



Ben Zaranko, Institute for Fiscal Studies

Presentation to
CIPFA SE

12 March 2021

@TheIFS

Budget 2021

What did we learn?



Economic
and Social
Research Council

Today's presentation



- **Budget 2021:** what are the key takeaways?
 - Economy and public finances
 - Spending on public services
 - Taxes
- **The 'levelling up' agenda:** what, where, how?

The final slide from my January presentation



- We are living through an unprecedented economic dislocation
 - The short-term figures are astonishing – but much more depends on the longer-term economic damage and policy response
- SR 2020: huge sums for Covid response; quite austere elsewhere
 - But no return to the deep spending cuts of the 2010s
- Increased public sector debt is not an urgent problem
 - Now is not the time for a fiscal tightening
 - Strong reasons to expect tax rises eventually

Marking my own homework

- **“Strong reasons to expect tax rises eventually”**
 - This was the biggest tax-raising Budget since 1993
 - But most of the tax rises don’t kick in until (at least) next year

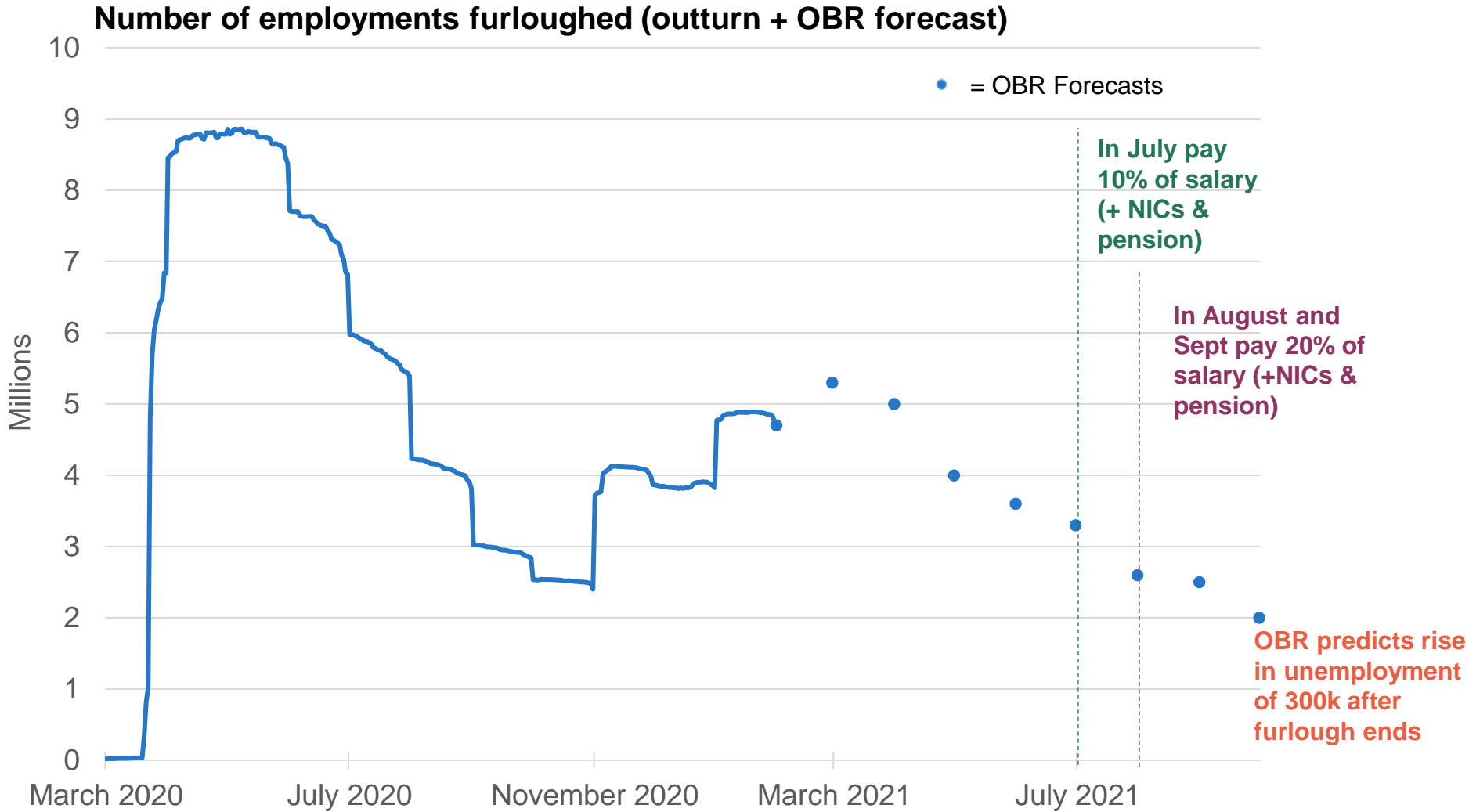
- **“No return to the deep spending cuts of the 2010s”**
 - Still true
 - But the Chancellor did announce a further squeeze on ‘unprotected’ budgets – as it stands, some areas facing cuts

A tale of two Budgets



- Short-term: more support for the economy, households and businesses
 - Including extensions to: furlough, support for self-employed, Universal Credit uplift, business grants and rates relief

Furlough scheme extension



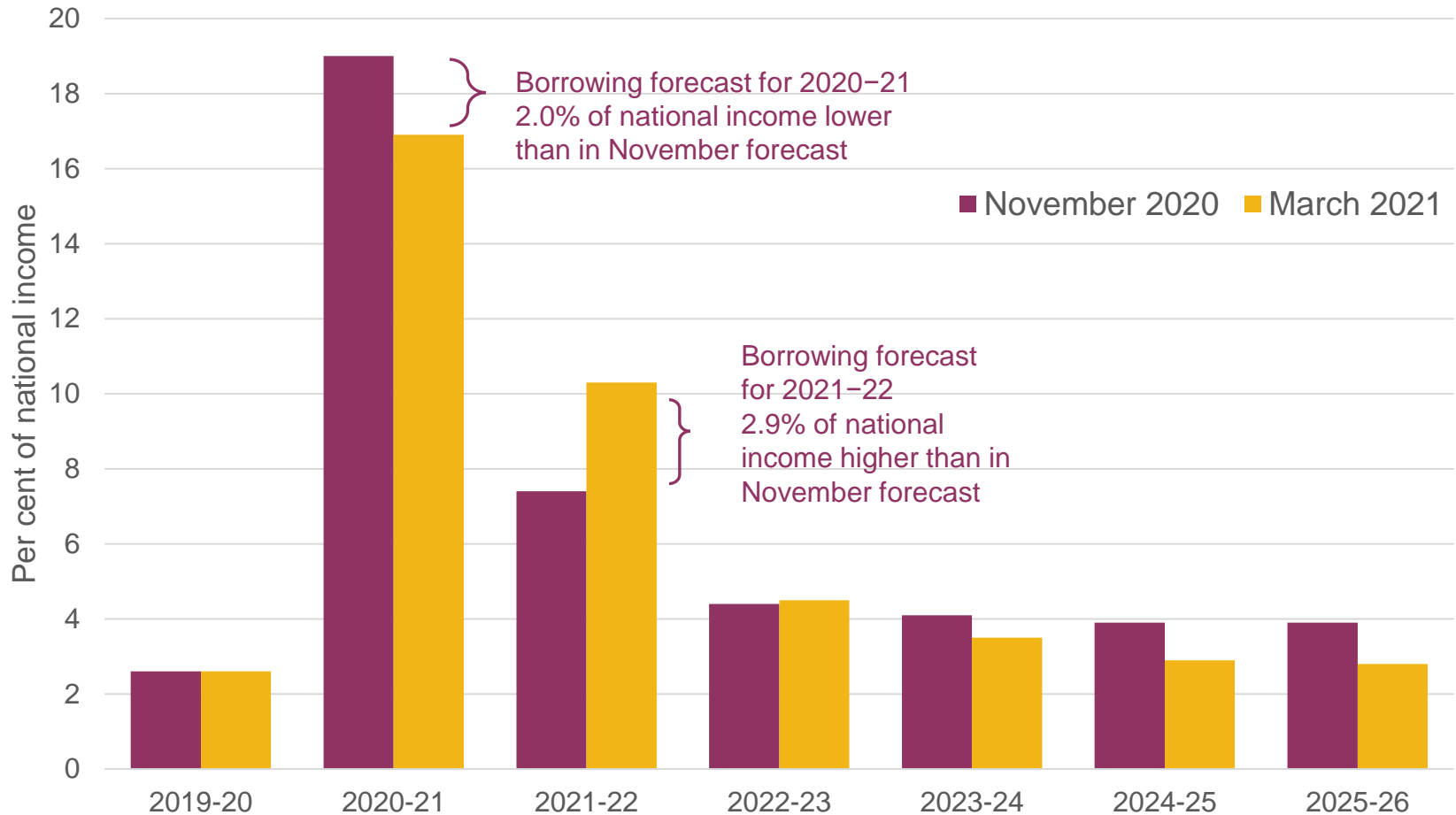
Source: HMRC CJRS statistics February 2021, Forecasts from OBR EFO March 2021

A tale of two Budgets



- Short-term: more support for the economy, households and businesses
 - Including extensions to: furlough, support for self-employed, Universal Credit uplift, business grants and rates relief
 - Big fiscal stimulus over this year and next
 - 2021–22 will be another record-year of borrowing (>10% of GDP)

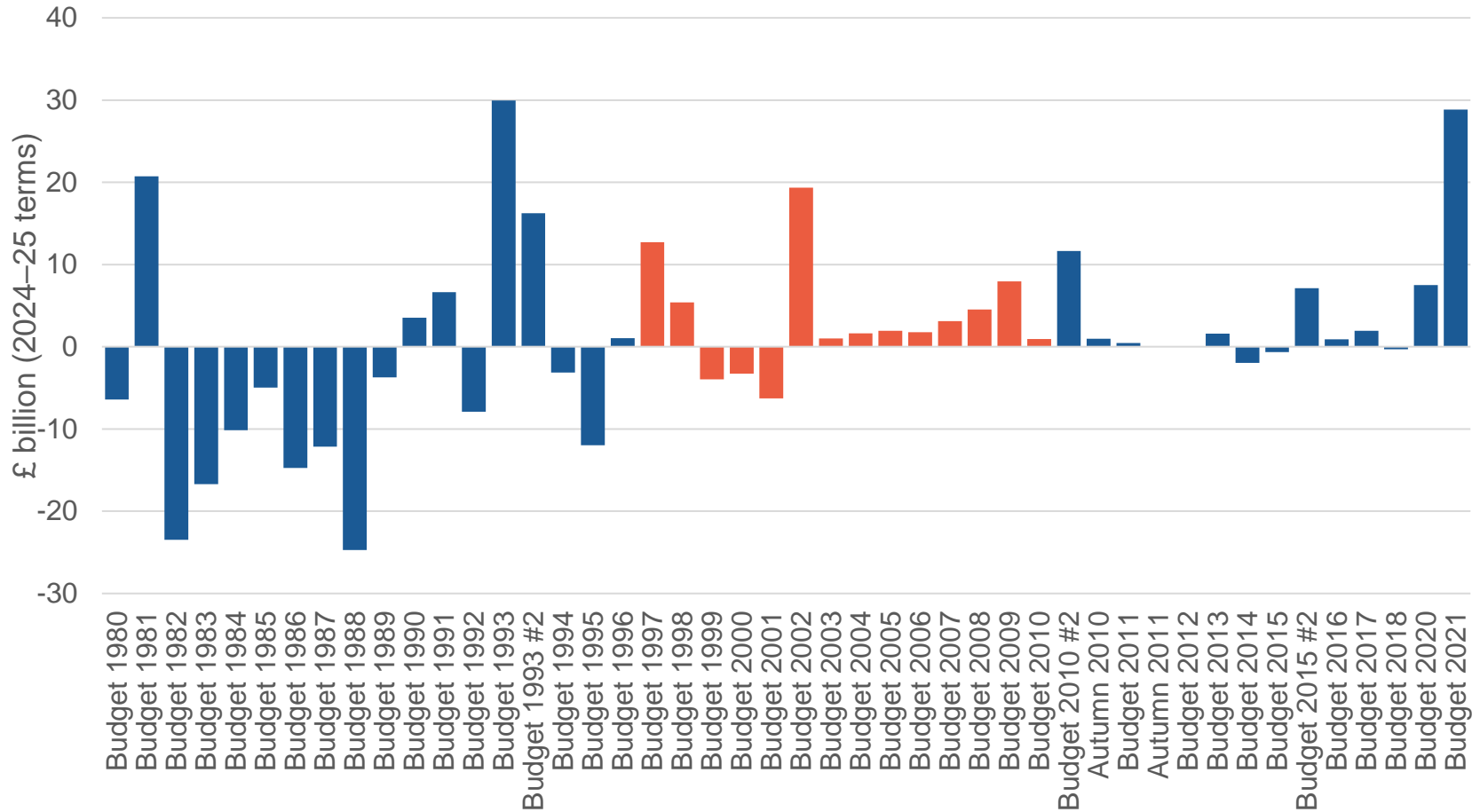
New support pushes borrowing up next year to above 10% of GDP



A tale of two Budgets

- Short-term: more support for the economy, households and businesses
 - Including extensions to: furlough, support for self-employed, Universal Credit uplift, business grants and rates relief
 - Big fiscal stimulus over this year and next
 - 2021–22 will be another record-year of borrowing (>10% of GDP)
- But by the middle of the decade, a substantial fiscal tightening
 - Almost £50 billion of spending cuts and tax rises in 2025–26, relative to pre-pandemic plans

Biggest tax rising Budget since Spring 1993

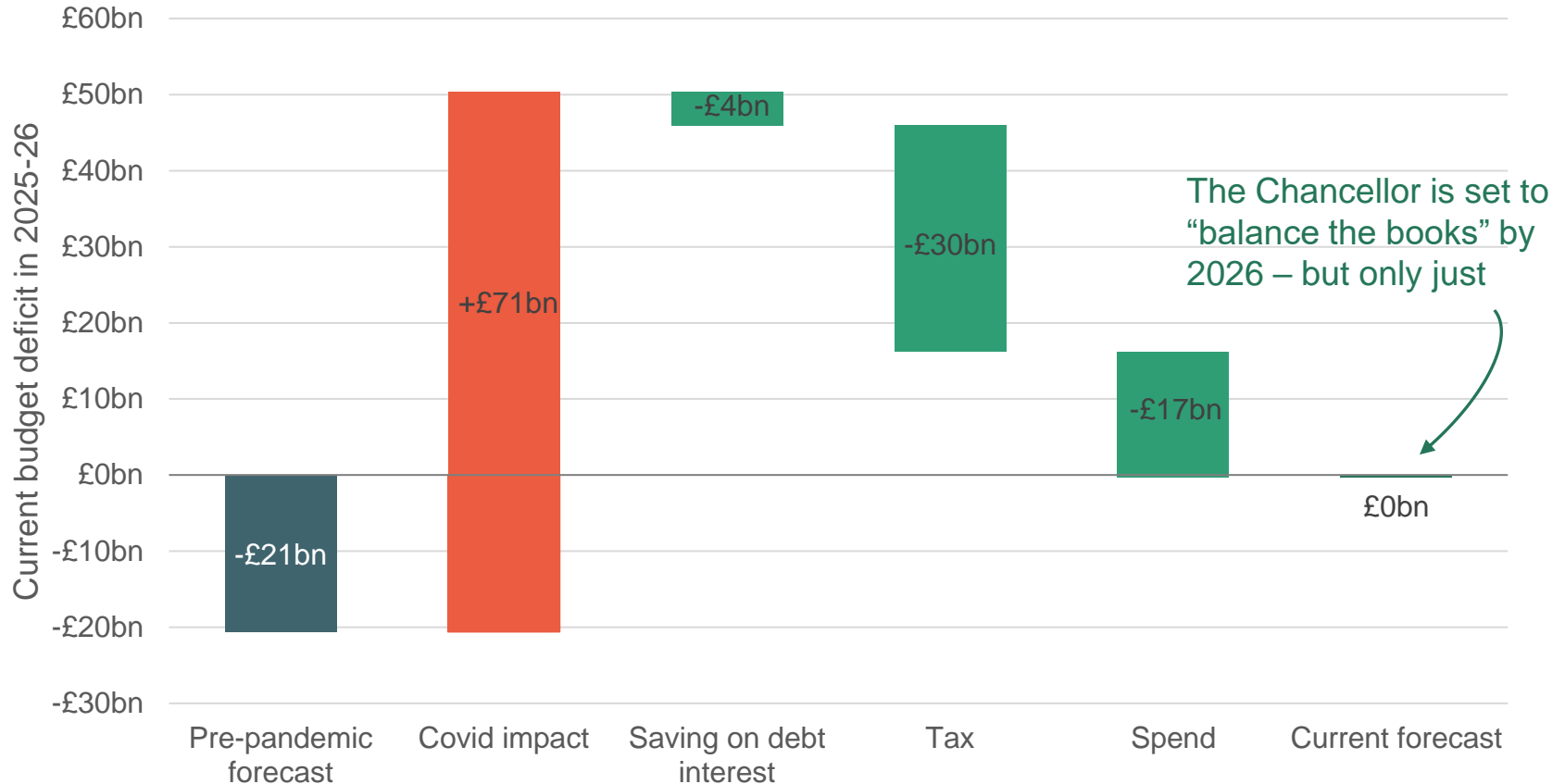


A tax-raising Budget



- Large increase in corporation tax, from 19% to 25% in 2023
 - Expected to raise some £17 billion by 2025–26
 - Offset by a major subsidy to company investment for the next two years (the so-called “super deduction”)
- Freezing of income tax thresholds from April 2022
 - Will pull more and more people into a higher tax bracket
 - The least progressive way to raise income tax!
- Other thresholds frozen
 - e.g. inheritance tax, pensions lifetime allowance
- Don't forget “Tax Day” on 23 March – mainly about consultations on possible future changes

Balancing the books before and after the pandemic



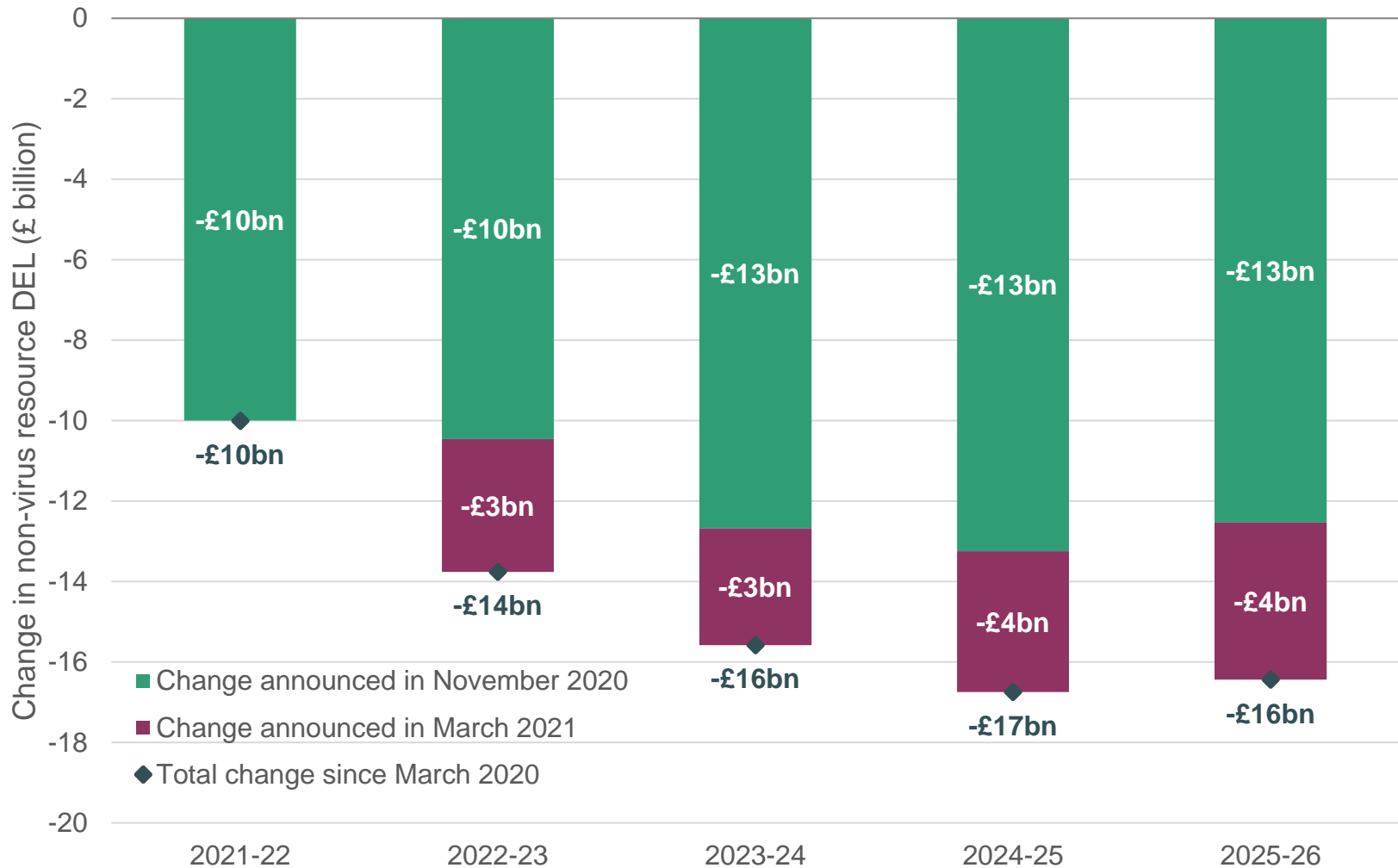
Note: cyclically-adjusted, under OBR's central scenario.

Things could easily be blown off course



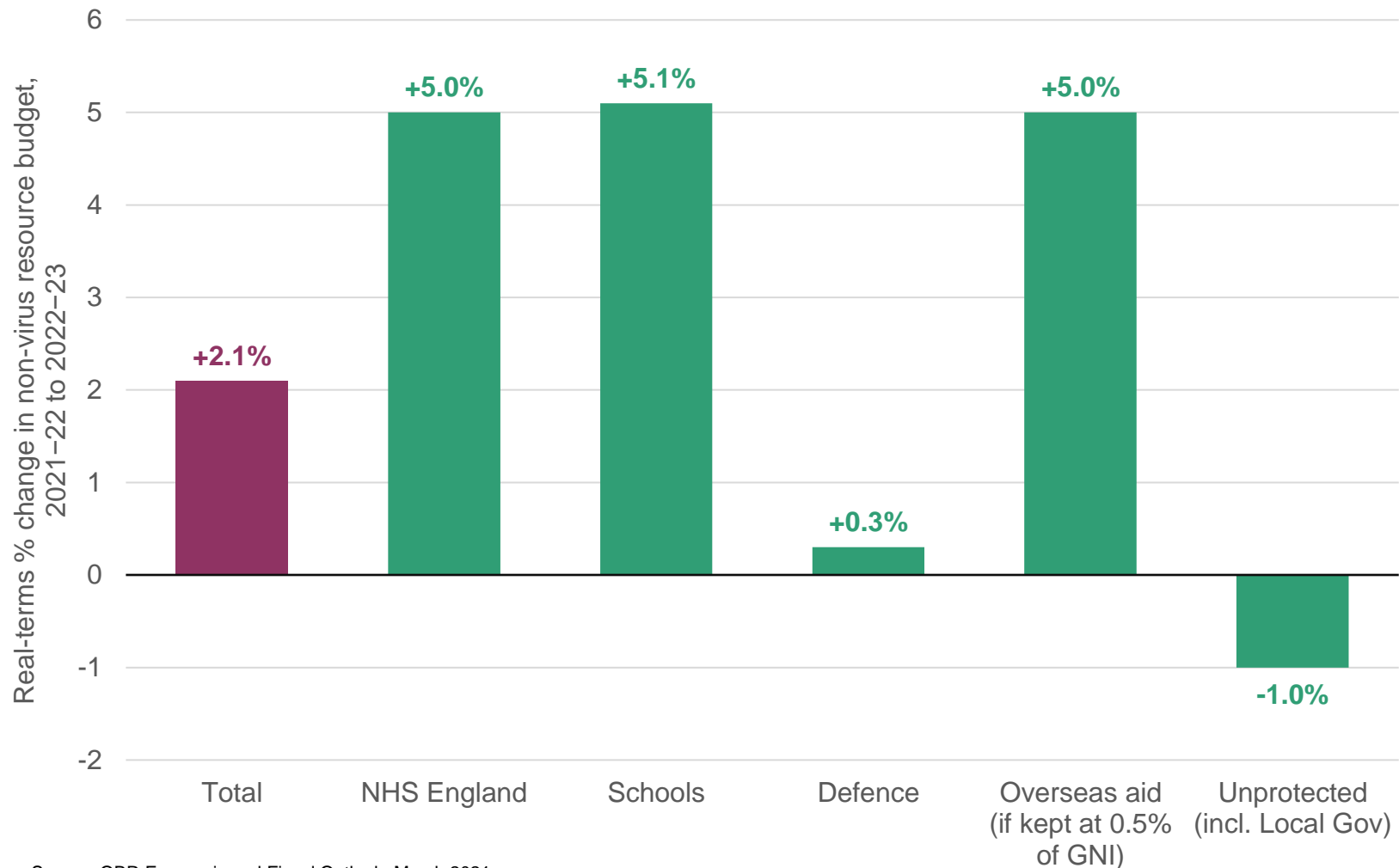
- There are numerous risks to the public finances, including:
 - Increased exposure of debt interest spending to movements in short-term interest rates
 - Might the economic recovery falter?
 - Will tax rises planned for the future actually materialize?
 - Are the Chancellor's spending plans credible?

Changes to non-virus resource budgets since last March



Note: Figures may not sum due to rounding. Source: OBR Economic and Fiscal Outlook, November 2020 and March 2021.

Some public services are facing a budget squeeze in 2022–23



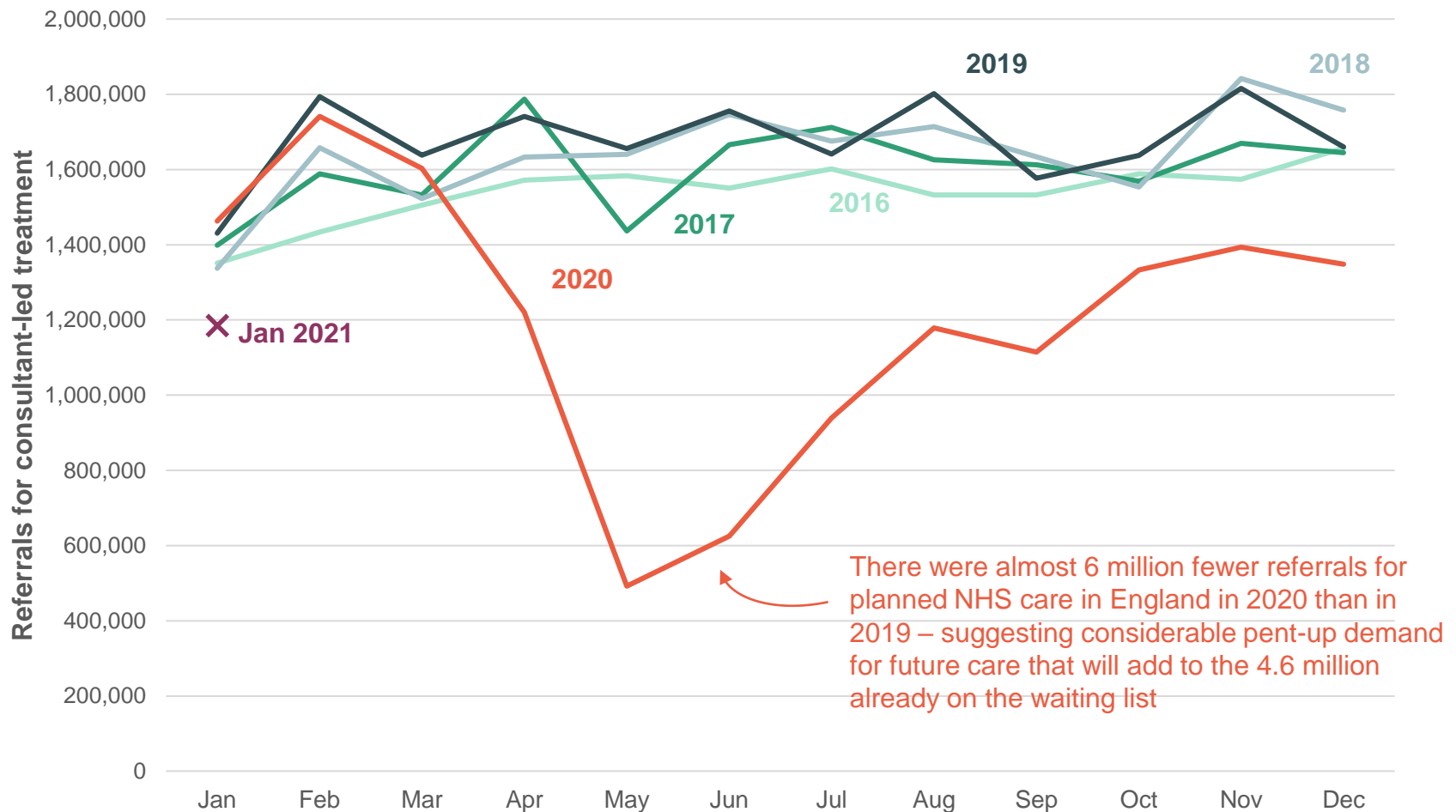
Source: OBR Economic and Fiscal Outlook, March 2021.

Are these plans credible?

- These spending plans make no allowance for the huge pressures that have arisen because of the pandemic
 - Lost learning in schools and the need for ‘catch-up’
 - Backlog in the courts system
 - Exceptional pressures on local government
 - Nothing in the Budget for social care – clearly a huge issue
 - NHS waiting lists and desire for ‘pandemic preparedness’

Post-pandemic pressures on the NHS will create demands for more funding

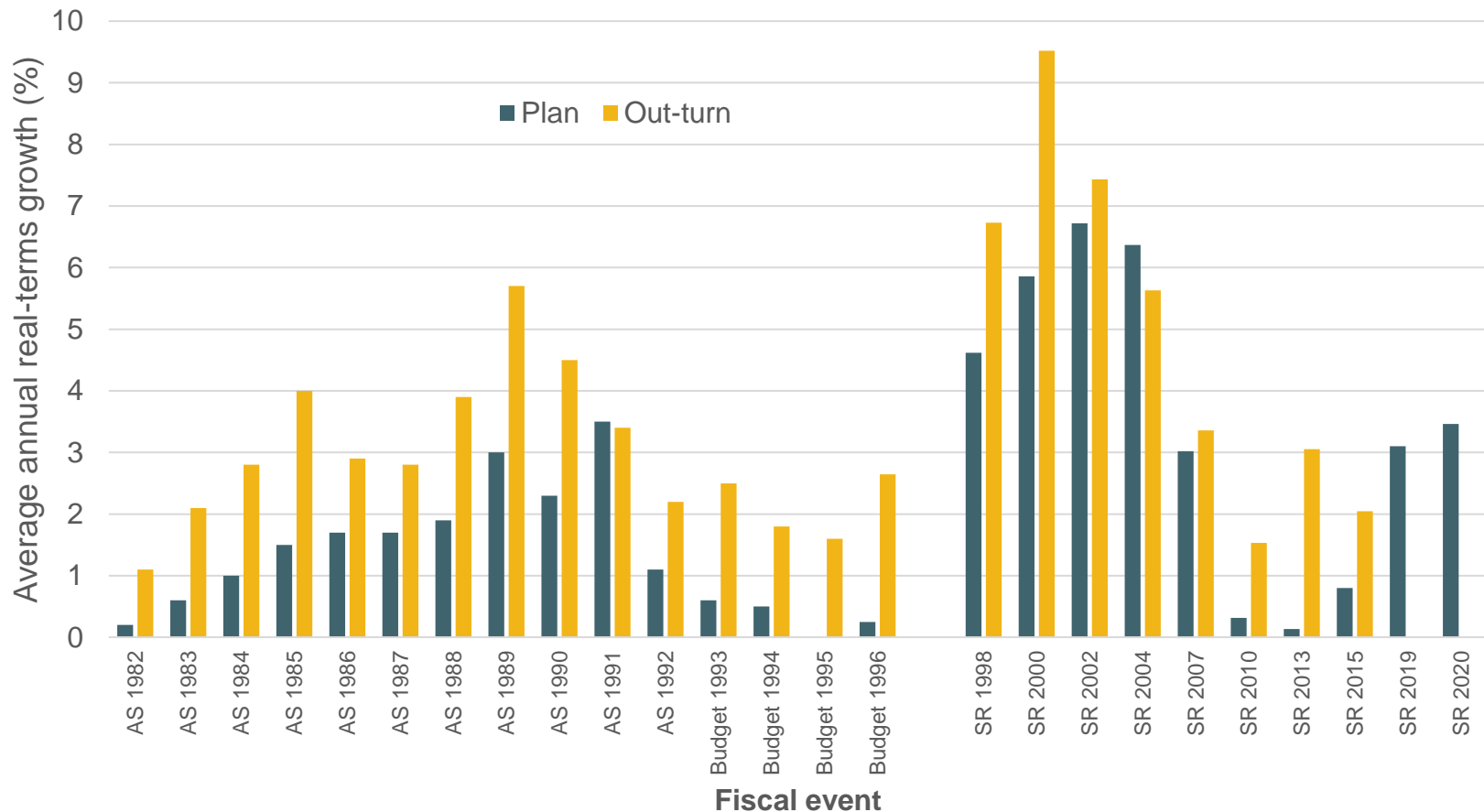
Referrals for consultant-led NHS treatment (England)



Source: IFS calculations using NHS England, Consultant-led Referral to Treatment Waiting Times Data.

NHS spending plans are almost always topped up

Health spending: planned and out-turn annual real-terms growth



Note: AS denotes Autumn Statement; SR denotes Spending Review. Figures refer to average annual real-terms percentage growth over the planning period (typically three years). For example, SR 1998 covered 1999–00, 2000–01 and 2001–02. Planned real growth rates are based on contemporaneous forecasts for the GDP deflator; out-turns use the November 2020 GDP deflator series. Out-turns are not yet available for SR 2019 and SR 2020. Source: IFS calculations using HM Treasury Budgets, Autumn Statements, Spending Reviews and Public Expenditure Analyses (various), with figures for AS 1982 to Budget 1995 taken from IFS Election Briefing 1997.

What do these plans imply for remaining public services?

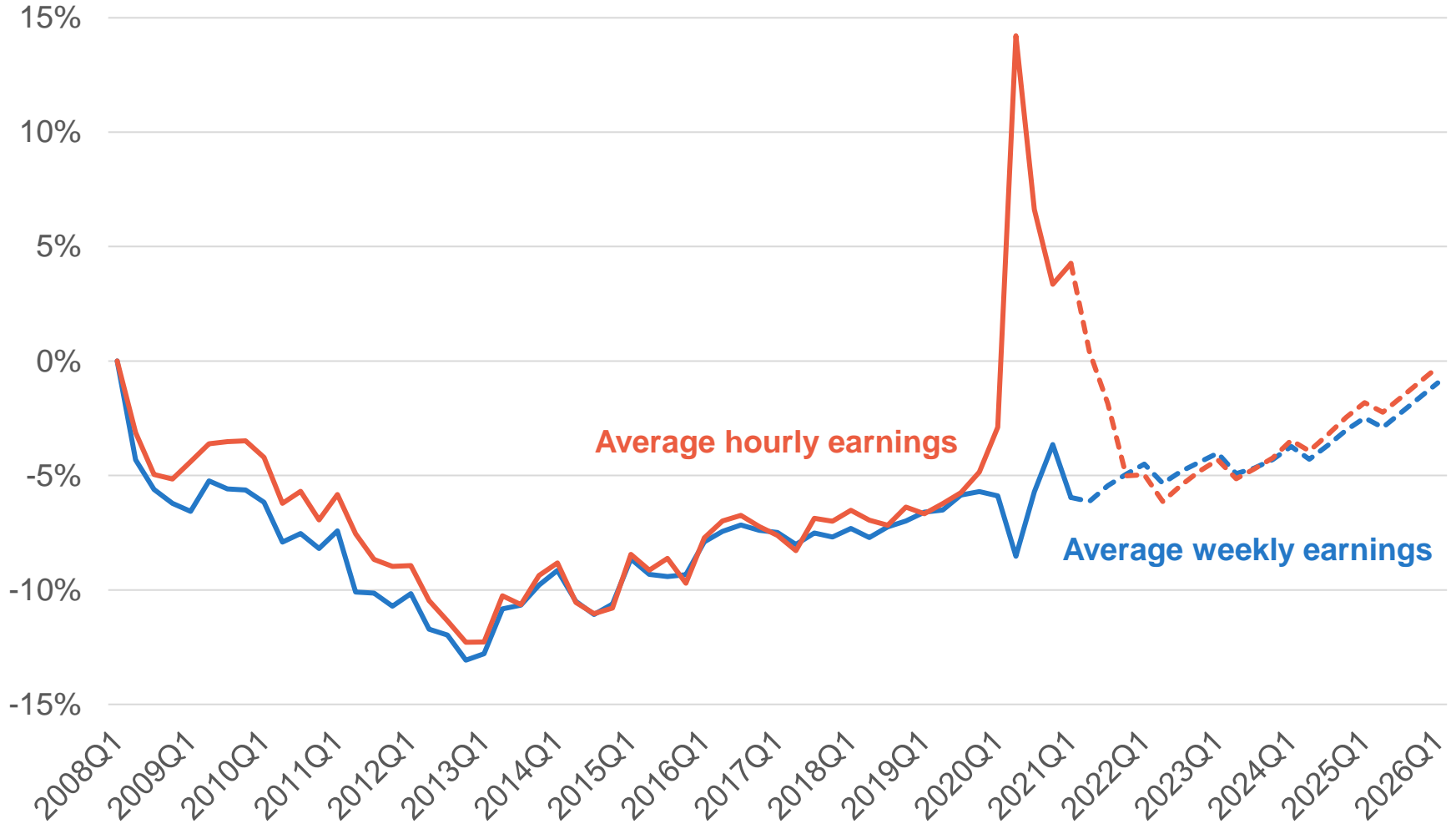
- In short: a very tough Spending Review later this year
 - Unprotected budgets (including local government funding) are facing real-terms cuts in 2022–23, based on these plans
- Raises some hugely important questions:
 - Are these cuts deliverable? At what cost?
 - If the NHS gets further top-ups (as seems inevitable), will that money be found by making further cuts elsewhere?
 - Is social care funding reform on the horizon at last? What will that mean for local government finances?
 - Does this mean we're in for another round of tax rises?

A rocky road ahead

- Dramatic worsening in economic outlook in last year
 - Enormous package of support across 2020–21 and 2021–22
- Subsequent tightening might be sufficient to deliver current budget balance and stabilise debt
- But enormous question marks hang over the future outlook
- Sad truth: highest sustained tax burden in UK history, and yet further cuts to unprotected budgets *only just enough* to deliver budget balance – a result of disappointing economic growth

More than a decade of paltry earnings growth

Real average earnings, change since 2008Q1

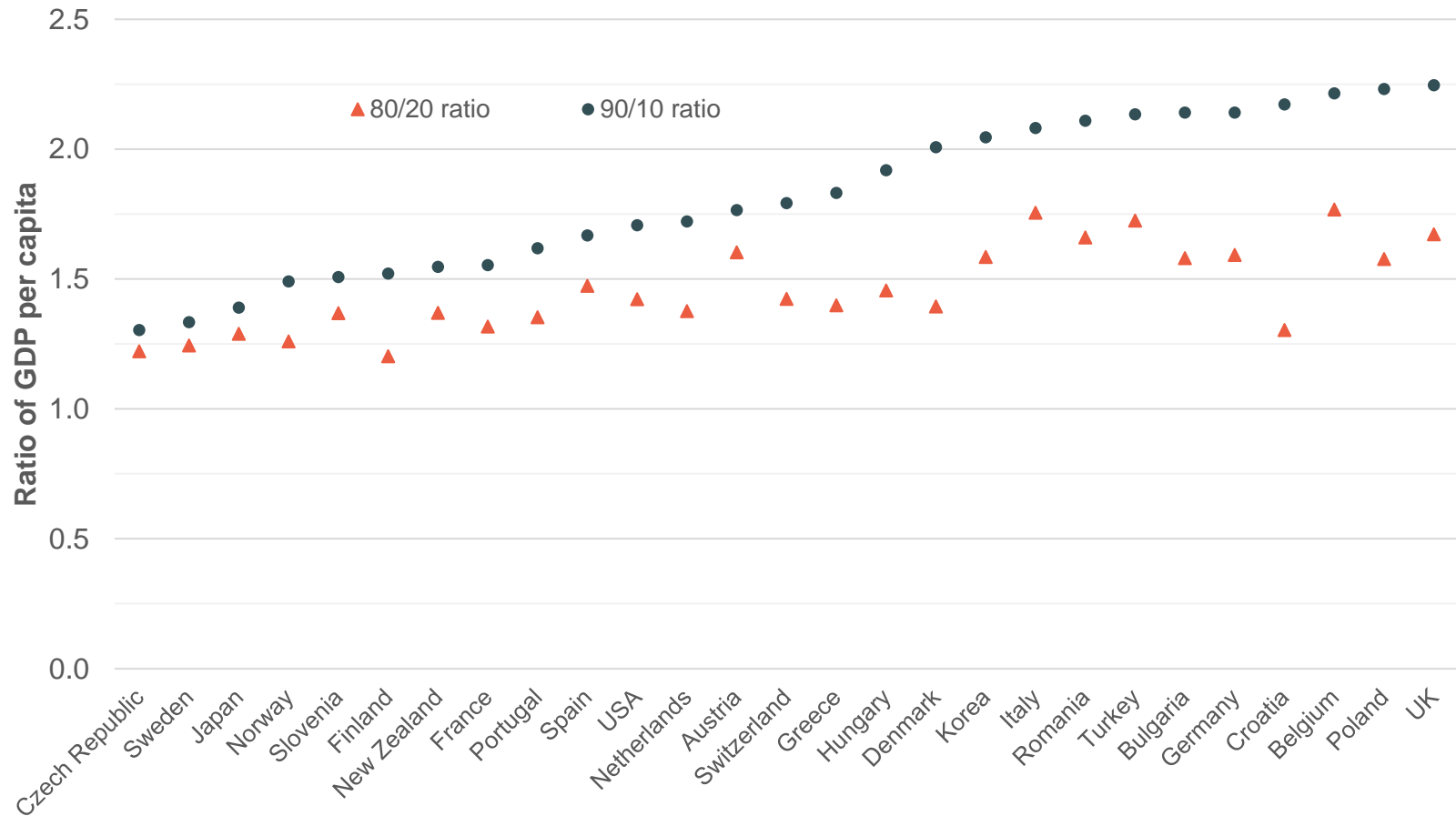


Note: Inflation measured using CPI index. IFS calculations using OBR's EFO March 2021. Dotted line is forecast.



‘Levelling up’

The UK is among the most geographically unequal developed countries



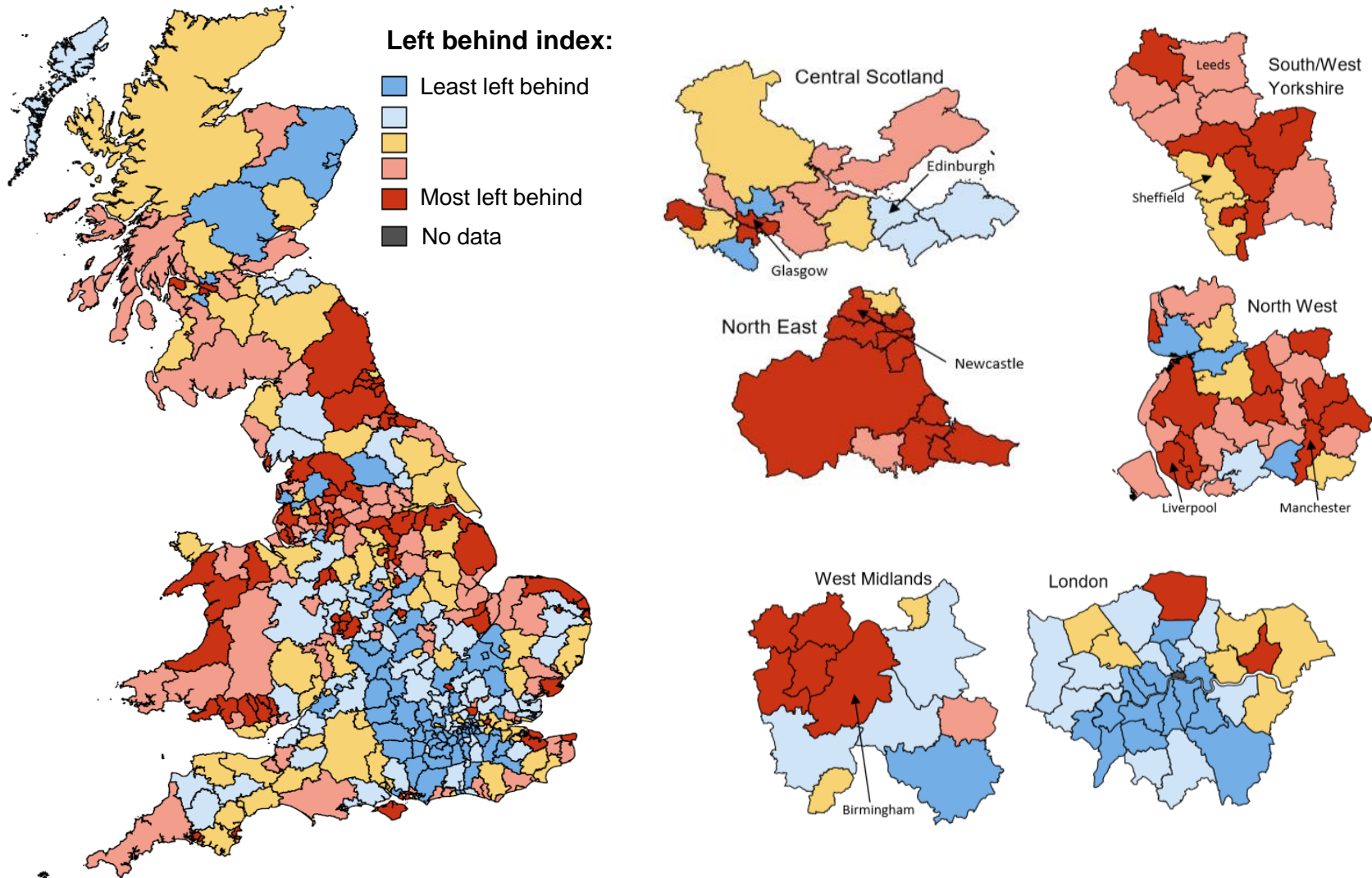
Source: Author's calculations using OECD Stat Regional GDP

‘Levelling up’



- Tackling geographic inequalities is a clear priority for this government and ‘levelling up’ was a major focus of SR 2020
- Still waiting on lots of the details – but likely focus on ‘left-behind’ areas
 - There is no single definition of being ‘left-behind’
- We consider pay, degree-level qualifications, incapacity benefits and employment, and combine these into one measure
 - Local authorities are mapped by quintiles (fifths) of this index.
- These areas are found across the country but some clear geographic patterns emerge

Where might be in need of 'levelling up'?



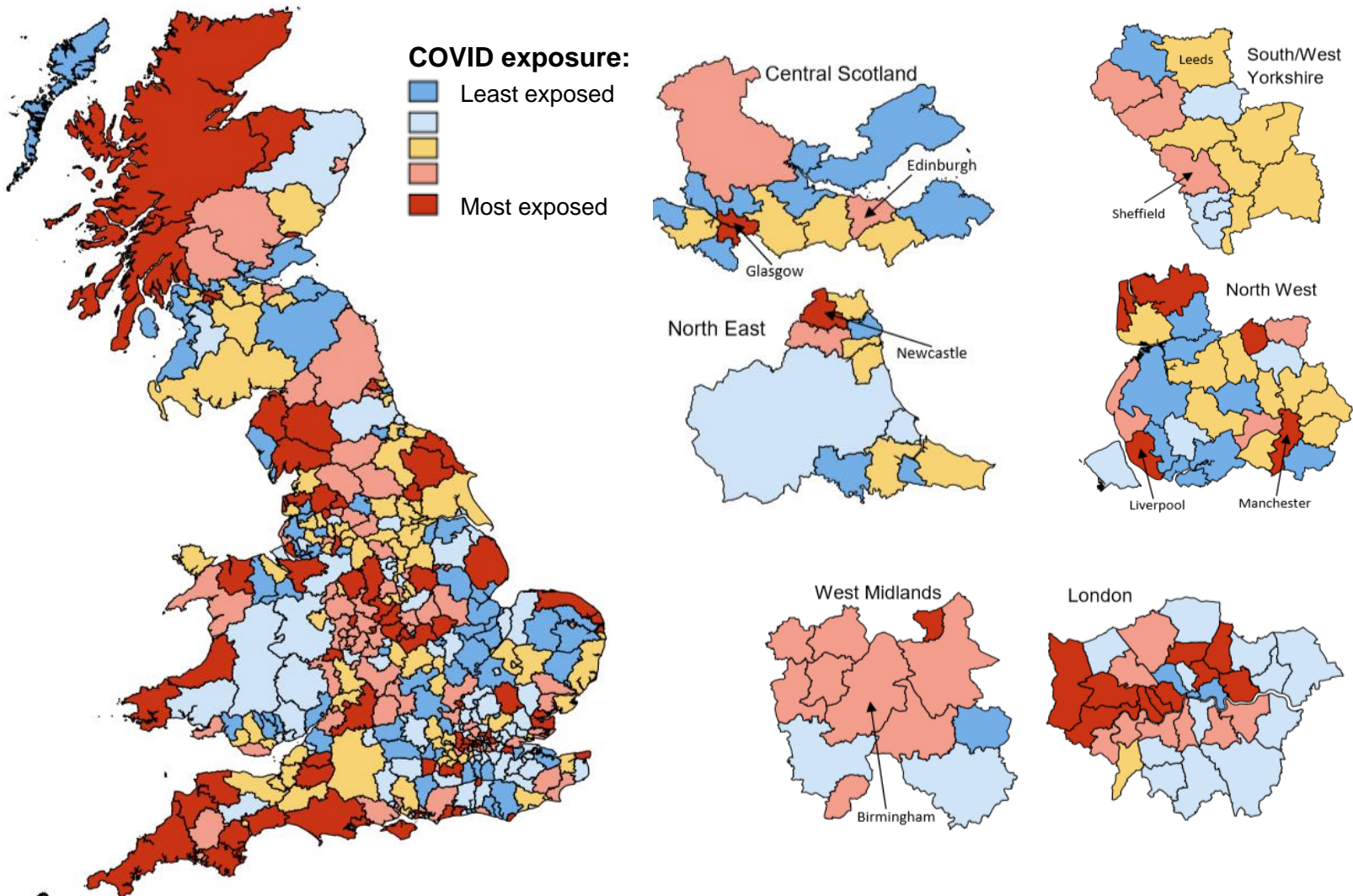
Source: A. Davenport and B. Zaranko, 'Levelling up: where and how?', IFS Green Budget 2020, <https://www.ifs.org.uk/publications/15055>

Which areas have been hardest hit by the economic impacts of Covid-19?



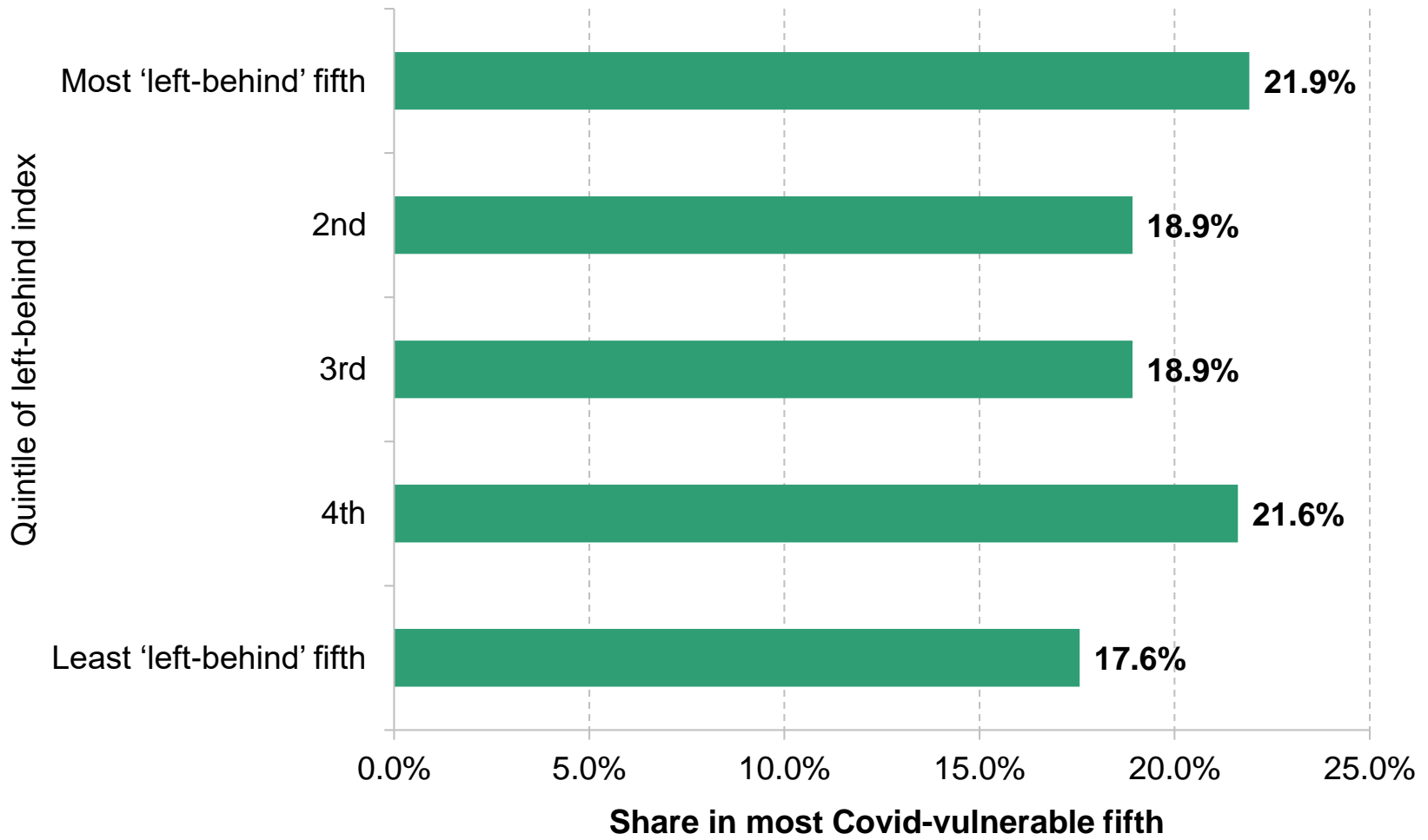
- The economic impacts of the pandemic have varied greatly by area
- Long-term implications are still highly uncertain
- Here, we focus on short-term economic impact and look at:
 - The share of workers in affected industries
 - The proportion of eligible workers ever furloughed
 - The fall in job vacancies from April-June 2019 to April-June 2020

Which areas have been hardest hit by the economic impacts of Covid-19?



Source: A. Davenport and B. Zaranko, 'Levelling up: where and how?', IFS Green Budget 2020, <https://www.ifs.org.uk/publications/15055>

No systematic relationship between the two measures

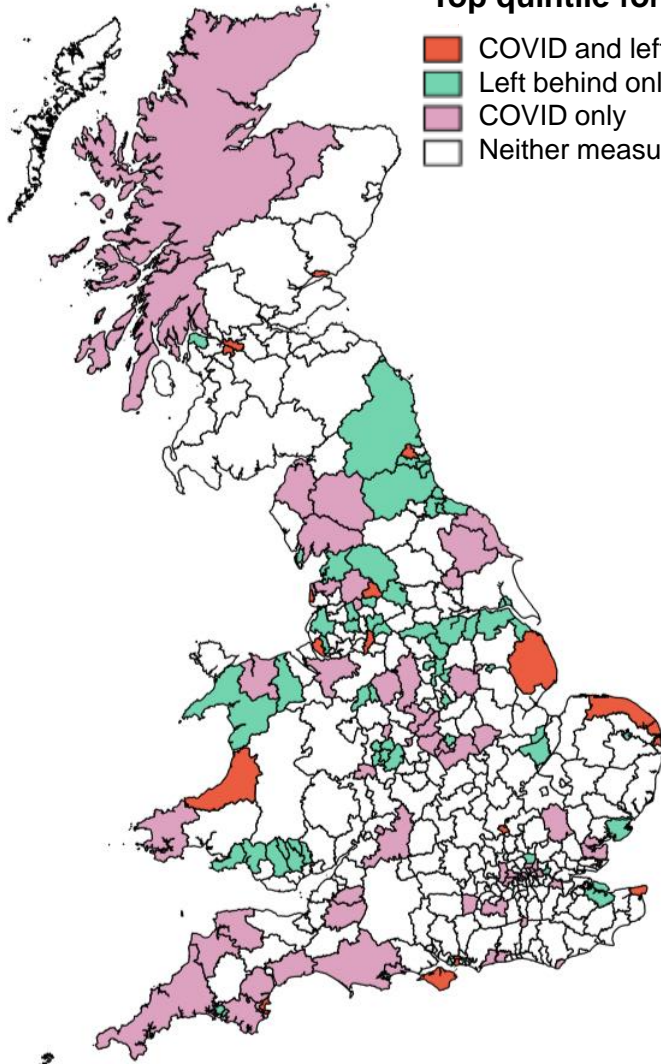


Source: A. Davenport and B. Zaranko, 'Levelling up: where and how?', IFS Green Budget 2020, <https://www.ifs.org.uk/publications/15055>

But some areas look vulnerable on both fronts

Top quintile for:

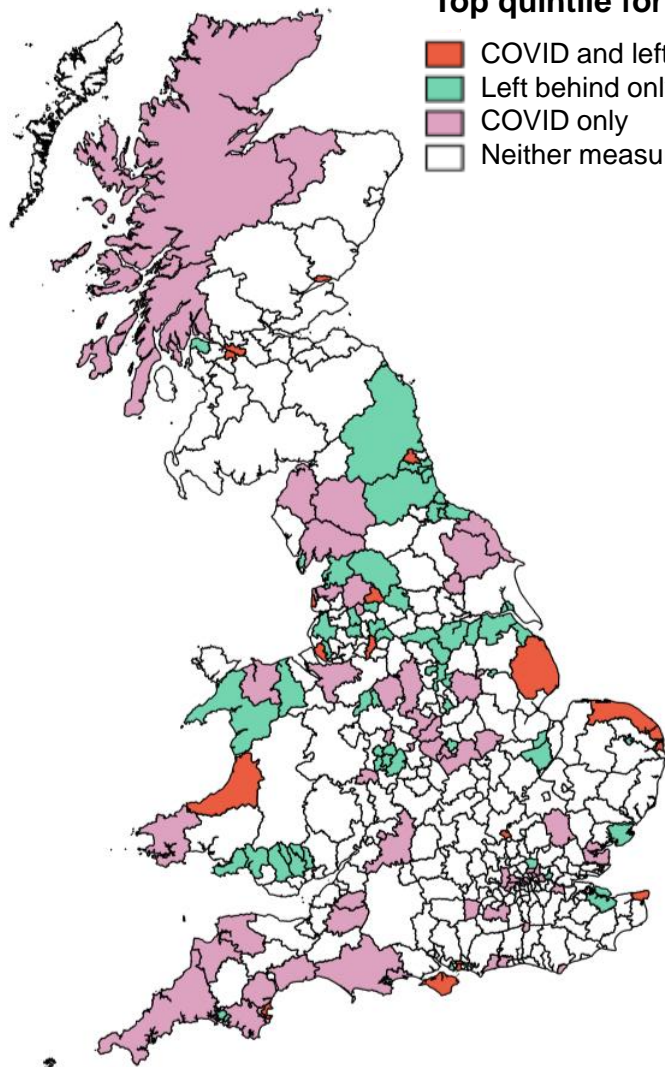
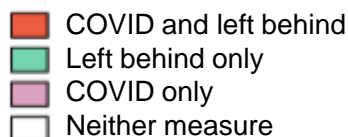
- COVID and left behind
- Left behind only
- COVID only
- Neither measure



Source: A. Davenport and B. Zaranko, 'Levelling up: where and how?', IFS Green Budget 2020, <https://www.ifs.org.uk/publications/15055>

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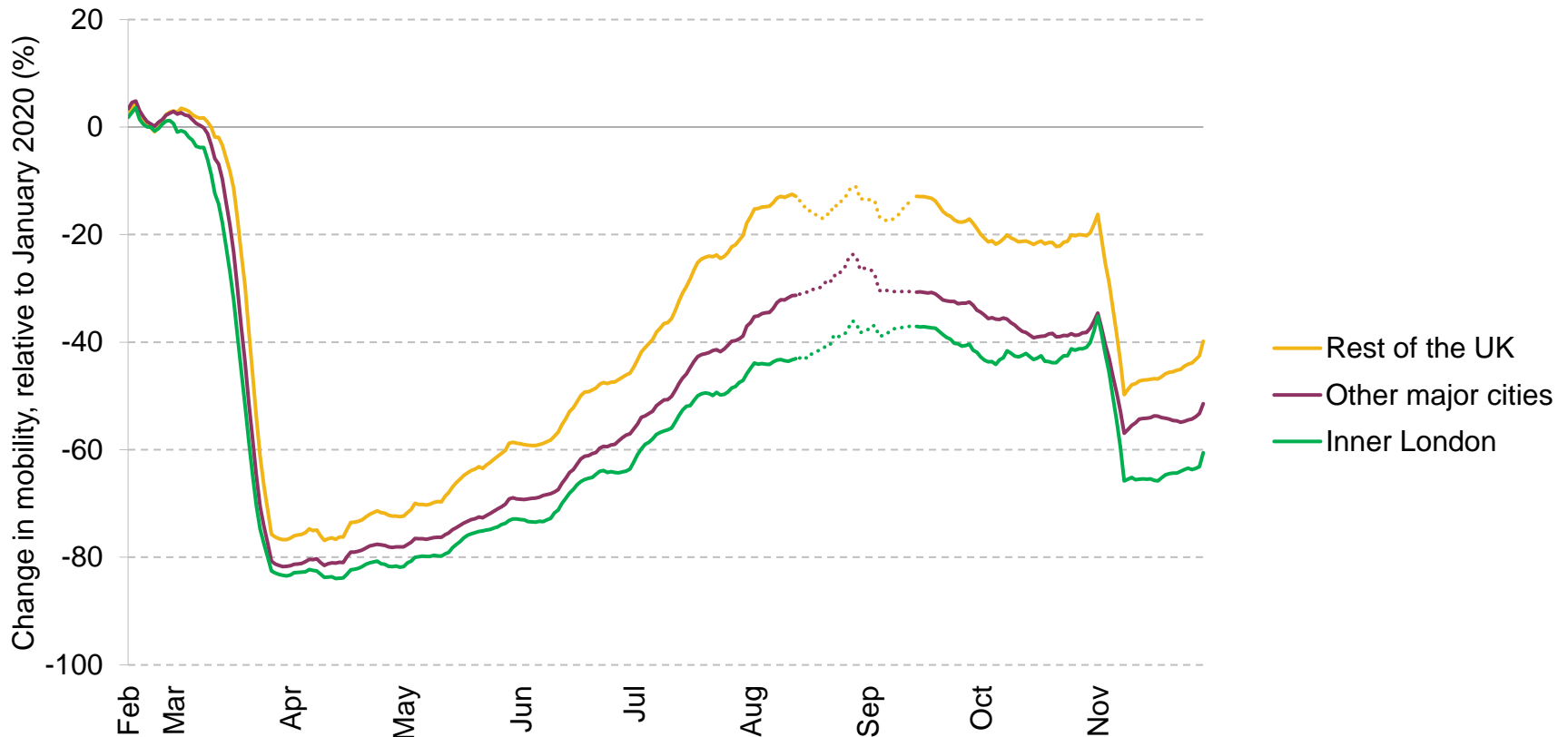


In general, the local authorities facing the worst short-term economic effects from COVID are not those that were already 'left behind'. But some city-centres and coastal communities appear vulnerable on both fronts:

Blackpool	Luton
Ceredigion	Manchester
Dundee	Newcastle
East Lindsey	North Norfolk
Glasgow	Pendle
Great Yarmouth	Portsmouth
Isle of Wight	Thanet
Liverpool	Torbay

Source: A. Davenport and B. Zaranko, 'Levelling up: where and how?', IFS Green Budget 2020, <https://www.ifs.org.uk/publications/15055>

Another perspective: centres of major cities have seen greatest reductions in footfall – changing patterns of need?



Source: K. Ogden and D. Phillips, 'Changing consumer behaviour has big implications for councils, not just businesses, and especially for those in major cities', December 2020, <https://www.ifs.org.uk/publications/15239>

‘Levelling up’: more slogan than strategy?

- No clear definition, and no fully-worked out strategy so far
 - Focus is evidently more on the politics than the economics
- Some tensions and unresolved issues
 - Centralised funding pots vs. local decision making power
 - Too much focus on capital investment?
 - Too many different schemes?
 - Picking winners vs. trying to please everyone
 - BJ: *“The government is committed to levelling up everywhere”*
- Finally: would a government truly serious about ‘levelling up’ make further cuts to local government funding?

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