



David Phillips, IFS
(And thanks to IFS colleagues)

Immediate reflections on the budget: fiscal and economic overview

October 2024

CIPFA Treasurers' Retreat

@TheIFS

Introduction

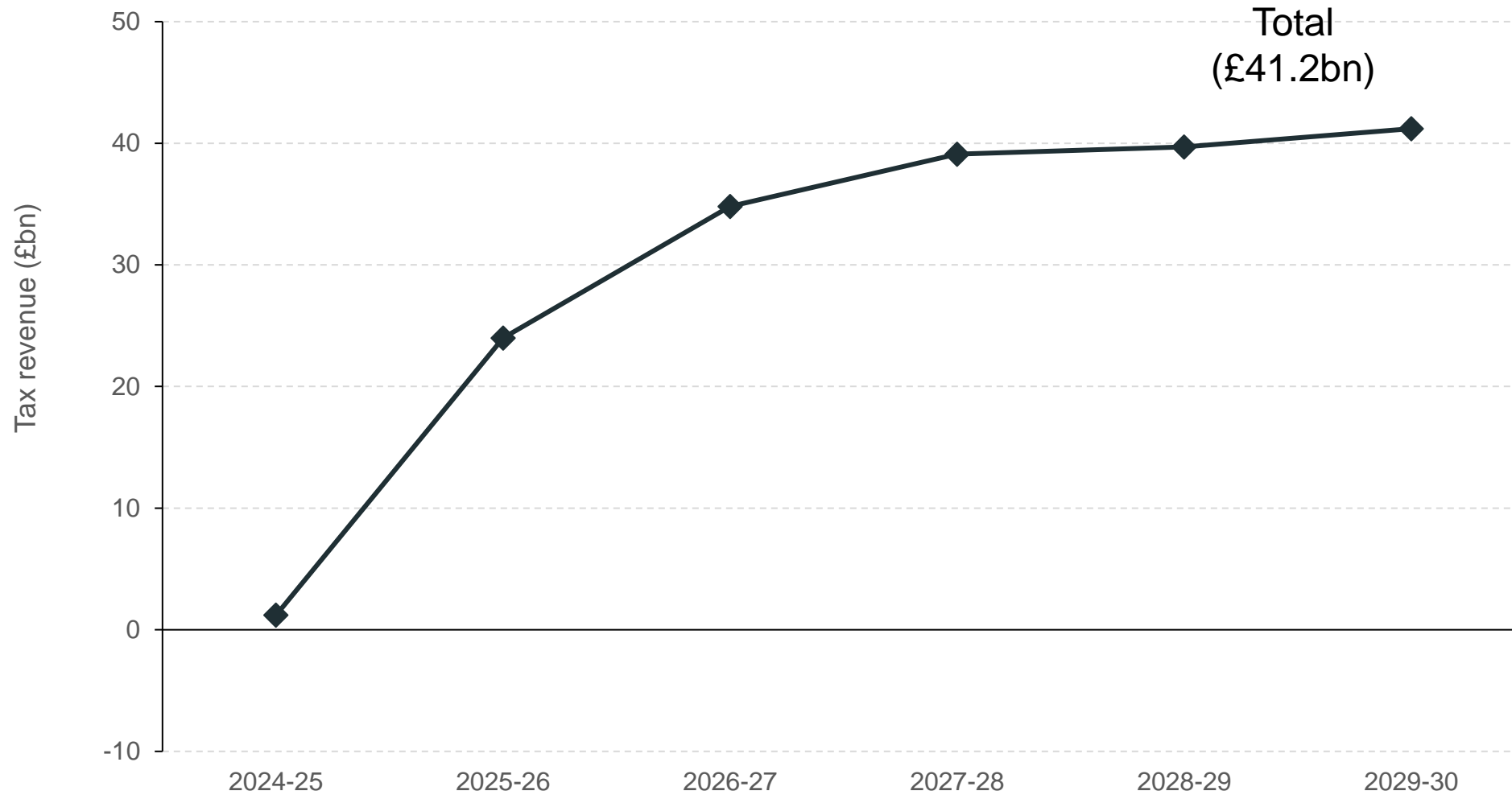
- Substantial tax rises
- Significant increase in borrowing
- Front-loaded increase to public spending
- Implications for councils
- Wrapping up: a Budget for growth?



Taxation and public finances

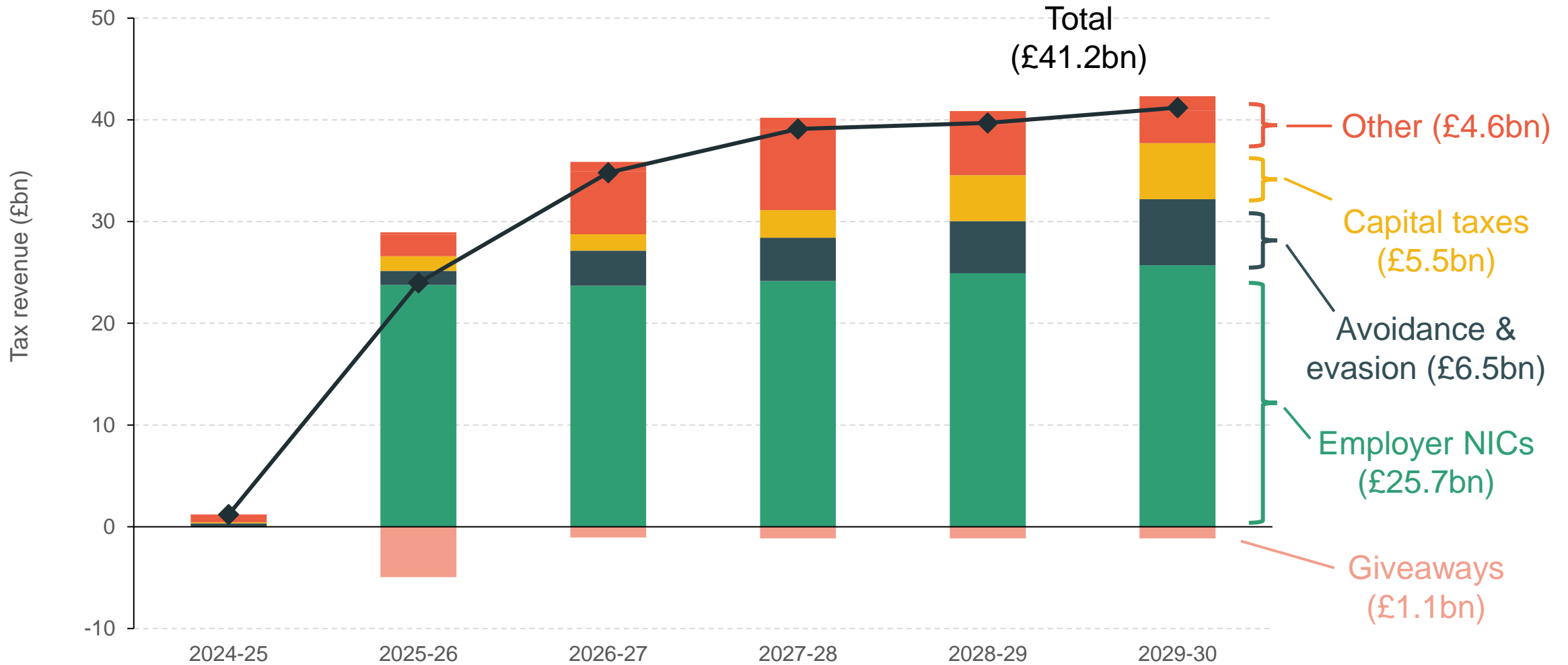
Tax rises

Scorecard measures



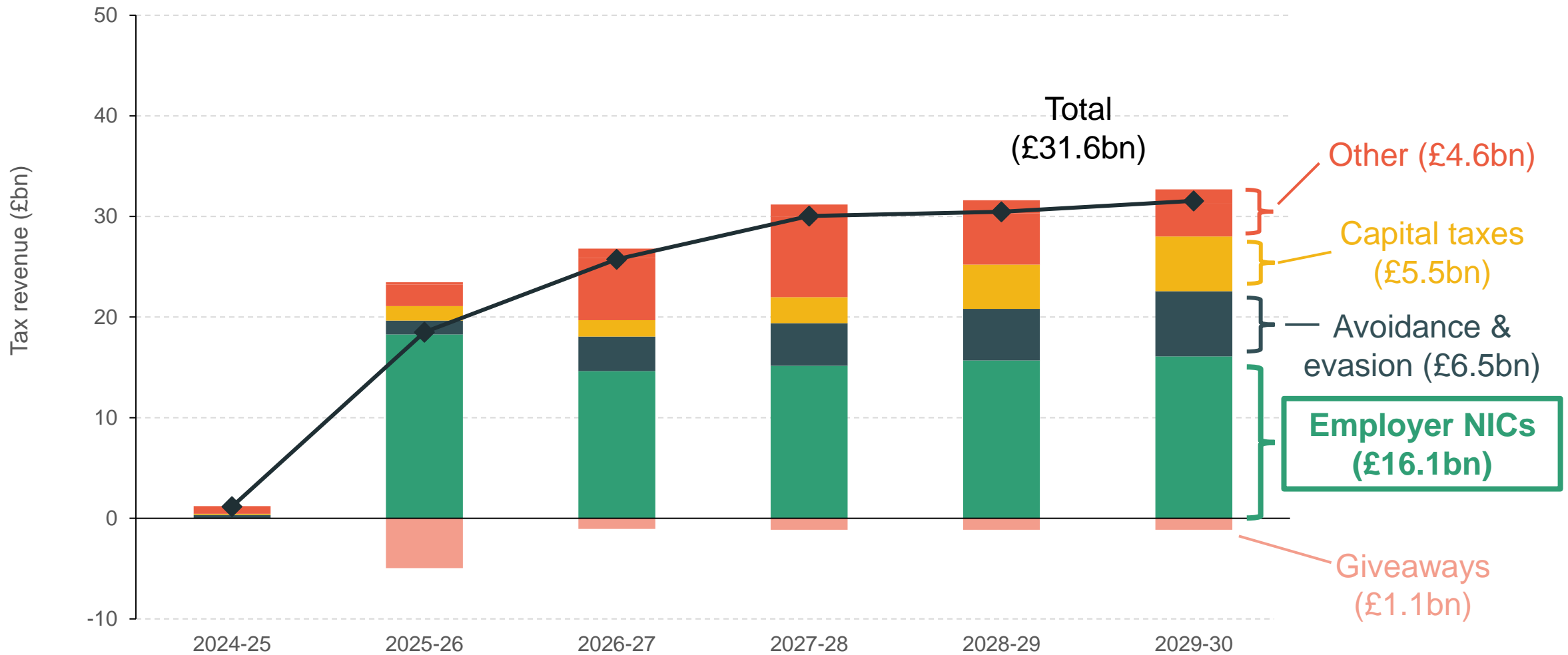
Tax rises

Scorecard measures



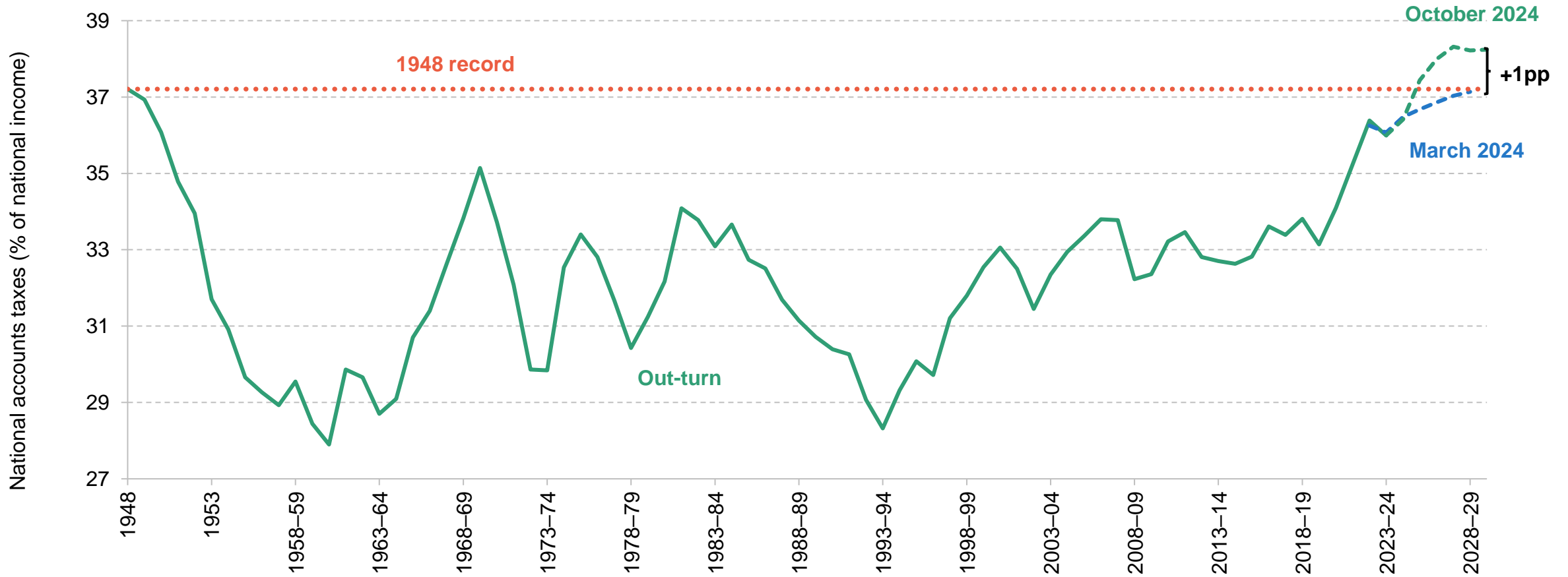
What's in the Budget?

With OBR adjustment



Taxes rising to a record high

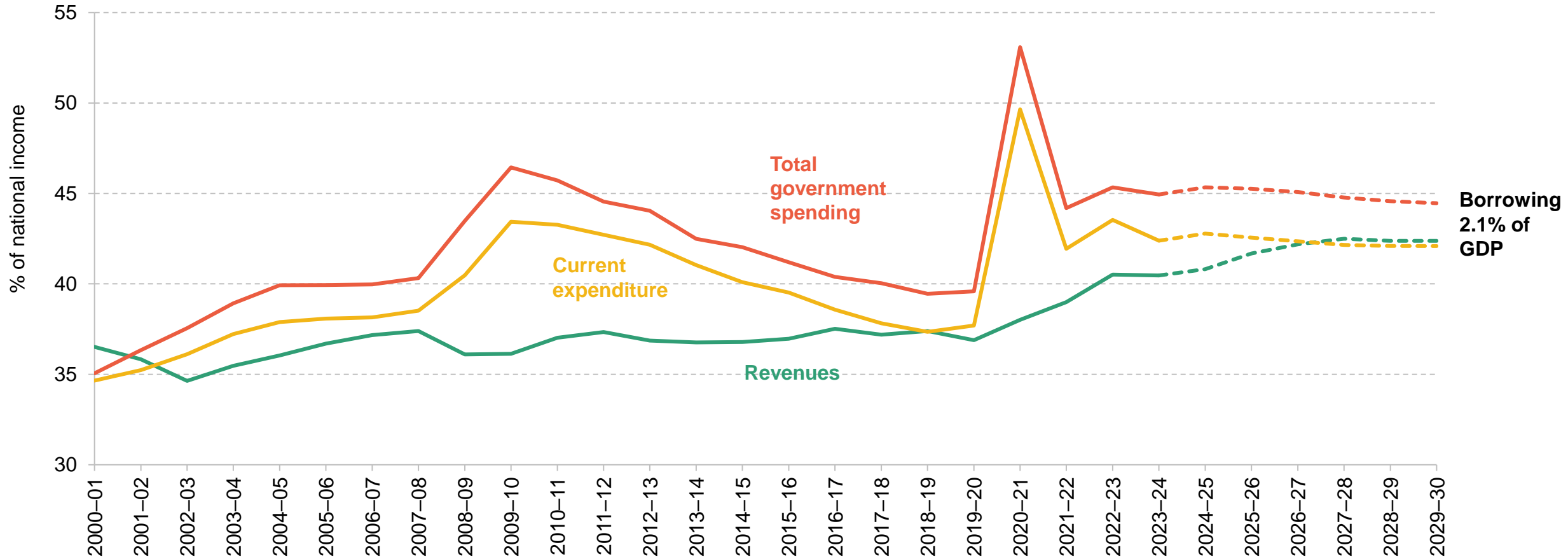
Tax revenues: out-turn and official forecasts



Source: OBR Economic and Fiscal Outlook (March 2024, October 2024)

Size of state to stay (even more) elevated

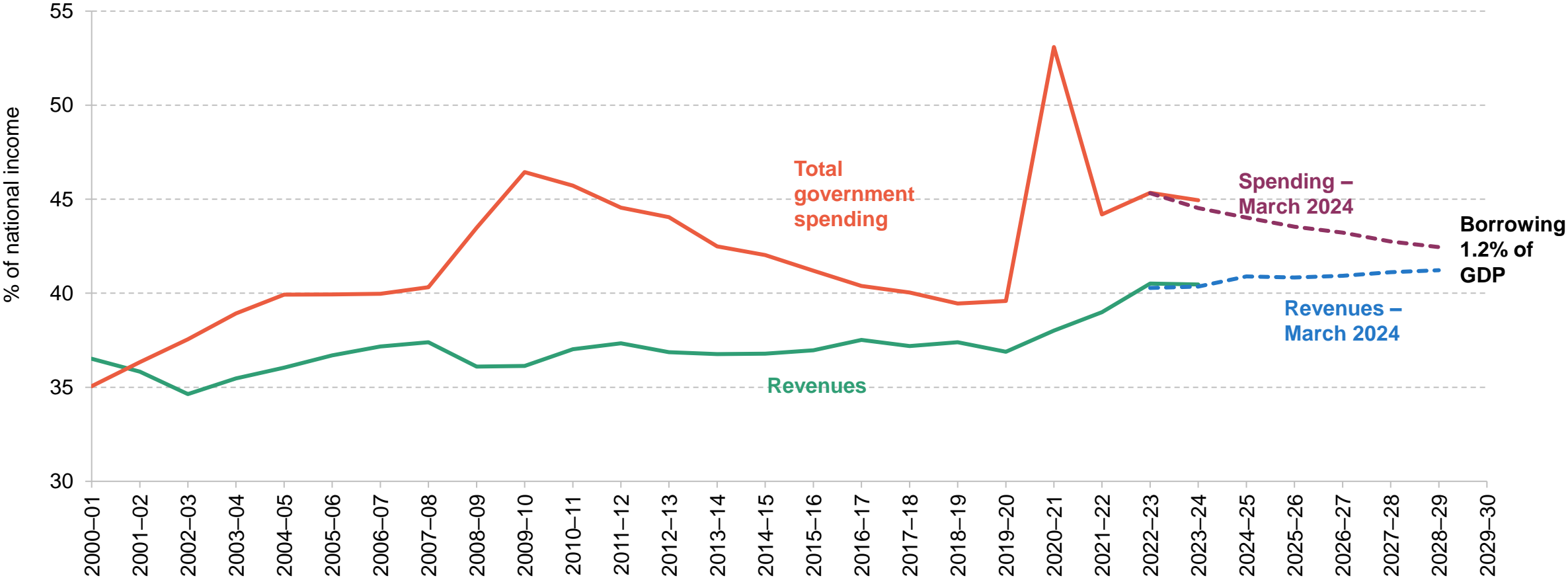
Government spending & revenues (out-turn & October 2024 forecast)



Source: OBR Economic and Fiscal Outlook (March 2024, October 2024)

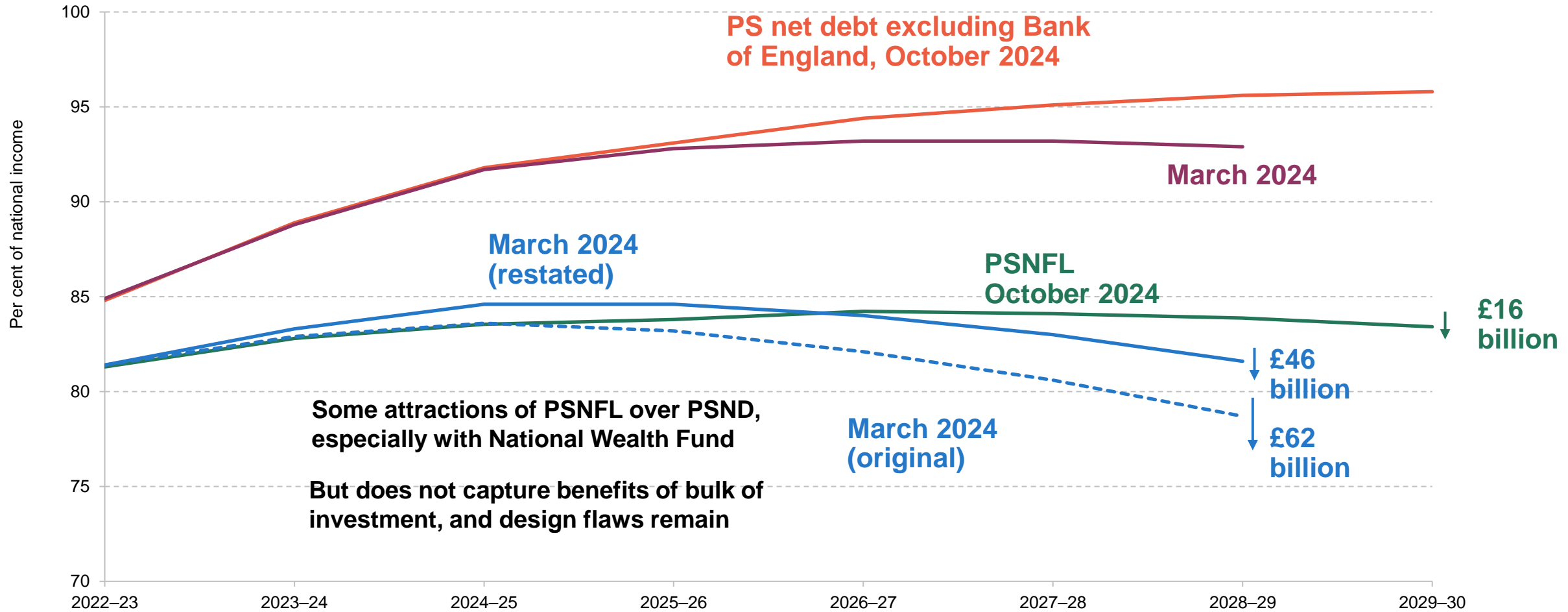
Size of state to stay (even more) elevated

Government spending & revenues (out-turn & October 2024 forecast)



Source: OBR Economic and Fiscal Outlook (March 2024, October 2024)

Meeting fiscal rules, but net debt rising



Source: OBR Economic and Fiscal Outlook (March 2024, October 2024)



Public spending and investment

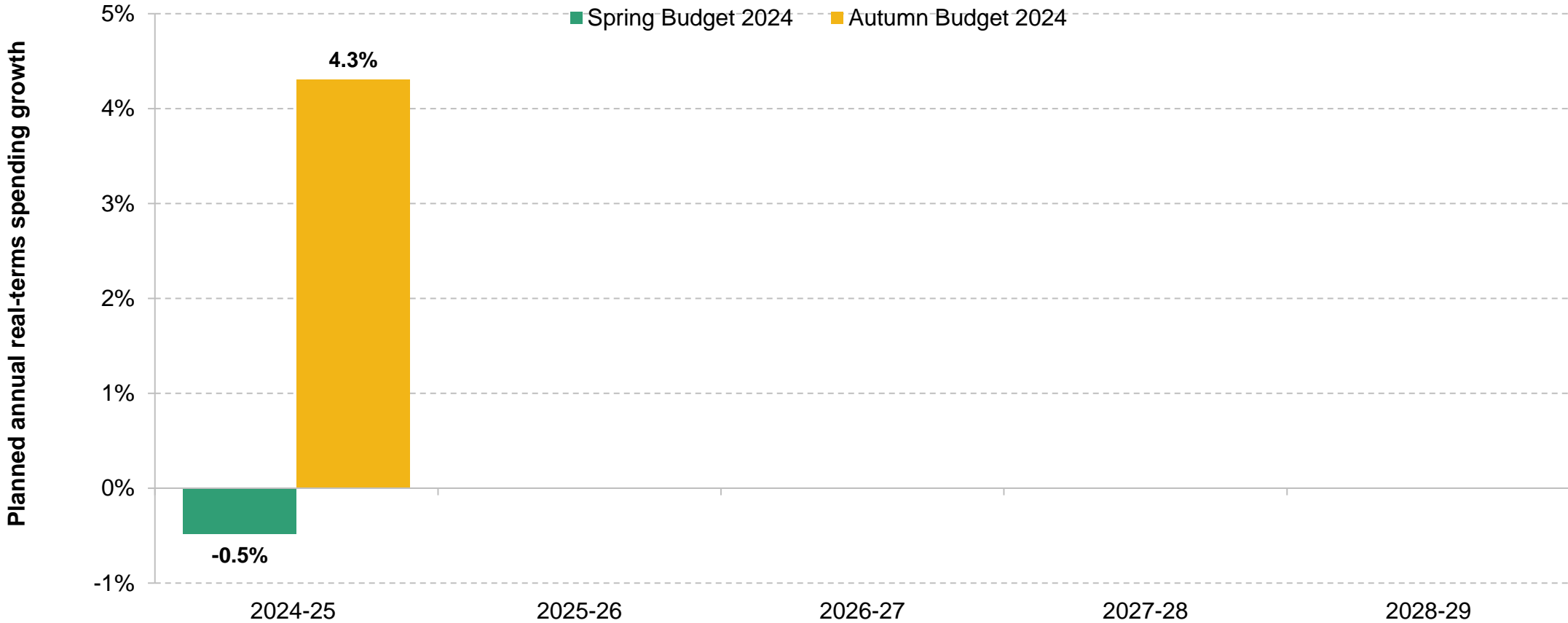
Assessment of public spending plans

- Prioritisation of investment is welcome
- Big top up, but spending growth very front-loaded
 - True for both day-to-day and investment spending
 - Front-loading follows the pattern of previous government
 - Opportunity to fix temporary problems and make quick and noticeable improvements?
 - More cynical interpretation: motivated by fiscal rules
- Front-loading brings risks:
 - Rush to spend quickly risks spending ineffectively
 - Particularly true for capital spending
 - Plans for later years likely to be uncomfortably tight

Day-to-day spending changes...



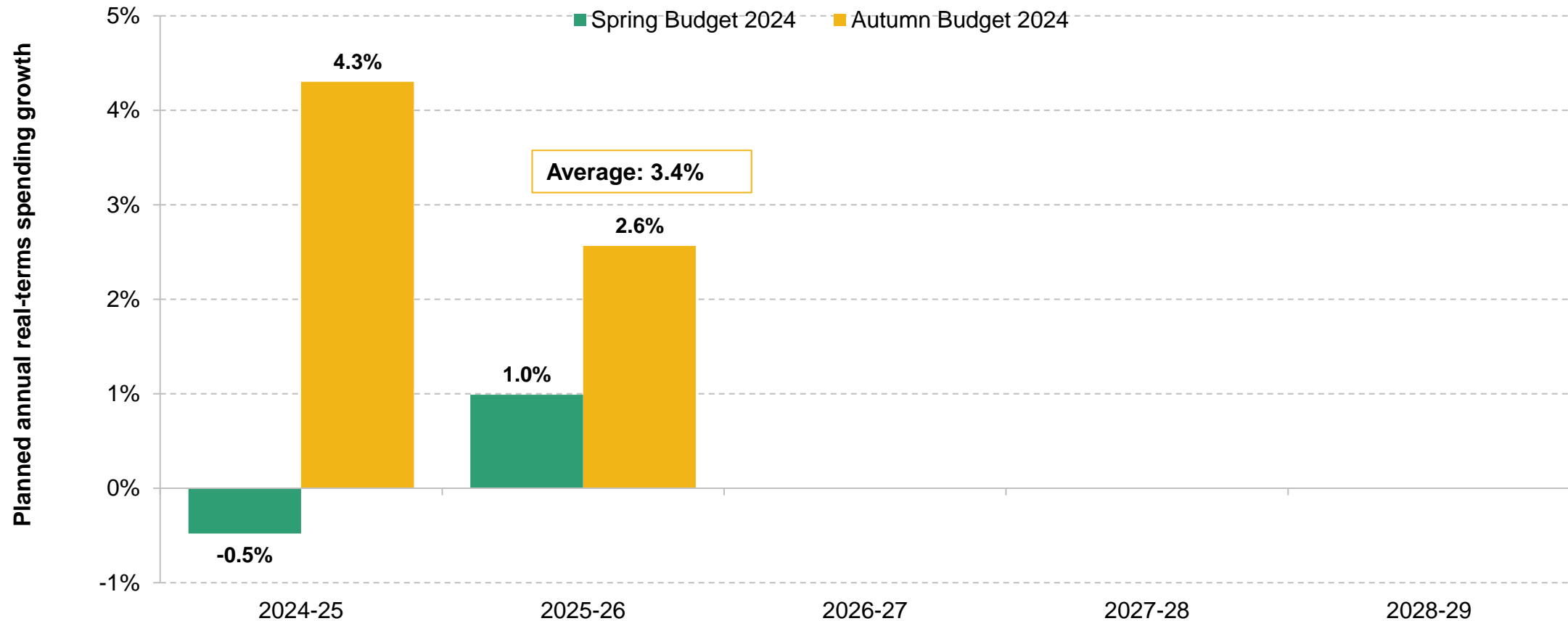
Real terms day-to-day spending growth, 2024–25 to 2028–29, plans at Spring Budget 2024 and Autumn Budget 2024



Top up relative to previous plan: **+26.0bn**

Day-to-day spending changes...

Real terms day-to-day spending growth, 2024–25 to 2028–29, plans at Spring Budget 2024 and Autumn Budget 2024



Top up relative to previous plan:

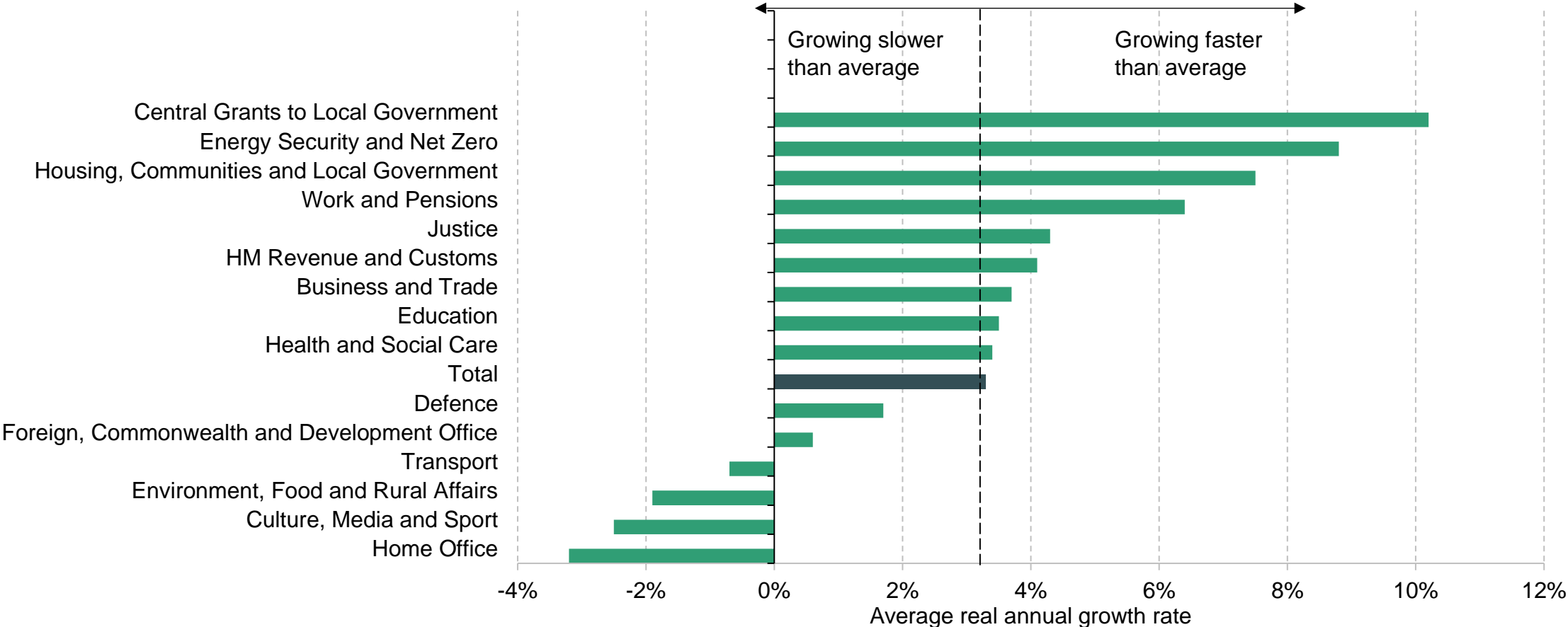
+26.0bn

+39.5bn

Where is the money going?

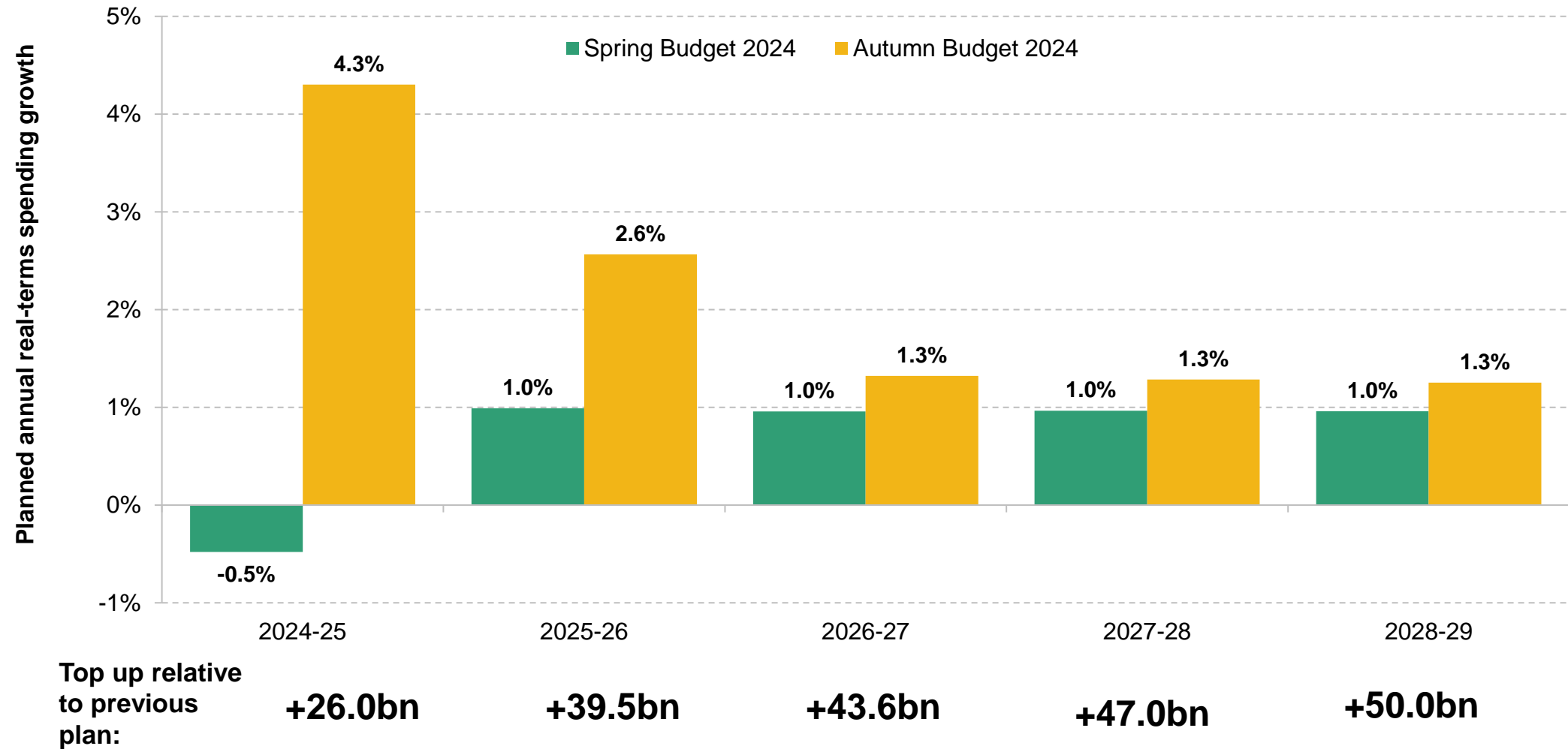


Day-to-day growth rates between 2023-24 and 2025-26 relative to overall envelope



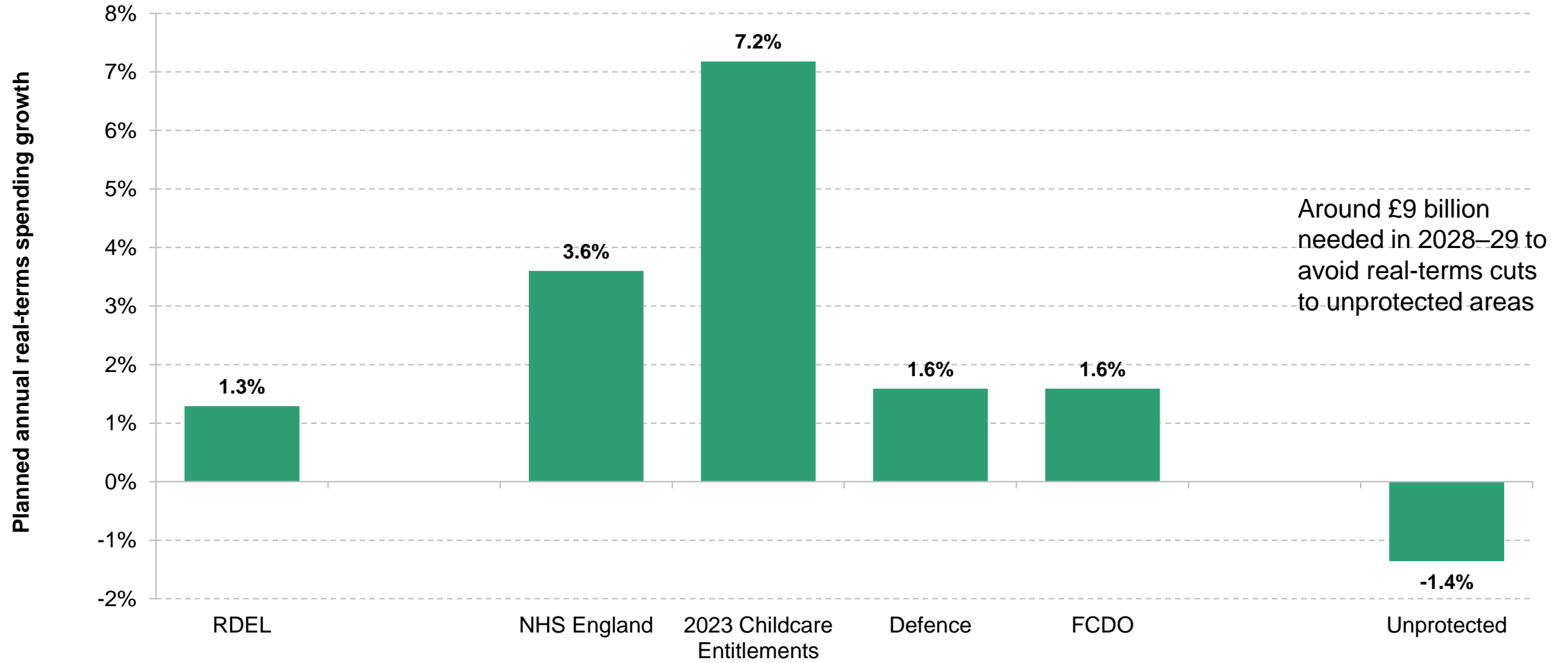
Day-to-day spending changes...

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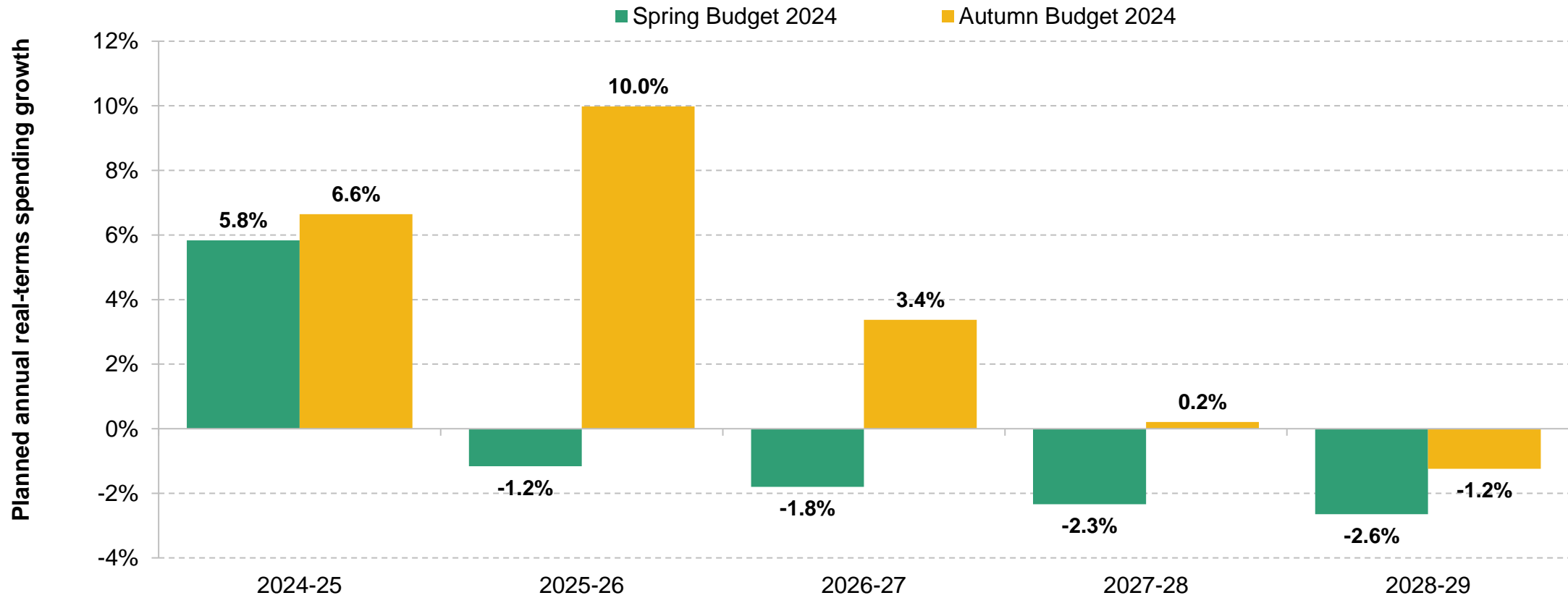
Tight plans after 2025–26

Real terms day-to-day spending growth, 2025–26 to 2028–29



Capital spending changes

Real terms capital spending growth, 2024–25 to 2028–29, plans at Spring Budget 2024 and Autumn Budget 2024



Top up relative to previous plan:

-1.5bn

+13.0bn

+20.2bn

+23.8bn

+25.7bn

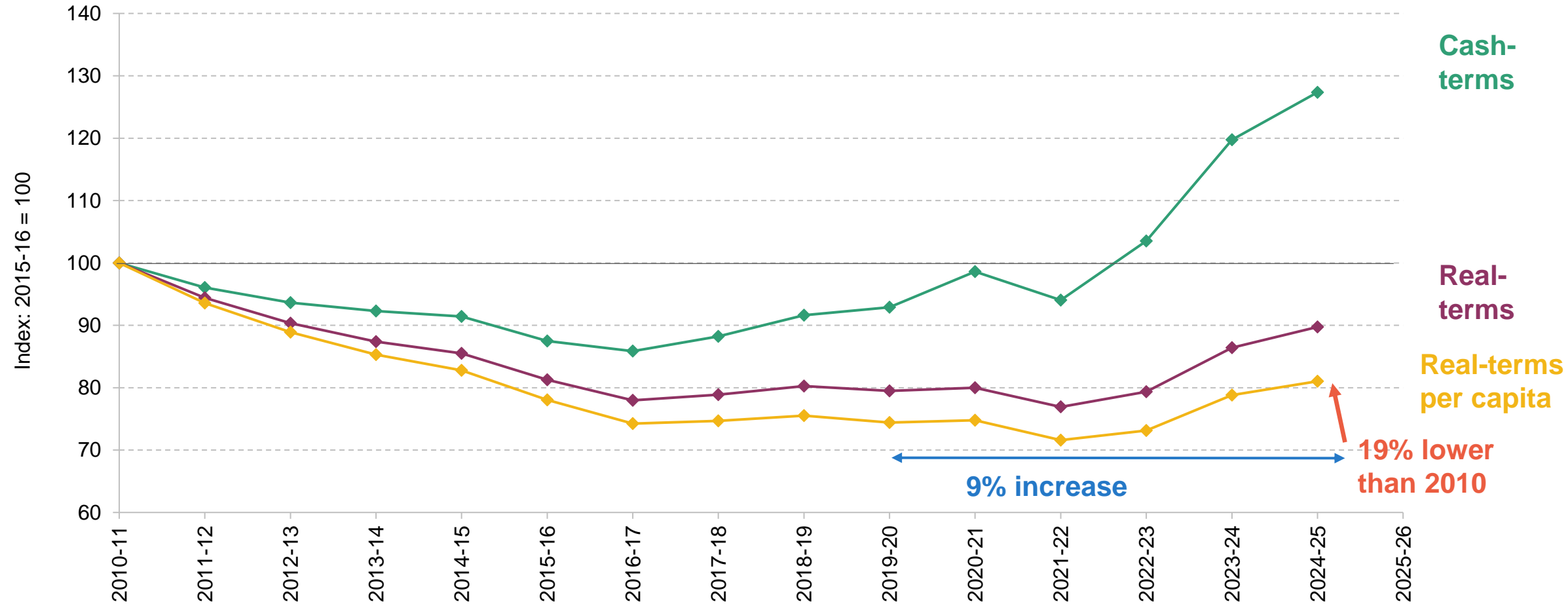


Local government

Core council funding

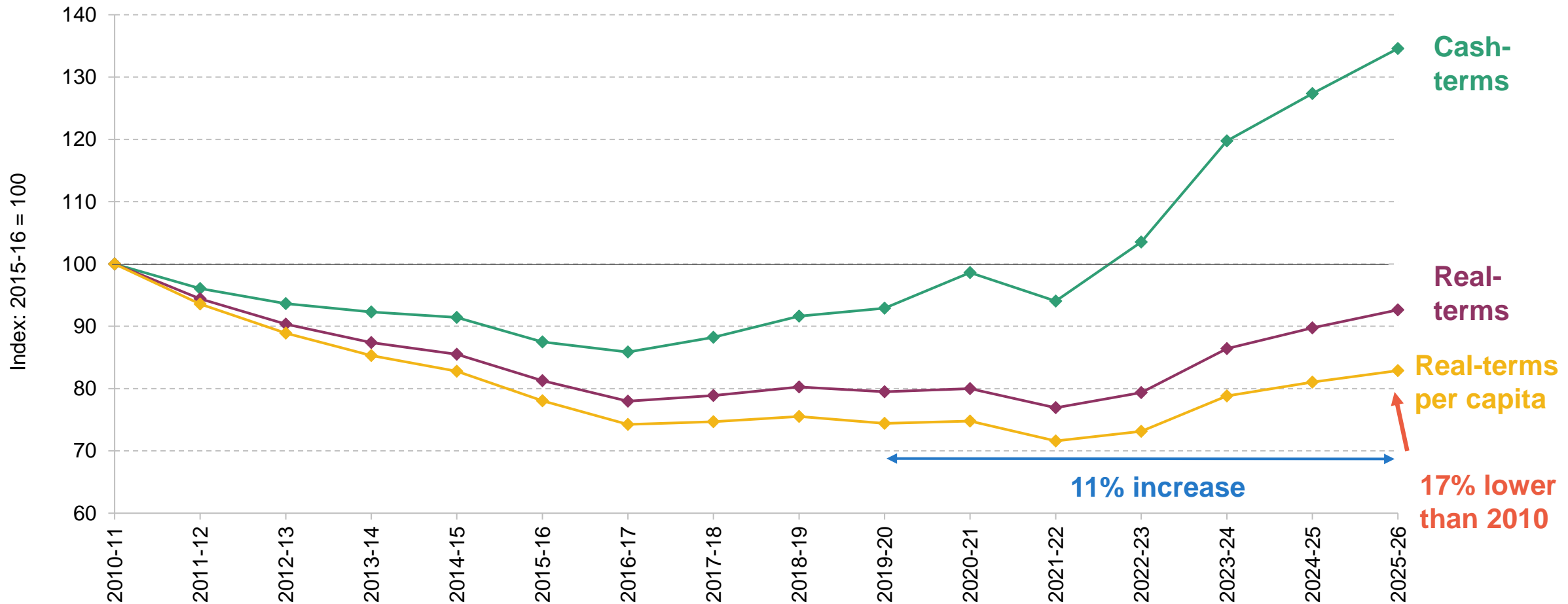
- Core spending power projected to increase approx. 5.7%, or 3.2% after forecast economy-wide inflation in 2025-26
 - Increase in grant funding of £1.3 billion, including at least £0.6 billion for social care
 - Does this account for 5% rate increase or 5% revenue increase assumed by OBR?

Council funding this year is still 19% lower per resident than in 2020 – despite recent increases



Note: Funding includes core spending power, above-baseline growth in business rates, and NHS transfers for social care services. Real-terms figure based on GDP deflator.
 Source: Ogden and Phillips (2024) [How have English councils' funding and spending changed? 2010 to 2024](#), Figure 8.

Budget plans for core funding would mean funding per resident still 17% lower than 2010

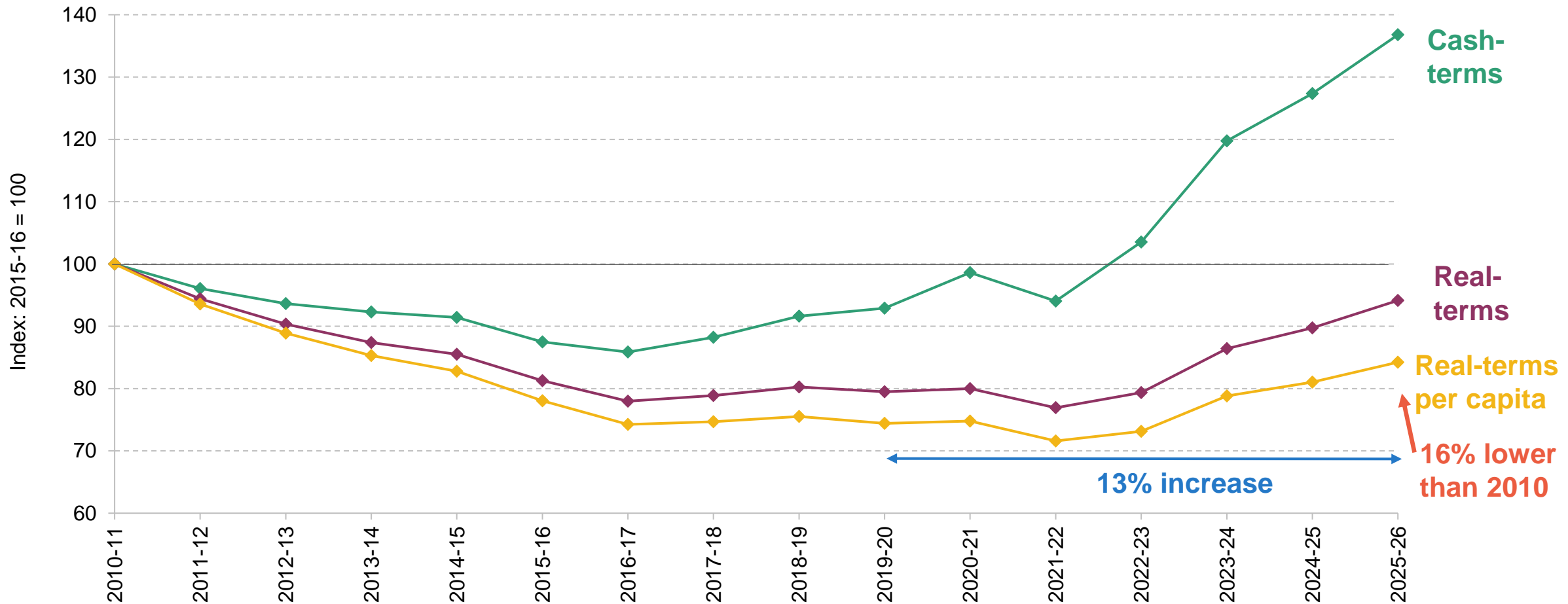


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Core council funding

- Core spending power projected to increase approx. 5.7%, or 3.2% after forecast economy-wide inflation in 2025-26
 - Increase in grant funding of £1.3 billion, including at least £0.6 billion for social care
 - Does this account for 5% bill increase or 5% revenue increase assumed by OBR?
 - If referendum limit remains at 5%, revenues would grow more than 5% due to tax base growth
 - 5% would be bigger real-terms increase next year than over last 14 years
 - £1.1 billion for extended producer responsibility (guaranteed for 2025-26)
 - Accounting for this, real-terms boost is approx. 5%

Accounting for 'EPR' would mean funding per resident 16% lower than 2010



Note: Funding includes core spending power, above-baseline growth in business rates, and NHS transfers for social care services. Real-terms figure based on GDP deflator.
 Source: Ogden and Phillips (2024) [How have English councils' funding and spending changed? 2010 to 2024](#), Figure 8.

Other council funding

- Other funding announcements
 - £233 million increase in homelessness prevention funding
 - £1 billion for SEND and £40 million to pilot 'Kinship allowances'
 - £0.8 billion extension of Household Support Fund
 - UKSPF **cut** to £0.9 billion (from £1.5 billion), with indication funding will be rolled in to reformed LG finance settlement
 - Cornwall (and Wales) likely biggest losers
- Compensation for employer NICs increases
- RTB discounts reduced and 100% retention by councils

Funding, tax and structural reform

- Funding reform confirmed for 2026-27
 - ‘Targeted approach’ for additional funding in 2025-26 explained in upcoming statement
 - Should be guided by clear objectives – e.g. trade-offs between redistribution & incentives
 - IFS publishing report next month on issues and options
- Business rates reform from 2026-27
 - Reduced RHL relief in 2025-26
 - Permanent lower multipliers from 2026-27 (funded by higher multiplier on big properties)
- Single pot funding for Mayoral Combined Authorities
- Local government reorganisation with push for unitaries (‘simpler structures’) with aim of economies of scale and scope



Summing up

Conclusions

- A Budget for Growth?
 - Short-term boost to growth, from borrowing-fueled increase in spend
 - Medium-term, crowding out
 - Longer-term boost – if follow through on planning reform and money spent well
- A sizeable short-term spending boost, but medium-term plans look much tighter
 - Hope is boost will enable backlogs to be tackled and productivity improvements
 - Fear is will need to top-up tax and spending down the line – history suggests likely
- Local government clearly a continuing priority
 - But reform and productivity improvement vital given pressures

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