



28 October 2021

@BenZaranko

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# Spending Review 2021: austerity over but not undone

@TheIFS

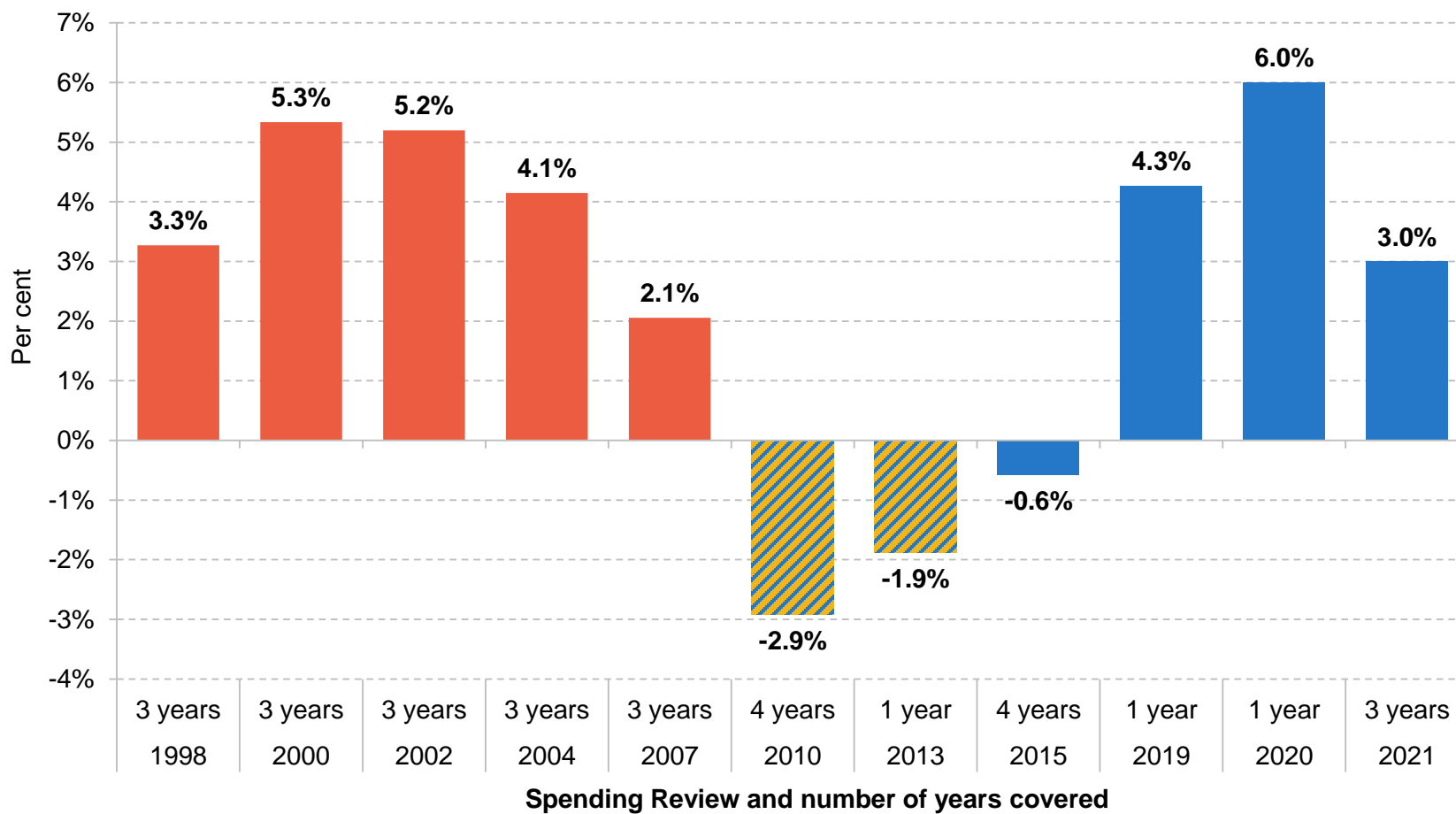


Economic  
and Social  
Research Council

- A large package of tax rises and an improved economic outlook have allowed for a more generous Spending Review
- The second top-up to spending plans in as many months
  - Now set to spend £9 billion more on public services in 2024–25 than under pre-pandemic spending plans
  - (A little less than the £12 billion extra on health and social care)
- Enough to allow higher health and social care spending, a sizeable COVID catch-up package and (almost) no cuts to departments

# Departmental spending to rise

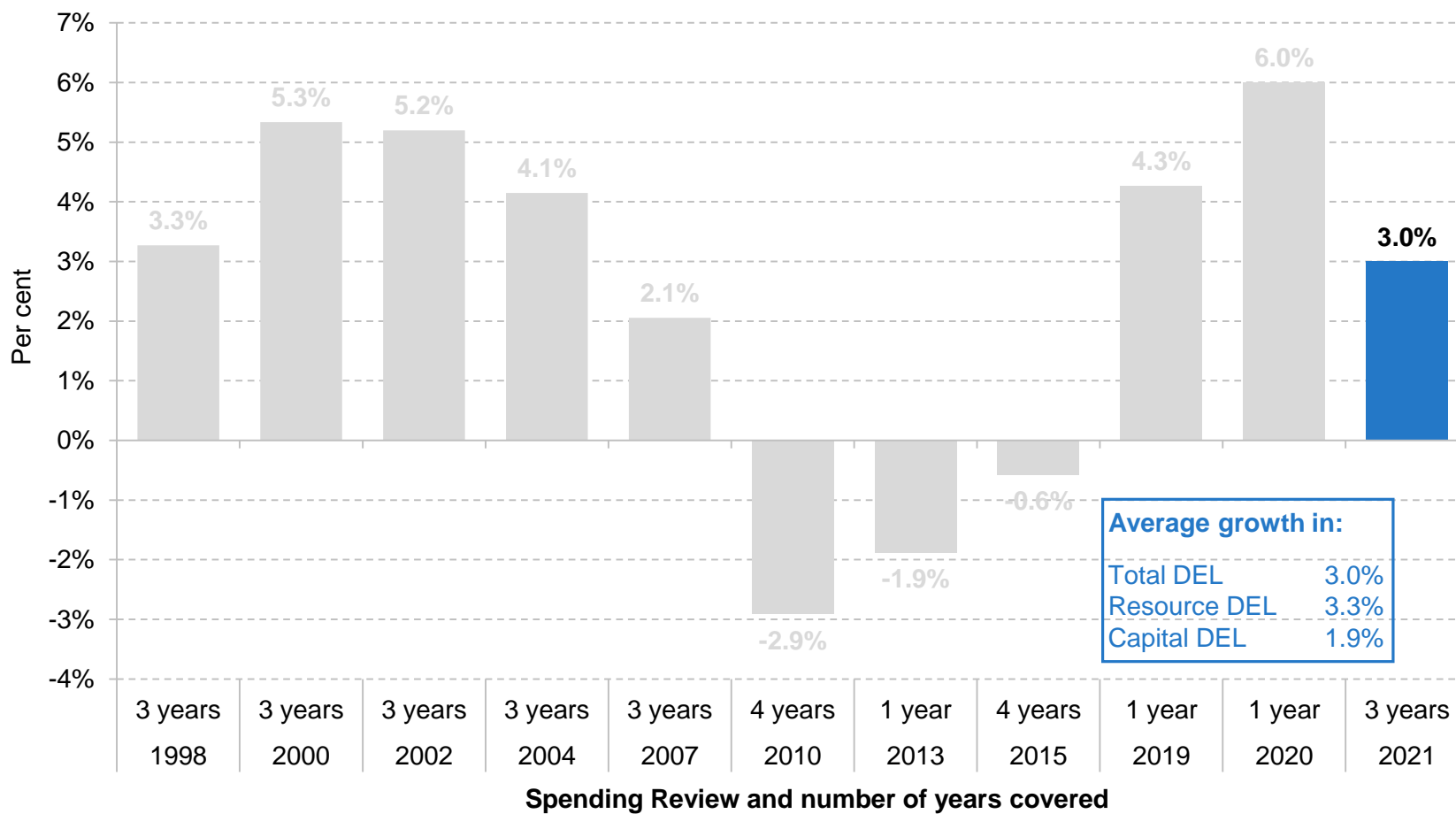
Planned real-terms average annual growth in total departmental budgets



Note: Figures denote *planned* average real-terms growth rate in TDEL.  
 Source: HM Treasury Spending Review 2021 and all sources for Figure 5.13 of IFS Green Budget 2021.

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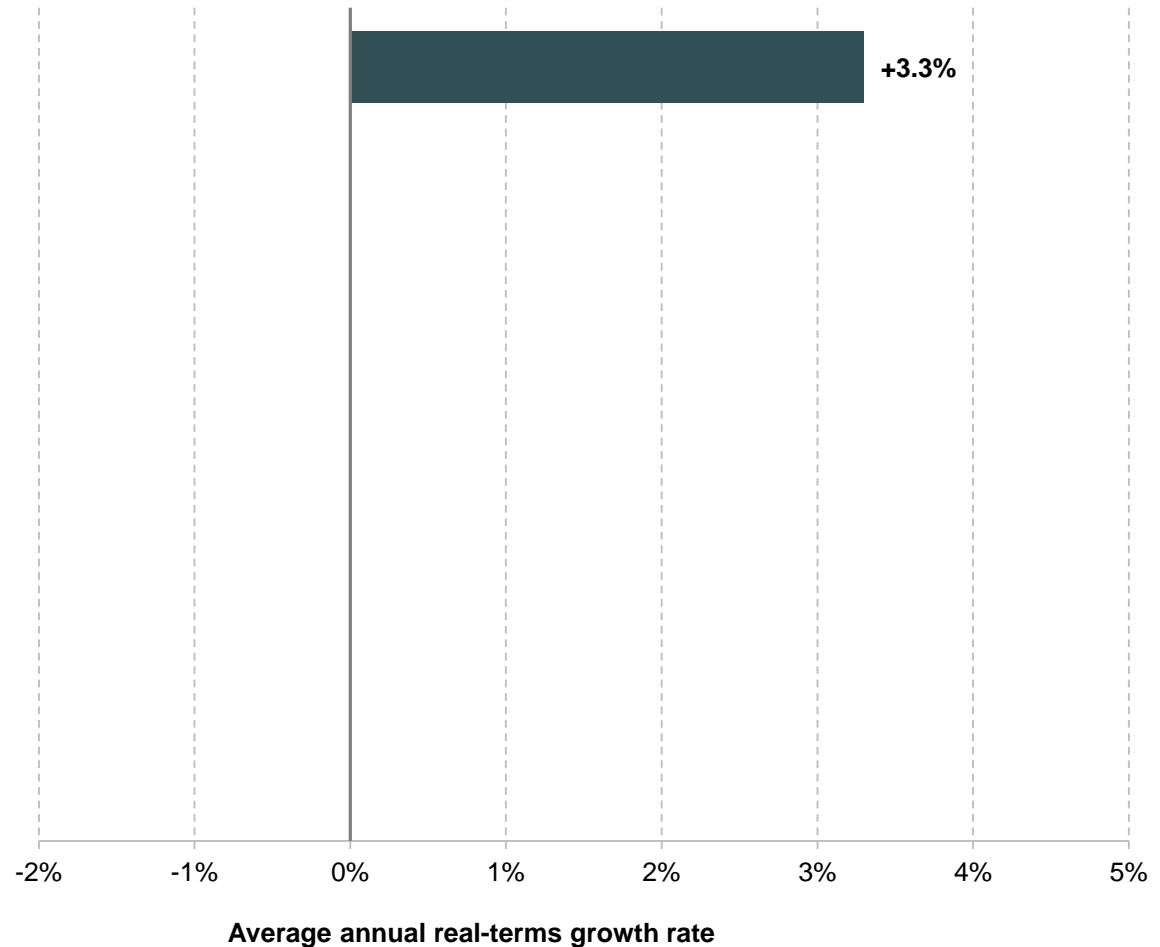
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# Spending increases not spread evenly

Average real % growth in resource budgets over SR 2021 period (2021–22 to 2024–25)

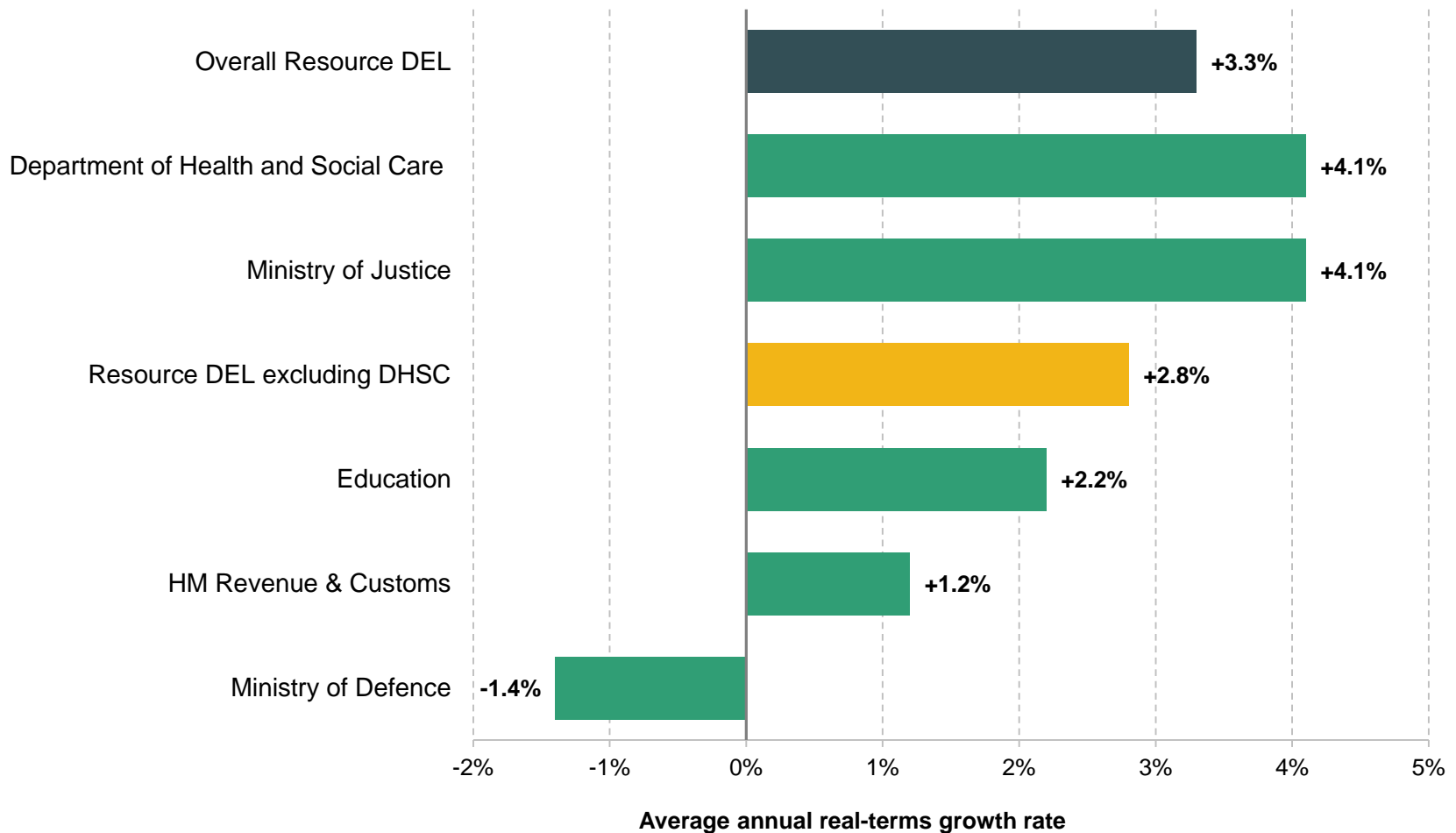


Note: Resource DEL refers to resource departmental expenditure limits, which can be thought of as day-to-day funding for public services.

Source: Author's calculations using HM Treasury, Spending Review 2021 (Table E.3).

# Spending increases not spread evenly

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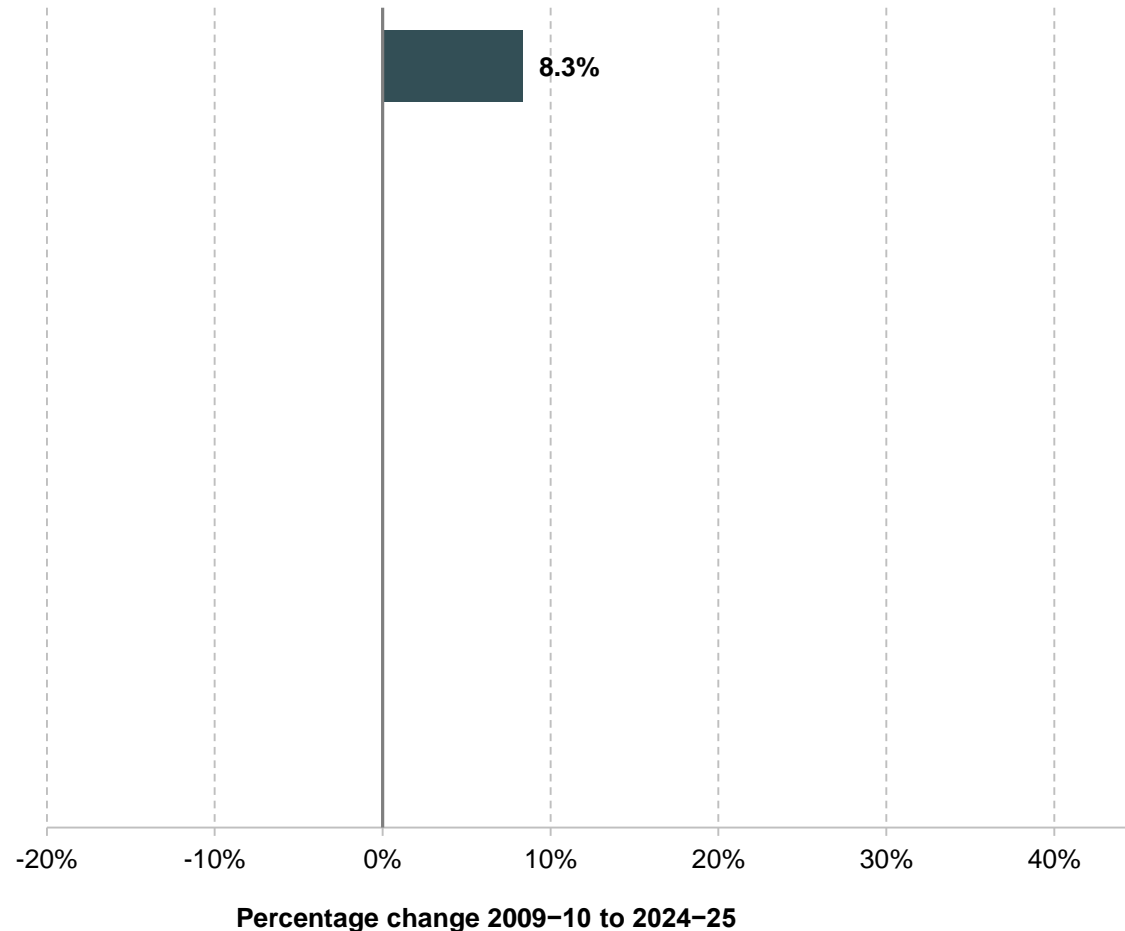
Source: Author's calculations using HM Treasury, Spending Review 2021 (Table E.3).

# Councils may still struggle

- Headline 3% average annual real-terms increase in council funding
  - 1.8% if exclude funding for social care reforms
  - (versus 3.3% for the average department)
- Grant funding for existing services up £1.6bn next year, then frozen
  - Makes sense to front-load given ongoing COVID pressures
  - But subsequent freeze means local taxes (i.e. council tax) will need to take much of the strain after that point
  - Though councils expected to be allowed to increase bills by 2.8% per year – less than in recent past, and ~flat in real-terms
  - Relying on council tax → harder to channel funding to poorer areas
- **The top line:** cuts to some council services likely without additional funding from central government, given rising costs and demands

# Spending increases mean austerity is over, but not undone, for most departments

Total real-terms % change, resource (day-to-day) budgets, 2009–10 to 2024–25

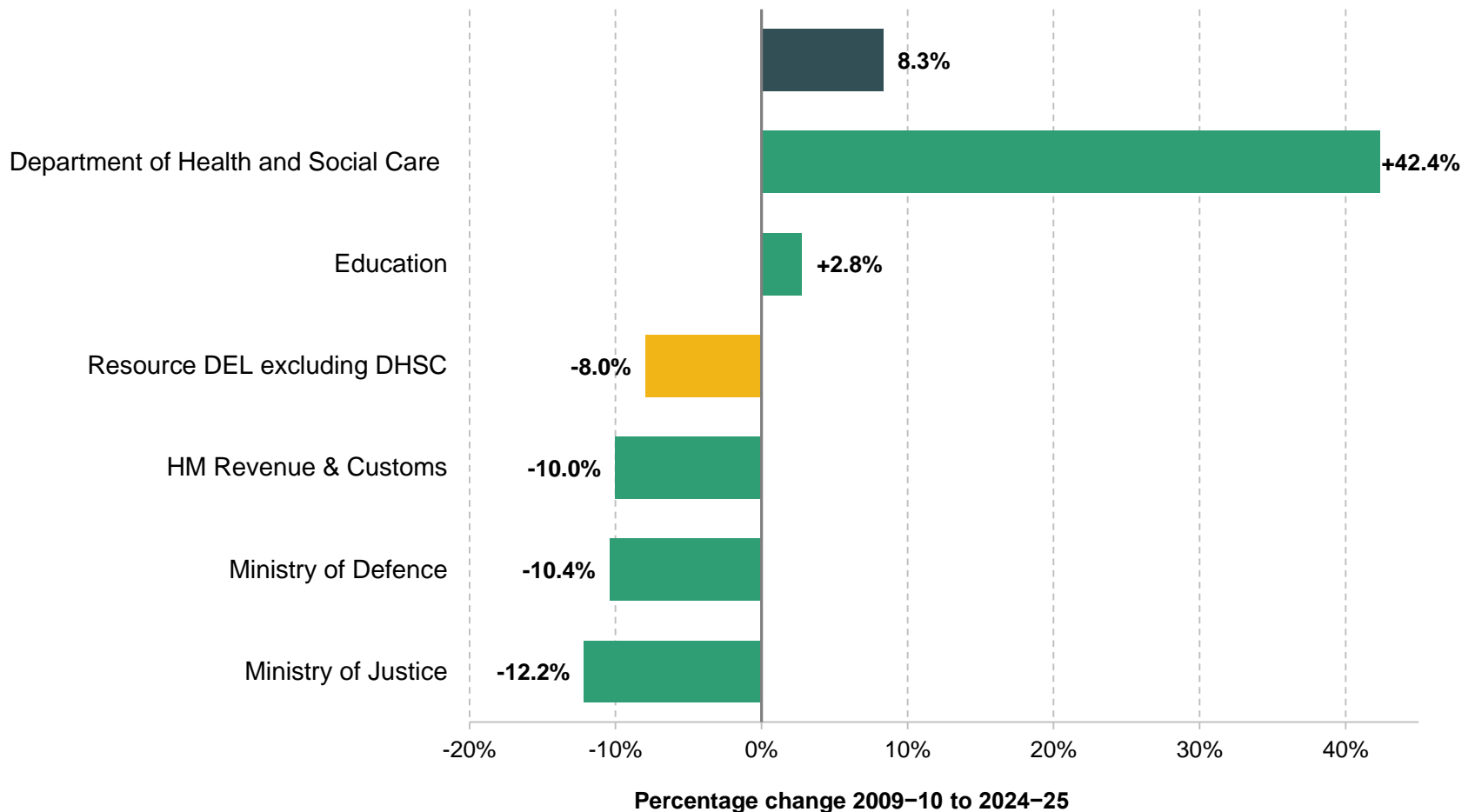


Note: Resource DEL refers to resource departmental expenditure limits, which can be thought of as day-to-day funding for public services. Overall Resource DEL refers is adjusted by the OBR for historical discontinuities and classification changes, and is additionally adjusted for spending changes related to employer pension and NICs. Source: Author's calculations using OBR October 2021 EFO, HM Treasury Spending Review 2021 and PESA (various).



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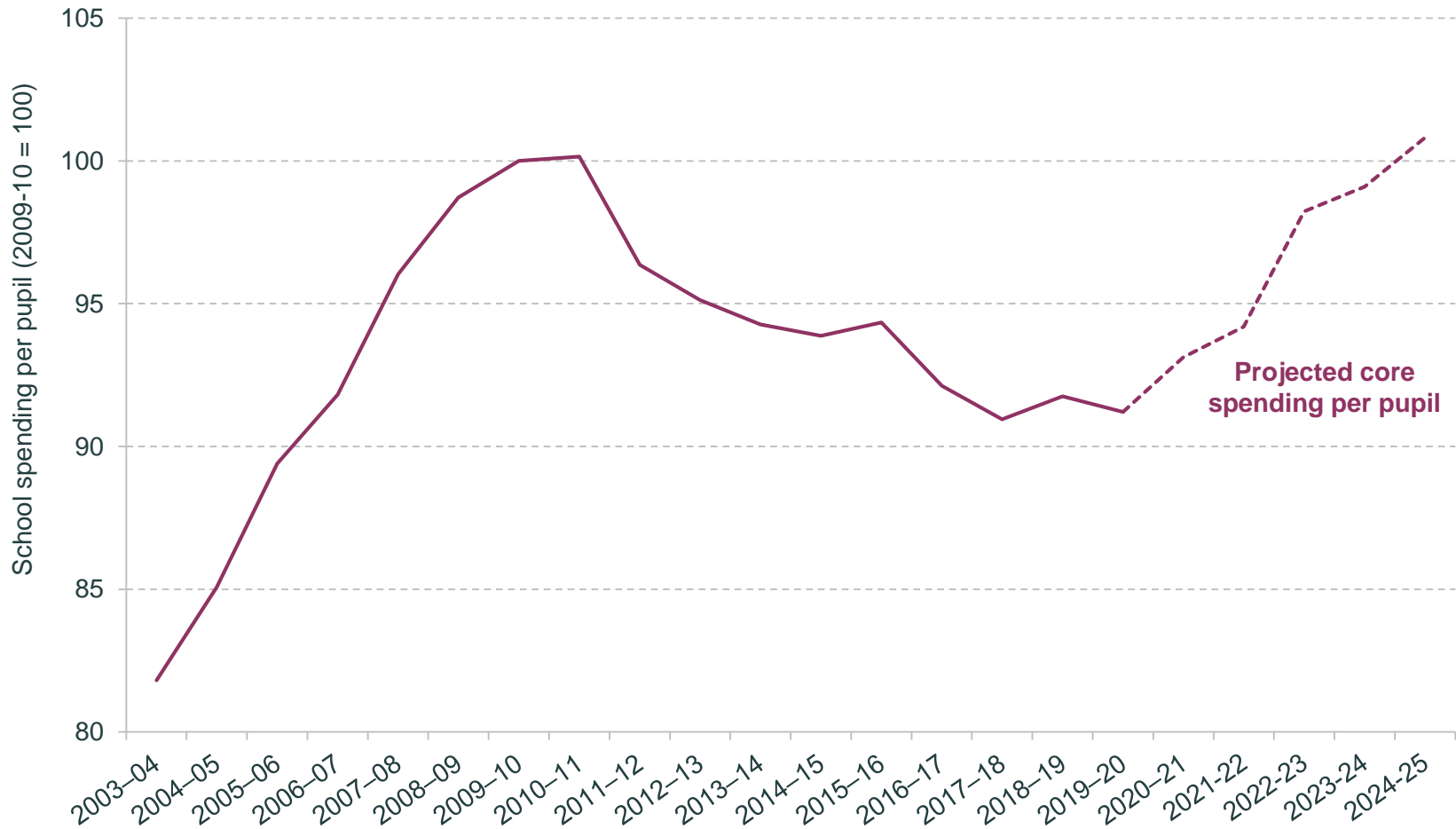
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# A lost decade-and-a-half of schools funding growth?

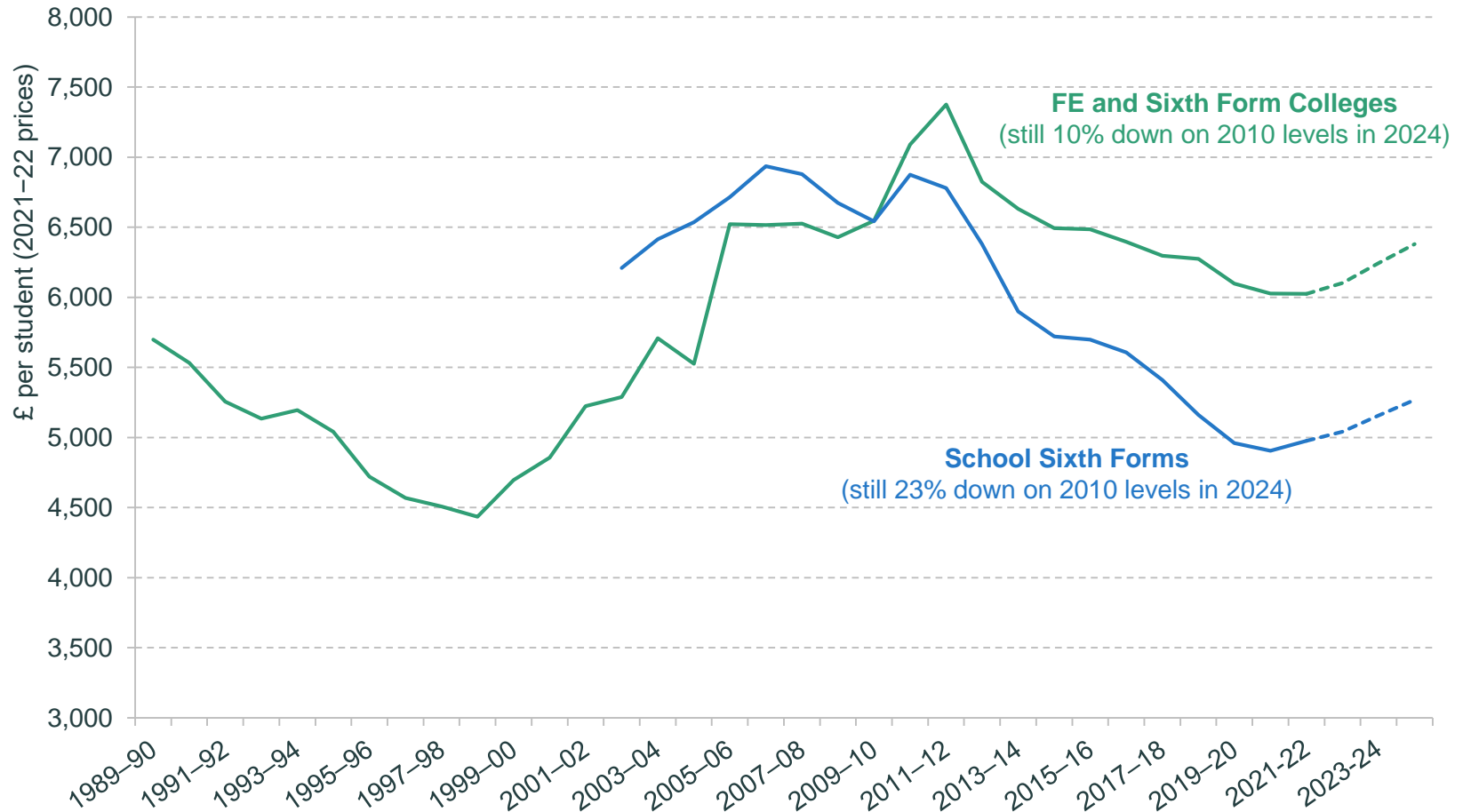
School spending per pupil in England (2009-10 = 100)



Note: Excludes the effect of higher funding to cover increased employer pension contributions and the health and social care levy. GDP Deflator smoothed between 2019-20 and 2022-23. Source: Spending Review 2021 and Sibietta (2021), <https://ifs.org.uk/publications/15588>.

# Cuts to further education and sixth form colleges only partially reversed

Spending per student 16-19 (2021-22 prices)



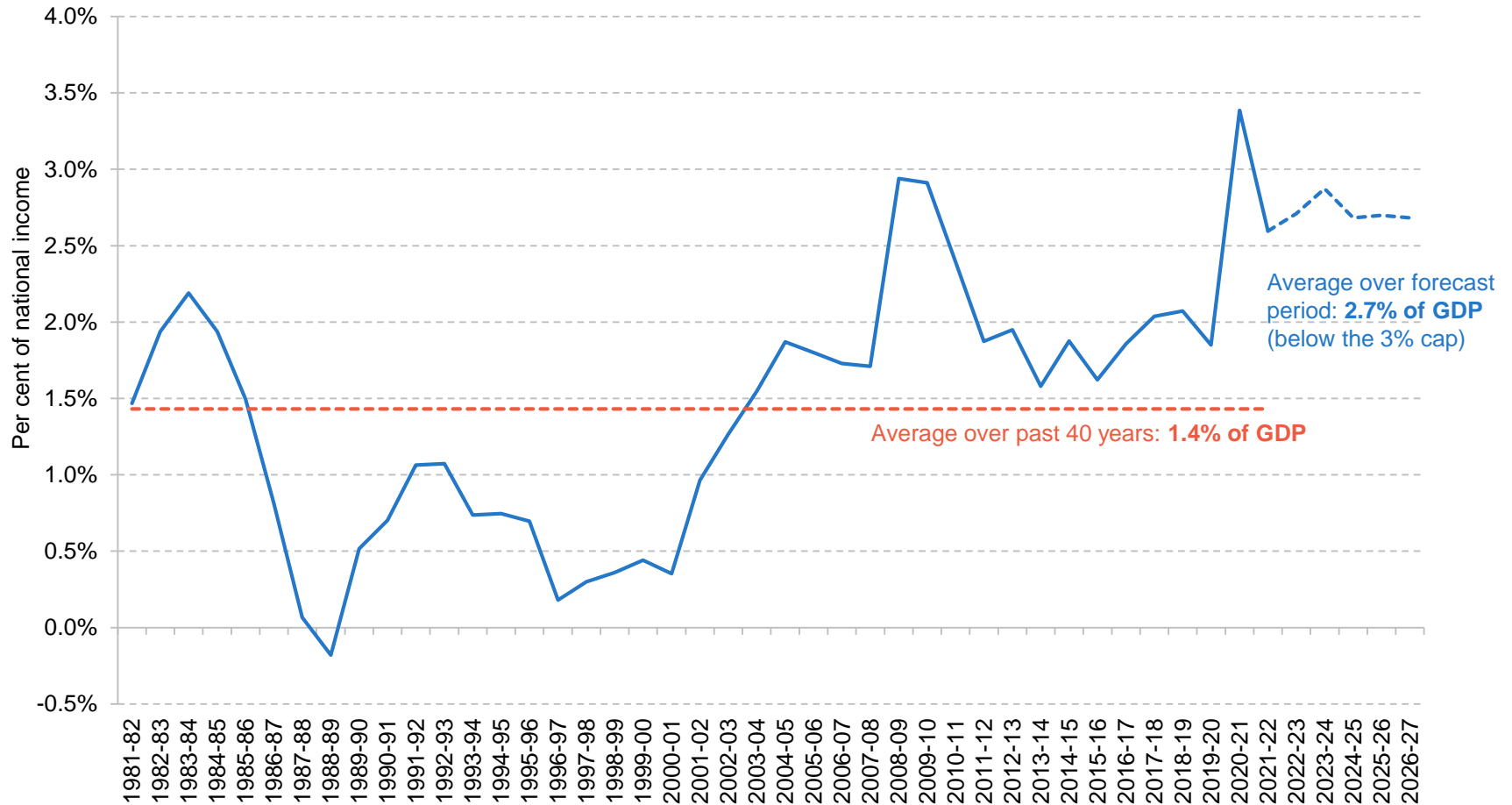
Sources and notes: Spending Review 2021, and Sibieta and Tahir (2021), Further education and sixth form spending in England, Institute for Fiscal Studies  
GDP Deflator smoothed between 2019-20 and 2022-23

# Some other items of note

- OBR expects Health and Social Care Levy to raise more revenue  
→ NHS England budget has been topped up again
  - This + higher inflation forecast → extra £2.5bn per year for NHS-E
  - Bad policy design: no world in which a lower revenue forecast would lead to a cut to the NHS budget
- Spending plans build in £10–11 billion unallocated annual Reserve
  - Sensible move given uncertainty around virus costs
- Funding increases for COVID catch-up were inevitable
  - So why deny reality and publish implausibly tight spending plans as late as 7 September?

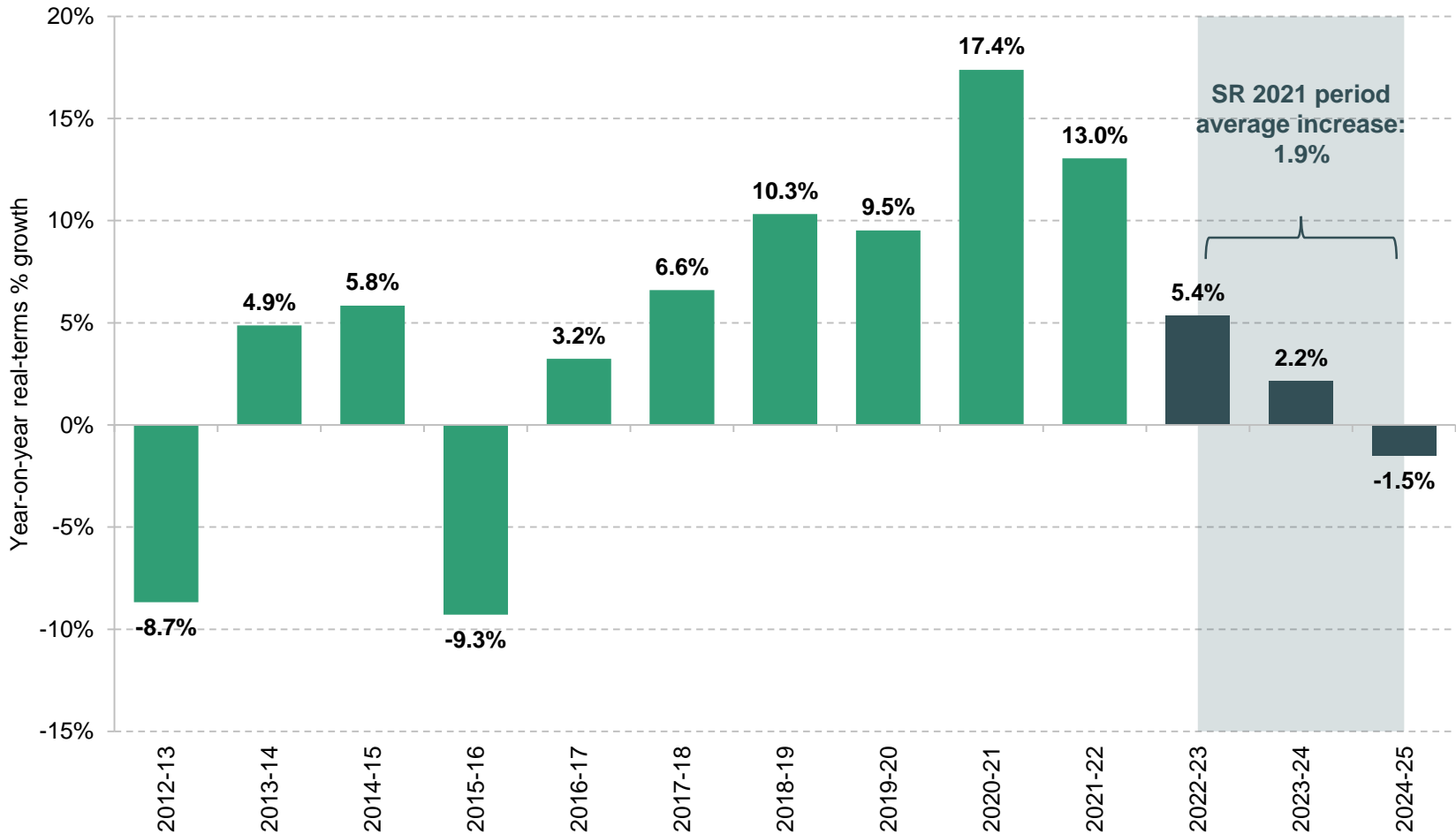
# Capital spending is set to remain high, baking in prior increases (1)

## Public sector net investment as a share of national income



# Capital spending is set to remain high, baking in prior increases (2)

Real-terms % year-on-year change in capital DEL



# Final thoughts

- Pre-briefing of partial and close-to-meaningless spending figures wasn't needed – there are some genuinely big increases in the SR
- This SR sets the tone for the rest of the Parliament
  - But big decisions still to be made (e.g. public sector pay)
  - Some areas could still struggle (e.g. local government)
  - And the Chancellor may find he still needs to come back with more (e.g. for future top-ups for the NHS)
- Plenty more fiscal events like yesterday will be needed to fully undo the cuts of the 2010s

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