

How do we save the public sector?

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This time 14 years ago...

TT slide used at CIPFA conference, 14.05.10

The economy and public spending

- Need to reduce public sector borrowing of £167bn+ in 2010-11 will require:
 - Public expenditure reductions
 - Tax increases
 - Or, both...
- Near-inevitability of tax increases
 - VAT to 20%?
- Public expenditure reductions also inevitable

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How big a public spending impact?

- ❑ Very big...
 - ❑ 5 to 7 years of public spending growth of 0% in real terms?
 - ❑ For councils: cuts of 10 to 20% over five years?
 - ❑ If NHS to be given priority, then other services face reductions of 5% real terms per year – now effectively confirmed
 - ❑ Local government's capacity to reduce spending may encourage the Treasury to make larger reductions
 - ❑ No evidence thus far that LG will not be facing such reductions
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TT slide used at CIPFA conference, 14.05.10

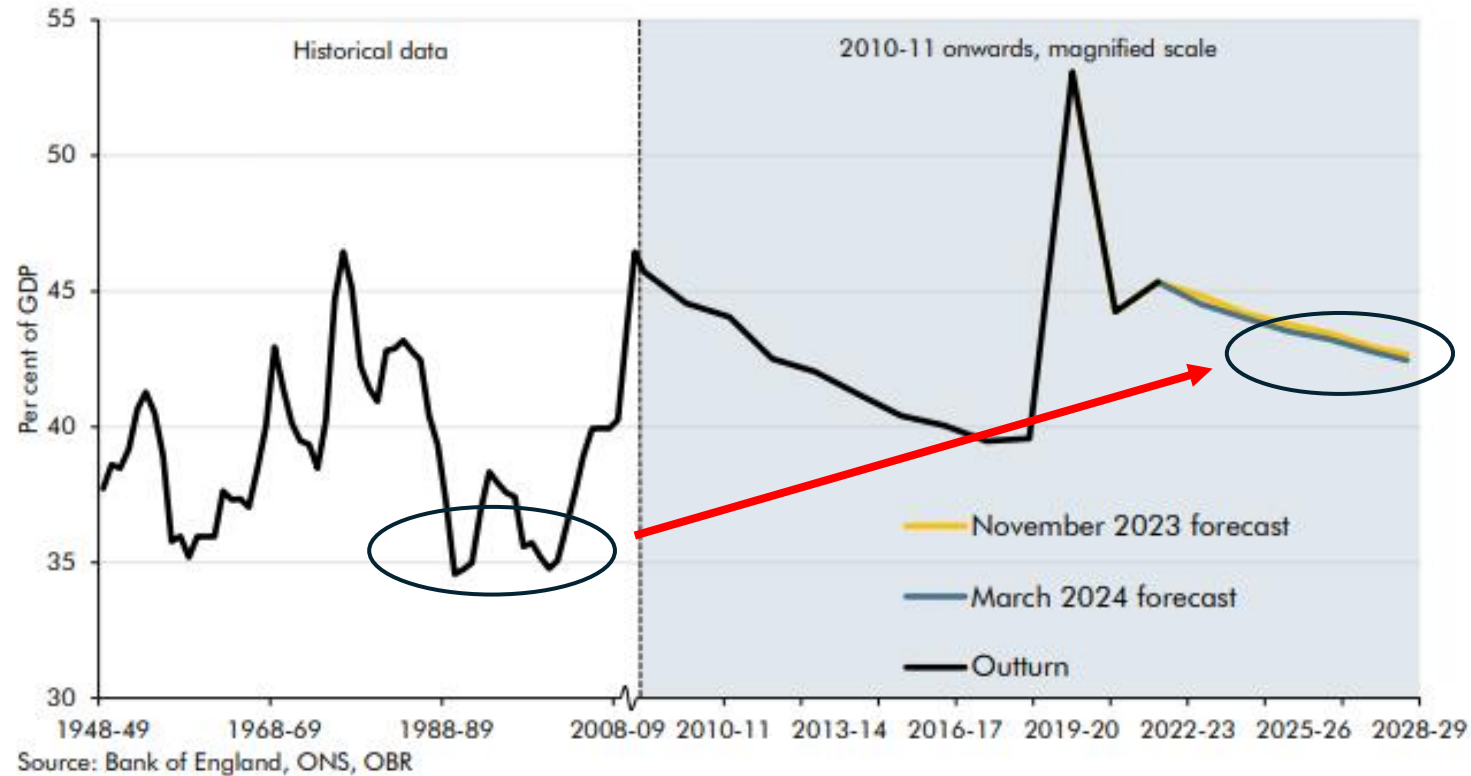
Longer-term changes in the voters' attitudes and expectations

- The UK has, since 2007, witnessed four major impacts
 - Personal awareness of banking meltdown
 - Deep, apparently unending, recession
 - The Parliamentary expenses scandal
 - Coalition government

 - Inevitable there will be a longer-term impact on the way people think about many issues, eg:
 - The size of the State; level/type of taxation; public expenditure levels; wealth; inequality; business; consumerism; money; etc etc
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The state of the public finances

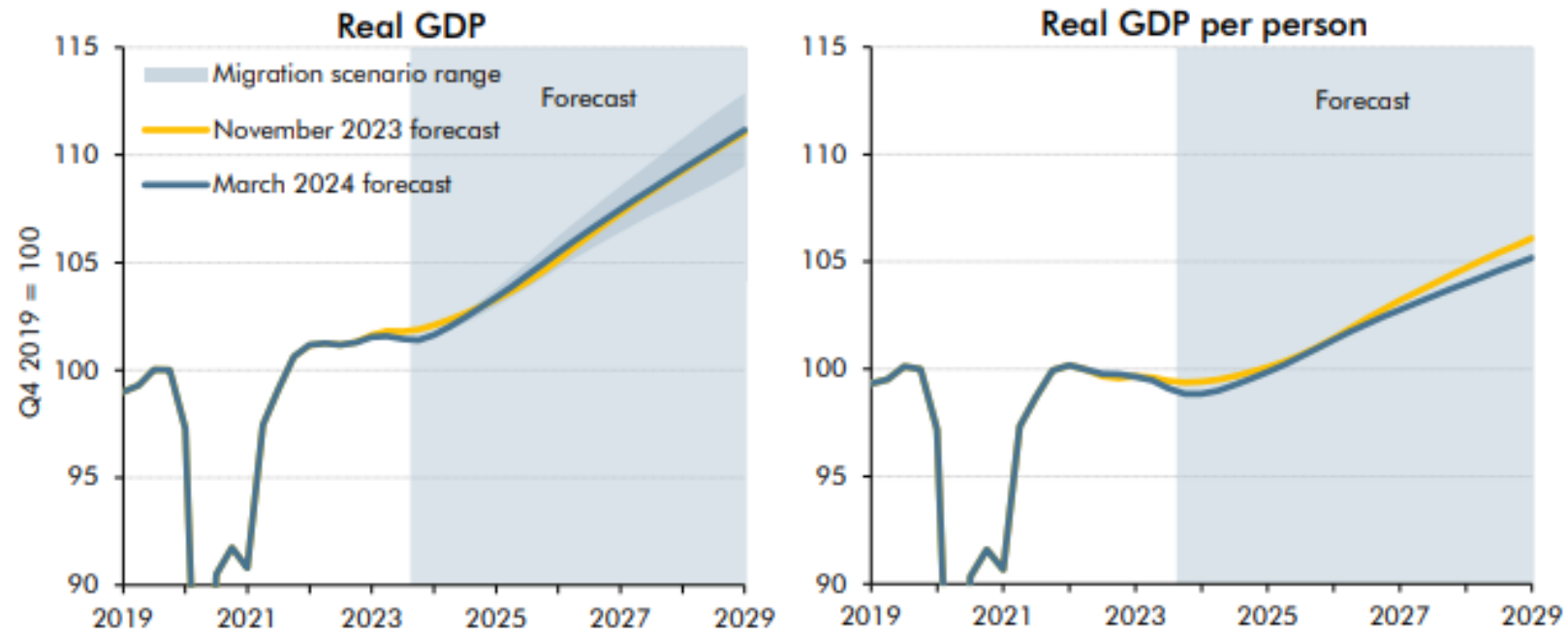
The banking crisis and pandemic have increased the size of the State



Source: https://obr.uk/docs/dlm_uploads/E03057758_OBR_EFO-March-2024_Web-AccessibleFinal.pdf, Chart 4.6

GDP growth forecasts

- OBR, March 2024

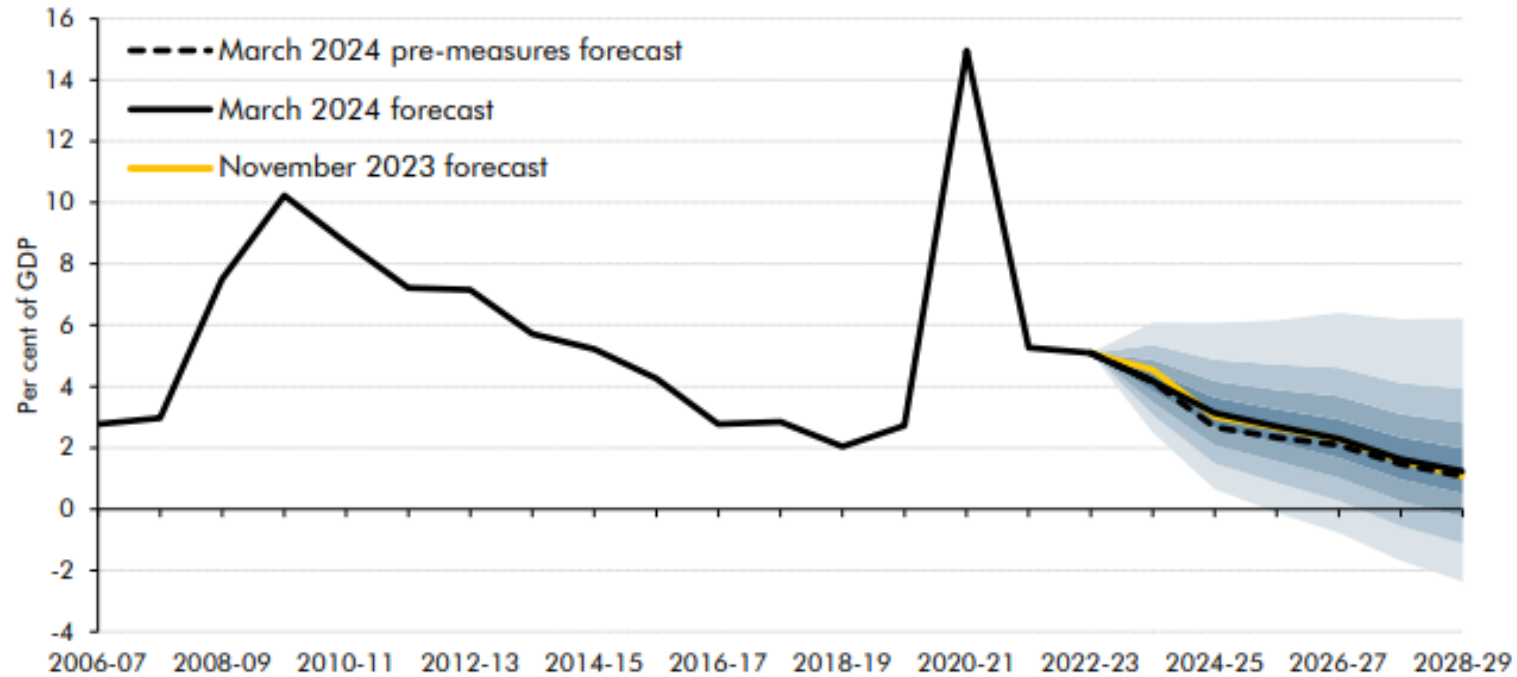


Source: ONS, OBR

Source: https://obr.uk/docs/dlm_uploads/E03057758_OBR_EFO-March-2024_Web-AccessibleFinal.pdf

Government borrowing

– OBR, March 2024

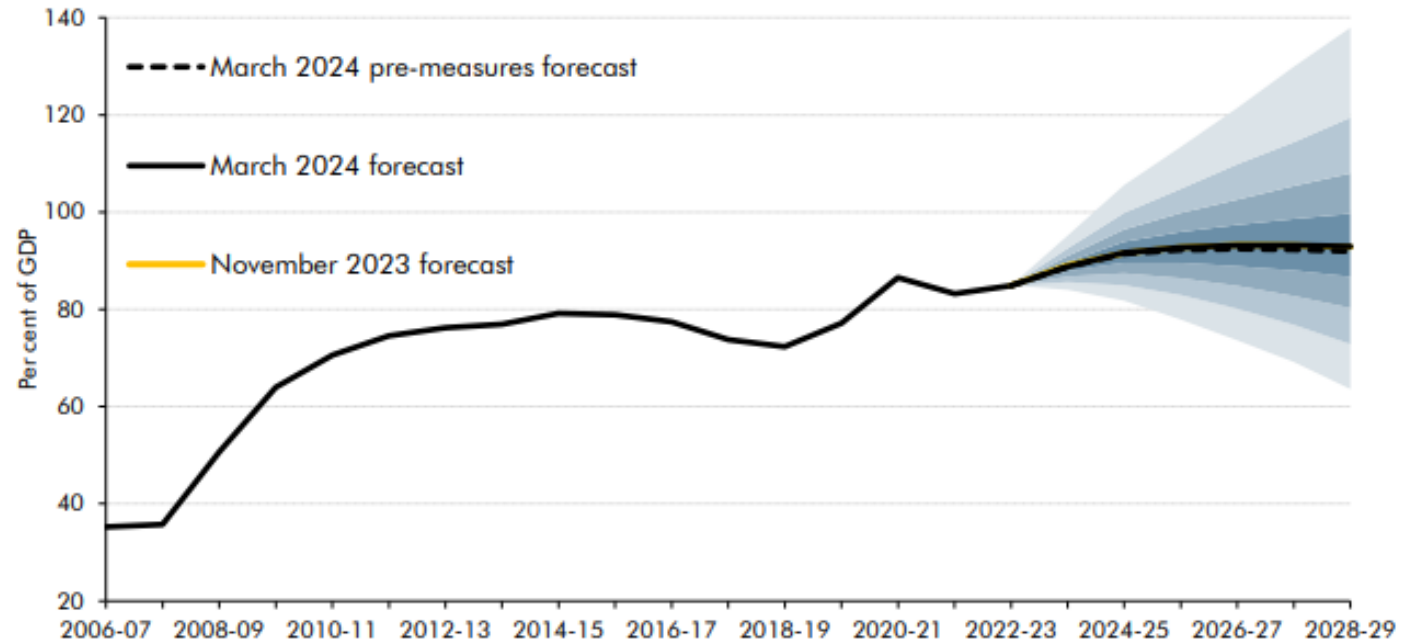


Note: The solid black line shows our median forecast, with successive pairs of lighter shaded areas around it representing 20 per cent probability bands, with 20 per cent of the distribution outside the fan.

Source: OBR

Government debt

- OBR, March 2024



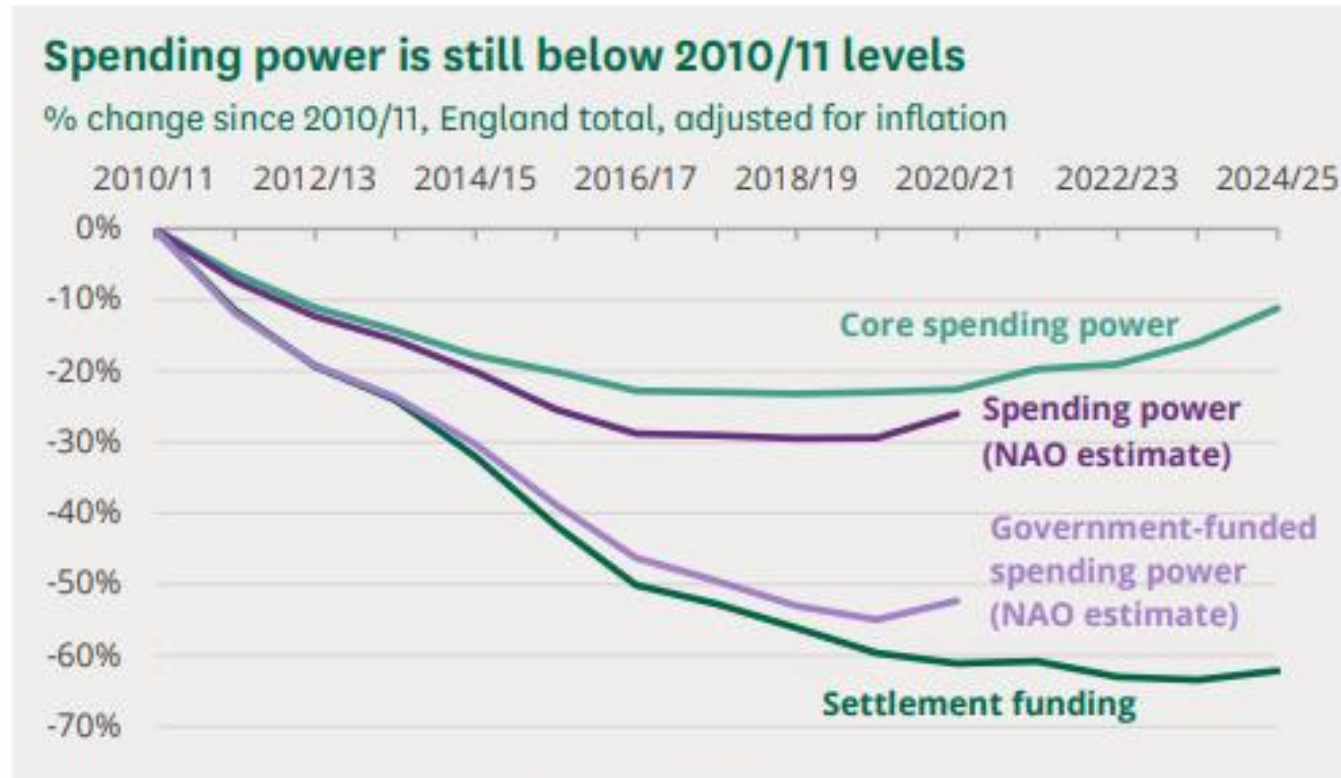
Note: The solid black line shows our median forecast, with successive pairs of lighter shaded areas around it representing 20 per cent probability bands, with 20 per cent of the distribution outside the fan.

Source: OBR

The public sector, 2010-11 to 2024-25

Local government spending

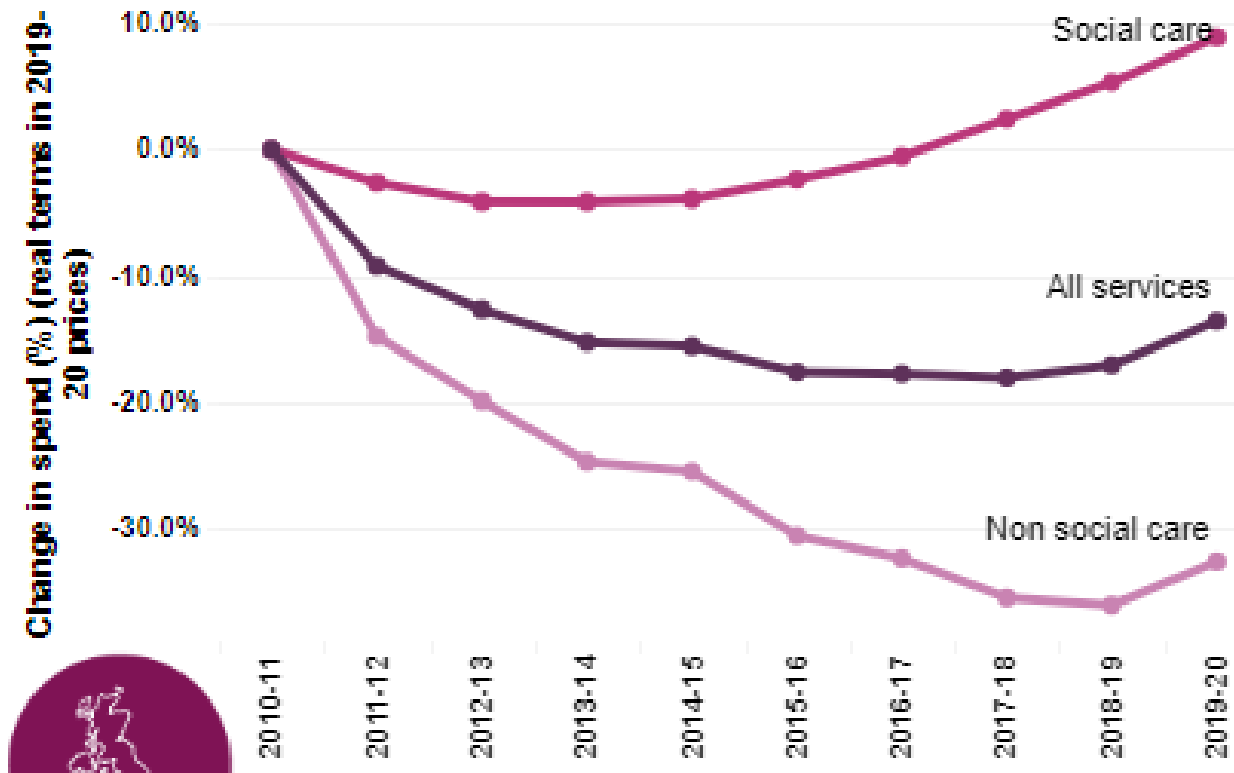
2010-11 to 2024-25



Source: NAO, [Financial sustainability of local authorities visualisation: update](#), 20 July 2021, and Library calculations based on DLUHC, [Final local government finance settlement: England, 2024 to 2025](#), 5 February 2024, and earlier editions

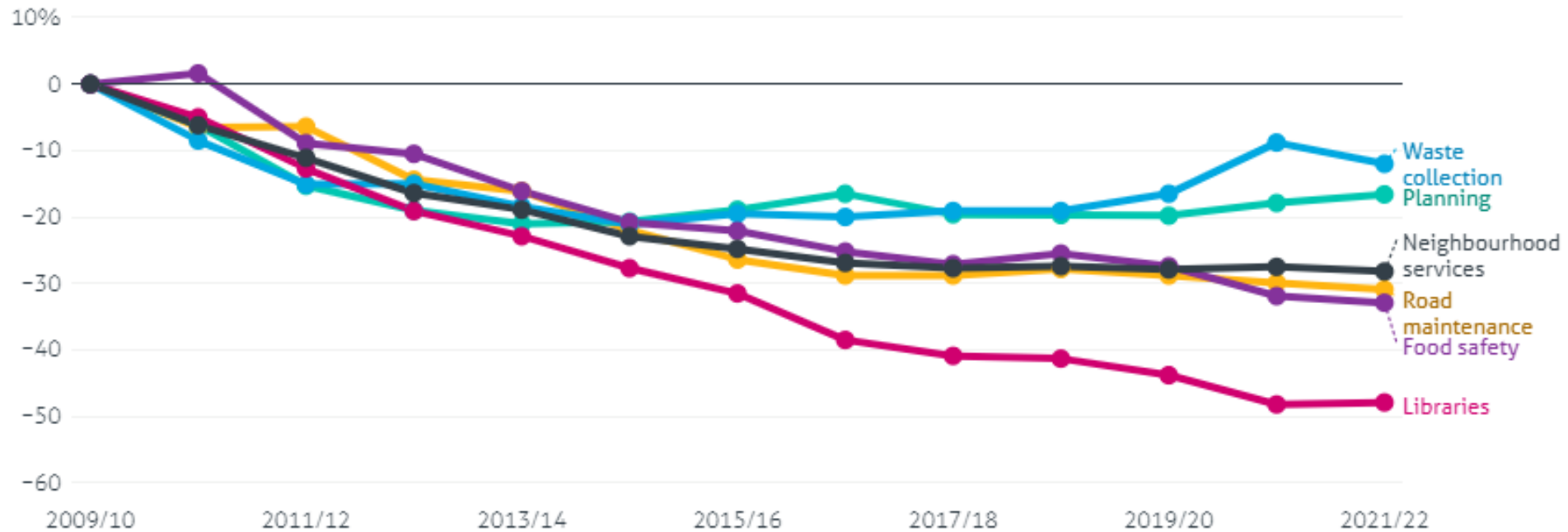
Impact on social care and all other services

- central services, libraries, food safety down most of all



Source: National Audit Office

Impacts on 'non social care' services



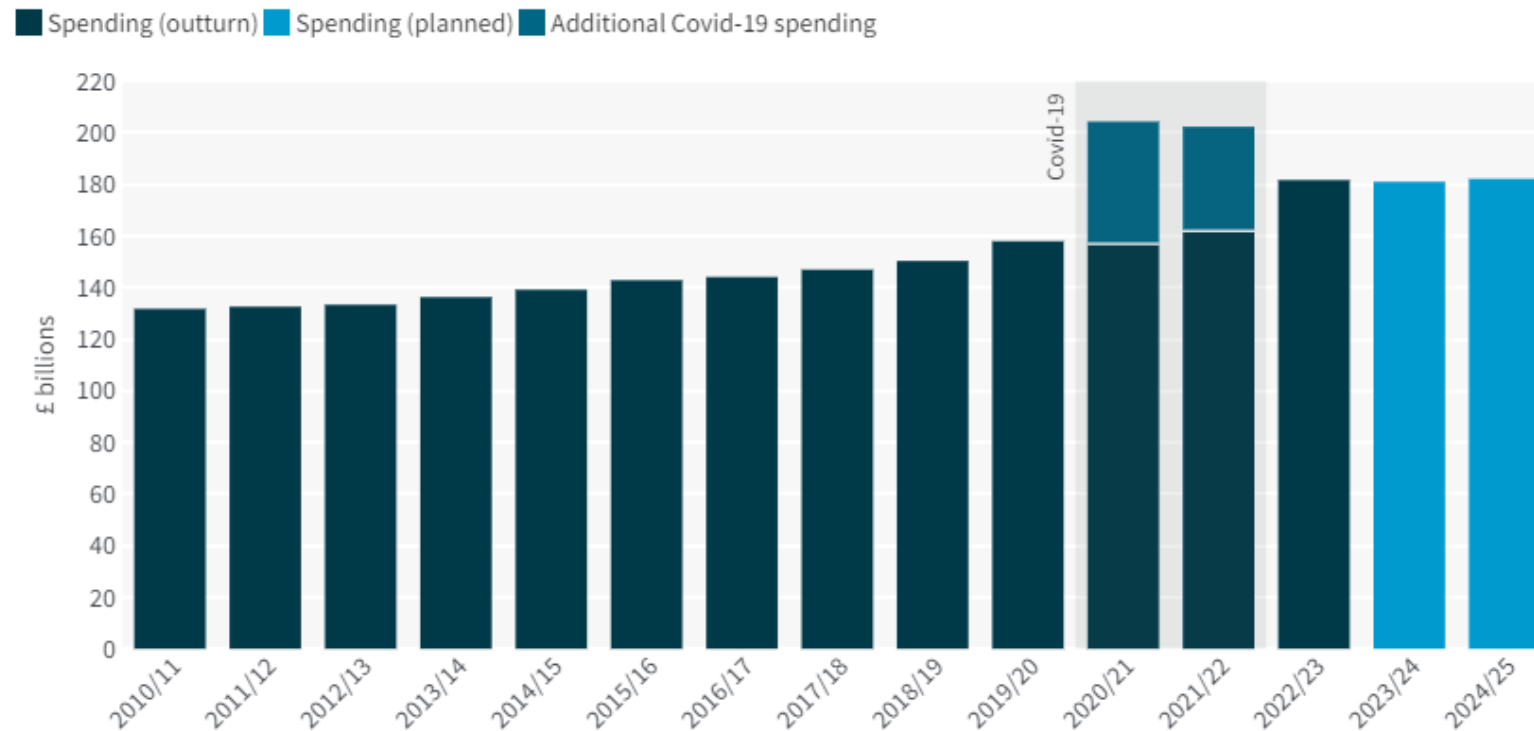
Source: Institute for Government analysis of DLUHC, 'Revenue outturn highways and transport services' and 'Revenue outturn cultural, environmental, regulatory and planning services', 2021/22, supported by CIPFA. • [Get the data](#) • [Embed](#) • [Download image](#)



Source: Institute for Government

Health and social care expenditure

- £bn, current and capital, real terms



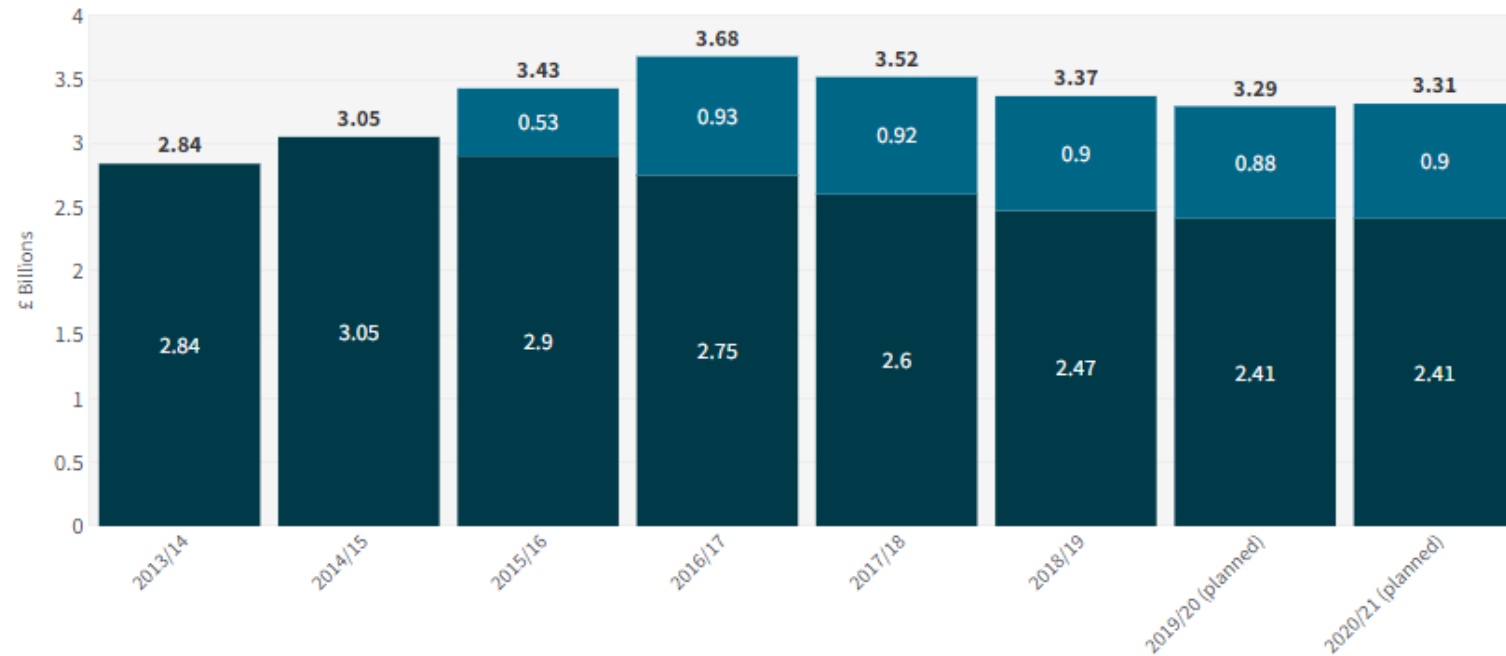
Source: [Department of Health Annual Report and Accounts \(2010/11-2016/17\)](#), [DHSC Annual Report and Accounts \(2017/18-2021/22\)](#), [Public Expenditure Statistical Analyses \(2022/23-2024/25\)](#)

TheKingsFund

Public health expenditure

- £bn, real terms

■ Net expenditure (like-for-like excluding transfers)
■ Children's 0-5 services transfers



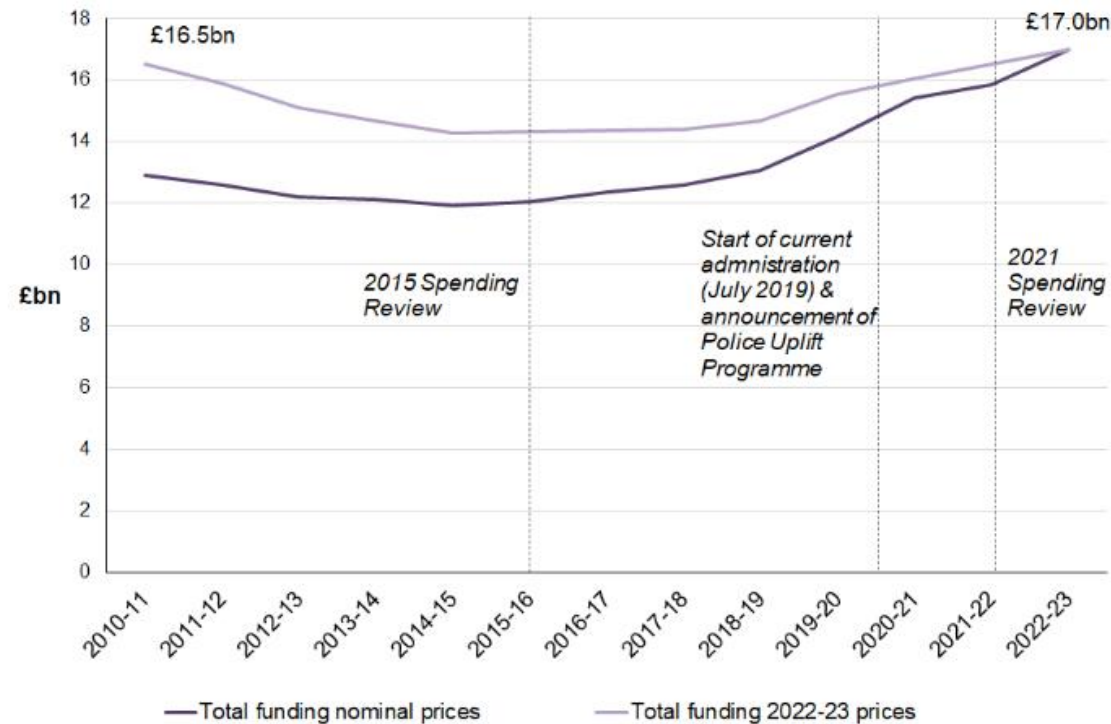
Like-for-like,
excluding
transfers

Source: [Analysis of local authority revenue, expenditure and finance, 2013/14 to 2020/21](#), Ministry of Housing, Communities and Local Government, [GDP deflators](#), HM Treasury, June 2020 • From 2015, 0-5 children's services for public health were transferred to local authorities.

TheKingsFund

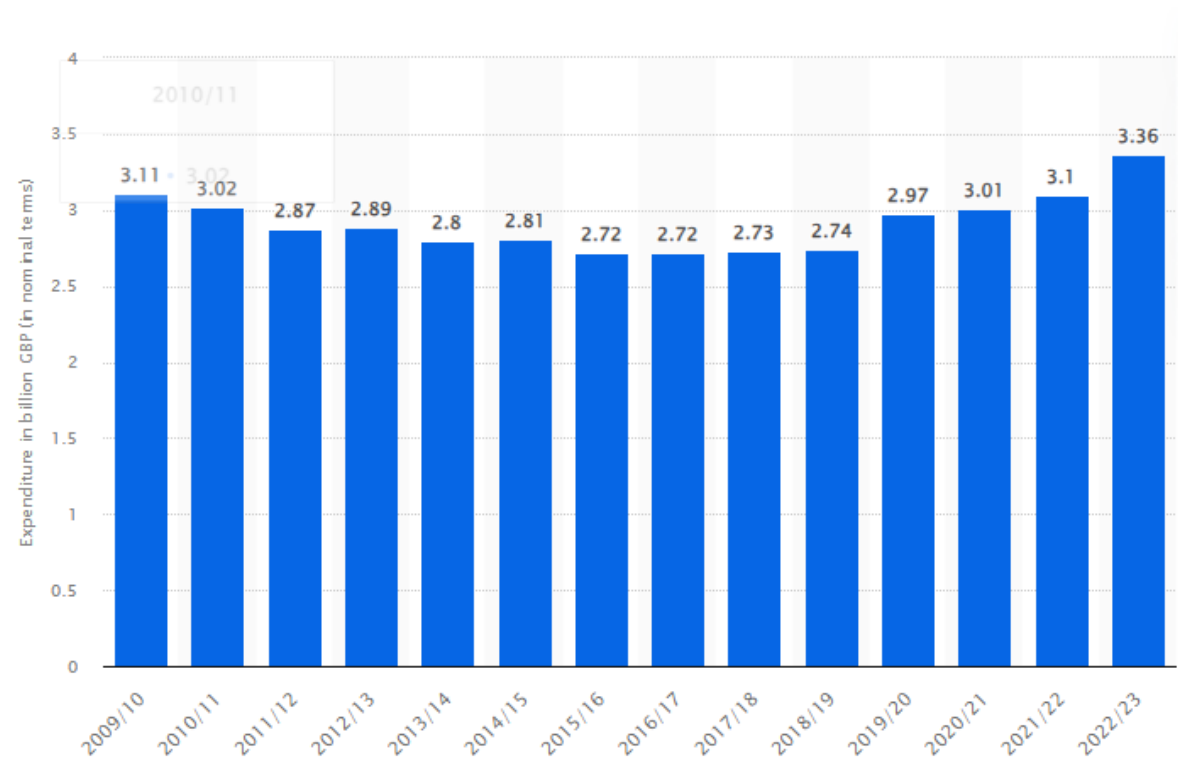
Police expenditure

- £bn revenue, in cash (nominal) and real terms [England & Wales]



Fire expenditure

- £bn, current and capital, cash [United Kingdom]



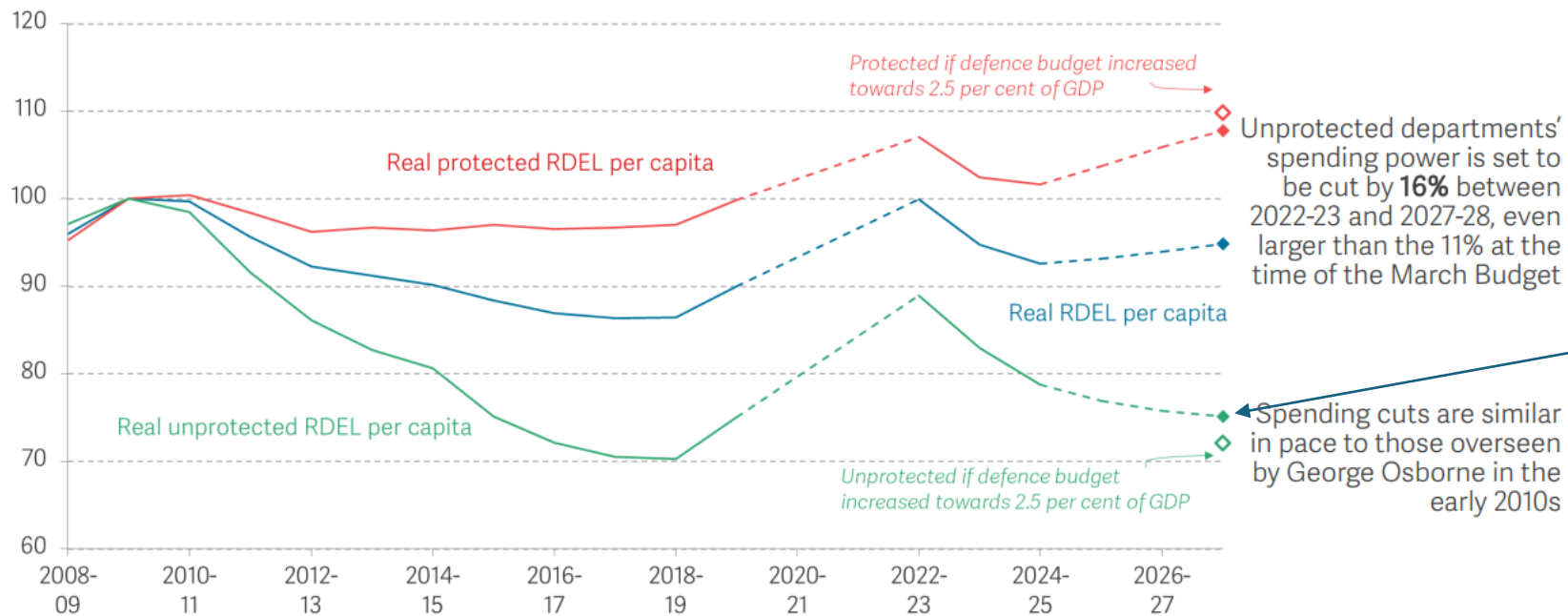
Source: <https://www.statista.com/statistics/298661/fire-service-spending-uk/>

Looking ahead and 'saving' the public sector

Looking ahead: 2025-26 to 2027-28

Scale of cuts pencilled in are undeliverable – a fiscal fiction

Indices of real (government expenditure deflator-adjusted) per-capita resource departmental expenditure limits (2009-10=100), all departments, 'unprotected' departments and 'protected' departments



Unprotected departments' spending power is set to be cut by **16%** between 2022-23 and 2027-28, even larger than the 11% at the time of the March Budget

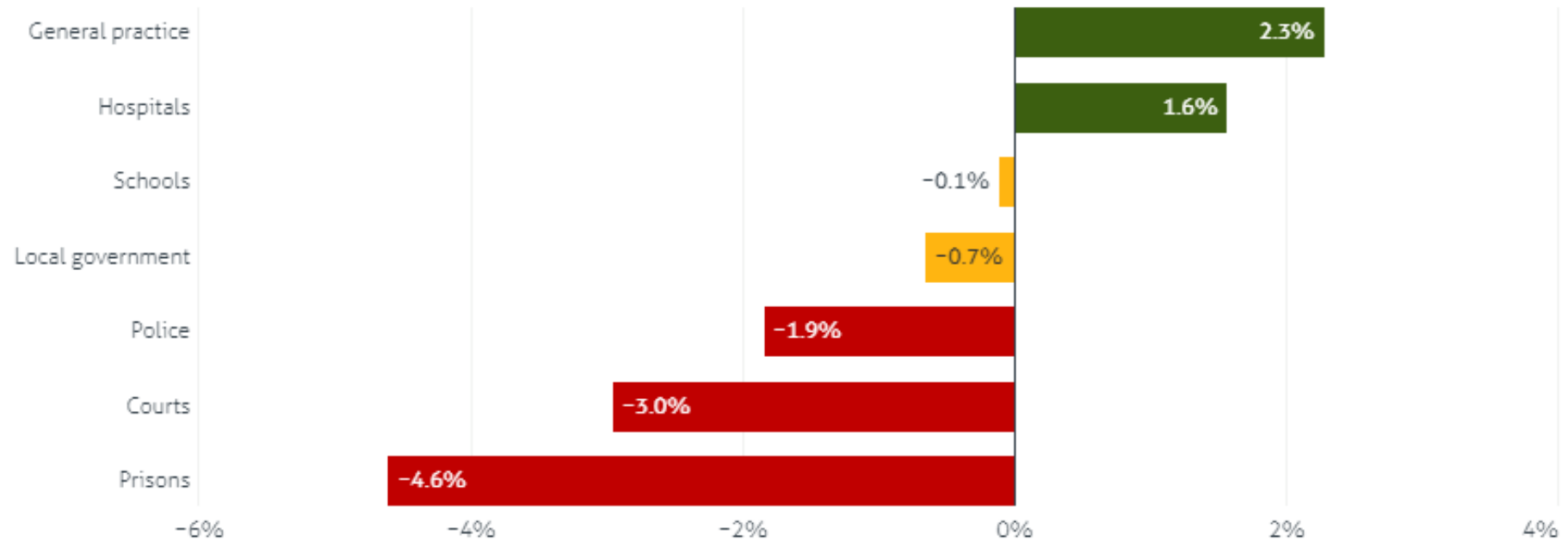
Spending cuts are similar in pace to those overseen by George Osborne in the early 2010s

Councils' revenue spending is within this

Notes: Deflated using the Bank of England forecast for the GDP deflator to 2022-23 cash terms. Protected budgets include health, education, defence and foreign, commonwealth and development office.
Source: RF analysis of Bank of England, Monetary Policy Report; OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

Average annual real-terms change in spending between 2024/25 and 2027/28 under current government plans relative to demand [updated 23 January 2024]

IfG



Source: Institute for Government analysis of HM Treasury, Spring budget 2023 ('Table 2.1: Resource departmental expenditure limits (DEL) excluding depreciation'), supported by CIPFA. • Notes: Local government covers neighbourhood services, children's social care and adult social care. An earlier version of this chart used incorrect demand figures; this version was updated 23 January 2024. • Get the data • Embed • Download image



The new government's policy positions - and some possible next steps

Local government

- Devolution instead of 'levelling up': question of resourcing?
- Fewer little pots of cash; resources transferred to general funding
- Relaxation of council tax capping?
- Planning reform: more income generation potential?
- Sub-national growth/productivity strategies to fit within national one
- Multi-year funding settlements
- No policy yet on social care funding

The new government's policy positions - and some possible next steps

NHS, police, fire and the railways

- Improvements in productivity to be sought: little capacity for major spending boost
- Possible end to on-going strikes, though the underlying realities will not change
- Police and fire funding likely to be 'flat' in real terms, possibly with higher council tax
- Railways to be 'nationalised', probably run from Whitehall, but certainly no additional funding
- Civil service unlikely to grow further, may contract slightly

Does this amount to 'saving' the public sector?

- Not immediately, though the 'mood music' will be softer
- Only a sustained period of economic growth would provide the additional tax yield to re-invest significantly
- Regulatory reform (eg, planning, management of utilities/potholes) costs nothing and will be a priority
- A 'new deal' to balance the tax burden and longer-term needs to expand the public sector will be required
- New governments mean an opportunity to 're-set' policies and to think about the future
- This process now under way...

How do we save the public sector?

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