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LGA Finance Conference

# Fiscal and funding outlook

@TheIFS

# Introduction

- Distributional implications of draft settlement
- Taxation, public finances and public spending
- Medium-term funding outlook and reforms

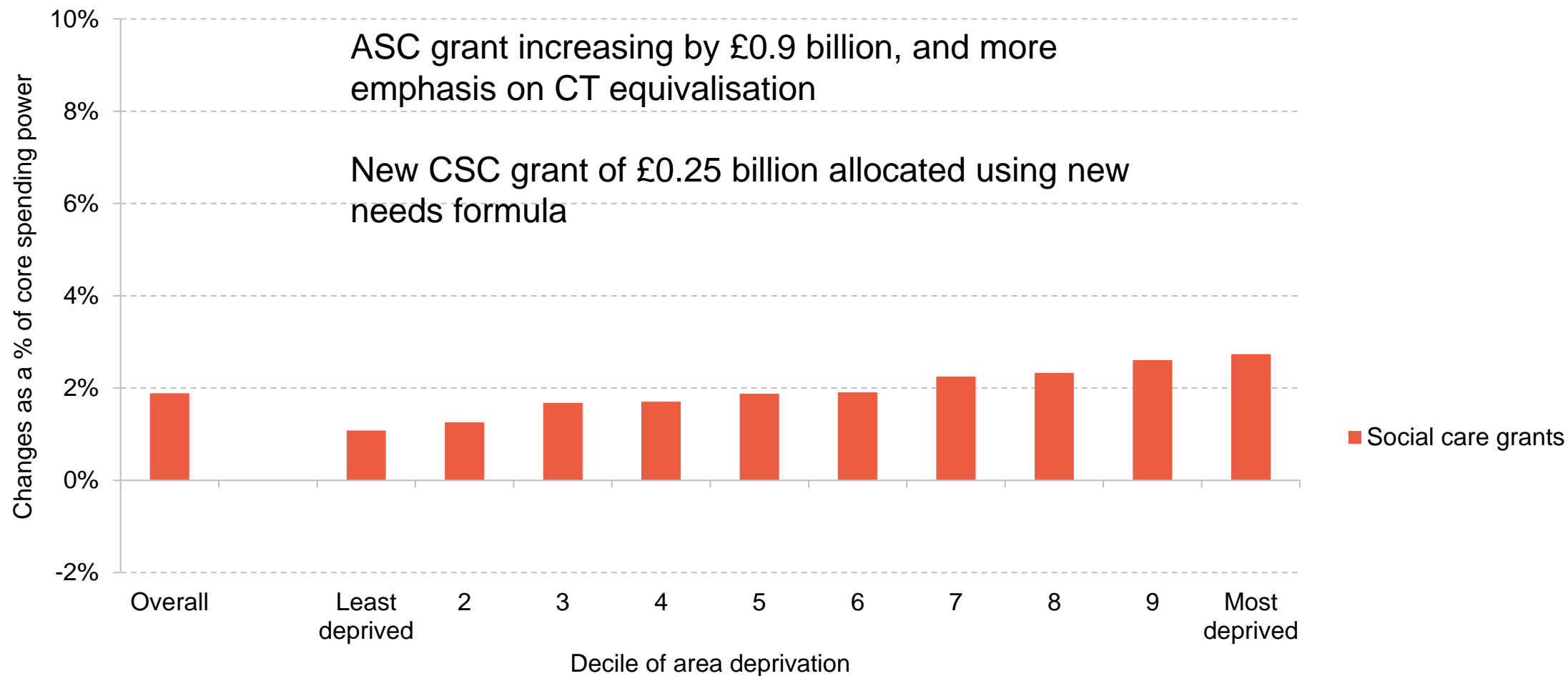


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# Council funding in 2025-26

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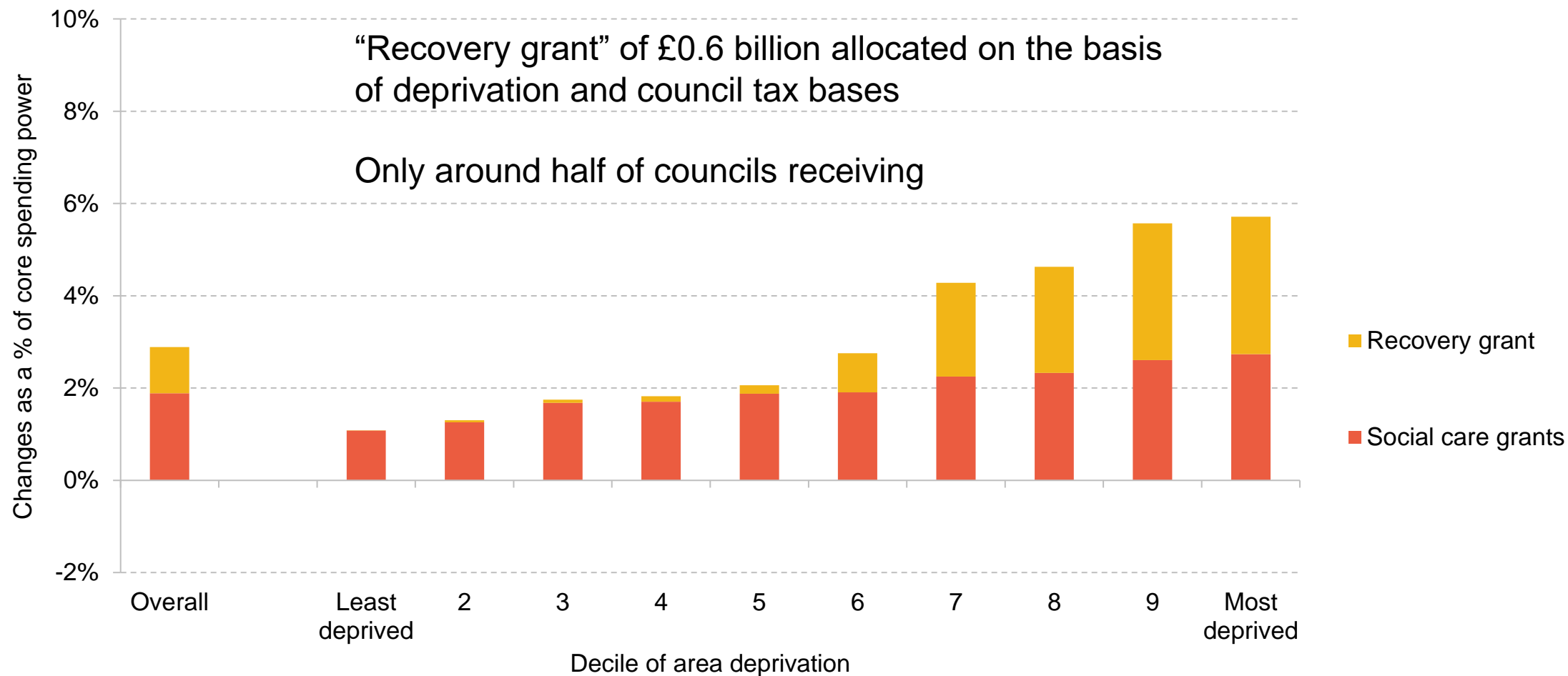
# Funding highly targeted at deprived places



Note: Deprivation deciles are based on IMD 2019 Average Score at the upper-tier authority level.

Source: Ogden and Phillips (2024) [The 2025–26 English Local Government Finance Settlement explained](#), Figure 1.

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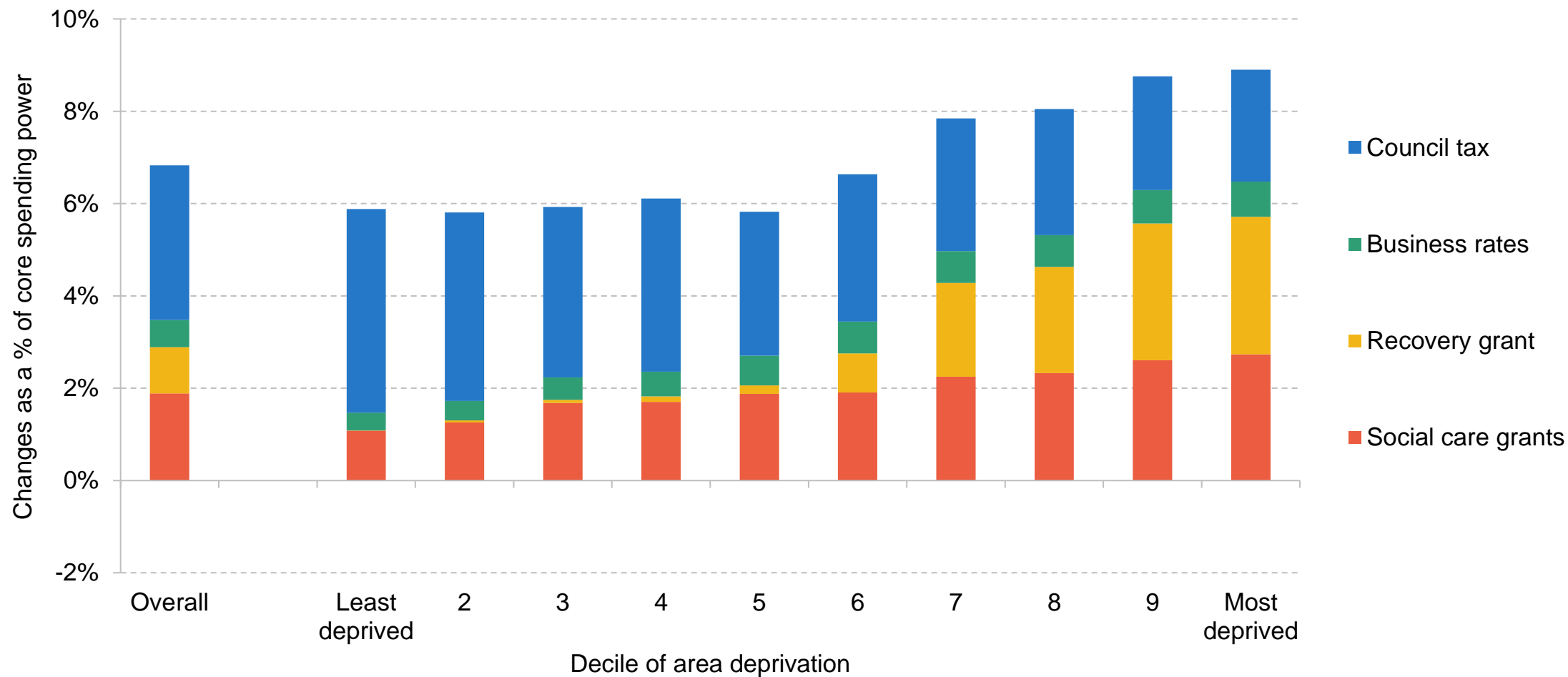
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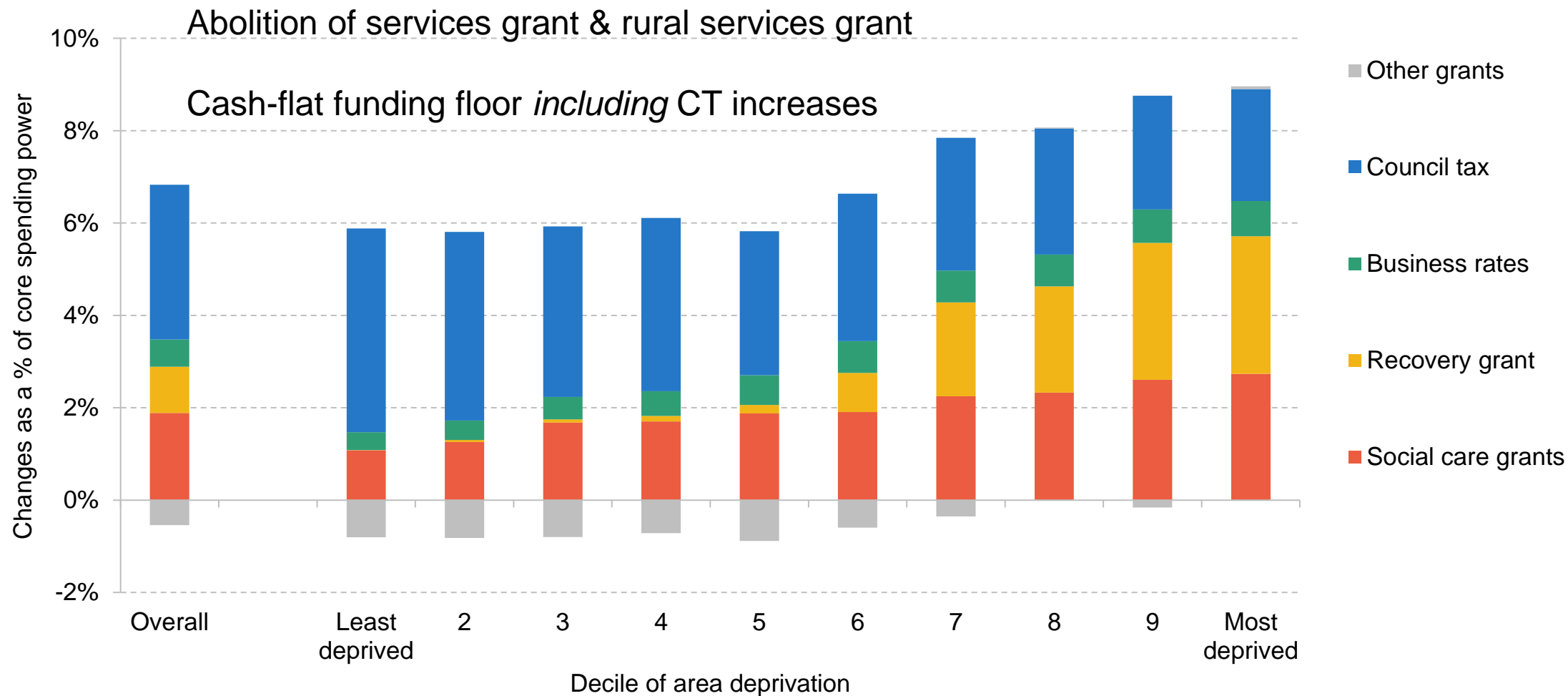
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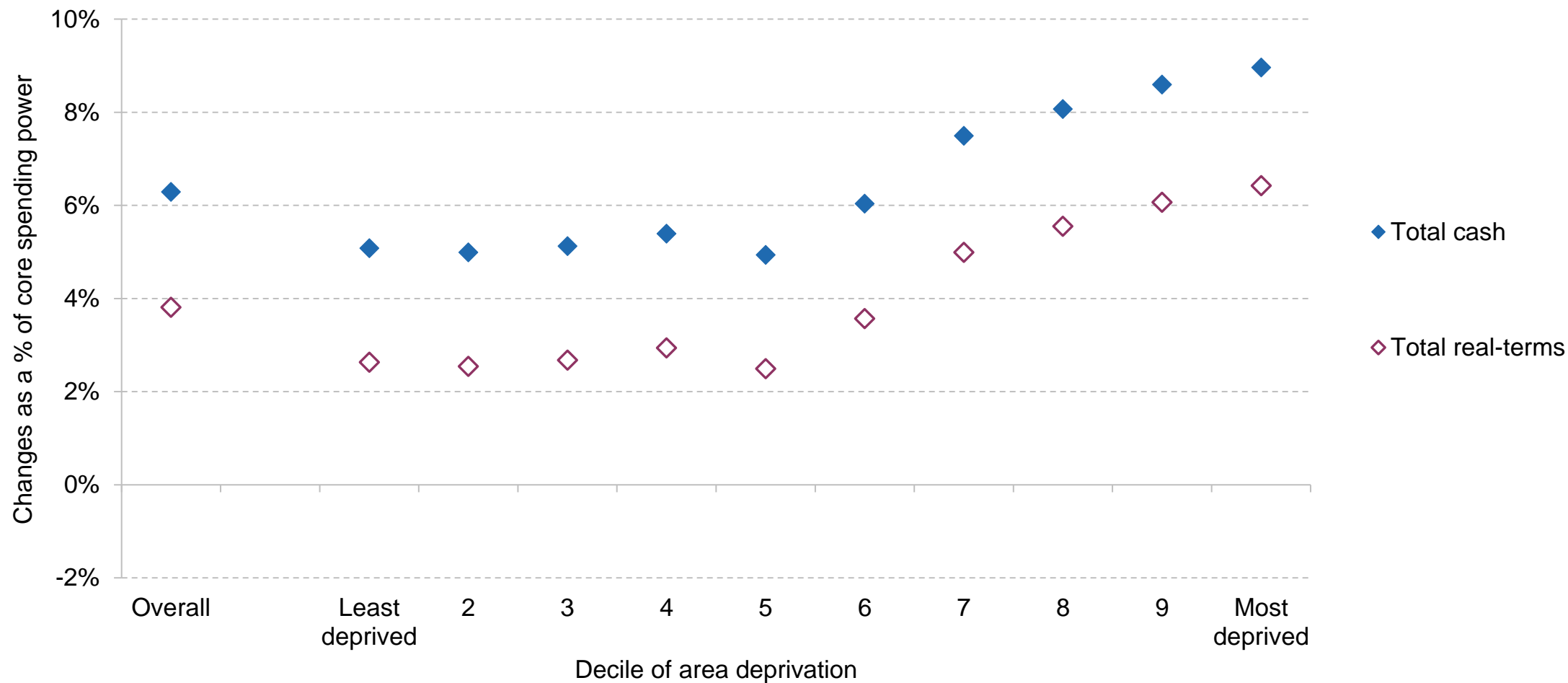


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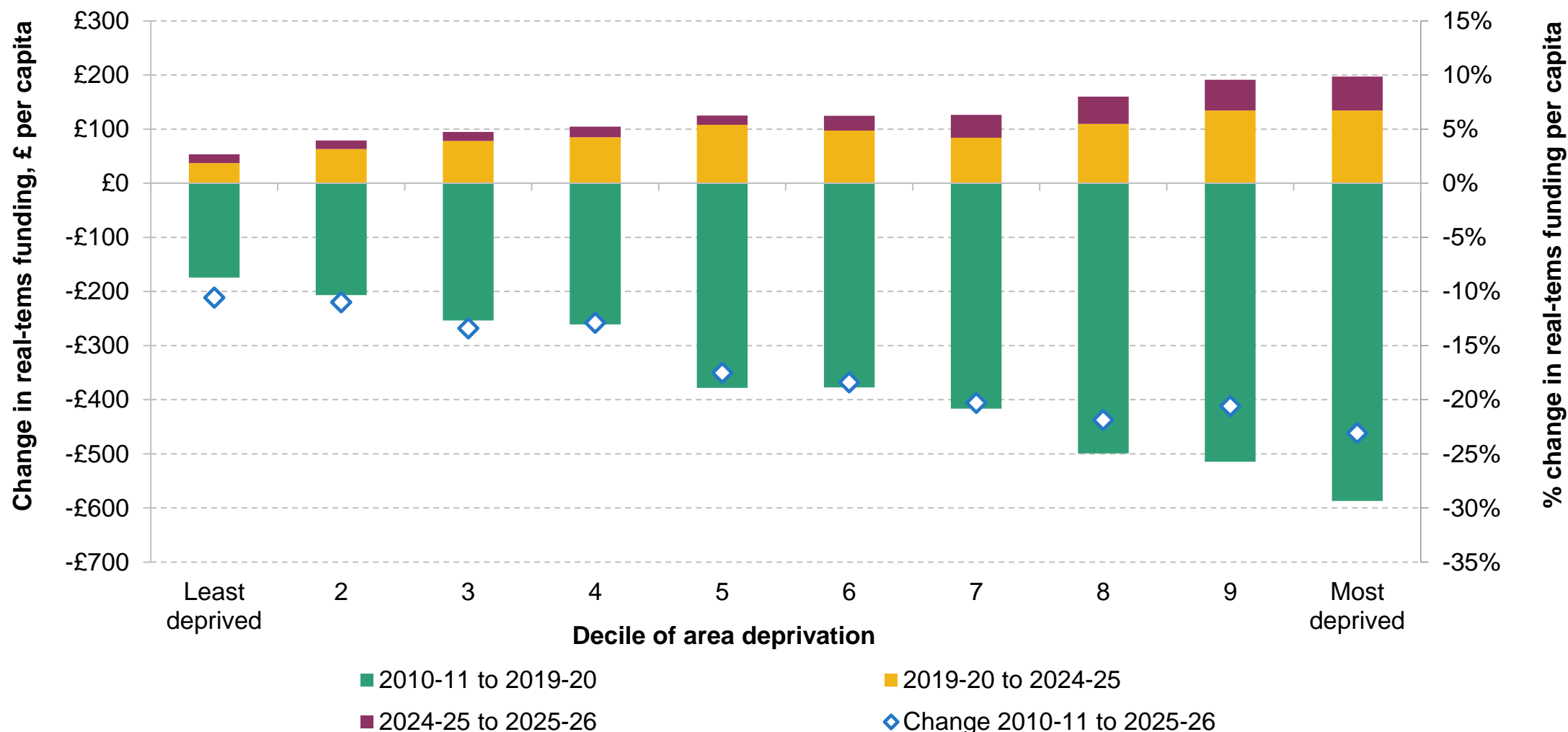
# Funding highly targeted at deprivation



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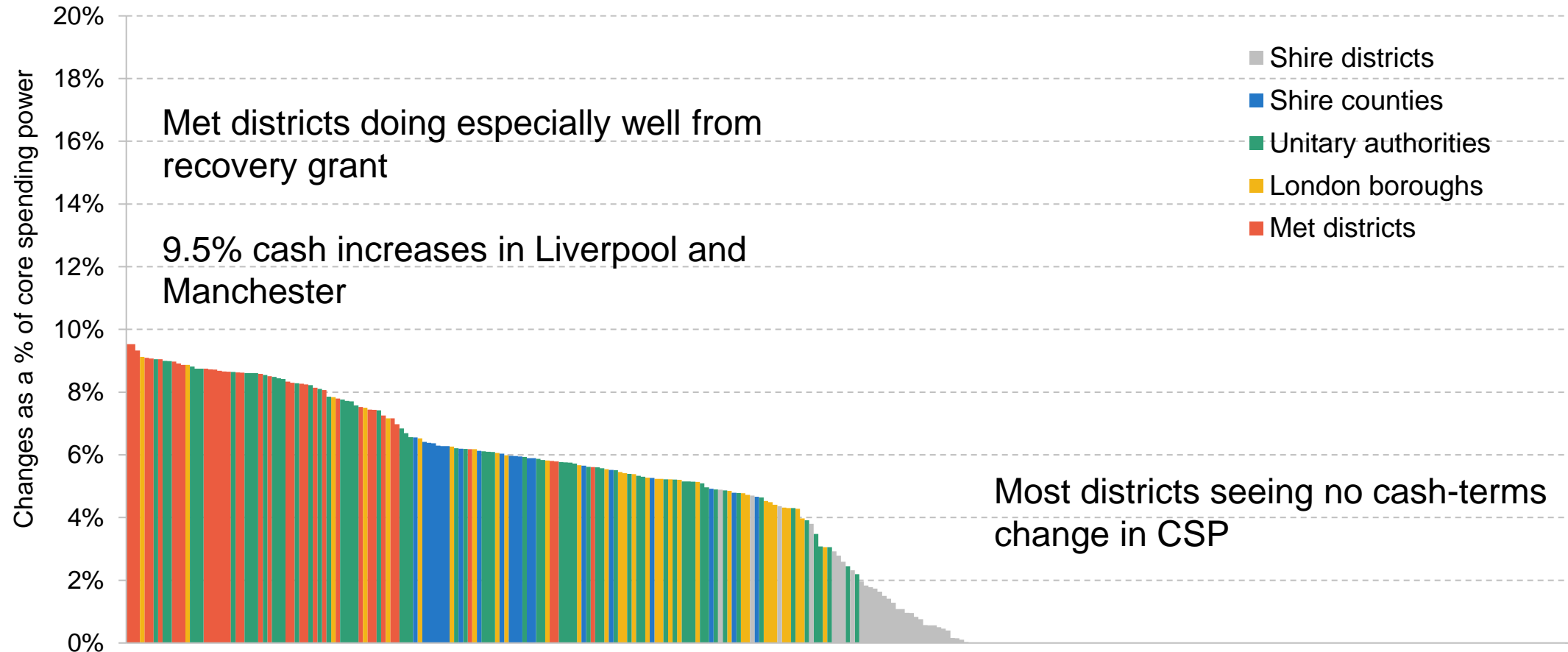
# Deprived areas still down more since 2010



Note: Funding includes core spending power, above-baseline growth in business rates and NHS transfers for social care. Change between 2024-25 and 2025-26 only reflects changes in core spending power. Deprivation deciles are based on IMD 2019 Average Score at the upper-tier authority level. All figures are £ per capita, in 2024-25 prices.

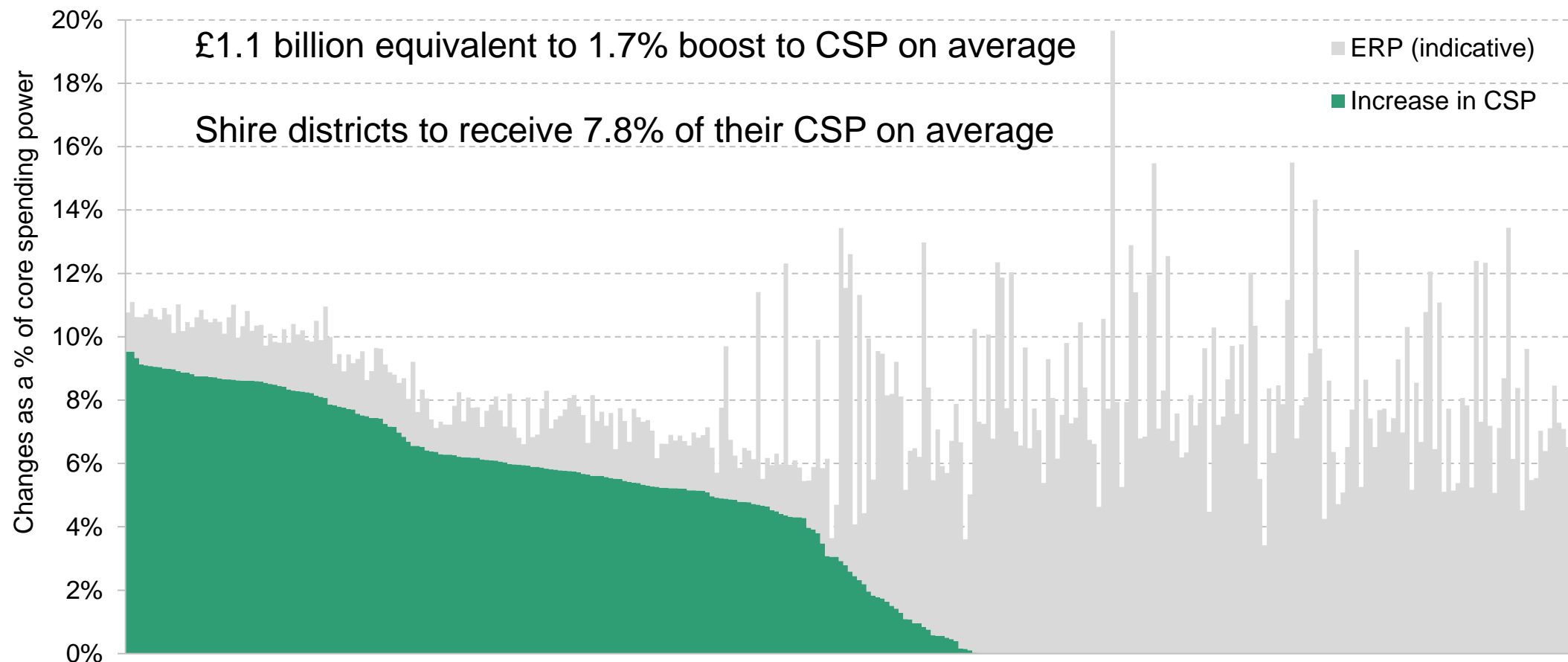
Source: Ogden and Phillips (2024) [The 2025-26 English Local Government Finance Settlement explained](#), Figure 1.

# Most districts will see no cash increase in CSP



Note: Councils arranged along horizontal axis.  
Source: IFS analysis of provisional settlement, 2025-26.

# EPR will be a particular boost to districts



Note: Funding for waste authorities and combined authorities (£78 million) is allocated between constituent upper-tier areas on a per capita basis. Changes as a % of core spending power in 2024-25, from provisional 2025-26 settlement (i.e. with actual council tax rates in 2024-25).

Source: IFS analysis of provisional settlement, 2025-26, and indicative payments under Extended Producer Responsibility as [published by Defra](#).



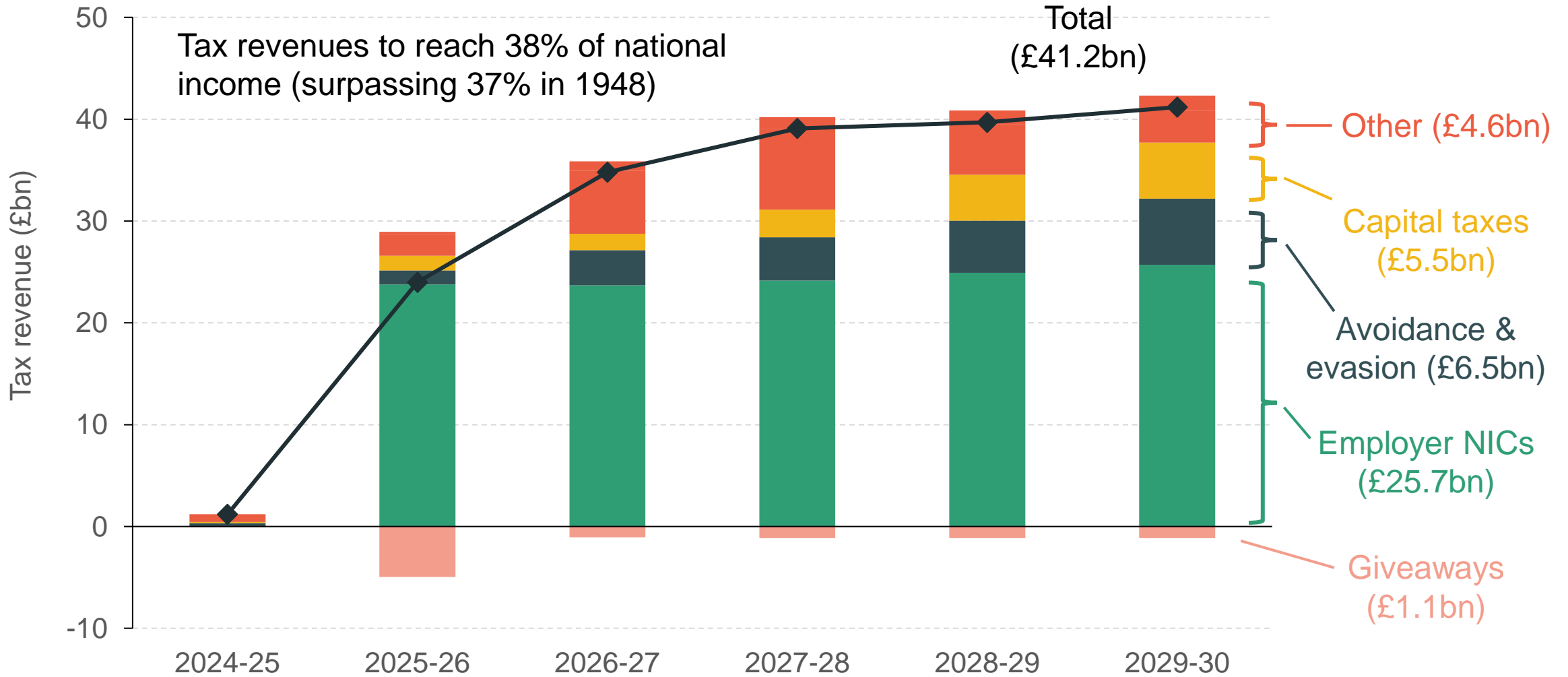
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# Taxation, public finances and public spending

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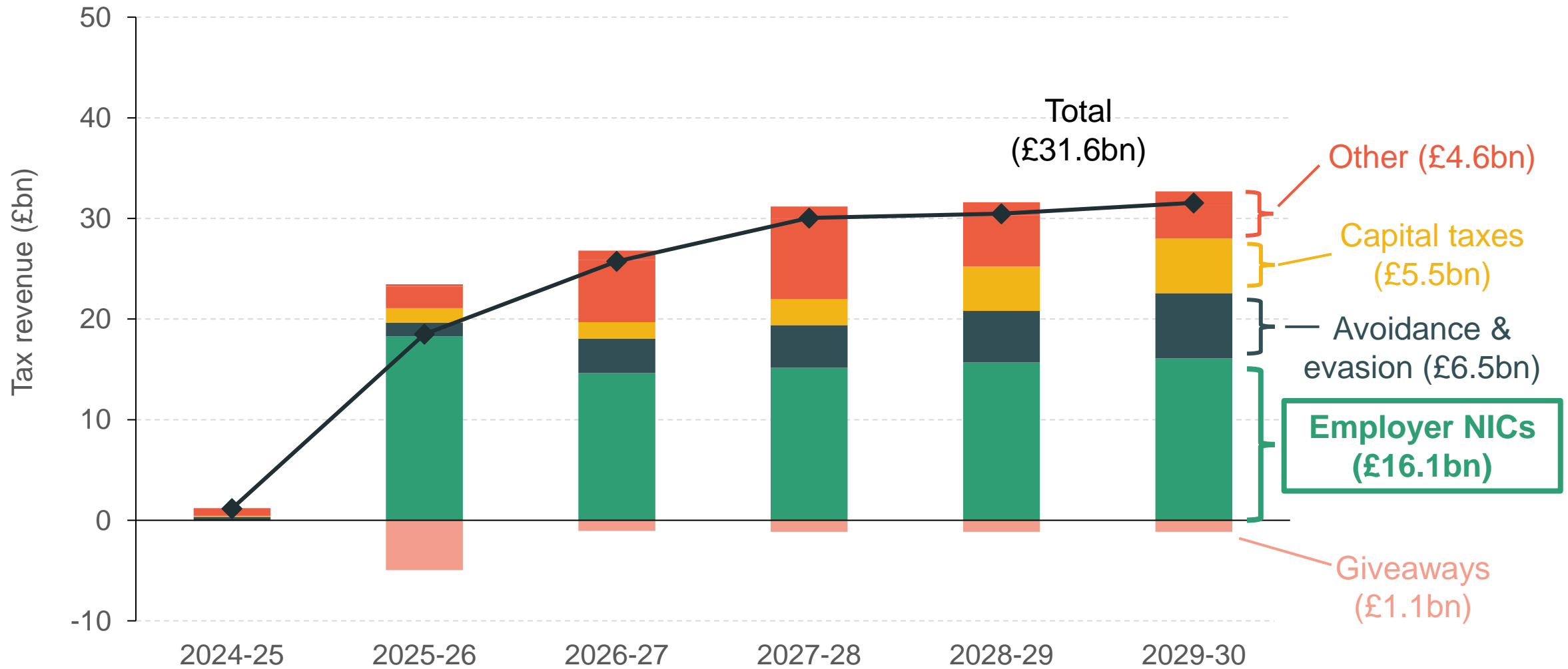
# Tax rises

## Scorecard measures



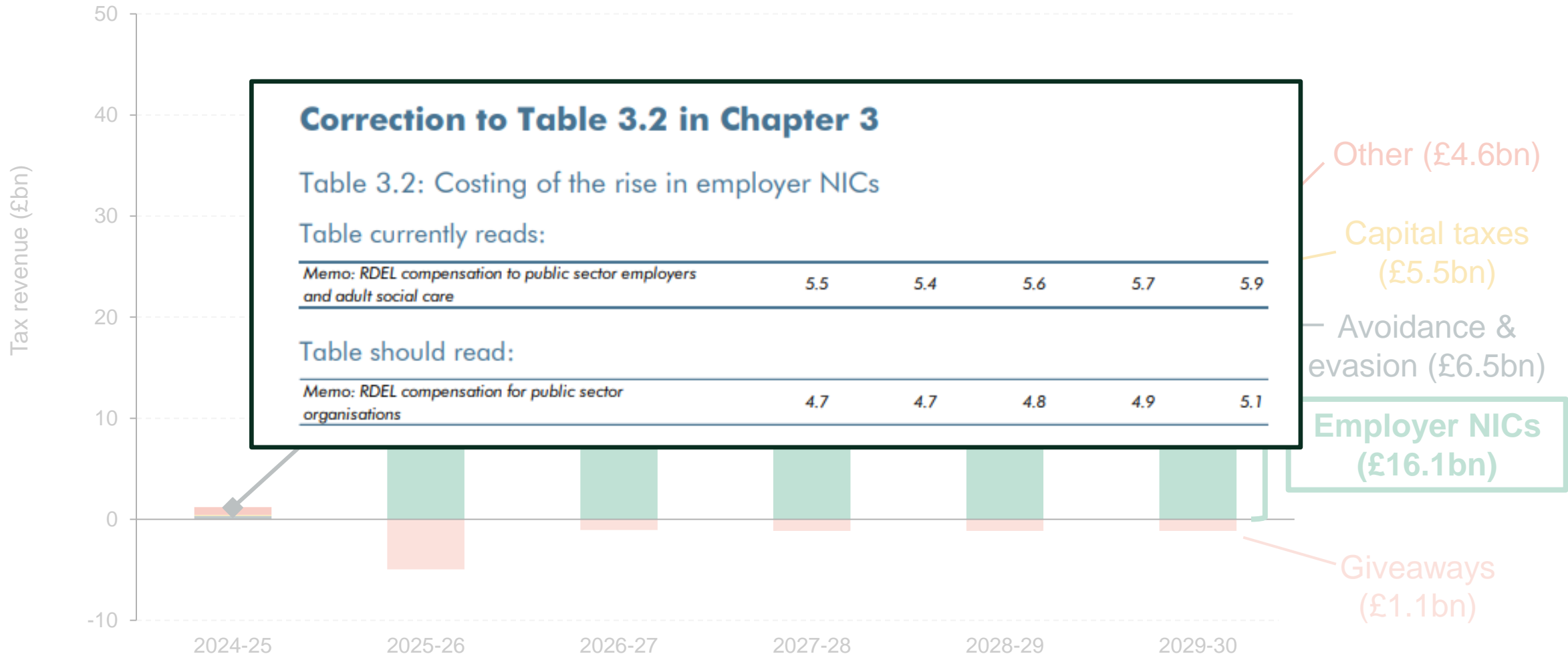
# Tax rises

With OBR adjustment



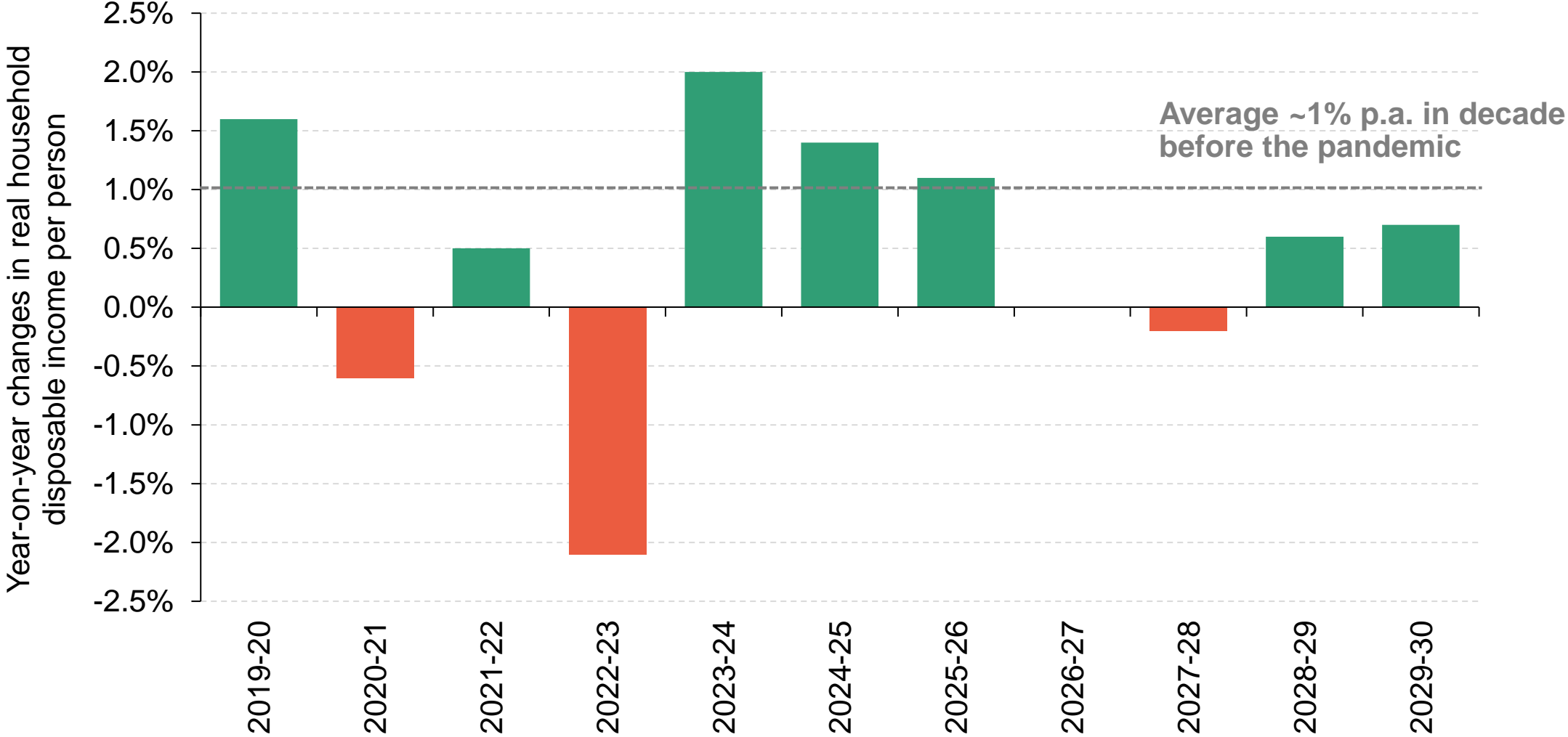
# What's in the Budget?

With OBR adjustment





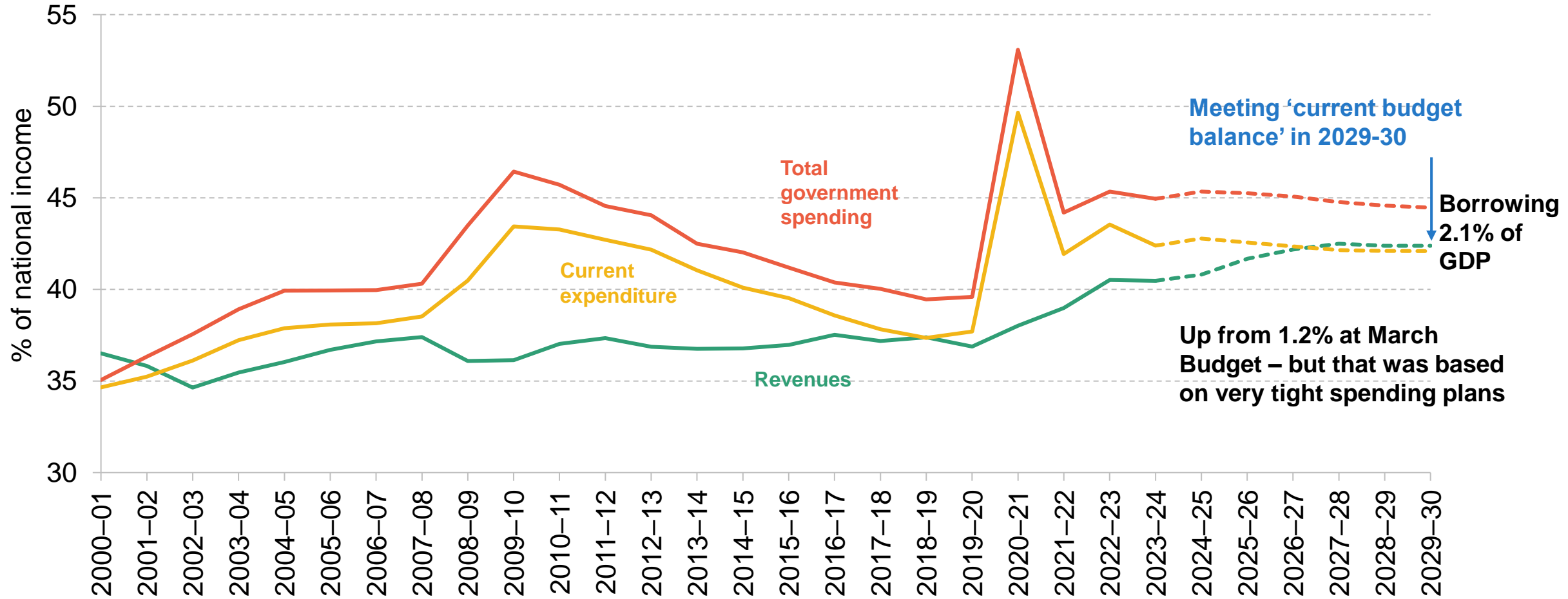
# Household living standards to be squeezed



Source: OBR Economic and Fiscal Outlook (October 2024), Chart 2.14.

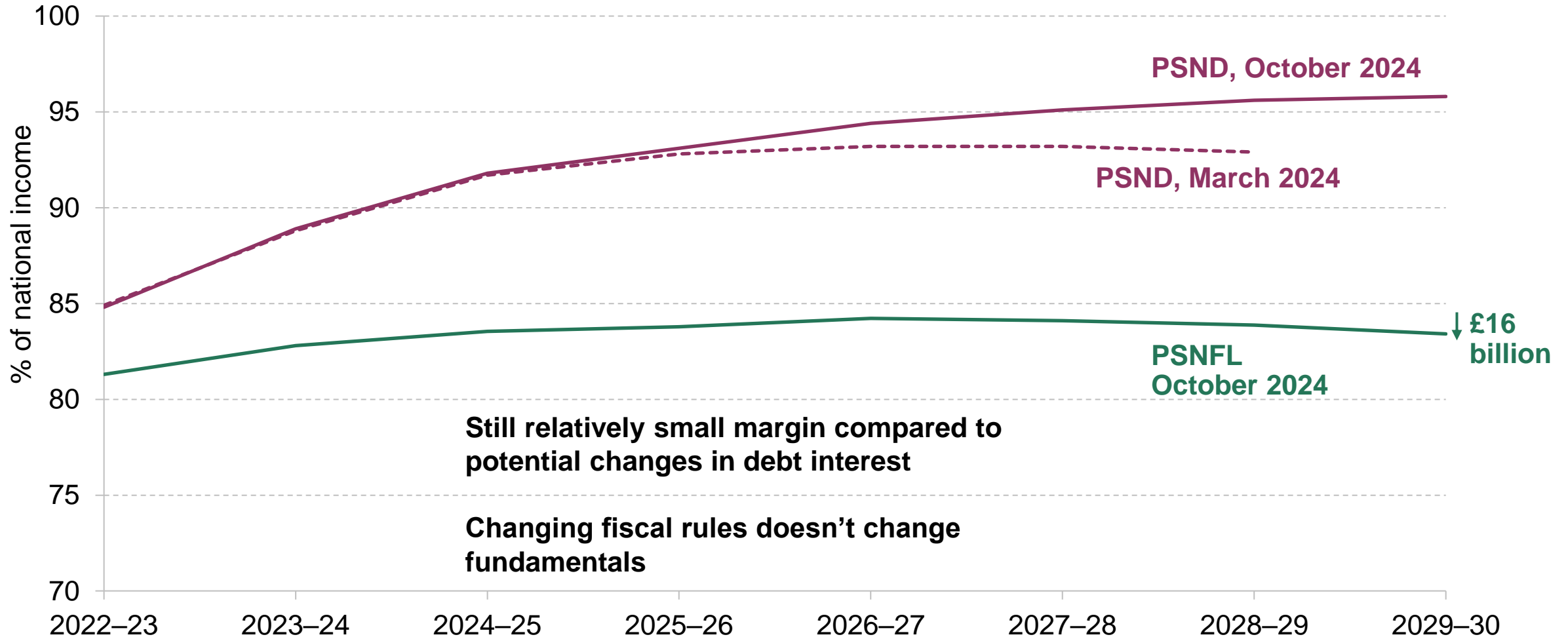
# Size of state to stay (even more) elevated

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



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

# Meeting new fiscal rules, but net debt rising



PSND here is public sector net debt, excluding the Bank of England. Source: OBR Economic and Fiscal Outlook (March 2024, October 2024)

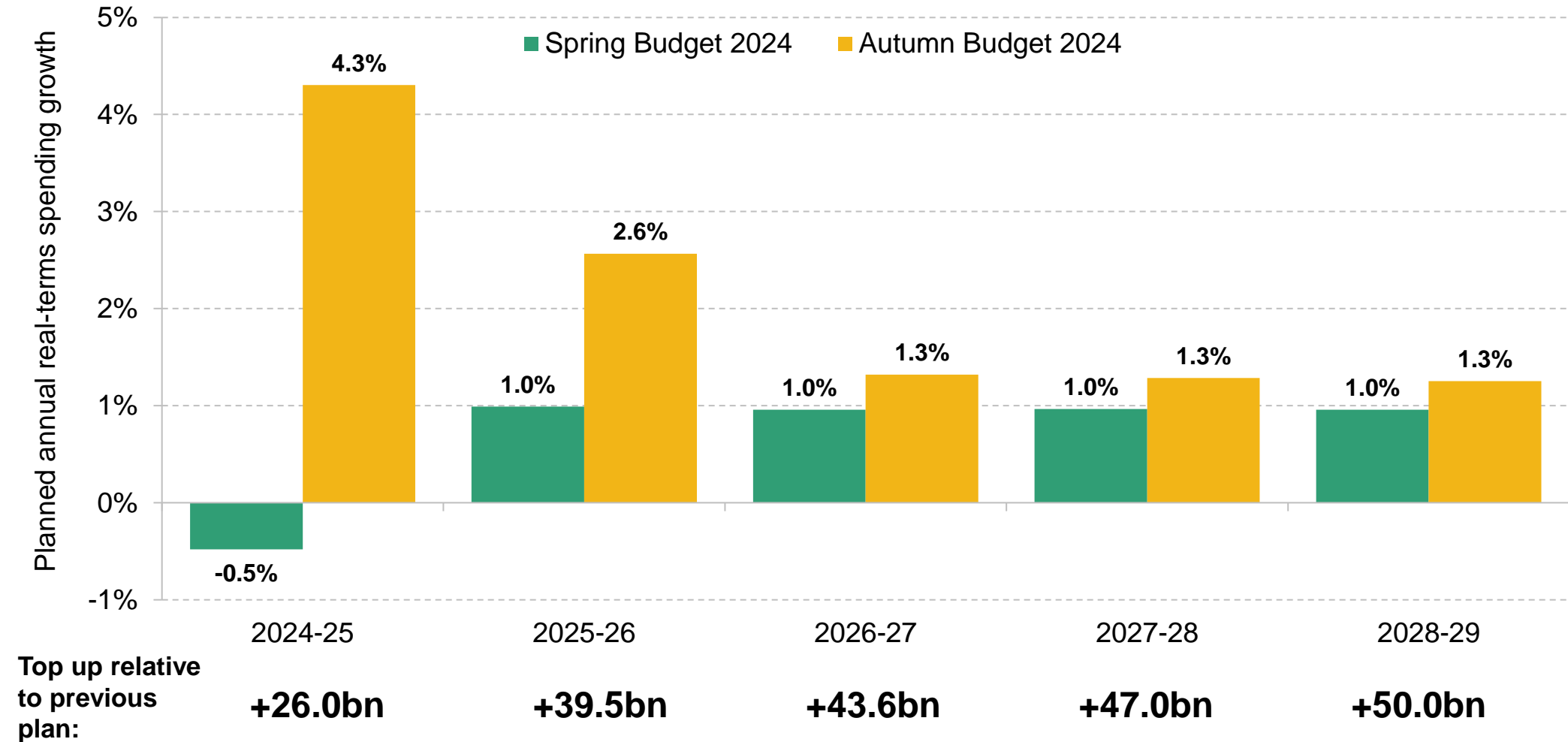
# Assessment of public spending plans



- Prioritisation of investment is welcome
- Big top-up to public spending this year (and smaller top-up next)
- Spending growth very front-loaded (again)

# Looking to 2026-27 and beyond...

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

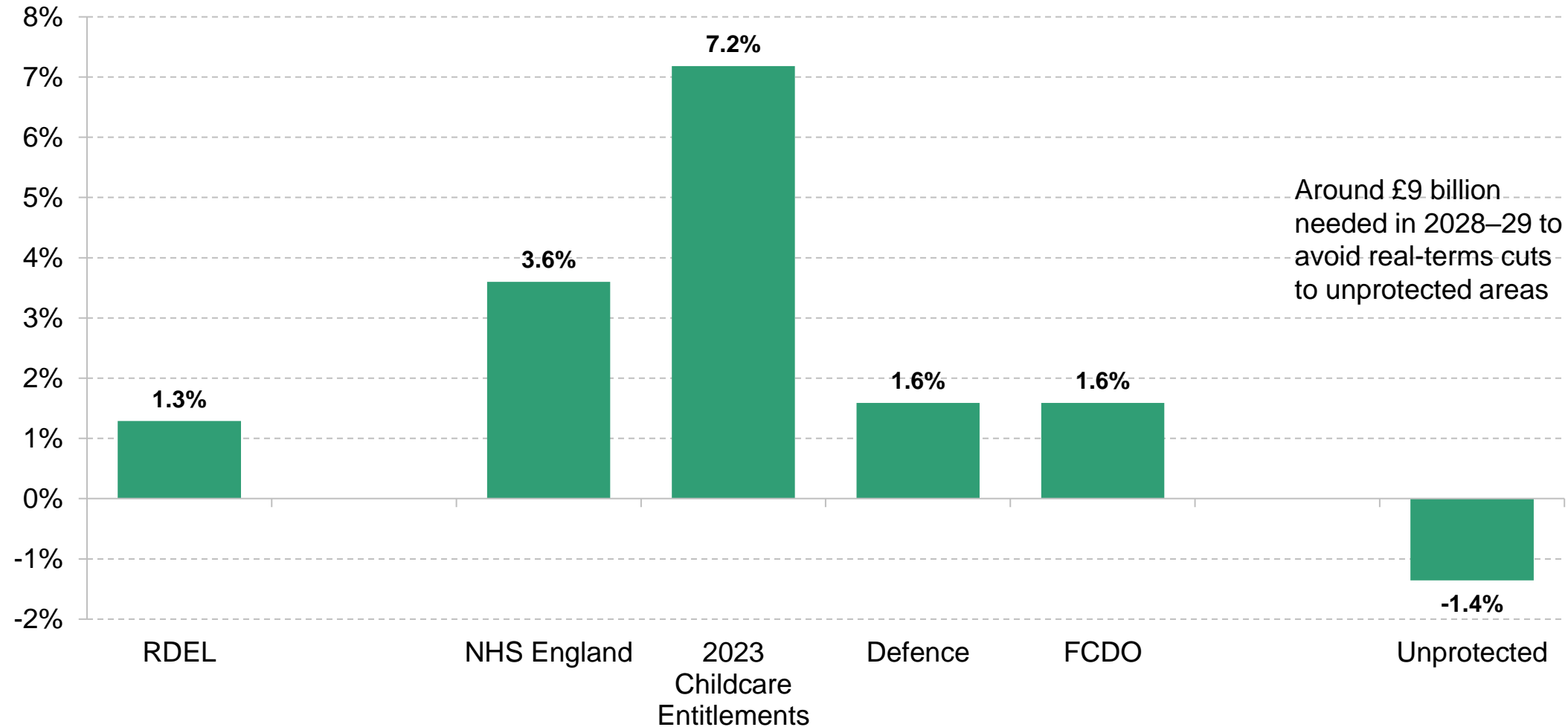


# Assessment of public spending plans

- Prioritisation of investment is welcome
- Big top-up to public spending this year (and smaller top-up next)
- Spending growth very front-loaded (again)
  - Opportunity to fix temporary problems and make quick and noticeable improvements?
  - More cynically: motivated by fiscal rules?
  - Rush to spend quickly risks spending ineffectively (especially capital)
  - Plans for later years likely to be uncomfortably tight

# Tight plans after 2025–26

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





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# Medium-term outlook for councils

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# What to expect in later years: funding levels

- Unless overall spending plans are topped up further, it would be difficult to further increase councils' grant funding in real-terms
  - Increased reliance on council tax for increases in funding
  - 5% council tax increases plus real-terms freeze in grants → 2% real-terms CSP increase
  - Recent years have seen spending pressures of more like 4% a year
  - Action to tackle costs and demand is vital – learning between councils will be key

# What to expect in later years: funding reform

- First consultation on high-level objectives for **finance system reform**, with detail later in the year
  - Confirmed full business rates reset, beginning in 2026-27
  - New assessments of spending needs and revenue-raising capacity
  - Transition to new system over several years, with multi-year settlements
  - Expect similar pattern of winners and losers as this year
- Reform is welcome – existing ‘system’ out-of-date and essentially arbitrary – but details matter
  - Trade-off between redistribution and financial incentives
  - Subjective decisions around need: what services, for whom, and to what quality?
  - Statistical analysis using sub-council level data on spending/usage helpful, but not full answer

# What to expect in later years: social care reform



- Yet another commission on Adult Social Care reform
  - Phase I reporting in 2026, focused on medium-term reforms and improvements
  - Phase II reporting by 2028, focused on long-term model for organizing and funding care
  - Pushes expensive reforms beyond Spending Review period (and next election?)
- Children's Social Care plans aim to tackle excess profits and re-focus on prevention
  - Placement providers to share financial info, and 'backstop legislation' to cap profits
  - Aiming for earlier intervention, reduced need and better post-care transition
- Important service and funding reforms align

# Summing up

- Tax revenues to rise to highest peace-time level, and planned borrowing increased
- Big short-term boost to public spending and investment
- Councils see a further significant real-terms boost to funding next year
  - Highly targeted at more deprived areas and no real-terms increase in CSP for some
  - EPR a 'saving grace' for shire districts and more affluent and rural areas
- Medium-term spending and funding outlook more challenging
- Reform of funding and services even more important when funding is constrained
  - But also practically and politically more difficult to implement

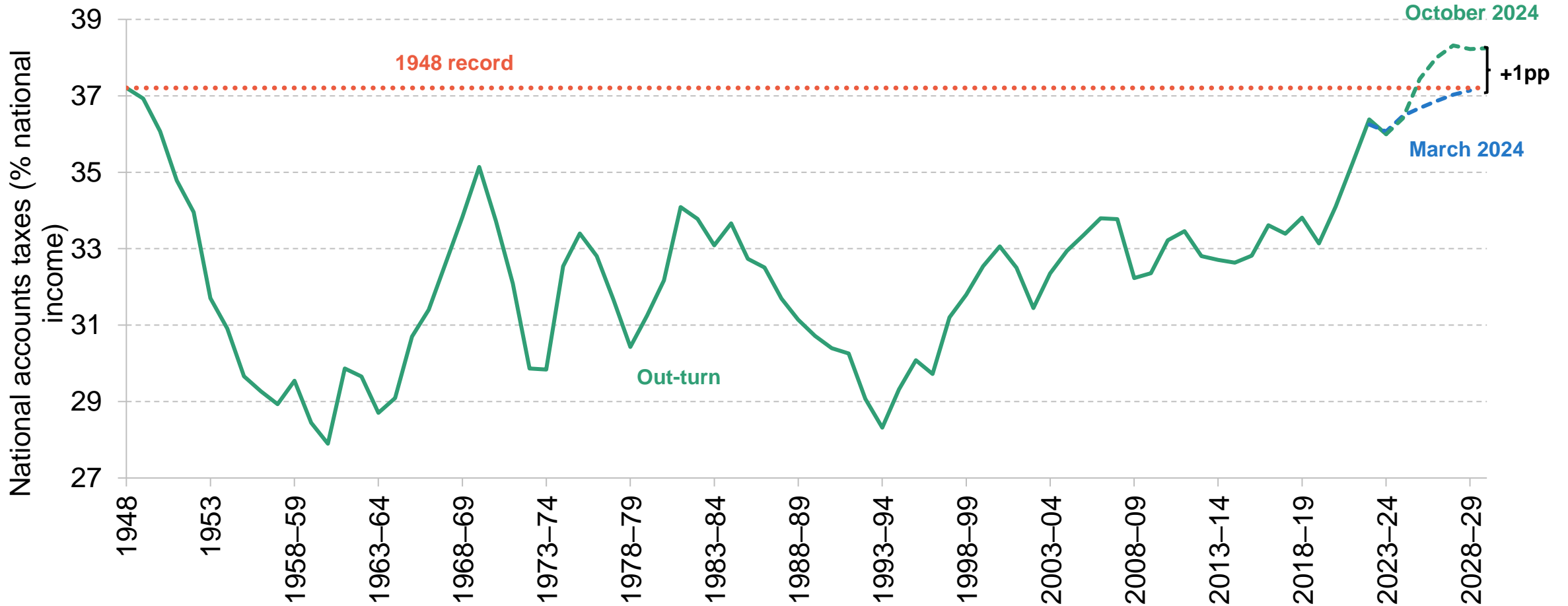
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# Taxes rising to a record high

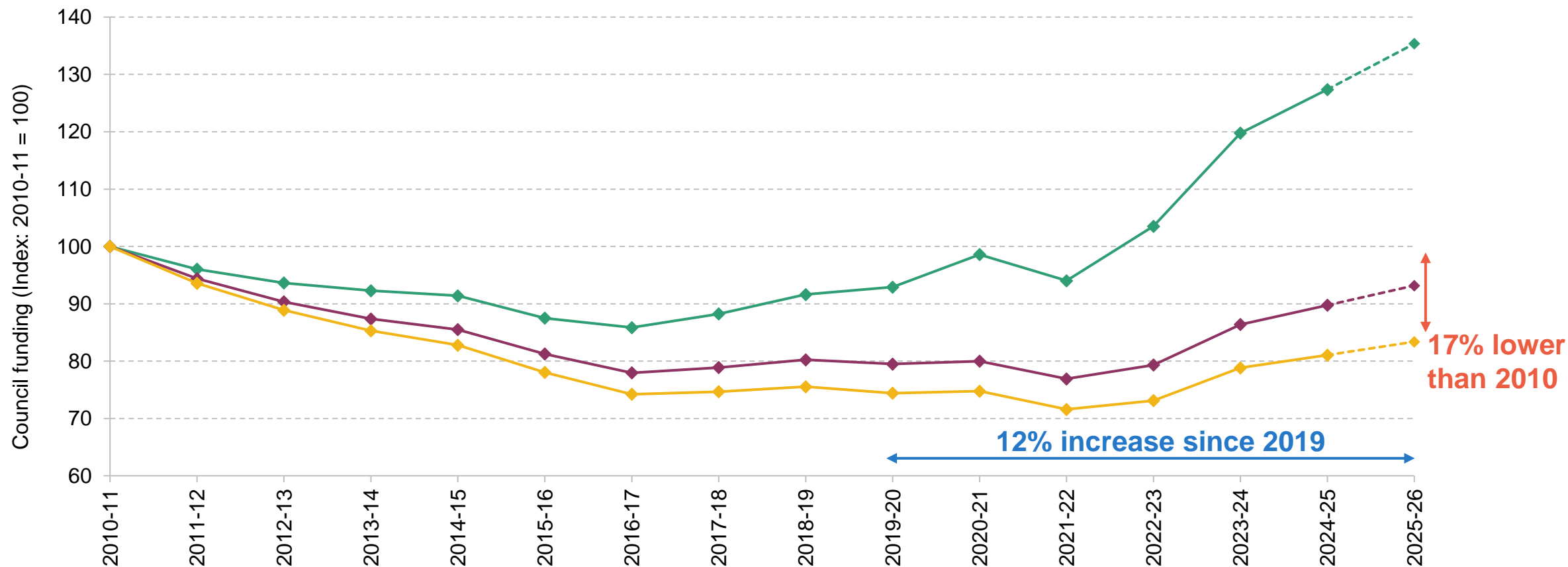
Tax revenues: out-turn and official forecasts



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

# Council funding rising again in 2025-26

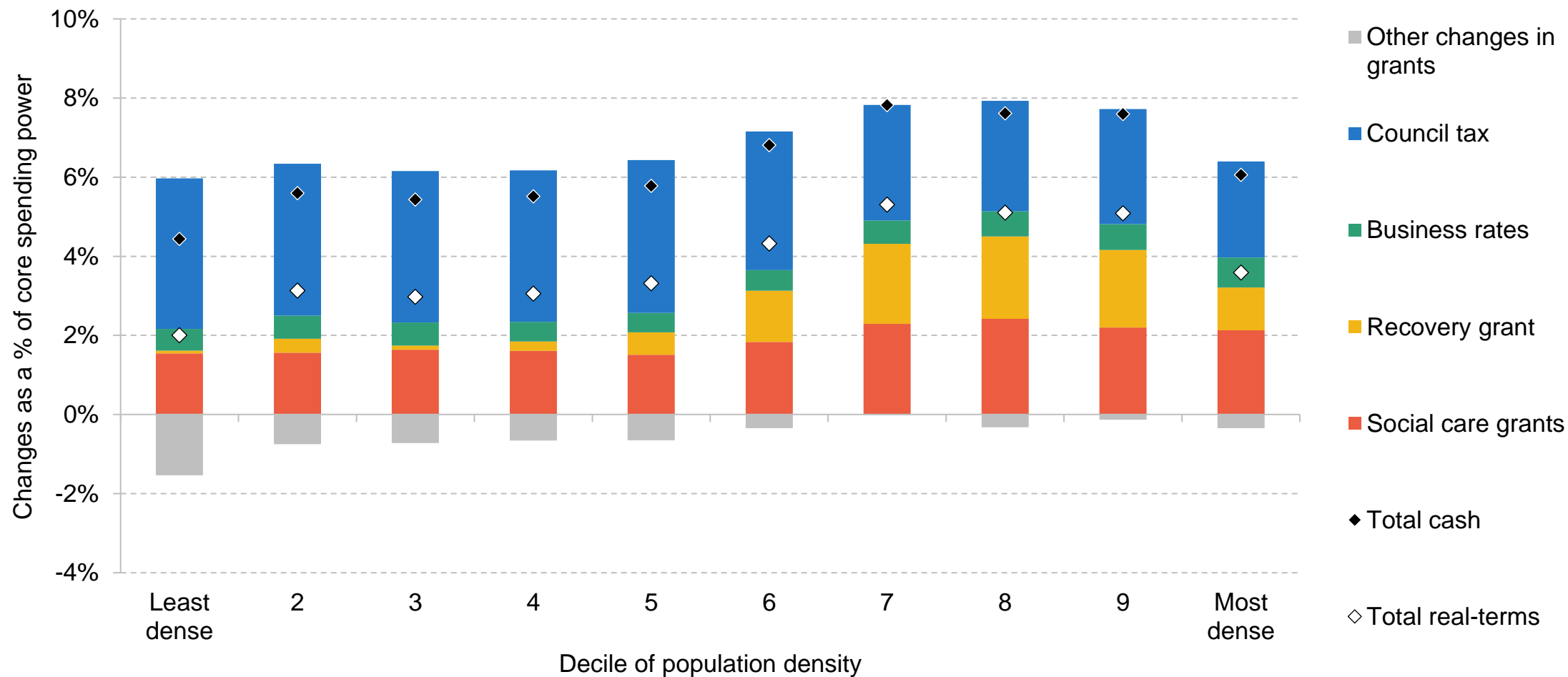
- Core spending power of councils projected to increase by 6.3%, or 3.8% after forecast economy-wide inflation in 2025-26



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.

# Funding changes by population density



Note: Deciles of population density, as measured at the upper-tier local authority area,  
 Source: IFS analysis. See notes to Ogden and Phillips (2024) [The 2025–26 English Local Government Finance Settlement explained](#), Figure 1.