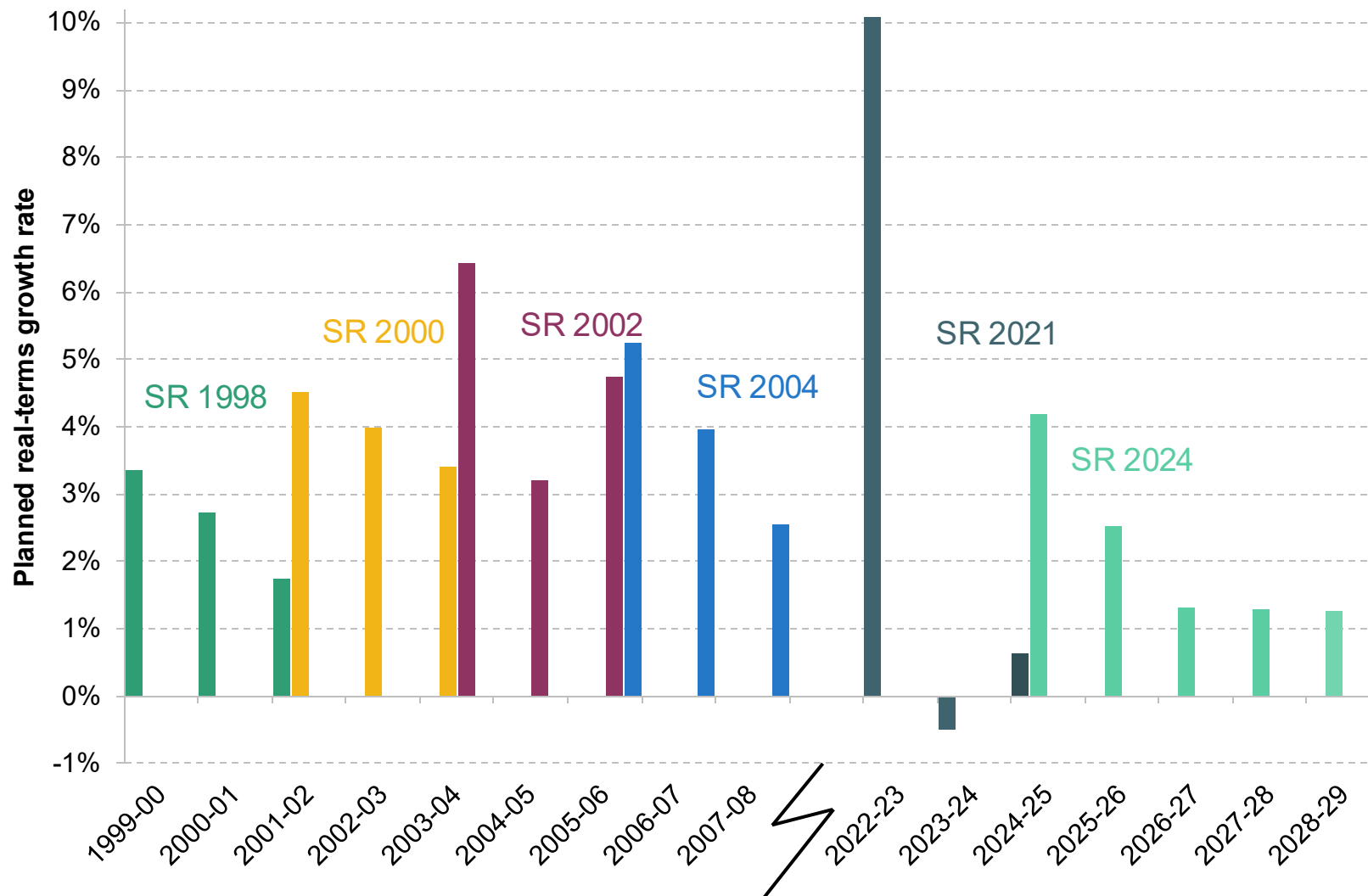
# Front-loaded plans are nothing new



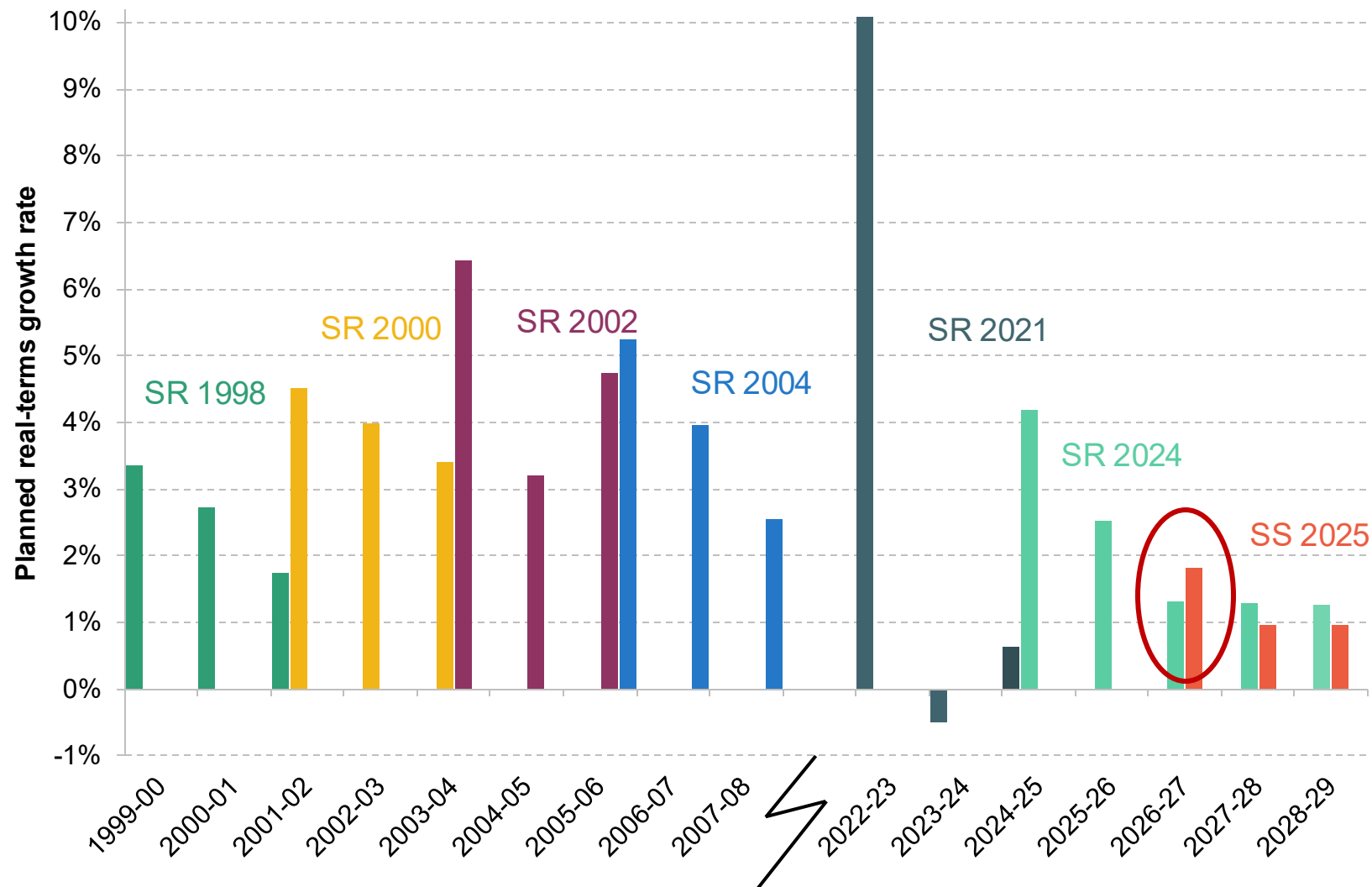
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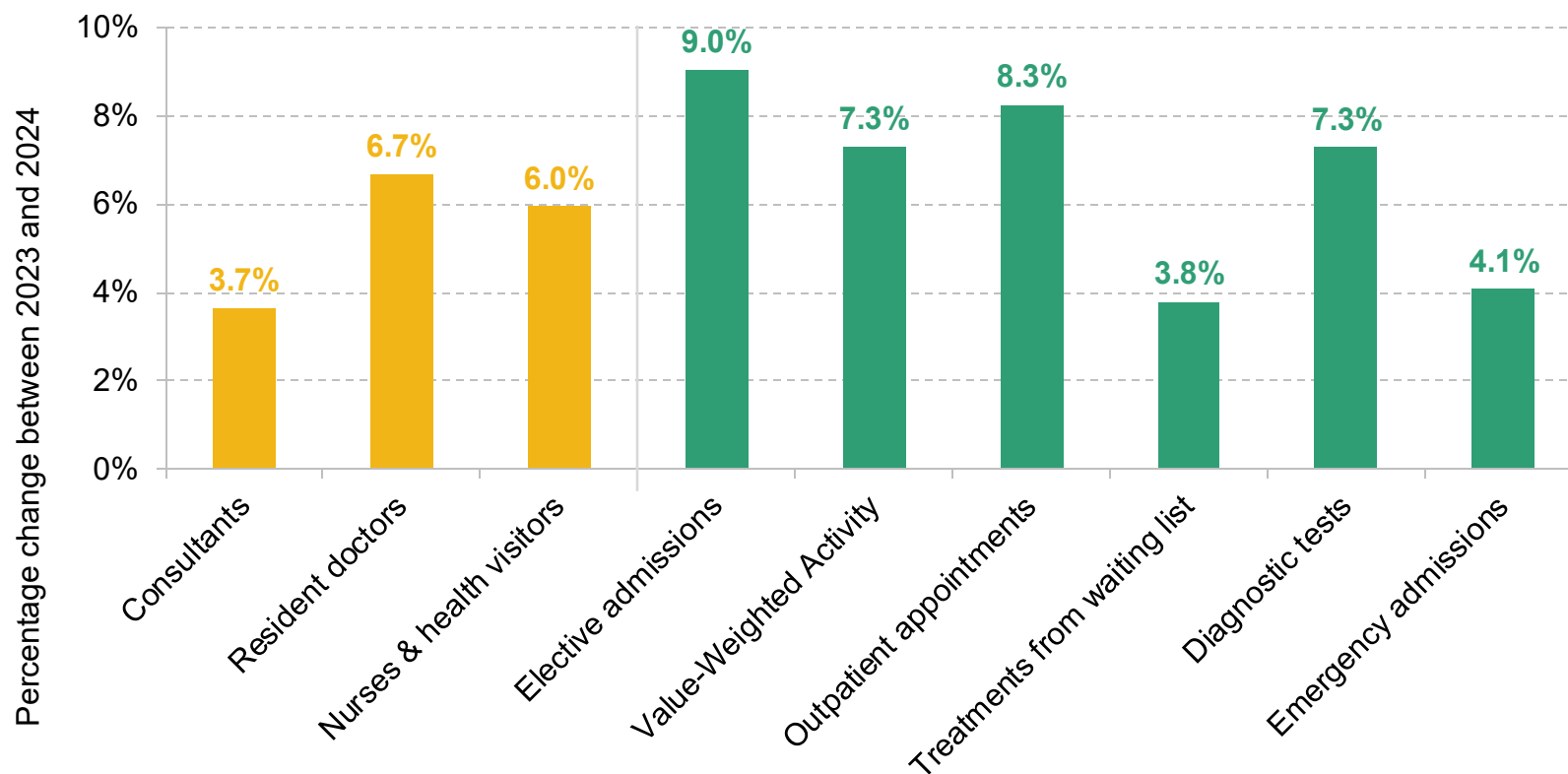
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# Recent progress on NHS productivity



Changes in NHS hospital and community staffing and hospital activity between 2023 and 2024

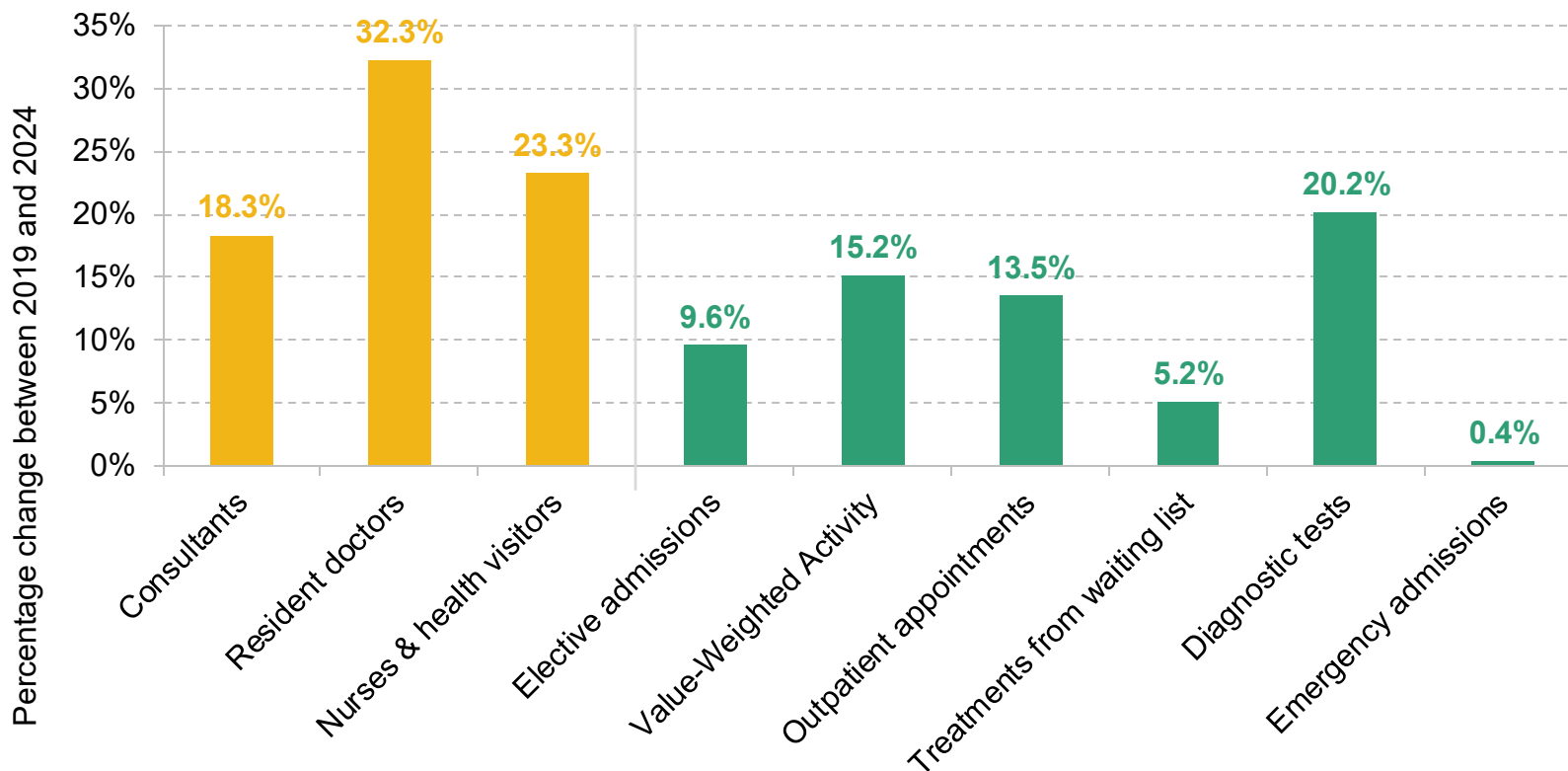


Source: updated Figure 3b of Harvey-Rich, Warner and Zaranko (2024)



# But still lower than pre-pandemic

Changes in NHS hospital and community staffing and hospital activity between 2019 and 2024



Source: updated Figure 3a of Harvey-Rich, Warner and Zaranko (2024)