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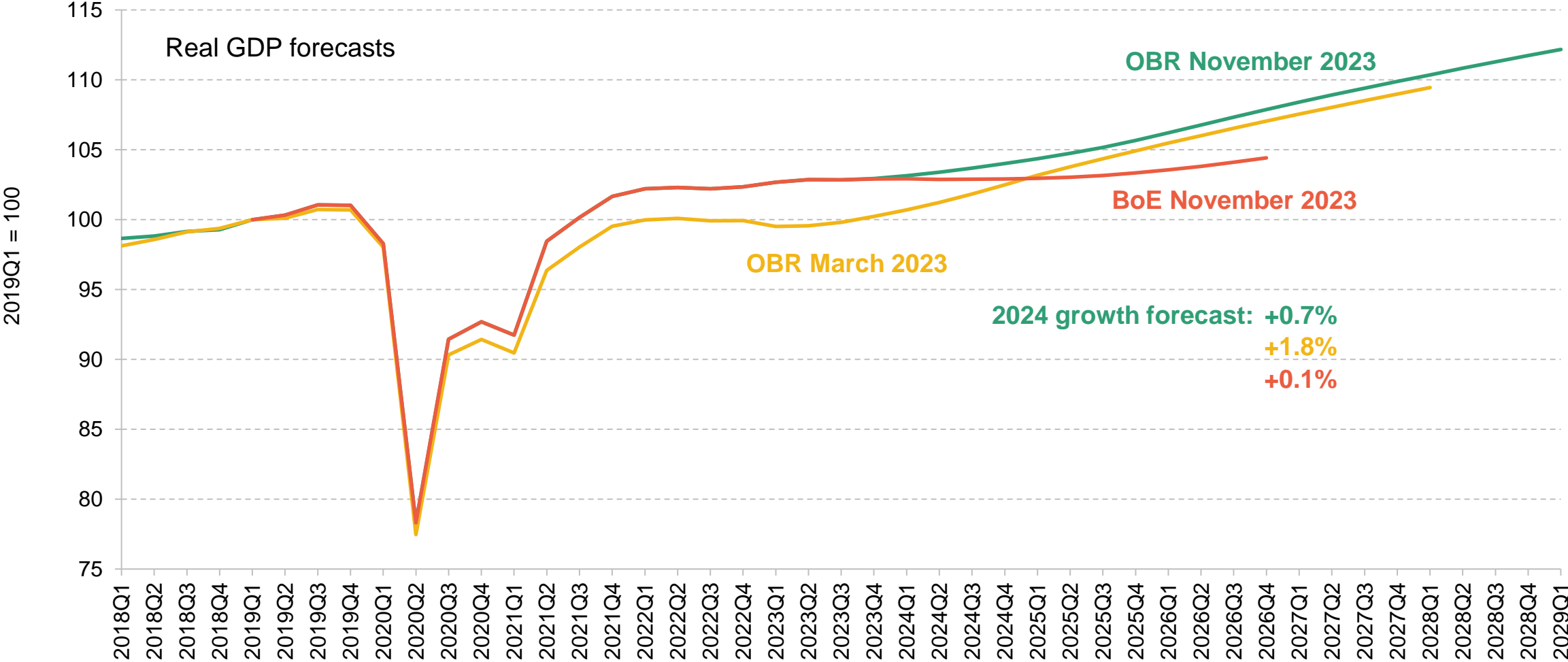
09 January 2024

LGA finance conference

@TheIFS

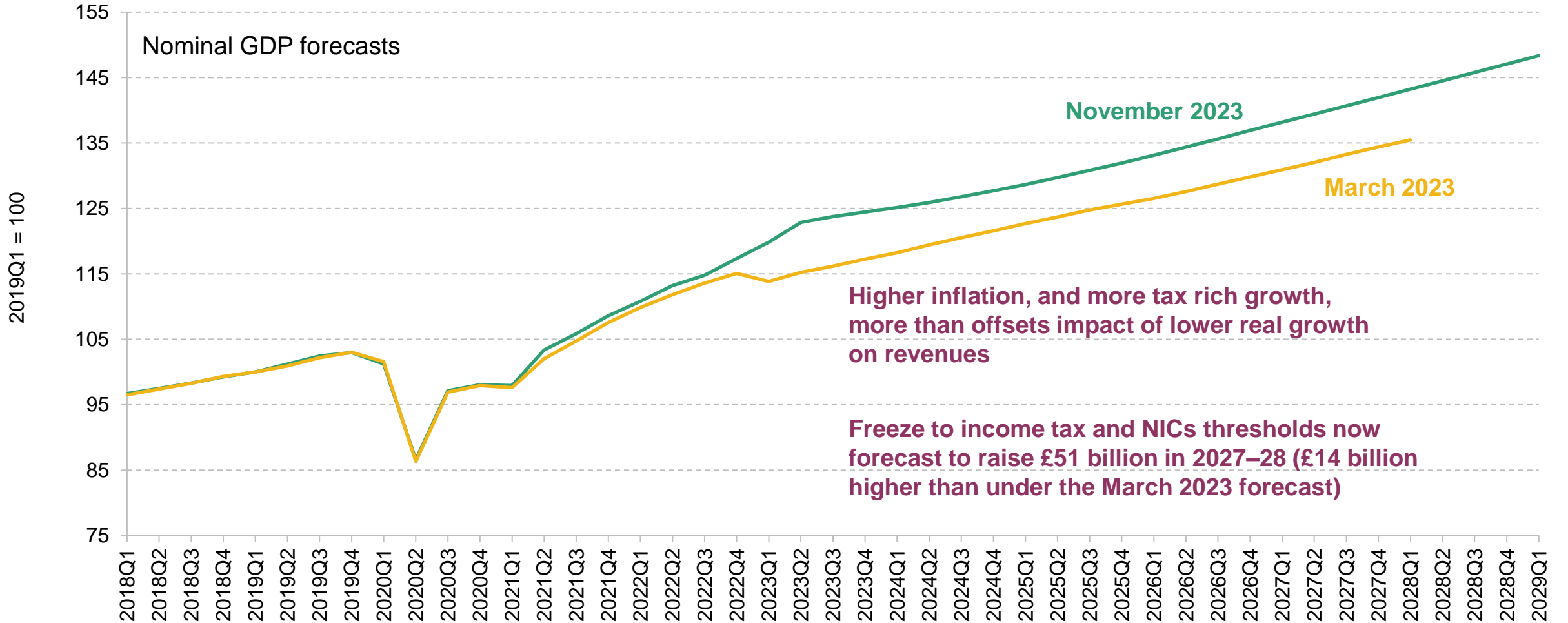
The economic, fiscal and funding outlook

Worsening growth outlook (from a higher base)



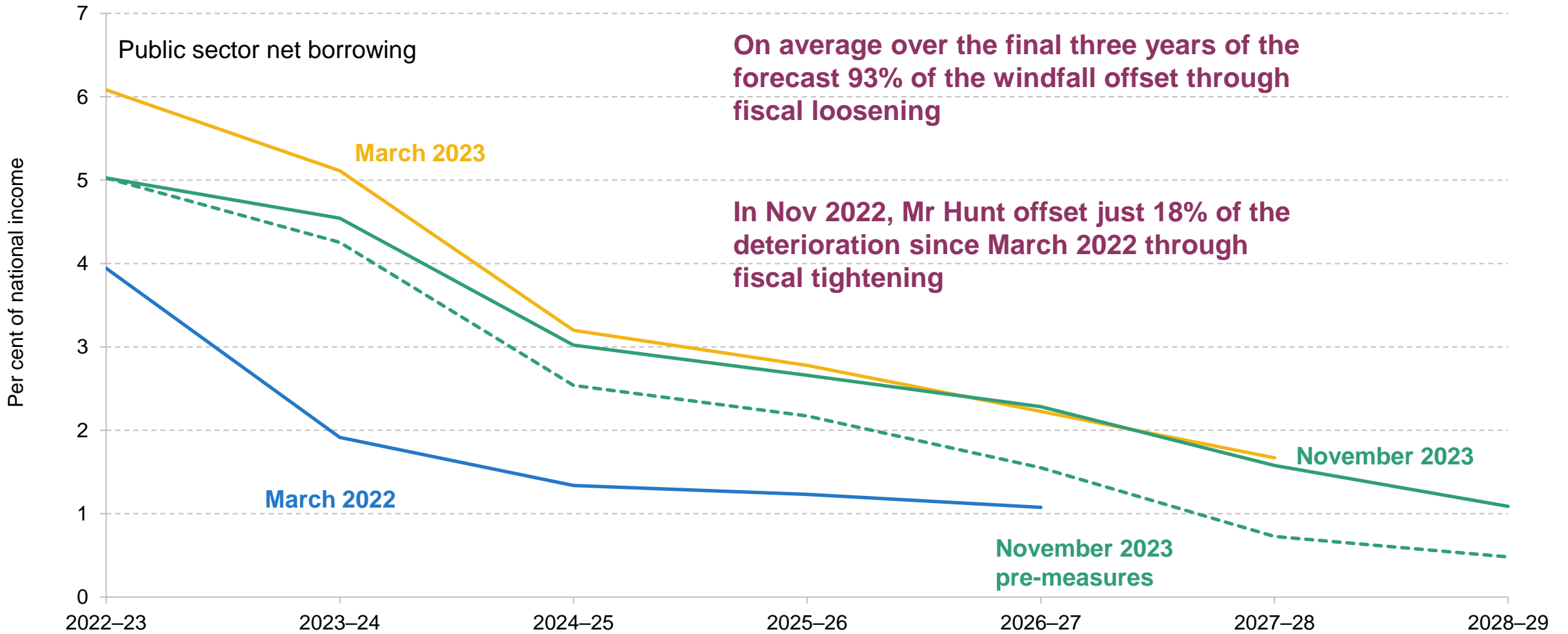
Source: OBR Economic and Fiscal Outlook, Bank of England Monetary Policy Report

But with higher inflation boosting nominal growth

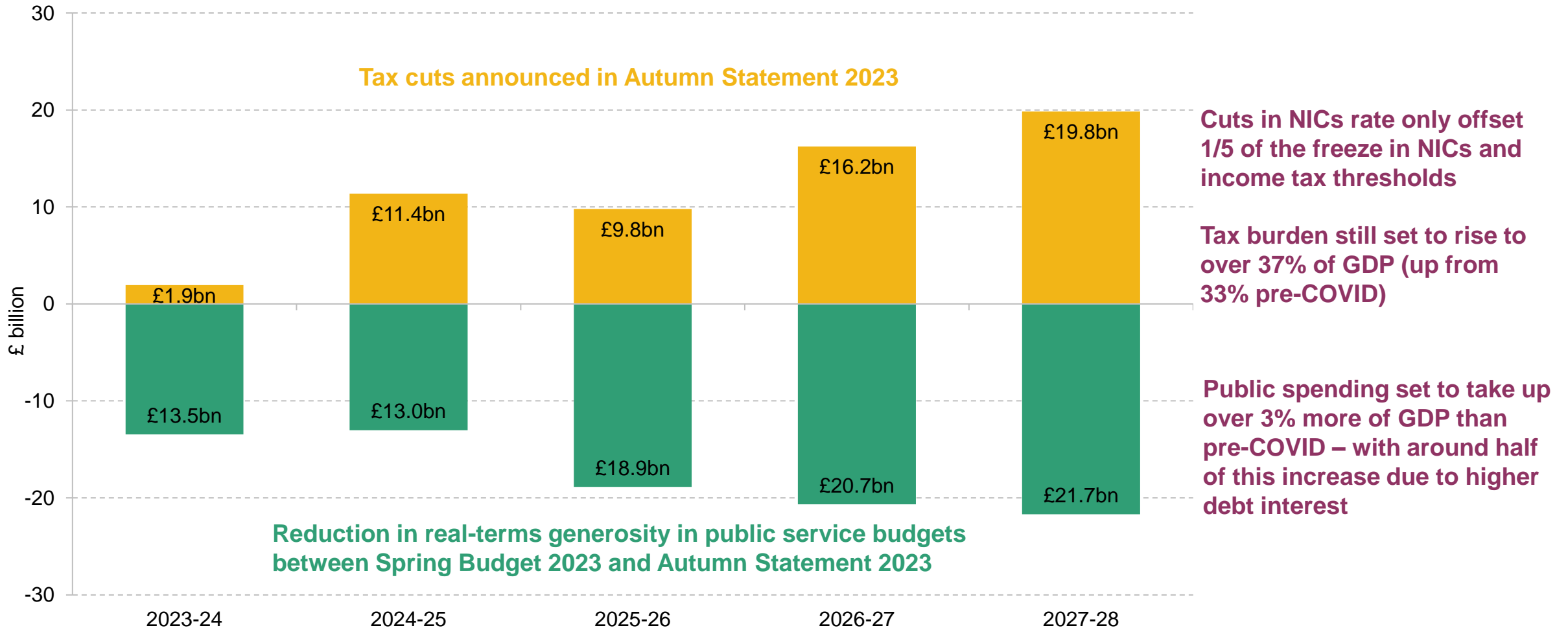


Source: OBR Economic and Fiscal Outlook

All of the windfall spent...



Tax cuts paid for by spending cuts



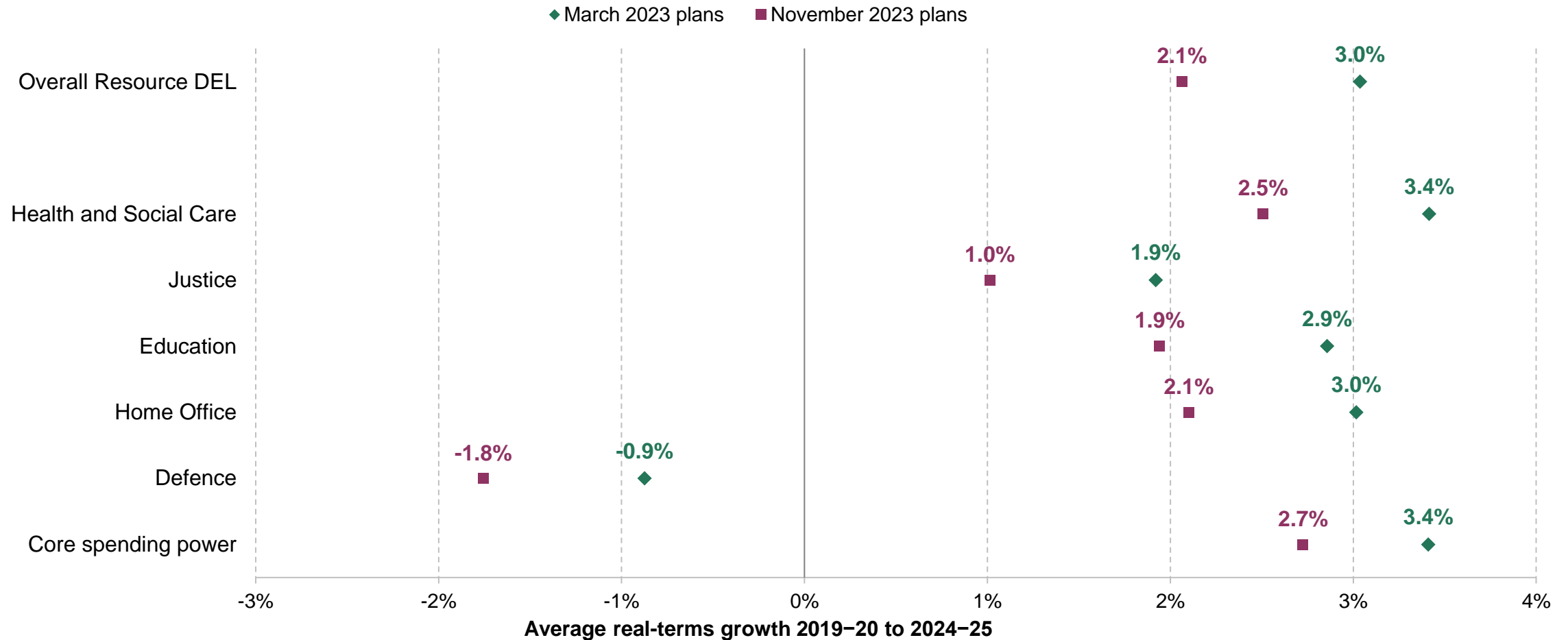
Source: OBR Economic and Fiscal Outlook

Note: The reduction in real-terms generosity of public service budgets refers to the cash top-up to Total Departmental Expenditure Limits (TDEL) that would be required to maintain the real-terms generosity of spending plans at the level specified in the 2023 Spring Budget. Source: IFS calculations using OBR Economic and Fiscal Outlook (March and November 2023), HM Treasury Spring Budget 2023, and HM Treasury Autumn Statement 2023.

Departmental settlements are now less generous across the board



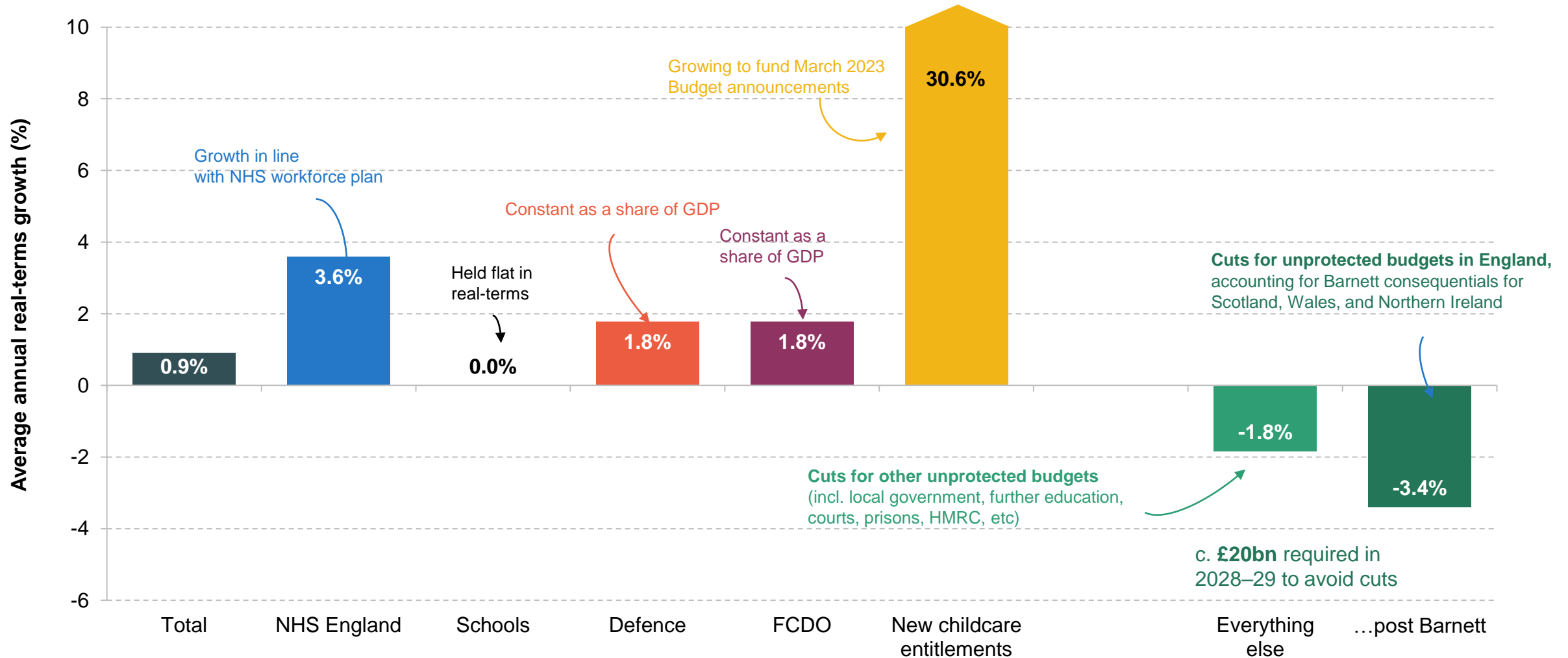
Planned average real-terms growth in selected day-to-day budgets over the parliament



Source: IFS calculations using HM Treasury Spending Review 2021, Spring Statement 2023, Autumn Statement 2023, and Public Expenditure Statistical Analysis 2023, and OBR Economic and Fiscal Outlook (November 2021, March 2023, and November 2023). Overall Resource DEL is from HMT.

Cuts pencilled in for after the next election

Illustrative change in day-to-day funding implied by latest plans, 2024–25 to 2028–29



Source: IFS calculations using Spring Budget 2023, Autumn Statement 2023, and OBR Economic and Fiscal Outlook November 2023.

Funding in 2023-24 stretched less far than planned

- Relatively large cash increase in 2023-24 at last settlement (~9%)
- Inflation has been much higher than expected (6.1% vs 3.2%)
 - Far outweighs additional social care funding (£365m announced post-settlement)
- Even this likely understates cost rises facing councils this year
 - Timing effect, as contracts updated with a lag
 - NLW increased 9.7% April 2023
 - First half of 2023, children's social care spending up 16%; homelessness up 26%
 - Budgeted to drawdown £1.9bn reserves in 2023-24 and likely to exceed this

What was announced at the settlement for 2024?

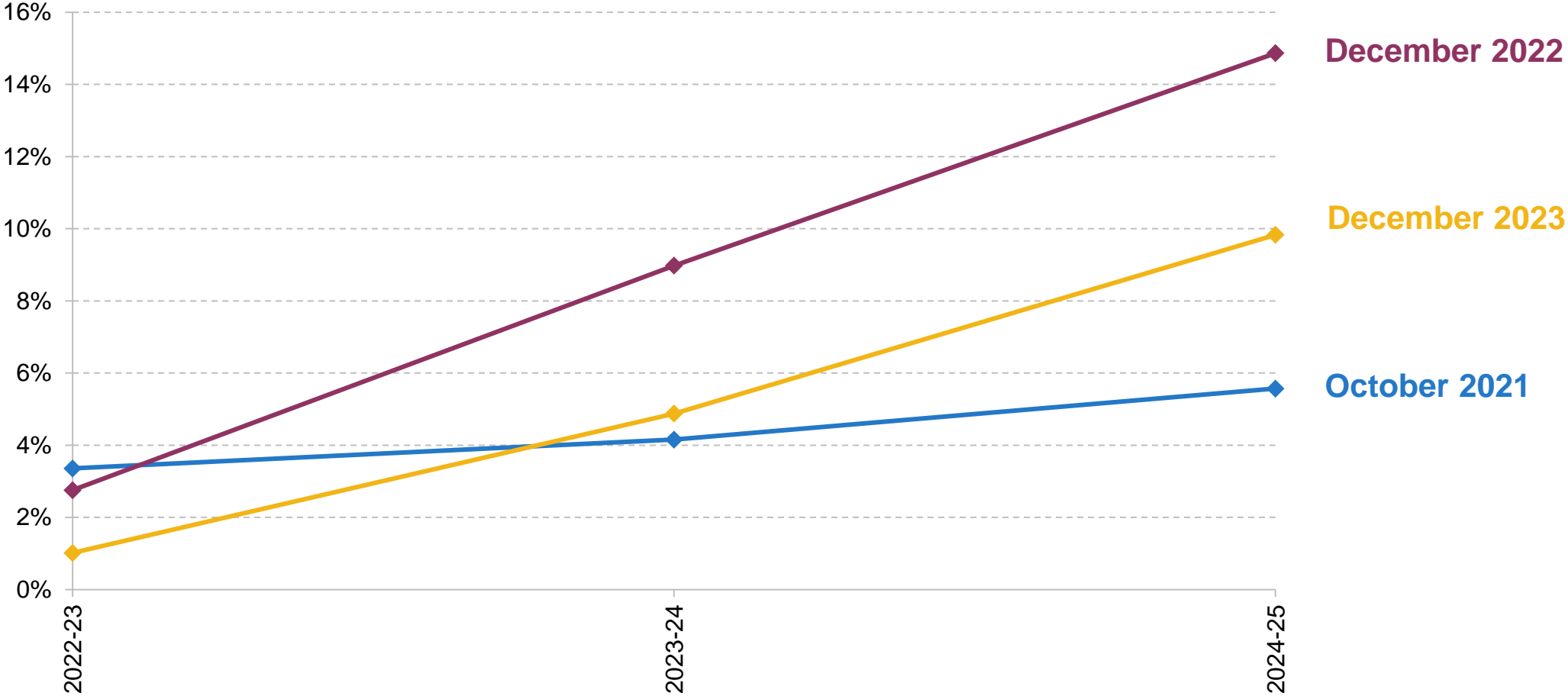
Significant increase in CSP of £3.9bn (6.5% cash-terms) in 2024-25:

- £2.1bn from **council tax**, just over half the total increase (and additional rises for some)
- £1.2bn from continued indexation **business rates** revenues and RSG to CPI (6.6%)
- £1.0bn increase in **social care grants** (pre-announced, plus £365m post-settlement for 2023 and £205m in 2024)
- £406m reduction in **Services Grant**
- ‘One-off’ **funding guarantee** increased from £133m to £197m

- Inflation expect to fall (to 1.7%) → real-terms increase of 4.7%
- But high inflation this year still feeding through to costs
- NLW set to increase by 9.8% in April 2024

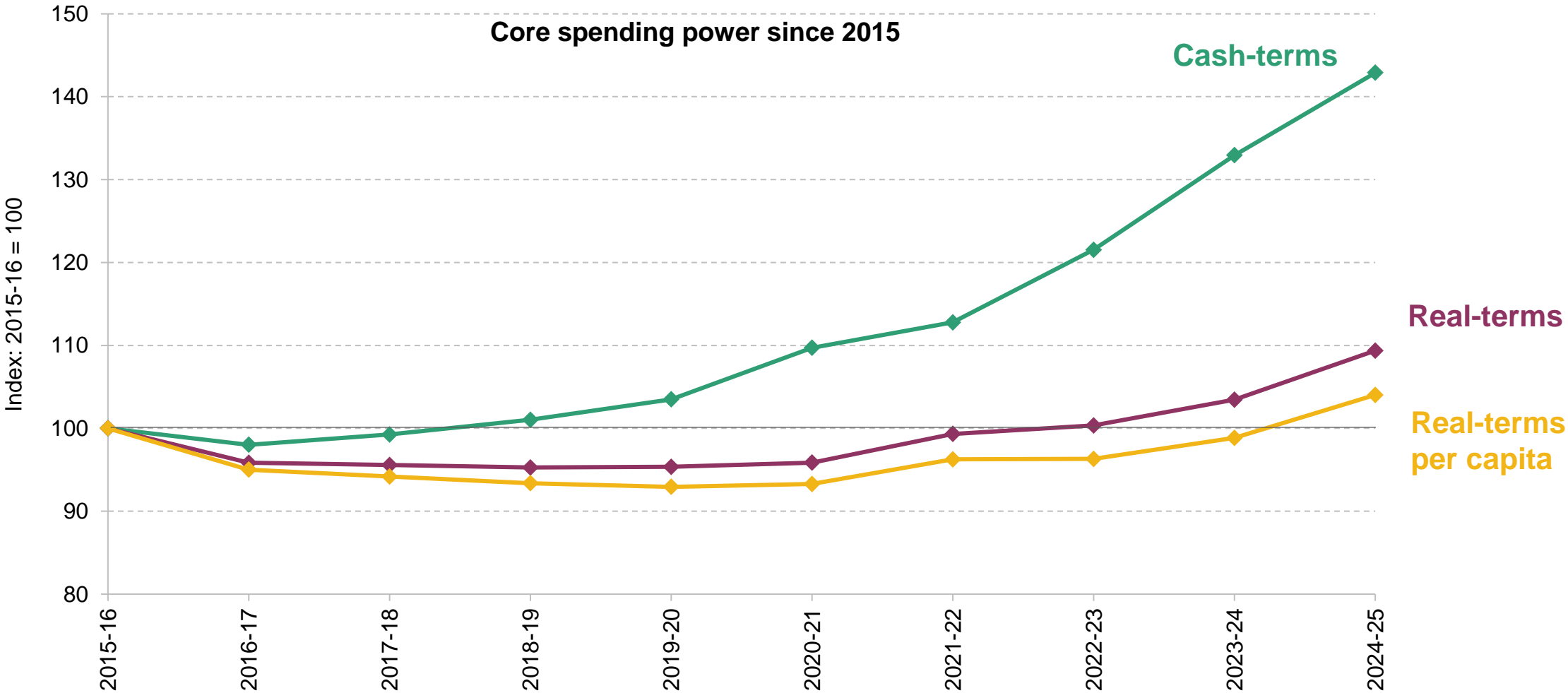
How have plans changed?

Real-terms CSP compared to 2021-22, under different plans



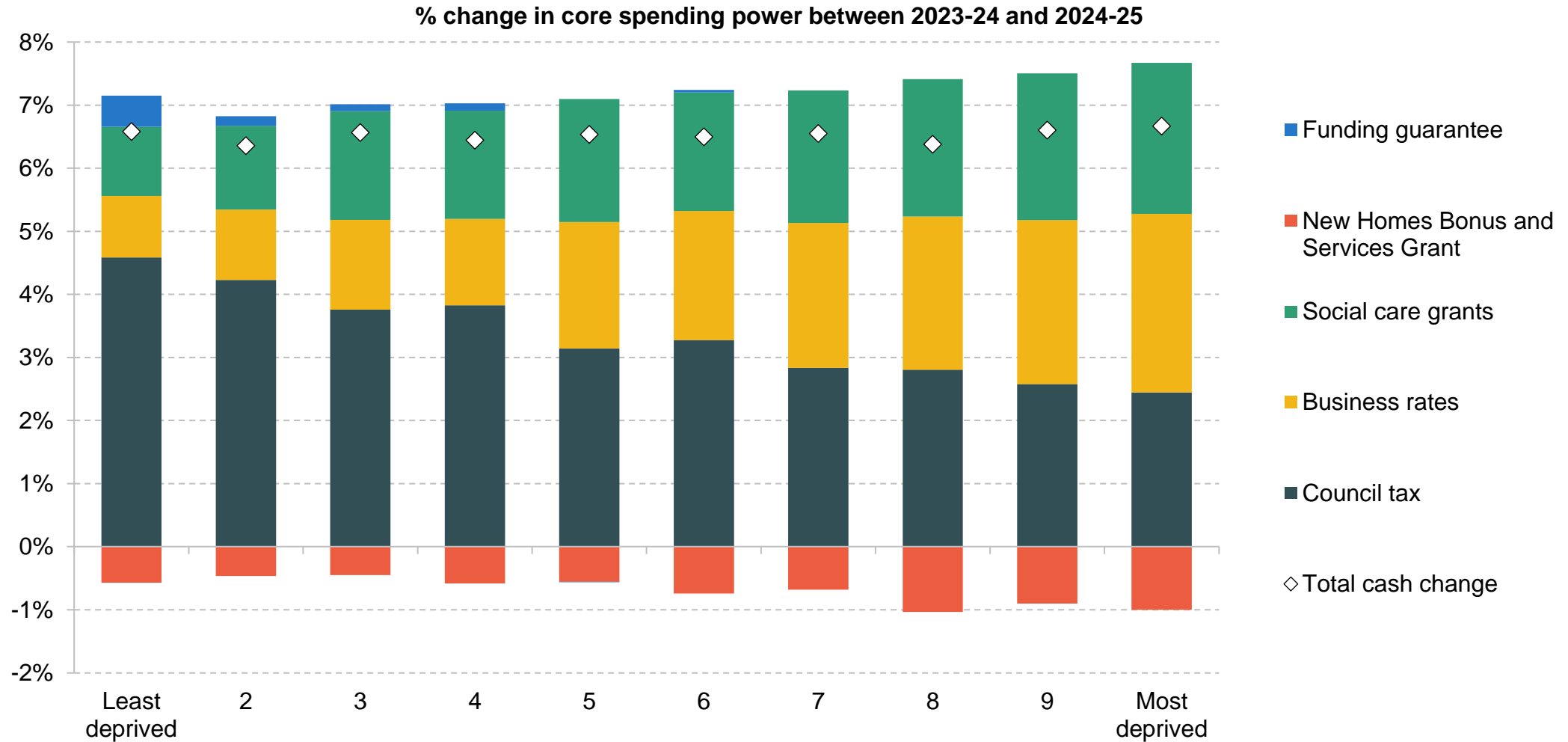
Note: Real-terms figures reflect the most recent GDP deflator forecasts when plans were announced.
Source: Autumn Budget and Spending Review 2021; Provisional Local Government Finance Settlement, 2023-24; Provisional Local Government Finance Settlement, 2024-25; OBR Economic and Fiscal Outlook – October 2021, November 2022 and November 2023.

How has CSP changed since 2015?



Note: Change in core spending power excludes the impact of rolling in grants.
Source: Provisional local government finance settlement 2024-25; OBR EFO – November 2023; ONS 2022-based population estimates.

Very similar CSP increases by deprivation

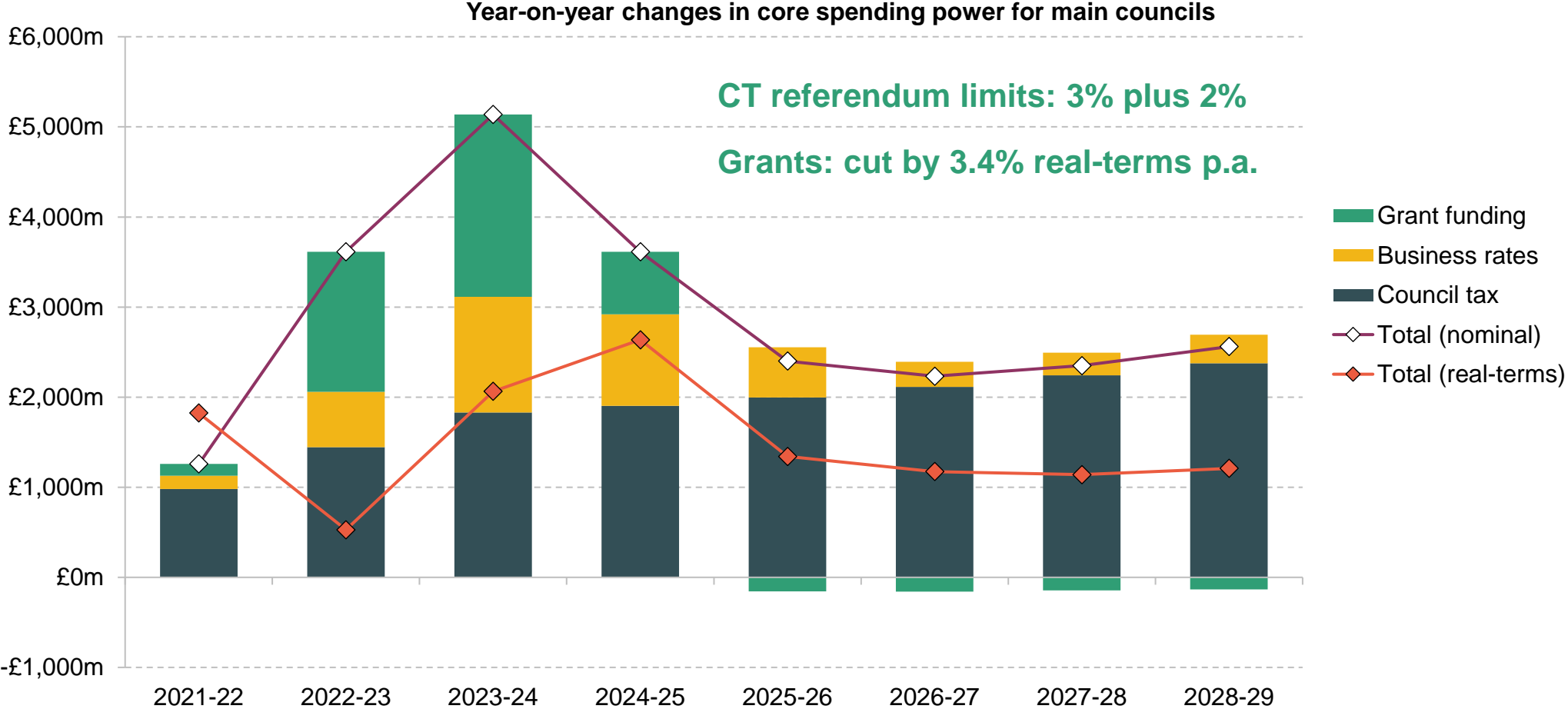


Note: Social care grants includes rolled-in MSIF workforce fund in 2023-24. Deprivation deciles are based on IMD 2019 Average Score at the upper-tier authority level. Main council types only.
 Source: Provisional local government finance settlement 2024-25; and OBR EFO – November 2023; English Indices of Deprivation, 2019.

What might happen after 2024-25?

- **Council tax:** underlying OBR assumption that referendum limits will be unchanged
 - Is this plausible as inflation (and earnings growth) expected to be closer to 2%?
- **BR revenues:** CPI expected to fall so will increase more slowly
- **Grant funding:** Tight spending plans (if stuck to) imply cuts
 - Local govt saw larger than avg grant cuts during austerity (as able to raise own revenue)
 - But >90% of grant funding for main councils ring-fenced for social care → harder to cut?
 - Cuts in line with average (3.4% real-terms) would mean c£150m fall in grants each year

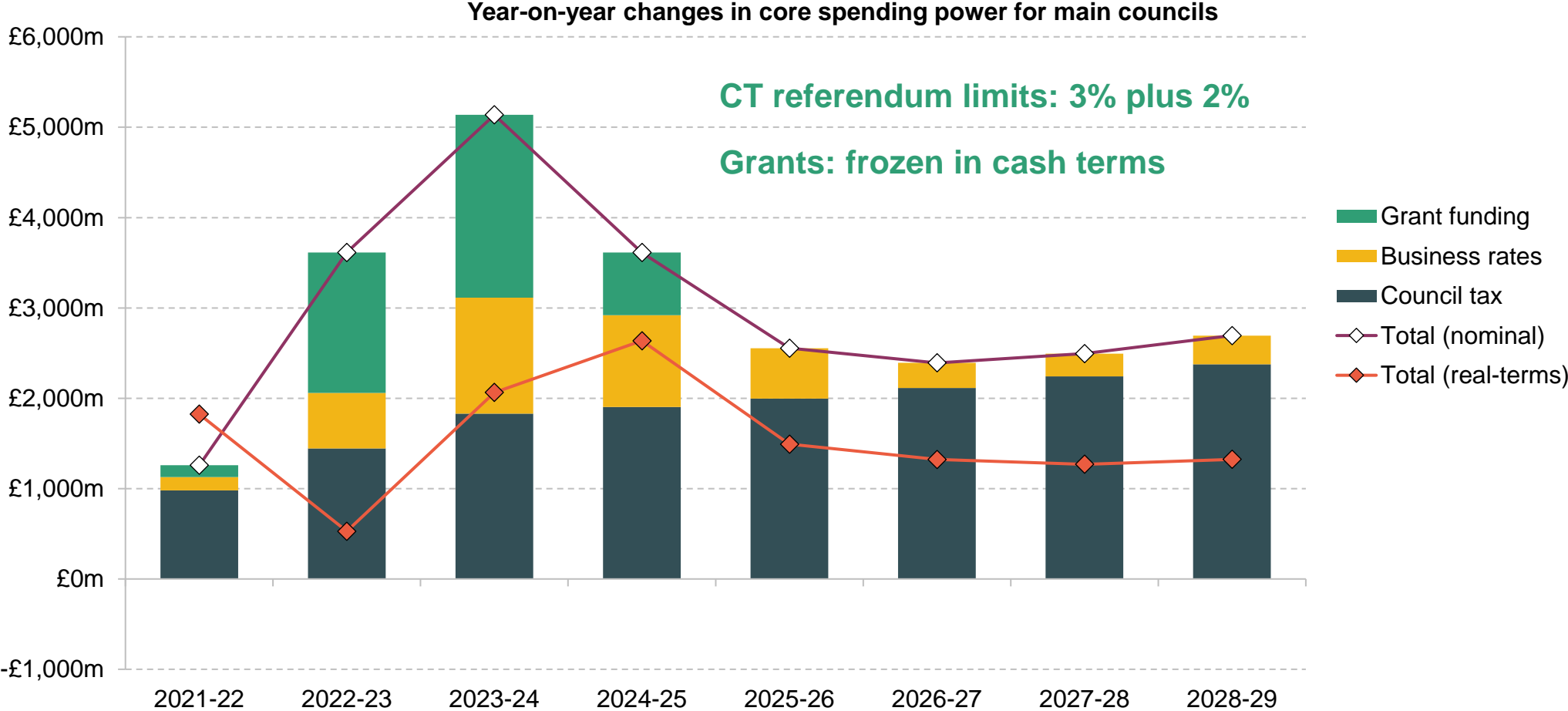
Scenarios for 2025-26 onwards



Note: Main council types only. Assumes 1% p.a. growth in council taxbase and maximum use of council tax flexibilities. BR revenues indexed to CPI and include changes in rolled-in grants, except for MSIF. Excludes above-baseline growth and assume no base growth.

Source: Provisional Local Government Finance Settlement, 2024-25; OBR Economic and Fiscal Outlook – November 2023.

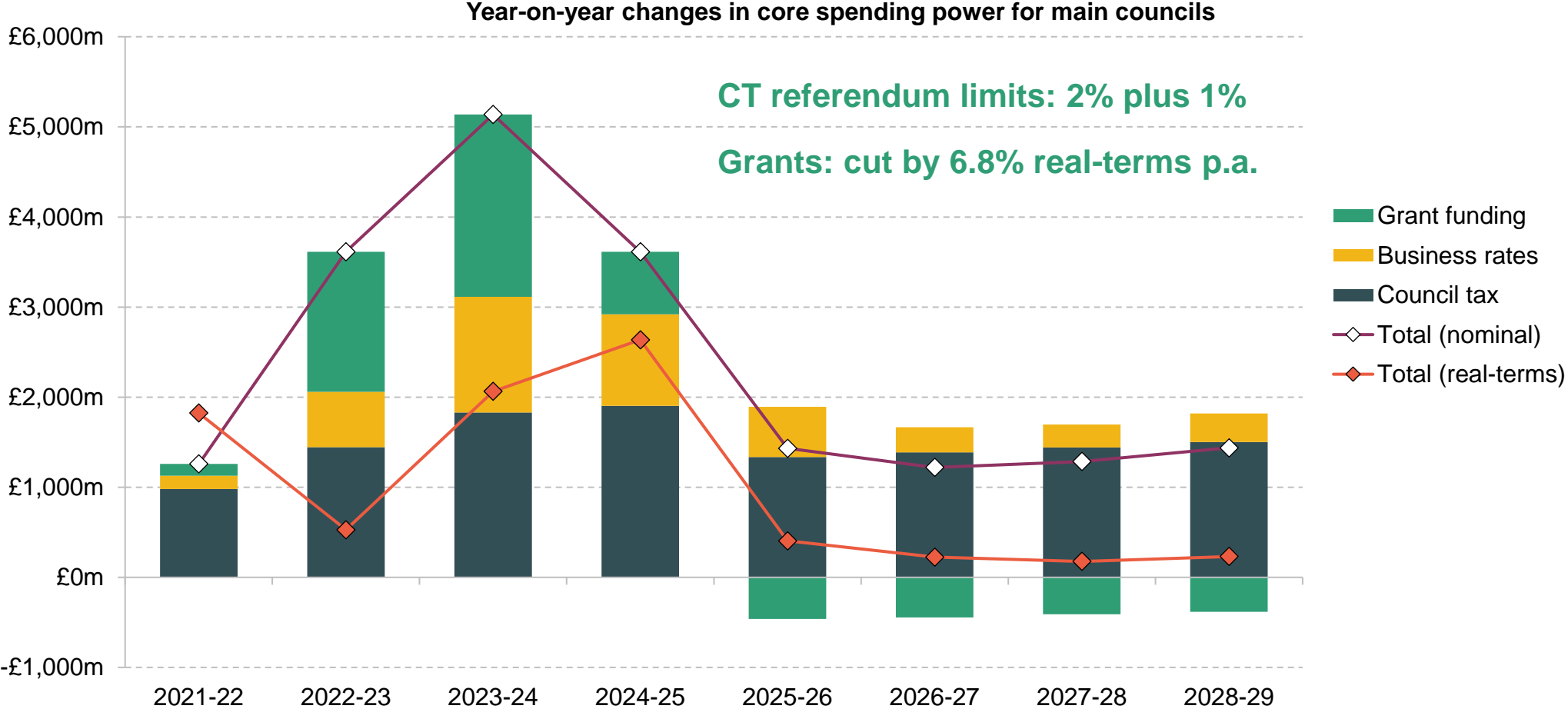
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Scenarios for 2025-26 onwards

CT referendum limits	Grant funding	Average annual change in CSP cash (real-terms)
3% plus 2% ASC precept	3.4% real-terms cut p.a.	3.8% (2.0%)
3% plus 2% ASC precept	Cash freeze	4.0% (2.2%)
2% plus 1% ASC precept	6.8% real-terms cut p.a.	2.2% (0.4%)

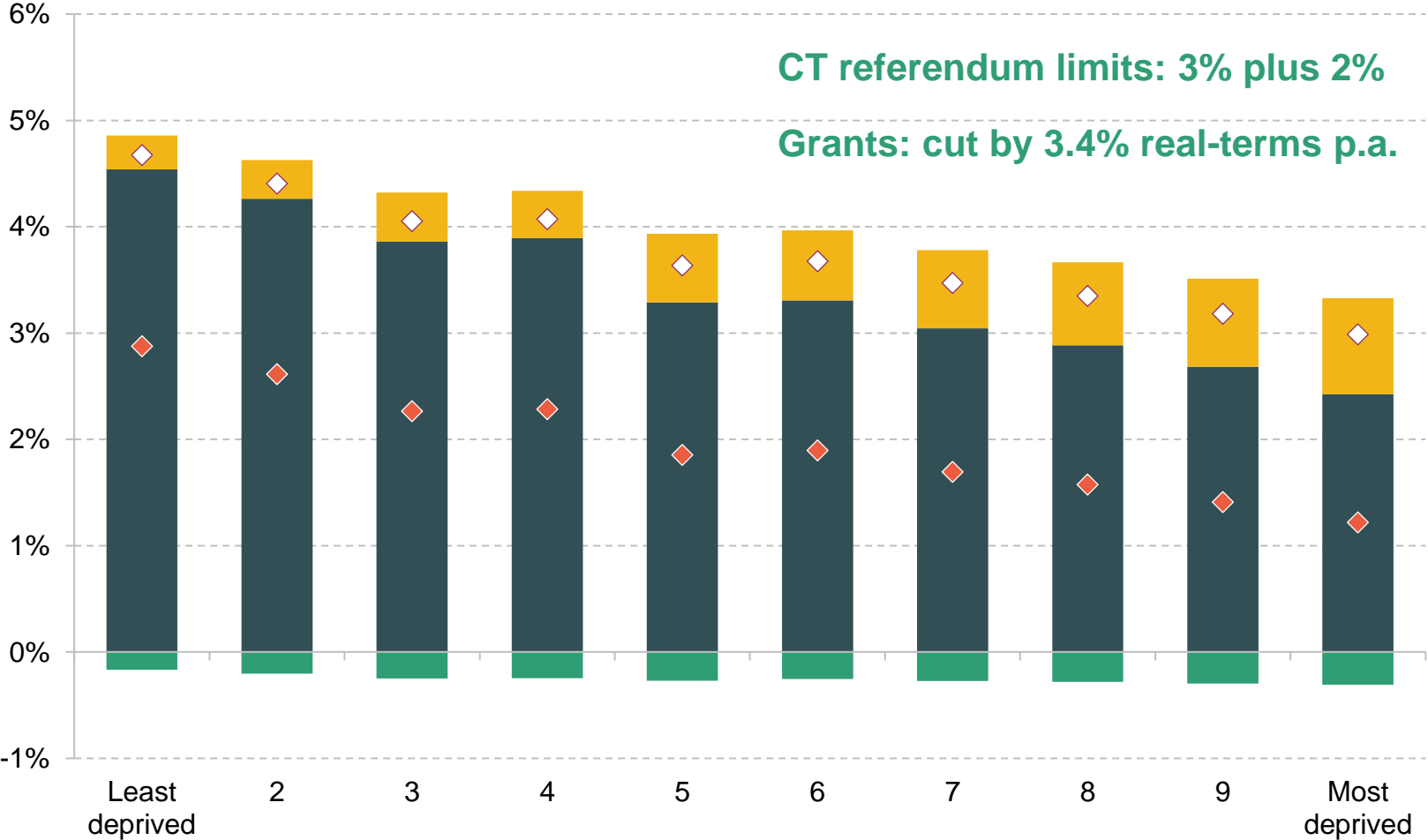
Likely to see small real-terms increases in funding each year

But more downside risk than upside

And reliance on council tax for increases presents challenges...

Scenarios for 2025-26 onwards

Average annual change in core spending power between 2024-25 and 2028-29



Note: Main council types only. Assumes 1% p.a. growth in council taxbase and maximum use of council tax flexibilities. BR revenues indexed to CPI and include changes in rolled-in grants, except for MSIF. Excludes above-baseline growth and assume no base growth, and no changes to grant allocations.

Source: Provisional Local Government Finance Settlement, 2024-25; OBR Economic and Fiscal Outlook – November 2023; English Indices of Deprivation, 2019.

Pain delayed?

- Expect councils to be reliant on CT for overall increases in funding → larger increases in more affluent areas
- Govt could address this ad hoc through grant allocations, but harder when funding constrained
- We still lack a proper local government finance system
 - “The government remains committed to improving the local government finance landscape in the next Parliament... Now is not the time for fundamental reform”
 - Funding increasingly disconnected from patterns of need across the country
- Reform must happen at some point, and will only get more difficult

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