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(and Isaac Delestre, Nick Ridpath & Tom Waters)

The economic, fiscal and funding outlook

5th December 2025

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Economic
and Social
Research Council



The economy

4 key points on the economy



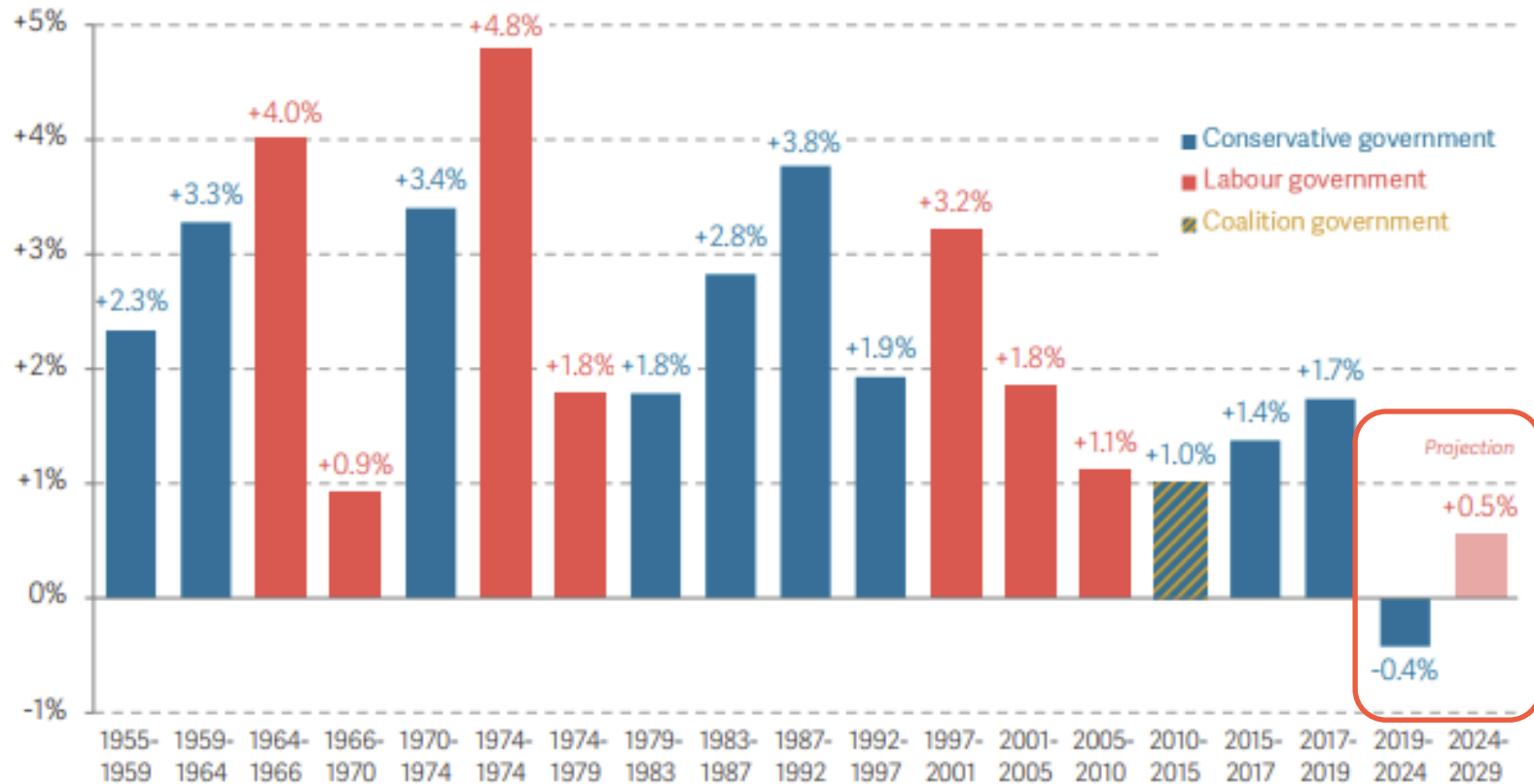
1. Productivity growth assumption downgraded
2. Stronger growth this year, weaker future growth

4 key points on the economy

1. Productivity growth assumption downgraded
2. Stronger growth this year, weaker future growth
3. Higher inflation, despite cuts to energy bills, but also higher above-inflation earnings growth over next 2 years
4. But household income growth still tepid – second weakest parliament in over 70 years

Annual household income growth

Annualised growth in Real Household Disposable Income per person in 2025-26 prices, by Parliament: UK



NOTES: Based on election dates and quarterly data. A quarter is included in a parliament if the quarter mostly falls within the parliament.

SOURCE: ONS, UK Economic Accounts (series CRXX); OBR, Economic and Fiscal Outlook, November 2025.



The public finances

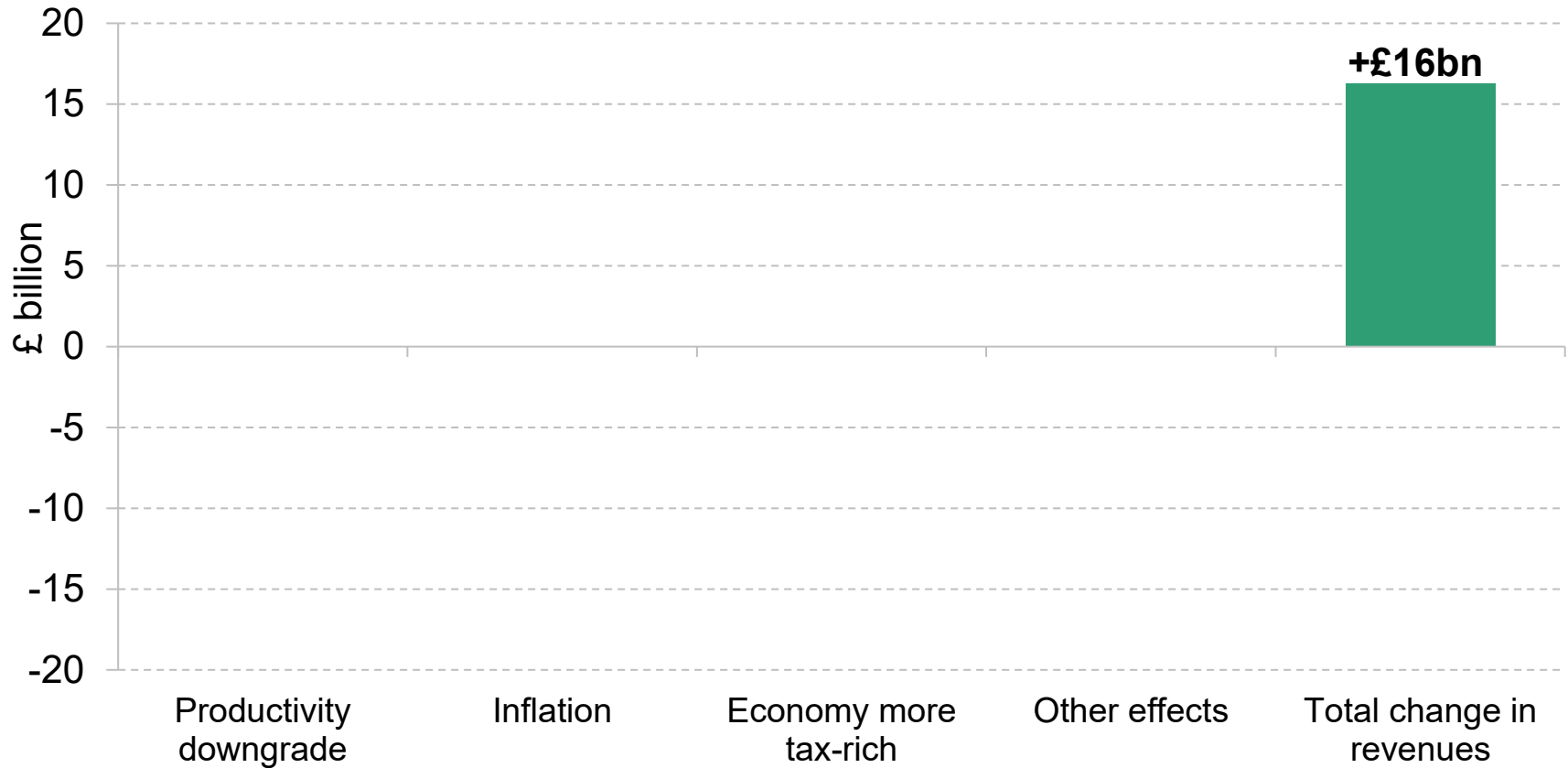
4 key points for the public finances



1. Despite large productivity downgrade, OBR forecast higher revenues

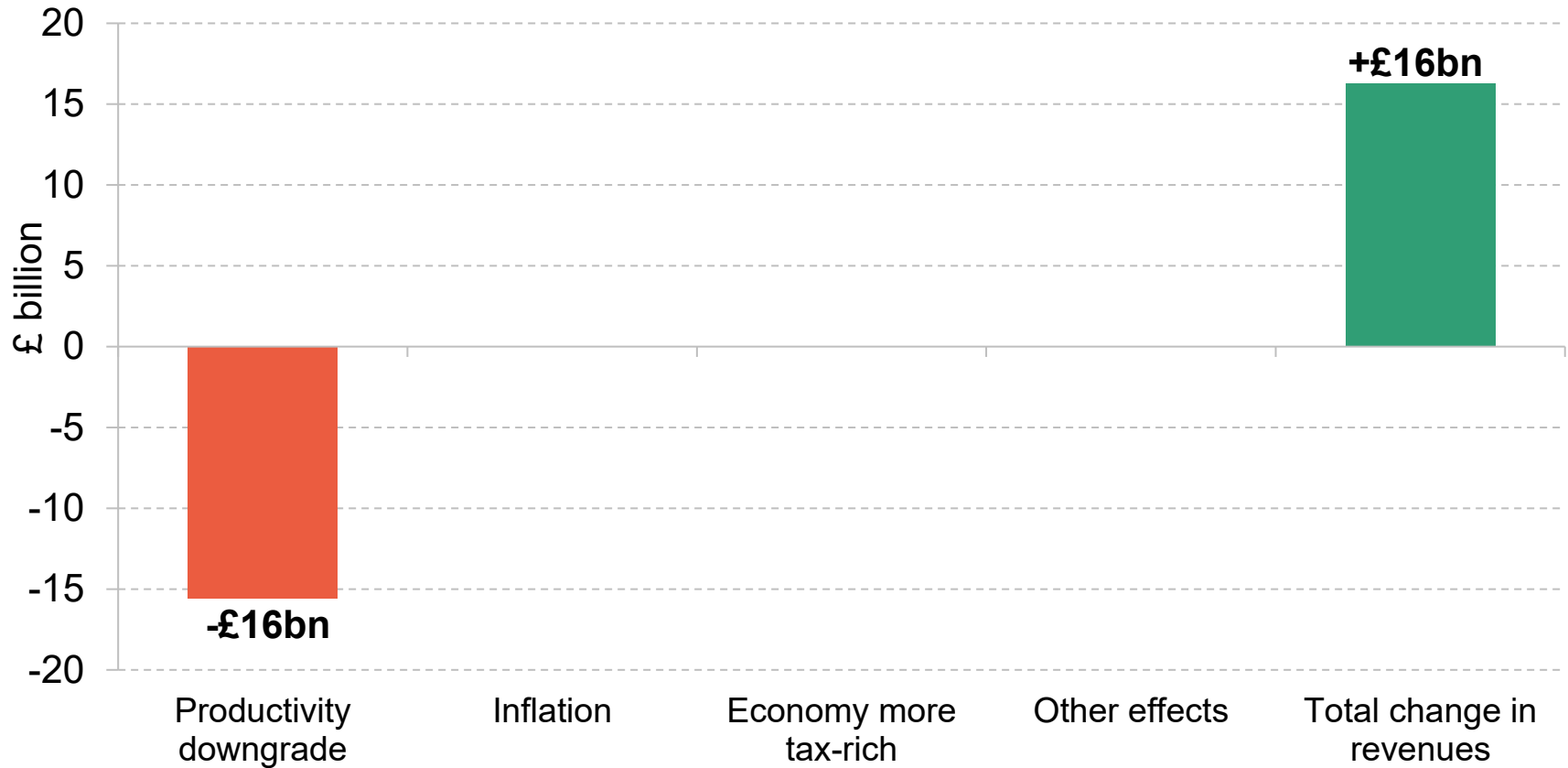
Pre-measures revenue forecast

Effect of macroeconomic changes on 2029-30 revenues



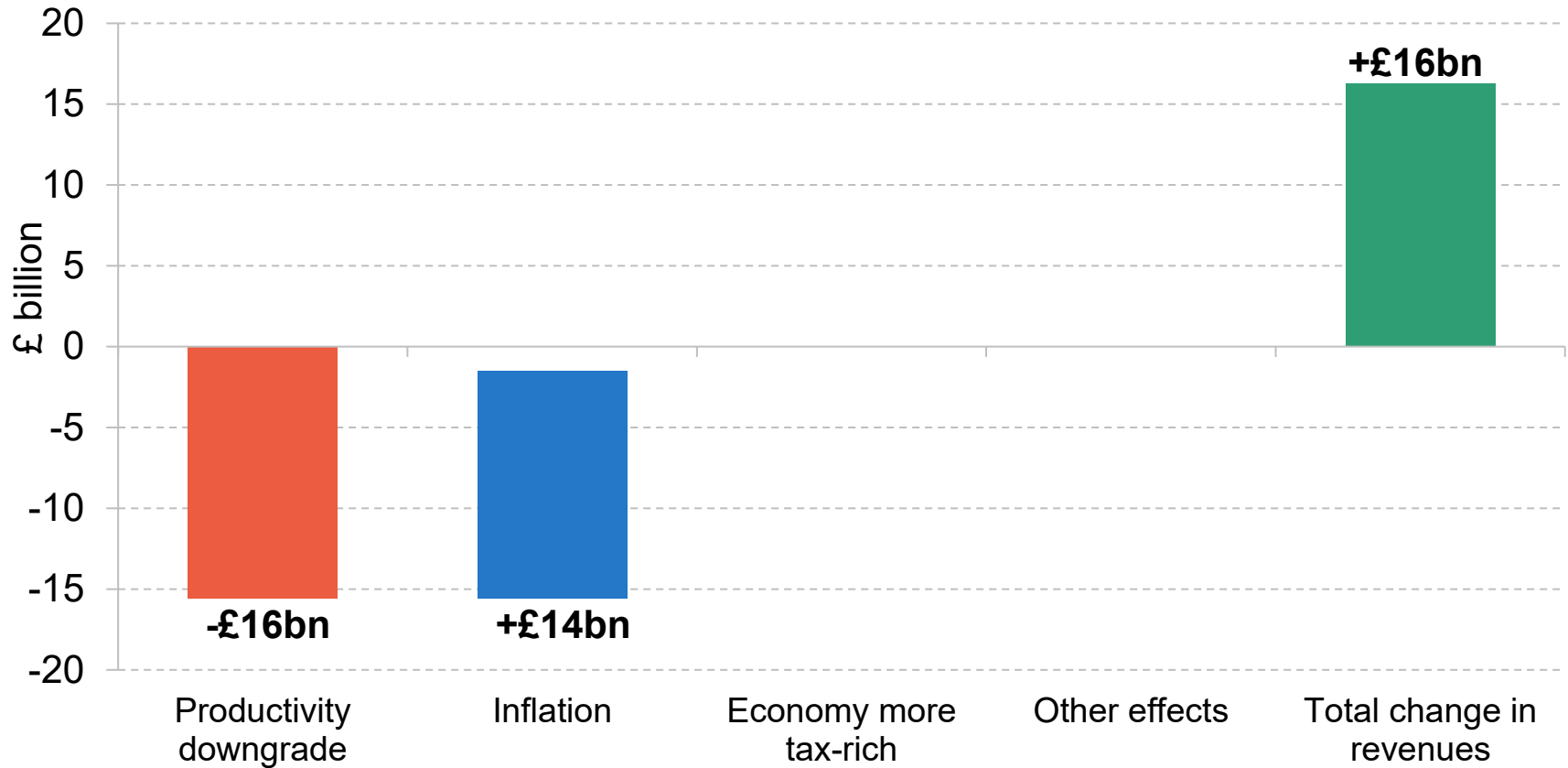
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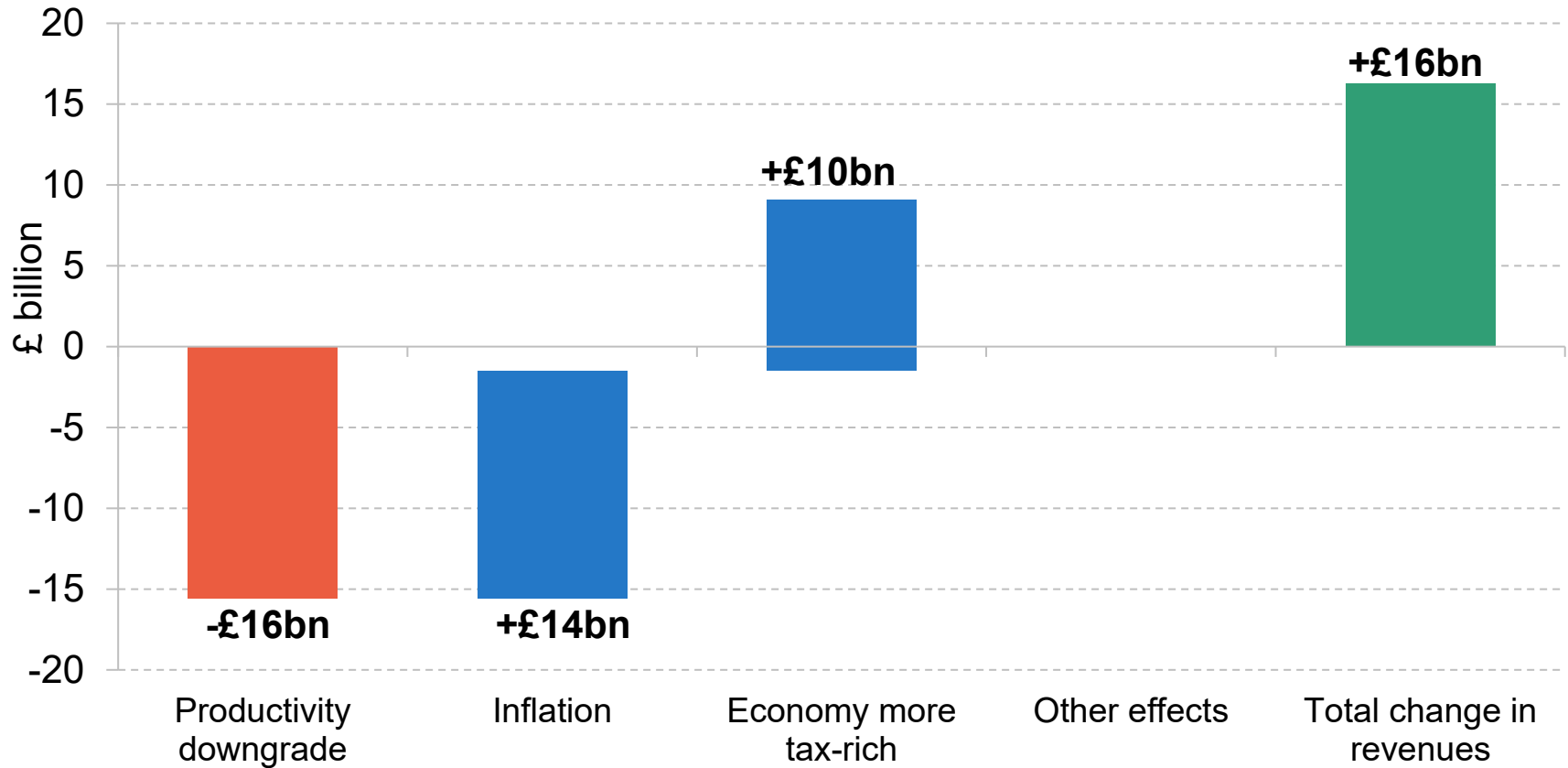
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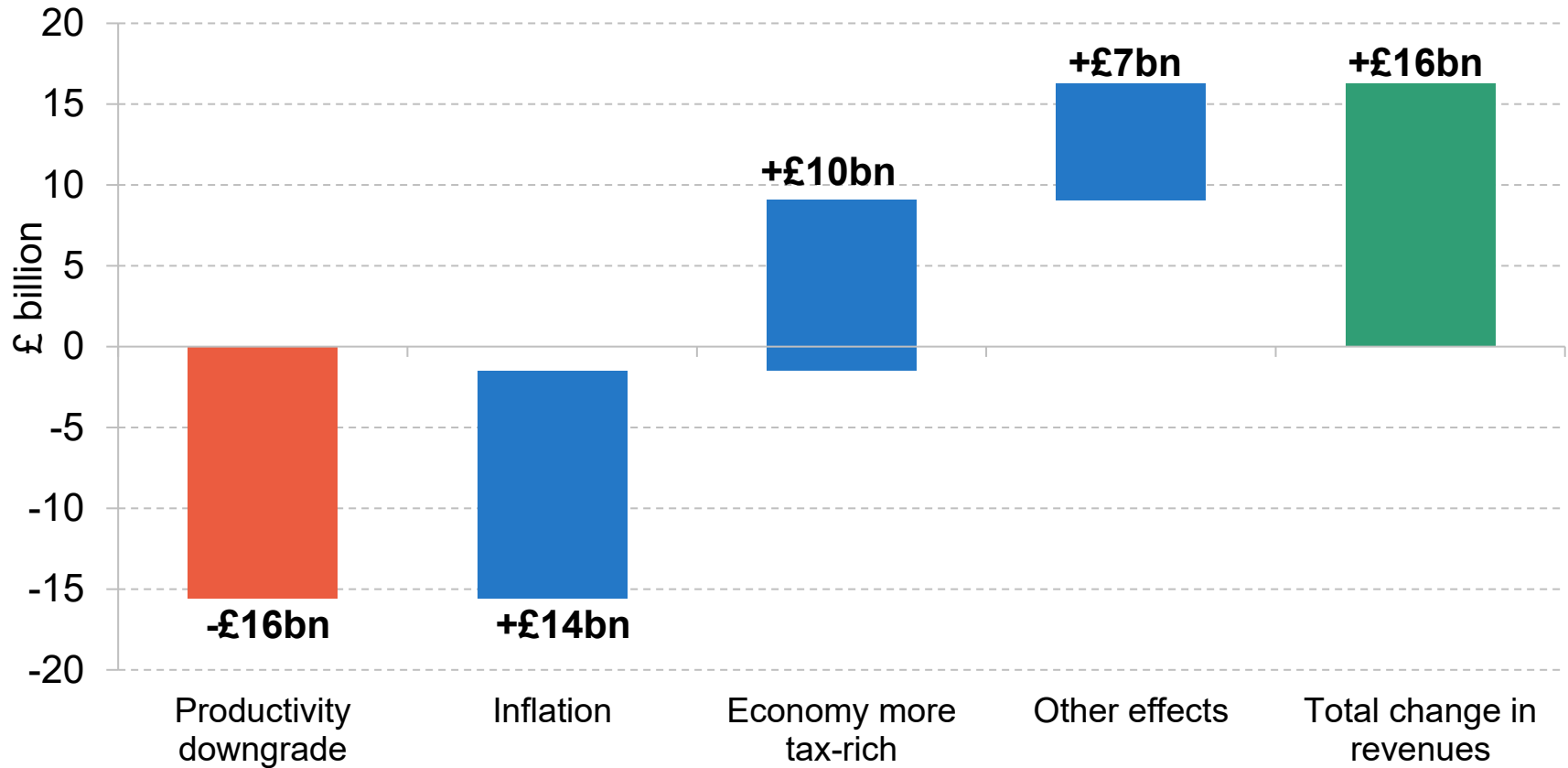
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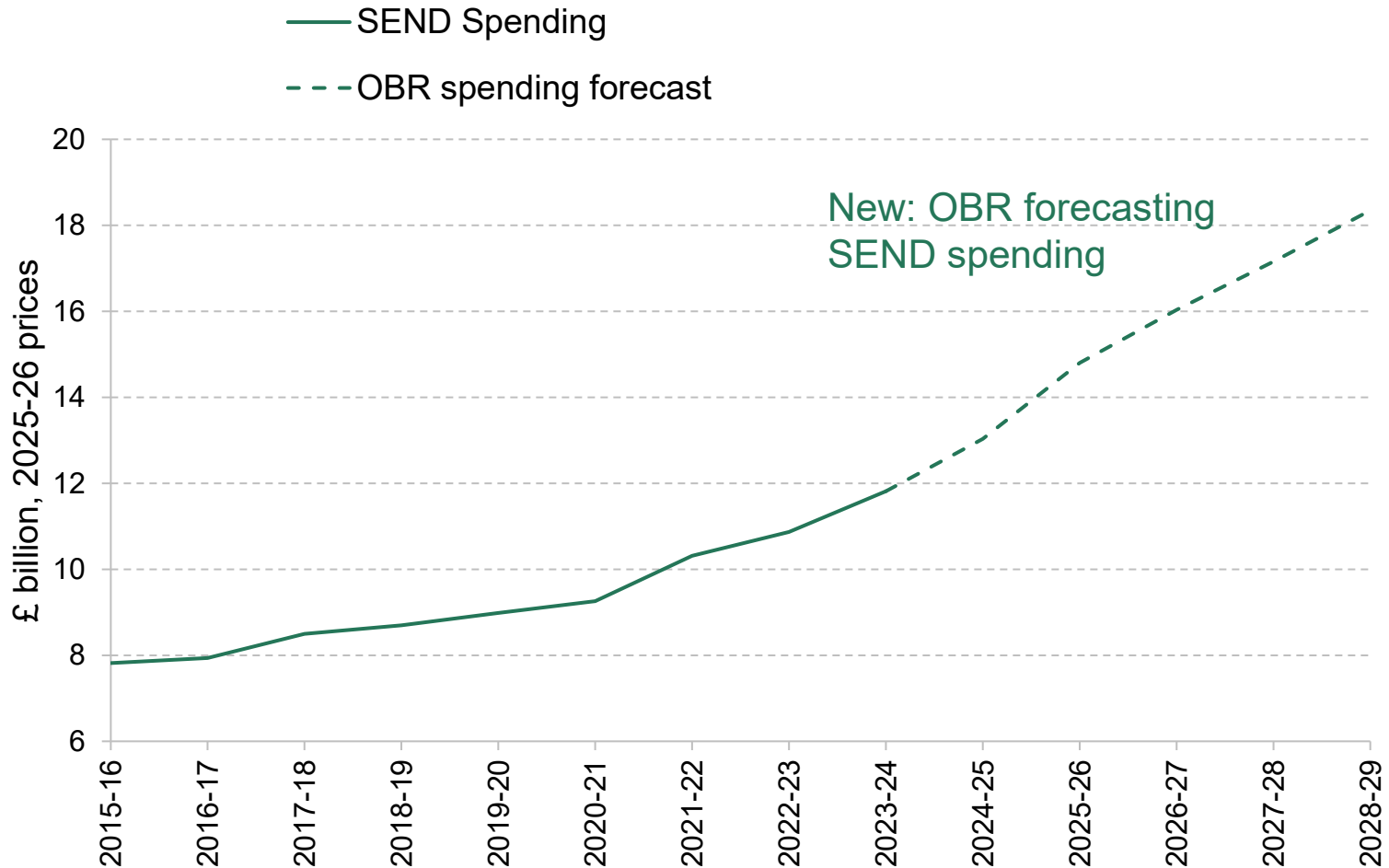
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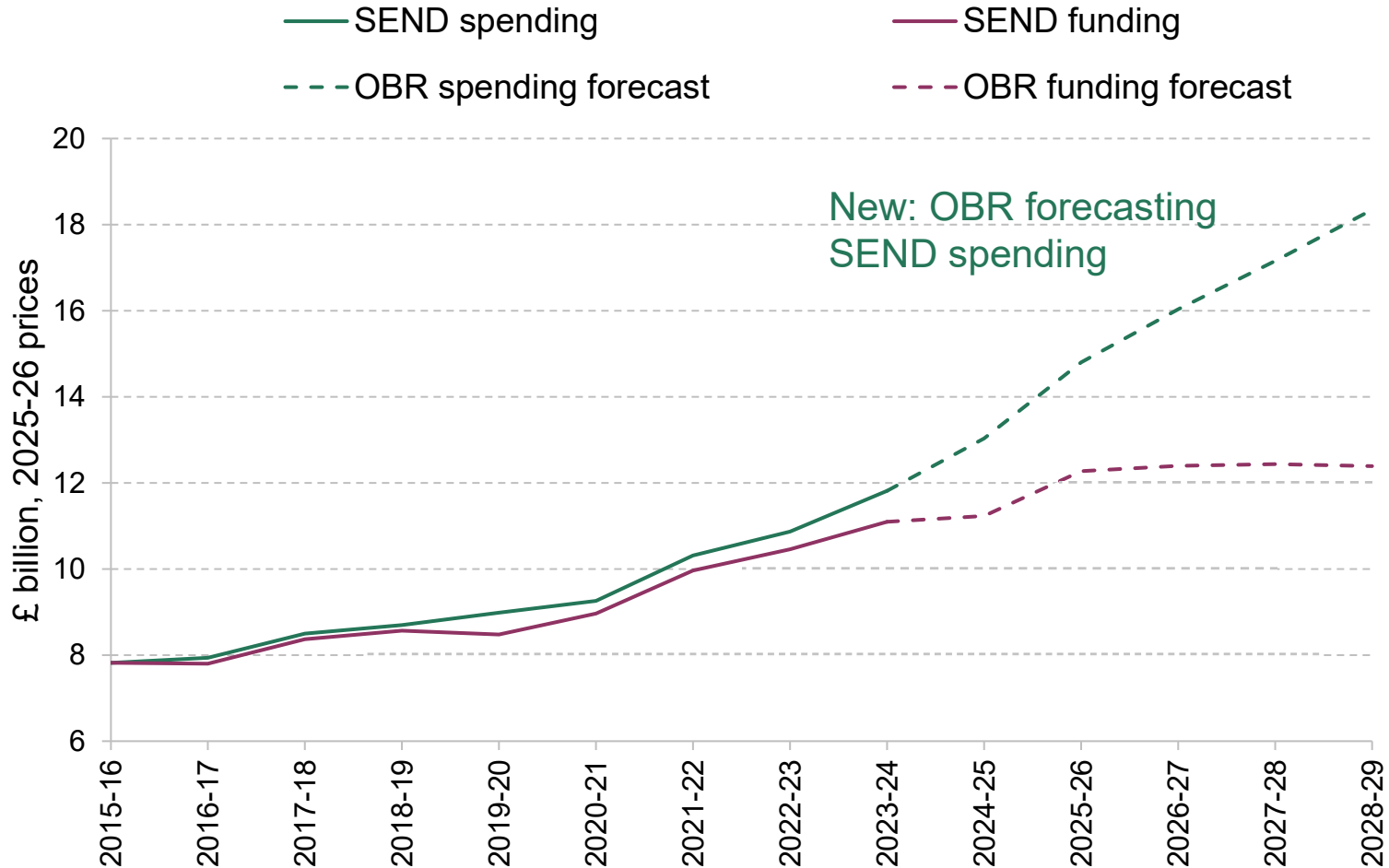
SEND me more money

SEND spending and funding in England, actual and forecast



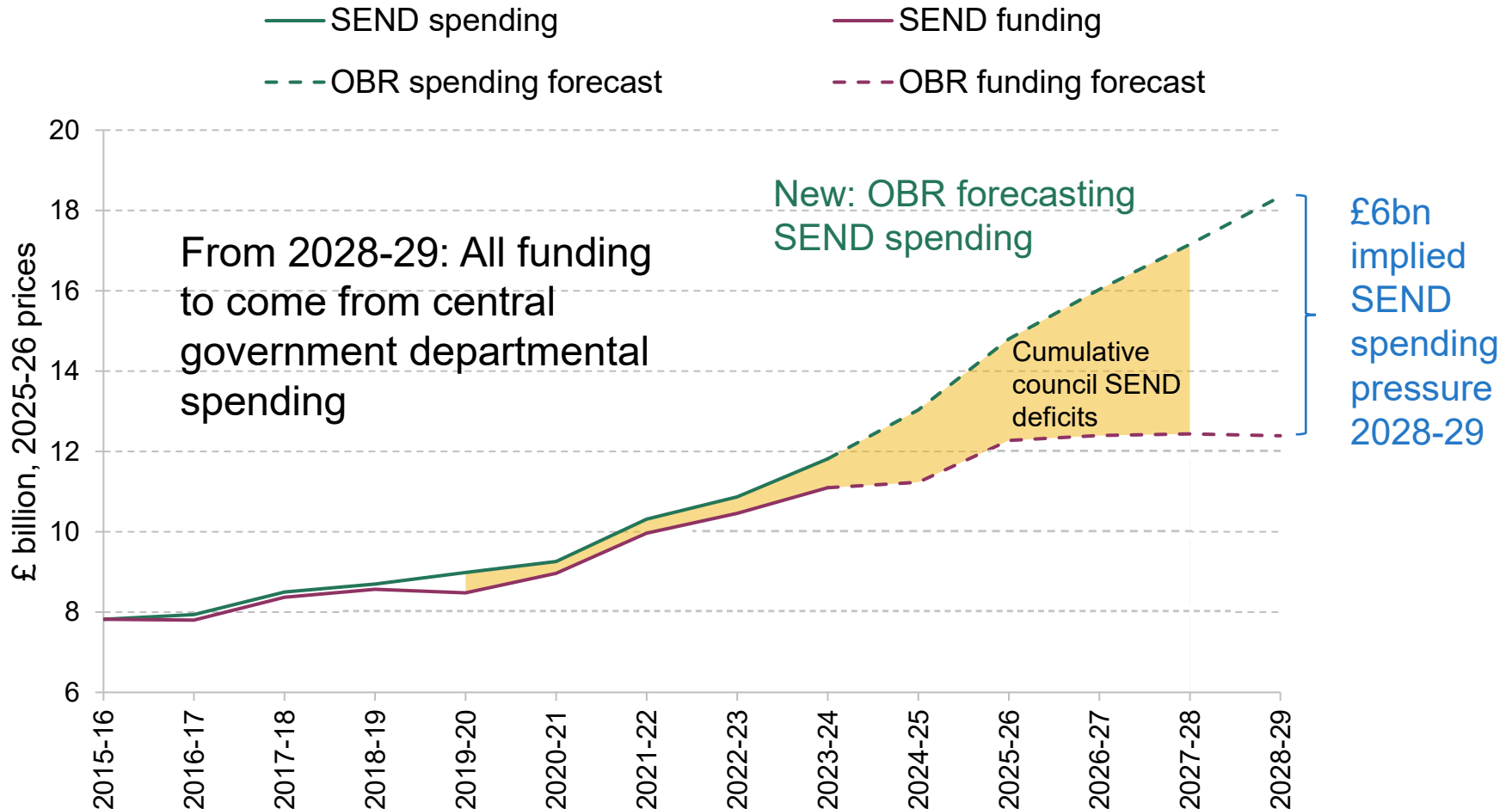
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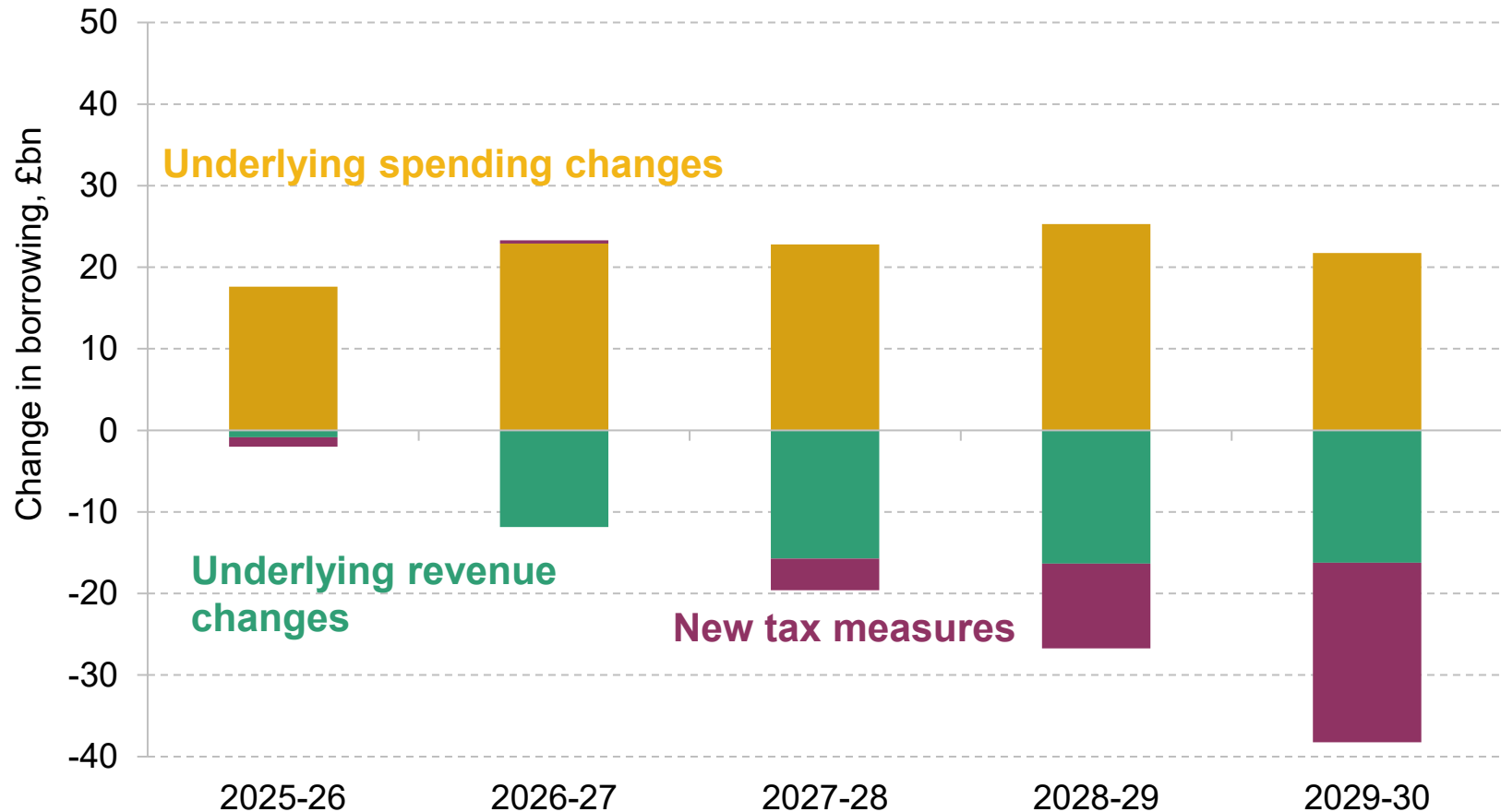
4 key points for the public finances



1. Despite large productivity downgrade, OBR forecast higher revenues
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3. Both tax and spending rises announced: but spending frontloaded, tax backloaded

Big tax rises – in later years

Change in public sector net borrowing since March by year



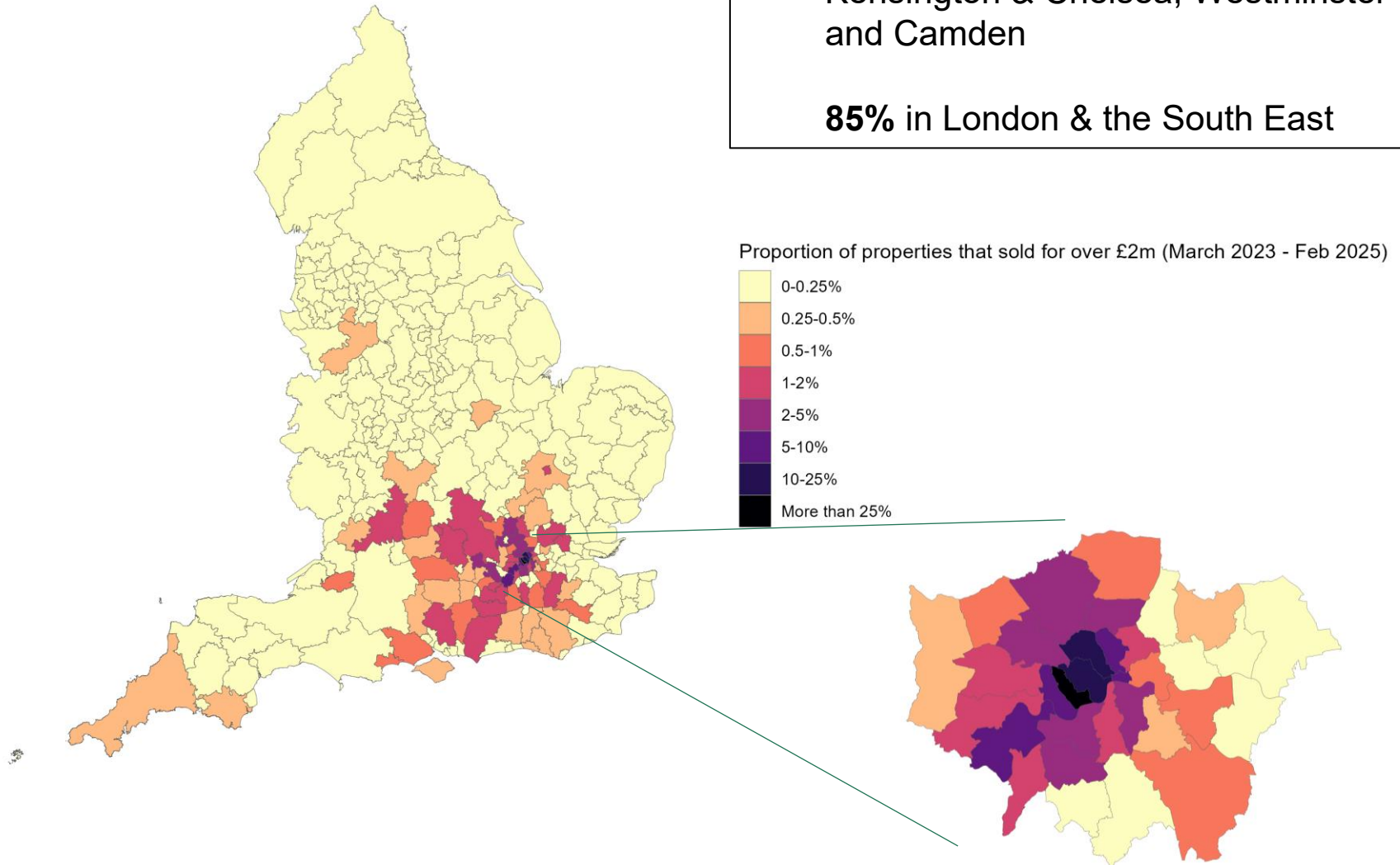
The 'mansion tax'

- New tax on properties worth £2 million or more in 2026, levied on homeowners from April 2028
- Four bands, with tax ranging from £2,500 a year on properties worth £2-£2.5 million to £7,500 a year on properties worth over £5 million
- Raises **£0.4bn** from 165,000 properties
- HMRC assumes tax will feed through fully into lower house prices
 - Reducing SDLT & CGT revenues
- Key questions to address
 - Collected by councils for central government – how will this work?
 - Payable by owner not occupier – again, how will this work?
- Revaluing properties for a bolt on affecting <1% of properties is a missed opportunity

House sales over £2m

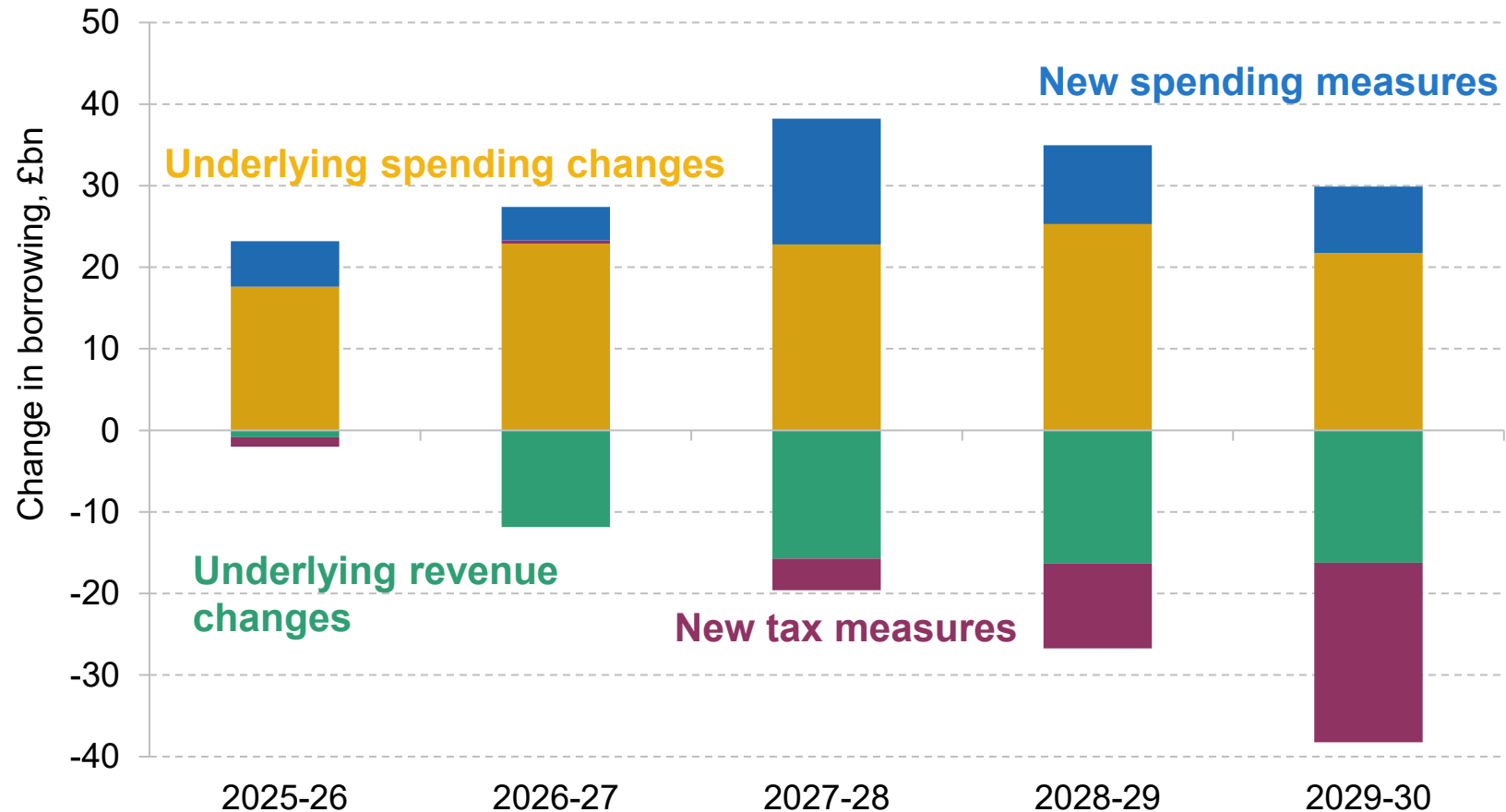
34% of >£2m sales were in Kensington & Chelsea, Westminster and Camden

85% in London & the South East



The spend now, pay later budget?

Change in public sector net borrowing since March by year

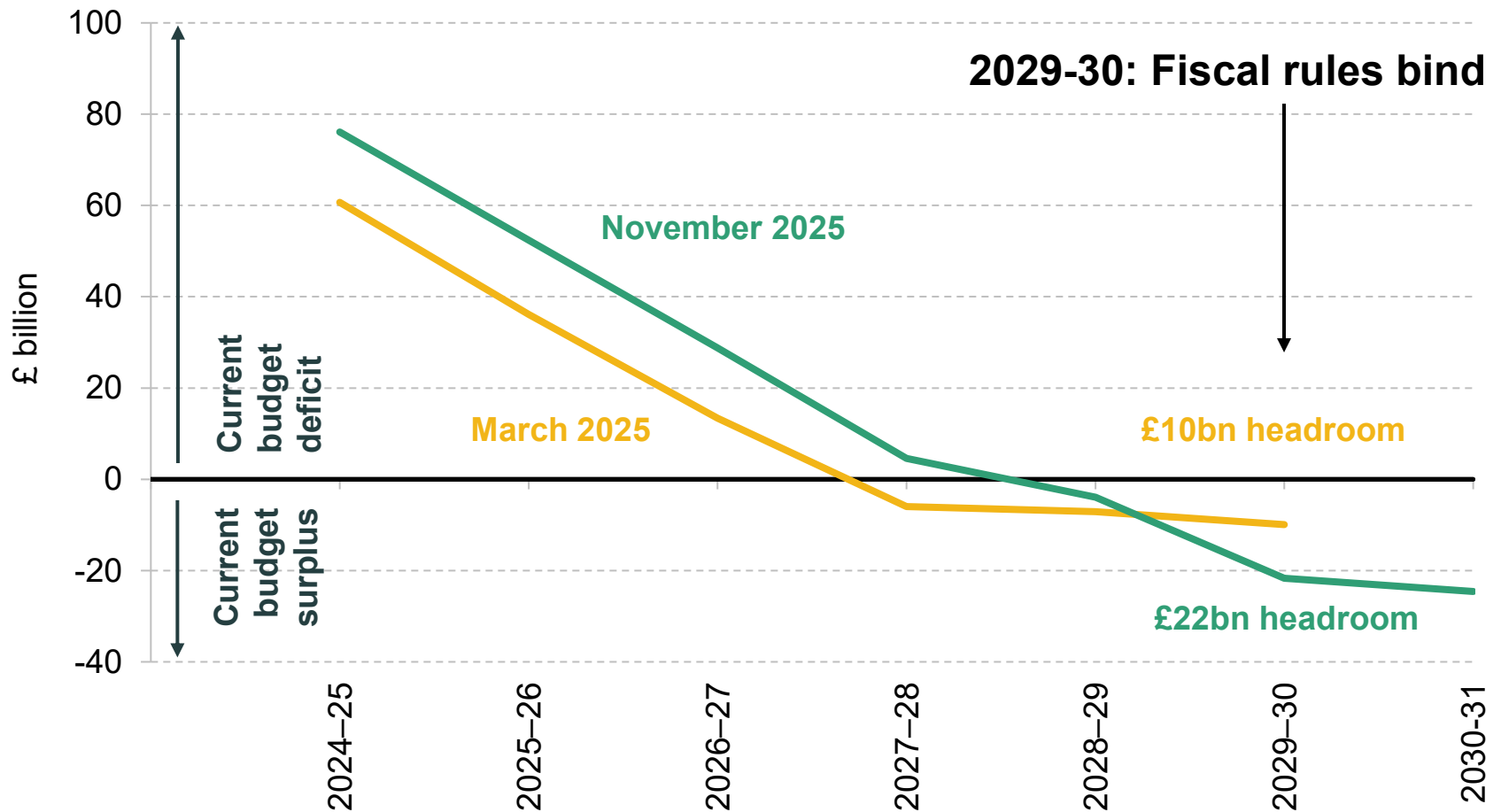


4 key points for the public finances

1. Despite large productivity downgrade, OBR forecast higher revenues
2. Underlying pressures on public spending push up borrowing
3. Both tax and spending rises announced: but spending frontloaded, tax backloaded
4. Headroom against fiscal rules more than doubled – should make for greater stability and reduce speculation

The budget in one chart

Current budget deficit





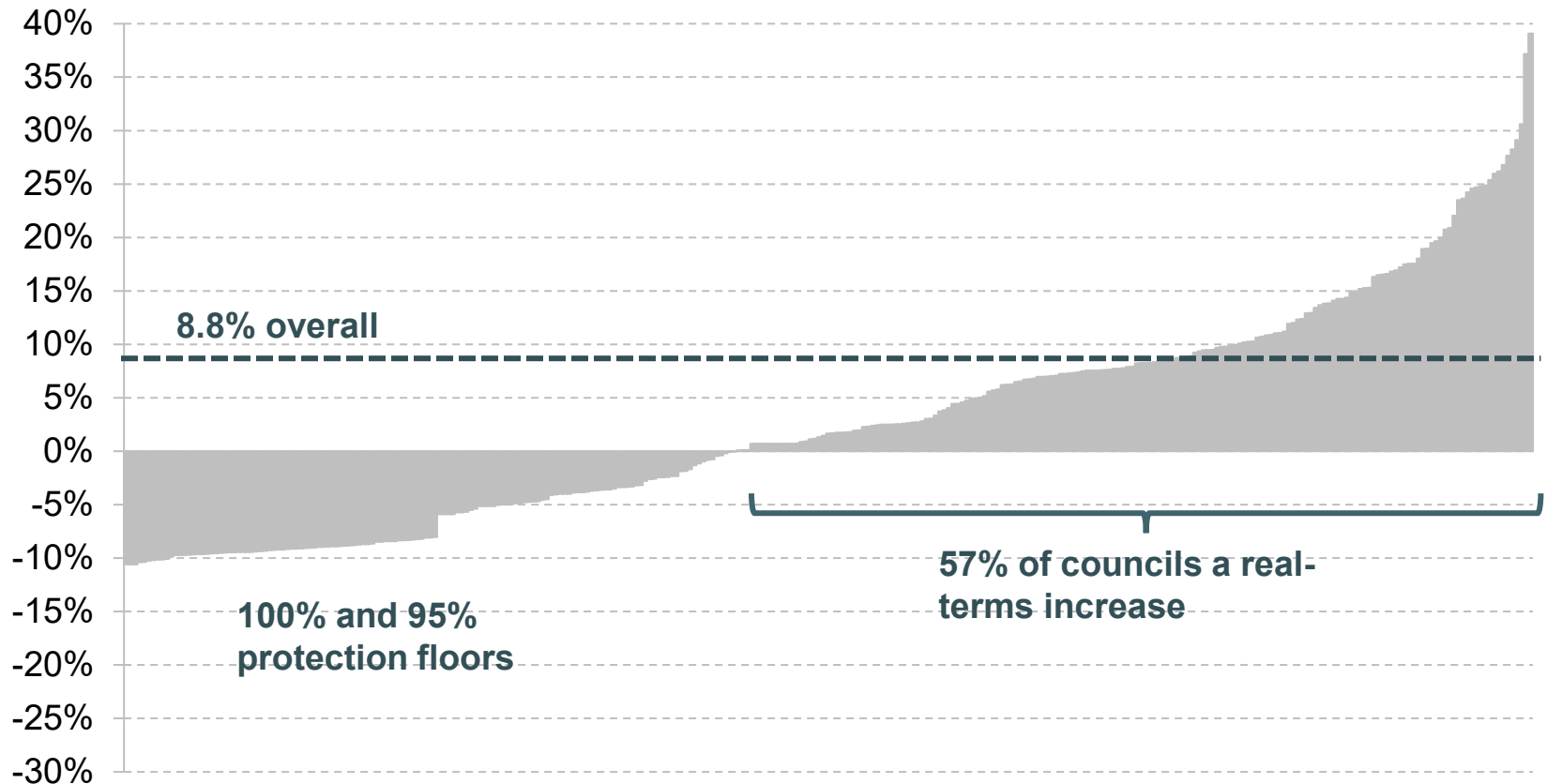
LG funding

Overall LG funding

- Substantial increase in overall core spending power
 - 5.8% cash-terms in 2026-27
 - 3.5% above inflation (2.5% each of the next 2 years)
- Cumulative 8.8% above inflation over 3 years
 - Much larger than overall day-to-day public services (2.9%)
 - And even than DHSC (7.0%)

Major differences between councils

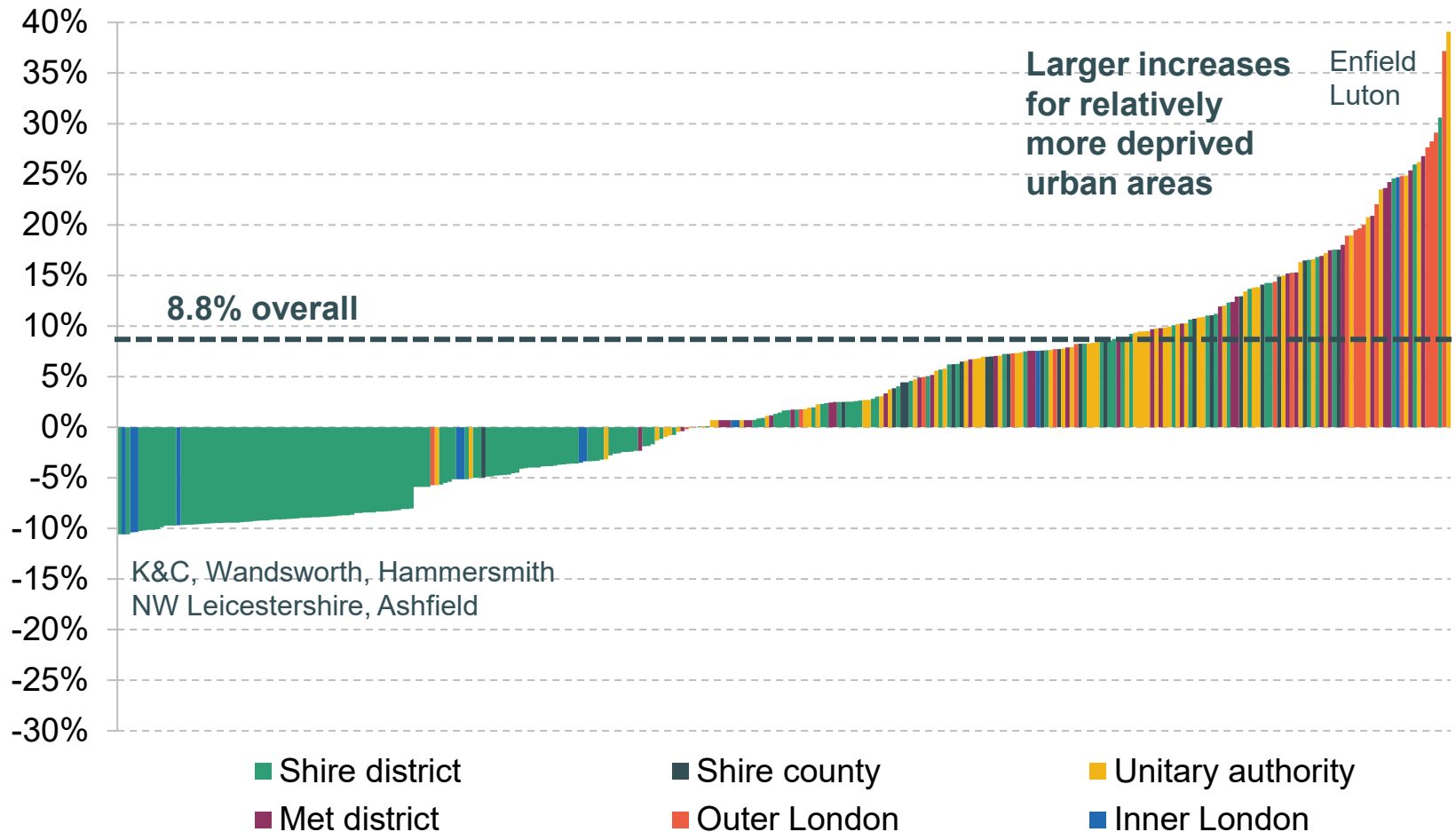
Real-terms changes in core spending power between 2025–26 and 2028–29



Note: Councils arranged along x axis. Real-terms changes reflect forecast GDP deflators. Assumes taxbase growth as per core spending power calculations and maximum use of CT flexibilities. Excludes City of London, Isles of Scilly, GLA, fire and combined authorities.

Major differences between councils

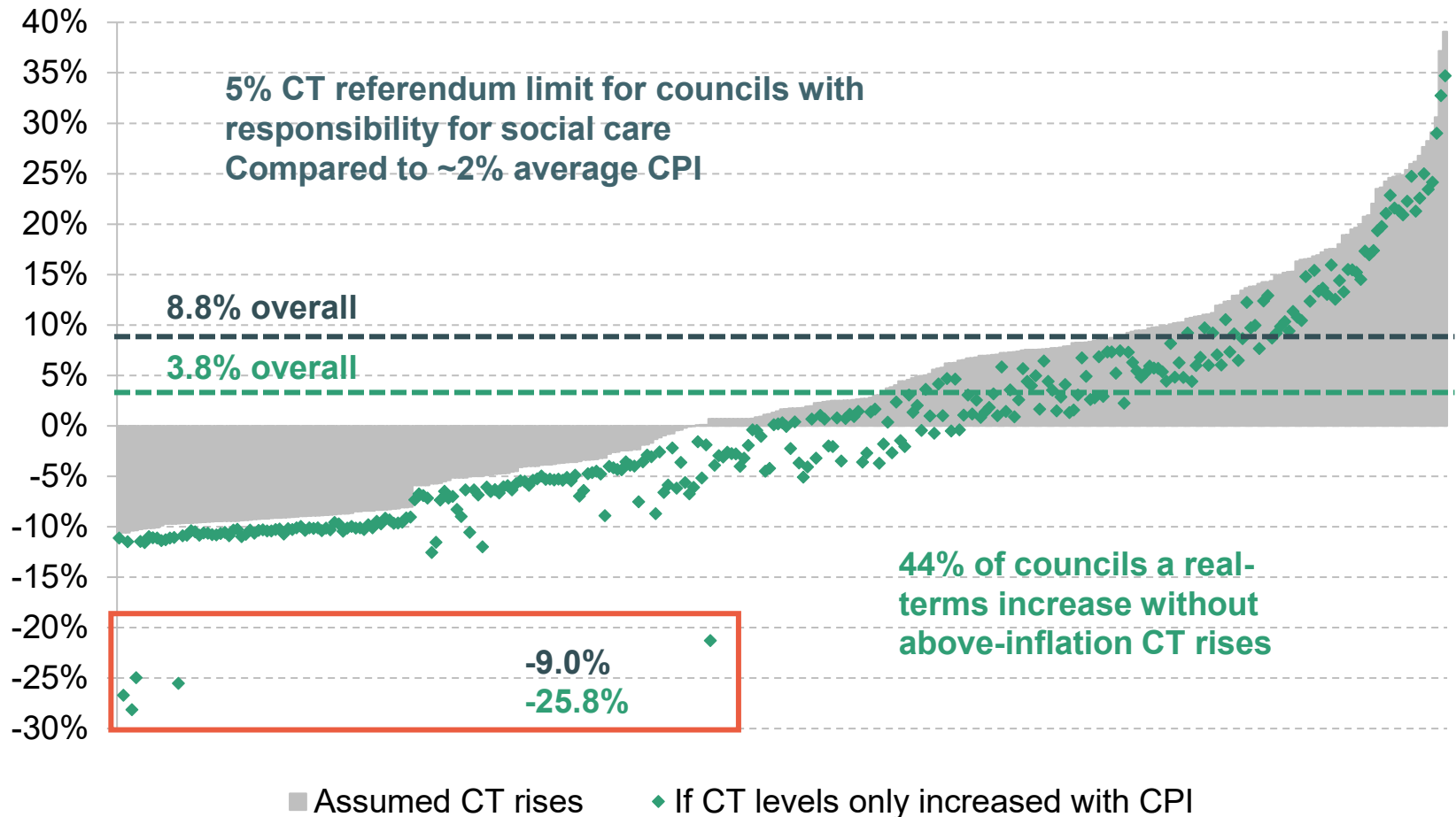
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Assumes hefty CT rises

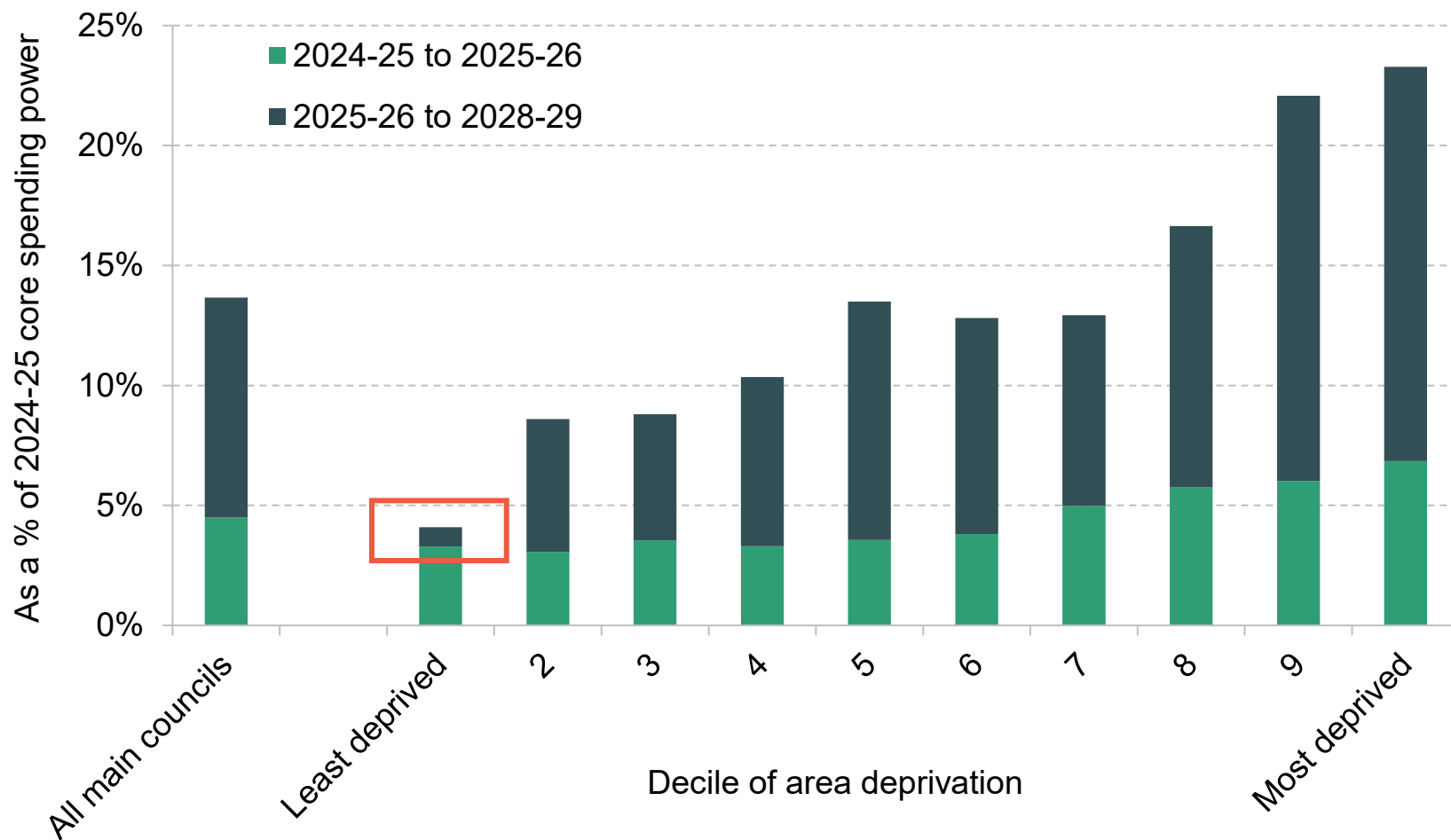
Real-terms changes in core spending power between 2025–26 and 2028–29



Note: Real-terms changes reflect forecast GDP deflators. Assumes taxbase growth as per core spending power calculations, but that CT levels increased in line with CPI each year. Excludes City of London, Isles of Scilly, GLA, fire and combined authorities. Red box shows areas without CT referendum principles in 2027-28 and 2028-29 (excluding City of London). © Institute for Fiscal Studies

Funding highly targeted at deprivation .111FS

Changes in real-terms core spending power by deprivation decile



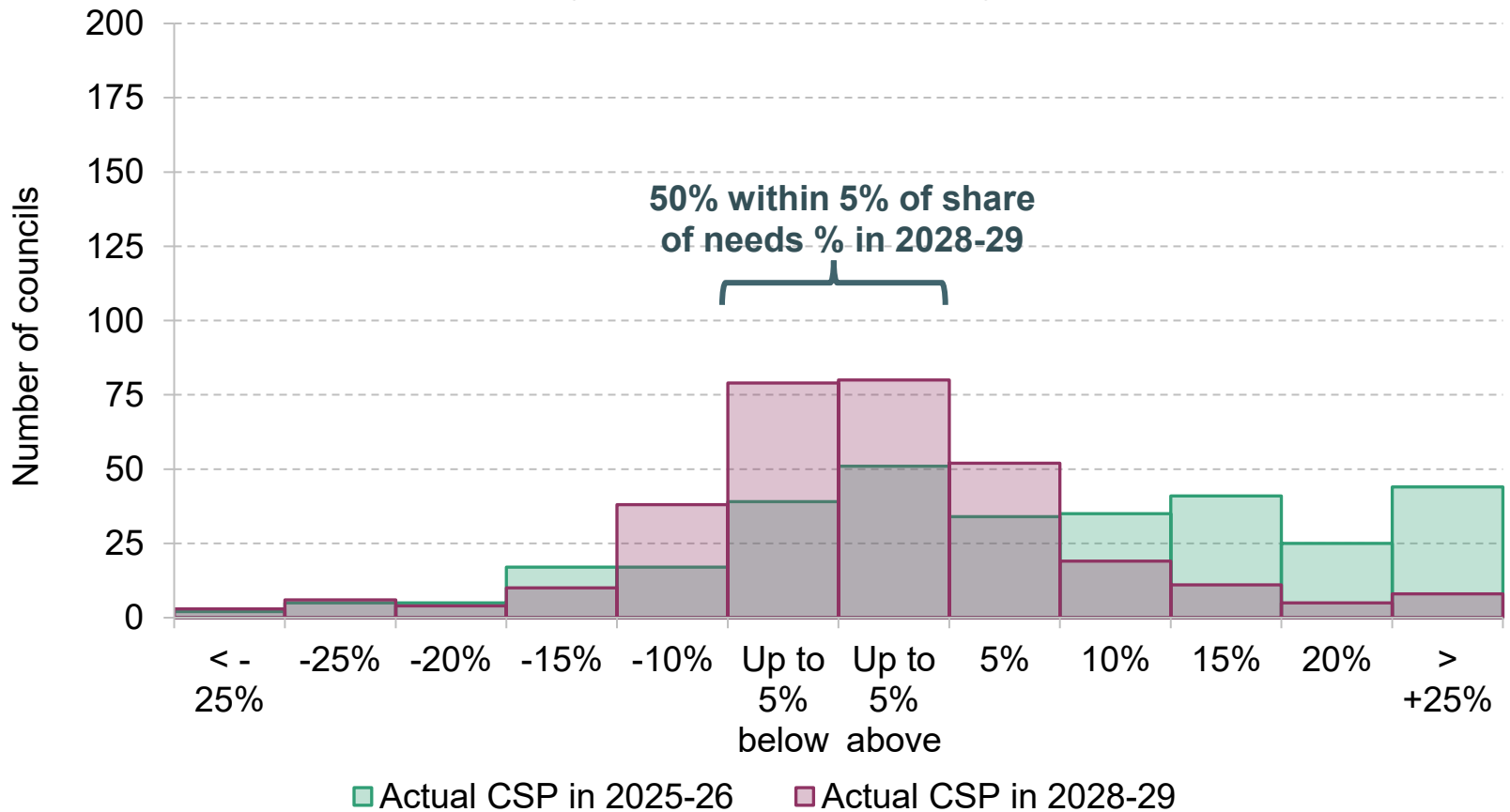
Note: Real-terms changes reflect forecast GDP deflators. Assumes maximum use of CT flexibilities. Deprivation deciles are based on IMD 2025 Average Score at the upper-tier authority level. Excludes City of London, Isles of Scilly, fire and combined authorities.

Will funding align better with assessed spending needs?

- Funding much more targeted towards (updated) deprivation
 - CSP per person in most vs least deprived tenth:
22% in 2024-25, 26% in 2025-26, 45% by 2028-29
- Govt has produced updated assessments of relative needs
 - Very welcome that these are up-to-date and being used
 - Some major changes since the summer
 - Inevitable that these reflect subjective judgements
- By its own measure, has the government achieved “fair funding”?

Will actual funding align with assessed spending needs?

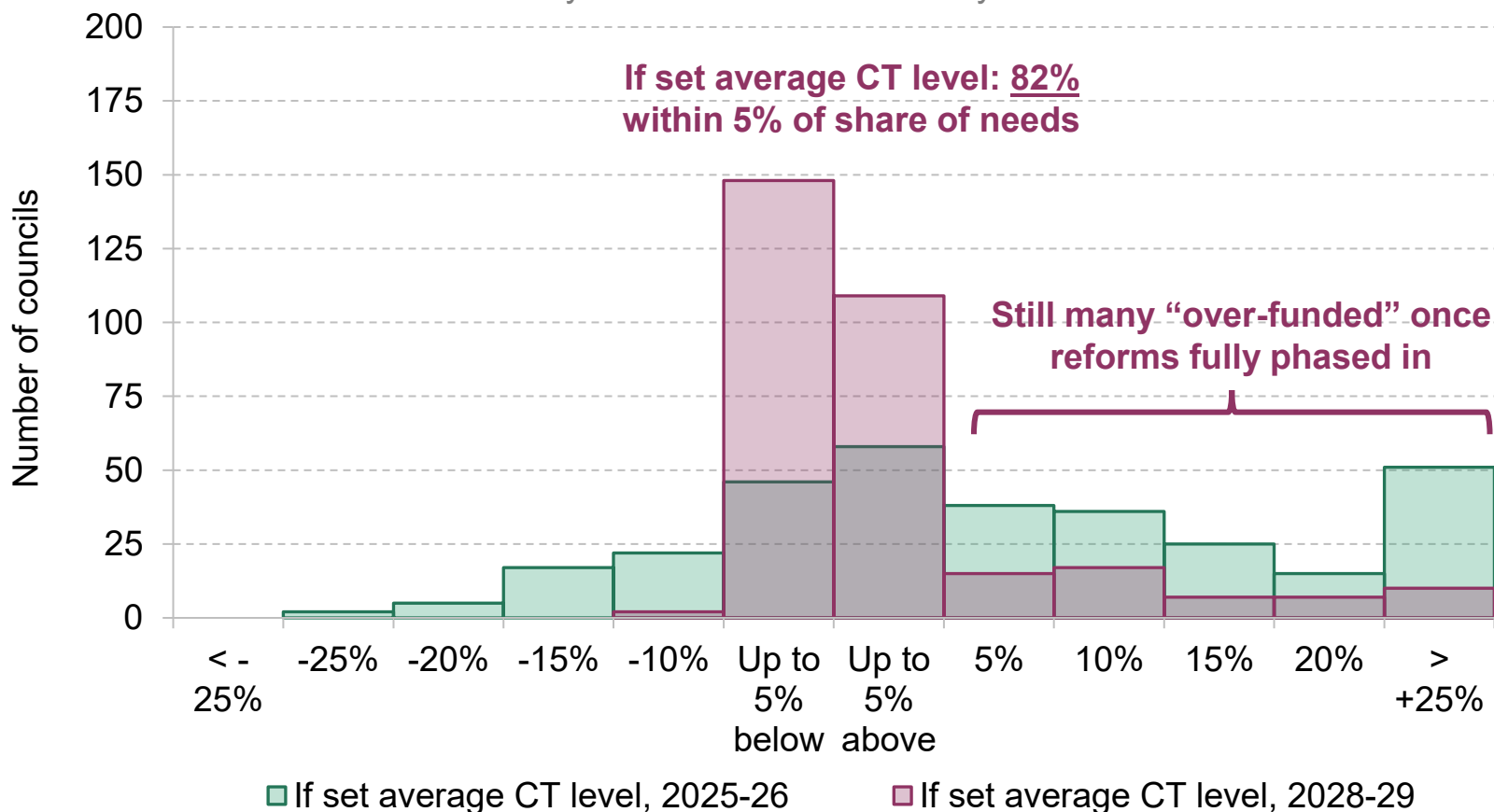
Distance between share of actual funding and share of assessed needs



Note: Measure of funding is actual CSP reflecting assumed CT increases but excludes consolidated grants that are part of CSP. Shares of this measure are compared to share of assessed weighted relative needs in 2028-29 (from updated RNFs). Both funding and needs exclude City of London, Isles of Scilly, fire and combined authorities. © Institute for Fiscal Studies

Would funding align with needs if councils set the same CT levels?

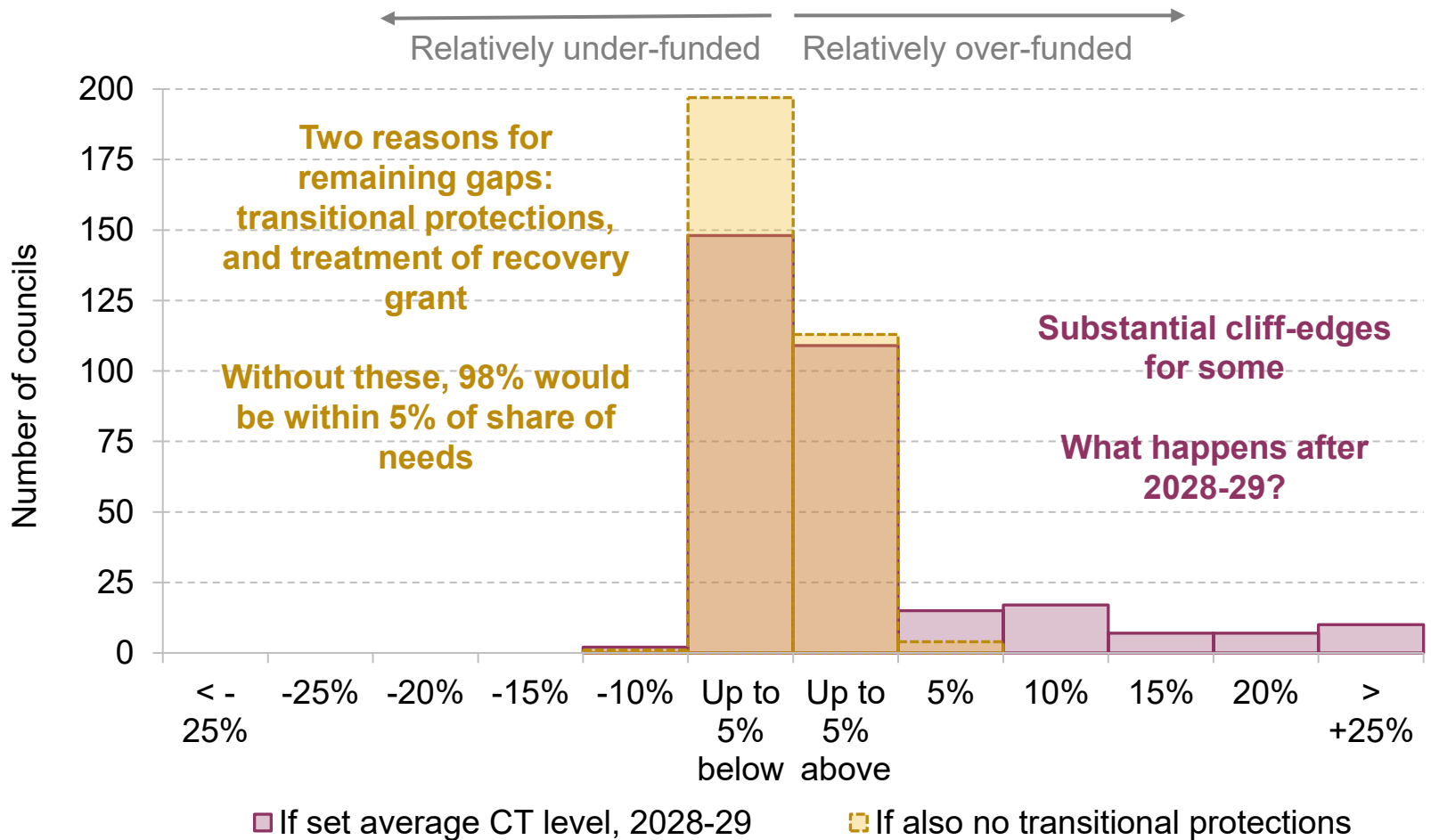
Distance between share of funding with average CT and share of assessed needs



Note: Measure of funding is CSP excluding consolidated grants but adjusting council tax revenues based on difference between actual council tax level set (and assumed level set in 2028-29) and notional CT level x tier split – as a proxy for revenues if all areas set their CT level to the average. Excludes City of London, Isles of Scilly, fire and combined authorities. © Institute for Fiscal Studies

Remaining gaps driven by transition IFS and recovery

Distance between share of funding with average CT and share of assessed needs



Note: Yellow bars show same measure of funding, with excluding transitional protections and the recovery grant. Excludes City of London, Isles of Scilly, fire and combined authorities.

Transition payments and BR pools



- Nearly 4-in-10 getting some transitional protection in 2028-29
 - For 42 councils, worth more than 10% of CSP
- One factor is how BR growth has been calculated for pools: all levy savings assumed to accrue to levy authorities
 - High estimated existing funding for some, and high funding floors
- NW Leicestershire an extreme case
 - Apparent 11% real-terms cut in CSP misleading
 - Transitional protection will be worth more than half of CSP
 - Will receive 100% more funding than share of needs in 2028-29



Summary

Key points

1. Tepid economic and household income growth
2. Better than expected public finance forecasts
3. A spend-now, pay later budget, with extra ‘fiscal headroom’ reliant on tax rises and spending cuts just before an election
4. Local government
 - a. Shifting SEND responsibilities to central government – but still unanswered questions
 - b. Substantial increase in overall funding – but wide variation
 - c. Funding getting “fairer” by government’s own standards

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