The economic and fiscal outlook: modelling the impact on local government

Presenters: David Phillips and Kate Ogden

Drawing on analysis by themselves and Carl Emmerson (IFS) and Ben Zaranko (IFS)
The OBR’s growth forecast is much less gloomy than the Bank’s
Tax as a share of national income is forecast to increase above 37%

Short-term spending increase

-25 -20 -15 -10 -5 0 5 10


£ billion (cash terms)

Other adjustments
Schools
NHS & social care
Overseas aid
Provisional day-to-day spending totals (excl. aid)
Total

Note: Overseas aid figures for 2025-26, 2026-27 and 2027-28 represent the estimated saving from maintaining ODA spending at 0.5% of GNI, rather than returning to 0.7% of GNI, as was implicit in pre-Autumn Statement plans. Source: IFS analysis of HMT Autumn Statement 2022, see https://ifs.org.uk/collections/autumn-statement-2022.
Longer-term spending squeeze

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Sector-wide funding projections

Real-terms increases in core spending power since 2021-22

Note: Figures are 2021-22 prices, are reflect the forecast GDP deflator. Change in core spending power excludes the impact of rolling in grants. 2024-25 figures are estimates based on assuming only changes to total grant funding are those already announced, maximum use of allowed council tax rises and council tax base growth of 1% each year. Source: Final local government finance settlement 2022-23; Provisional local government finance settlement 2023-24; Local government finance policy statement 2023-24 to 2024-25; and OBR EFO – Oct 2021 and Nov 2022.
Sector-wide funding projections

Real-terms increases in core spending power since 2021-22

High inflation → smaller real-terms increase than planned

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Real-terms increases in core spending power since 2021-22

- Cash increase +9.2%
- Core schools +6.5%
- NHS England +5.1%

Another cash increase of up to c7%

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Core spending power since 2015

Real-terms per capita spending fell >20% between 2009-10 and 2015-16.

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2023 settlement by deprivation

Note: Deprivation deciles are based on IMD 2019 Average Score at the upper-tier authority level. Main council types only. Source: Provisional local government finance settlement 2023-24; and OBR EFO – November 2022; English Indices of Deprivation, 2019.
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Average real-terms increase +5.8% (based on GDP deflator)
### A better estimate of rises in cost and demands?

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- Typical measure of inflation affecting public services
- May **underestimate** cost rises facing councils
A better estimate of rises in cost and demands?

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- Employee costs rise with forecast average hourly earnings, and running costs by a weighed average of CPI and earnings growth.
- Earnings growth reflects OBR forecast for the whole economy (5.4% in 2022-23) although council workers received an average pay settlement of 7% in 2022-23.
- SFCs rise by 3.7% in 2022-23 (forecast for CPI when councils made decisions around fee levels) and then by latest CPI forecast.
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- Demand for services grows in line with population or household projections, with faster demand growth for adult and children’s social care (as default in IFS-CIPFA model).
Will funding ever be ‘fair’?

- Policy Statement confirmed business rates reset and ‘Fair Funding Review’ will be delayed until 2025-26 at the earliest.
  - Most (but not all) districts likely to breathe a sigh of relief
- But this is a missed opportunity and risks even further delay
  - Spending needs last updated in 2013 and based on data from as far back as 2001!
  - Reform originally planned for 2019 so already much delayed
  - Harder to implement reform creating losers when overall funding is constrained, as it will be in mid-late 2020s
  - Election due, at latest in January 2025
Fairness requires toughness

- Reform, after so long, will inevitably create some big losers
  - Redistribute substantial retained business rates revenues
  - Adjust for years of differential population growth and changes in local socio-economic circumstances
  - Changes in councils’ activities and spending mix, which are only growing over time as social care looms larger and larger
- Transitional protections will be needed, but when money is tight even more important it is allocated fairly and efficiently
  - Should this (and setting in train council tax reform) be a lasting legacy for Gove?
The IFS-CIPFA model – use it!

- You can access the IFS-CIPFA local government finance model for your own medium-to-longer term financial scenario planning.

- Projects spending and revenues for each council, and will be (very soon!) updated to reflect the settlement.

www ifs org uk/local-finance-model
The economic and fiscal outlook:

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Drawing on analysis by themselves and Carl Emmerson (IFS) and Ben Zaranko (IFS)
Sector-wide funding projections

- Higher-than-expected inflation in 2022-23 meant a (relatively) generous settlement went less far than planned
  - CSP increased by 7.4% in cash-terms in 2022-23 – expected to be 4.6% in real-terms
  - Based on GDP deflator (4.9%) a much more modest 2.4% increase
  - Even this likely understates cost rises this year (e.g. 7% average pay award)
- Had expected a much smaller increase in CSP in each of the next 2 years, but now expect significant increase of £5.0bn (9.2% cash-terms) in 2023-24
  - Higher than most other public services – core schools’ +6.5%; NHS England +5.1%
  - Inflation expected to slow. Based on forecast GDP deflator (3.3%), equivalent to 5.8% real-terms on average in 2023-24
- Announcements on social care grants and CT rises, and continued indexation of BR to CPI, imply a further increase of up to £4.2bn (around 7%) in 2024-25 (5.8% real-terms)
2023 settlement by council type

New funding guarantee
- Additional social care grants, and delayed reforms
- Business rates
- Council tax
- New Homes Bonus
- Services and Lower Tier Services grants
- Rolling in grants

Note: Council types as of April 2023. New authorities are compared to their former constituent authorities in 2022-23. Source: Provisional local government finance settlement 2023-24; and OBR EFO – November 2022.
2023 settlement by council type

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A council funding system not fit for purpose

Difference between councils’ spending per capita and assessed needs per capita, by service area (2019-20)

Public health funding differs massively from assessed needs

Councils in inner London and much of north receive a higher share of funding than they are assessed to need, in general.

Councils in outer London and the South generally receive less funding than they are assessed to need.

Schools outside London cut more and perform worse

% change in funding per pupil, 2010-11 to 2019-20, real-terms