



# 'Austerity' in public services

## *Lessons from the 2010s*

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### Introduction

The chancellor, Jeremy Hunt, has stated that he will be “asking all government departments to find additional efficiency savings”.<sup>1</sup> He has said that he “[doesn’t] think we’re talking about austerity in the way we had it in 2010”,<sup>2</sup> but with the total day-to-day spending at the health, education and justice departments alone coming to £260.4 billion a year, with capital budgets of another £15.2bn, public services may nevertheless appear to be a tempting target for cuts.

Indeed, even after his reversal of almost all of the tax measures in September’s ‘mini-budget’, it is estimated that the government will still need to find around £40bn of savings by the mid-2020s.\* Finding those from day-to-day departmental spending (which excludes social security spending) relative to current plans by 2026/27 would imply real-terms cuts on a par with the early 2010s, around 2% per year. Even reducing planned spending by £20bn would require real-terms falls of 0.8% per year overall.

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\* It has been reported that the Office for Budget Responsibility (OBR) estimated a £72bn gap, before the chancellor repealed £32bn of tax cuts.

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In practice, health and defence are likely to continue to increase in real terms given the government's commitments, which would imply even bigger cuts in other departments that have already seen big cuts over the past 12 years. The government might also look to cut public services' capital budgets again, as in the 2010s. On any reasonable definition, this would be a return to 'austerity'.

The prime minister and former chancellor, Rishi Sunak, has made the right call to delay the launch of his fiscal plans. Given the scale of challenges ahead, time is needed to fully evaluate likely outcomes. But whatever decisions emerge, the prospect of spending cuts to public services will remain high on the agenda. This paper assesses the extent to which the methods used to deliver savings of a similar magnitude to the 2010s can be applied now.

Our key findings are:

- Public services are in a much more fragile position now than in 2010. This is a result of both the first round of austerity and more recently the pandemic. Cuts are therefore likely to be both more damaging and harder to deliver.
- Many of the options used for saving money in the 2010s – namely holding down public sector pay and cutting staff while pushing them to work harder – are not politically or practically viable now. The NHS and schools already face the prospect of widespread pay strikes while there is a shortage of 50,000 nurses and 12,000 hospital doctors. And services can't improve staff productivity without time-consuming and expensive reforms.
- Some other approaches – such as cutting capital spending, preventative services or lower-profile services – could even be counter-productive, reducing productivity or increasing pressure on other services. For example, there is evidence that thousands more children end up in hospital every year as a result of cuts to the Sure Start centres.<sup>3</sup>
- Even in 2010 there were very few easy and genuine efficiencies to be found. A good example is GPs prescribing generics rather than brand name drugs – a saving that can't be made again.<sup>4</sup> In virtually all cases, quick cuts to funding will result in worse services and the need to provide emergency funding at a later date. Indeed, this is exactly what happened in adult social care and prisons over the past decade, where spending fell 10%<sup>5</sup> and 20%<sup>6</sup> respectively by the middle of the decade, before increasing again via emergency cash injections in the second half of the decade.
- Finding sustainable efficiencies will likely require time, capacity and upfront capital investment, such as in equipment, software or facilities. A serious plan for delivering long-term savings in this way cannot be developed within the short time between Jeremy Hunt becoming chancellor and the autumn statement.

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- If cuts are deemed necessary, it would be far better to set out a broad direction of travel now and use the time before the spring budget to assess the options.

## The scale of cuts required

*The Sunday Times* has reported that, before Jeremy Hunt U-turned on most of the tax measures in the Truss government's mini-budget, the 'fiscal hole' that the government was looking to fill was £72bn.<sup>7</sup> The tax U-turns announced on 17 October will save £32bn, but that could still leave £40bn of deficit reduction, either through tax rises or spending cuts, by the mid-2020s.\* The government could choose to close this gap through some combination of higher taxes, lower welfare spending and lower departmental spending on public services. Hunt has not ruled any of these out, but has indicated that he will be looking to departments to find 'efficiency savings' out of their day-to-day and/or capital budgets.

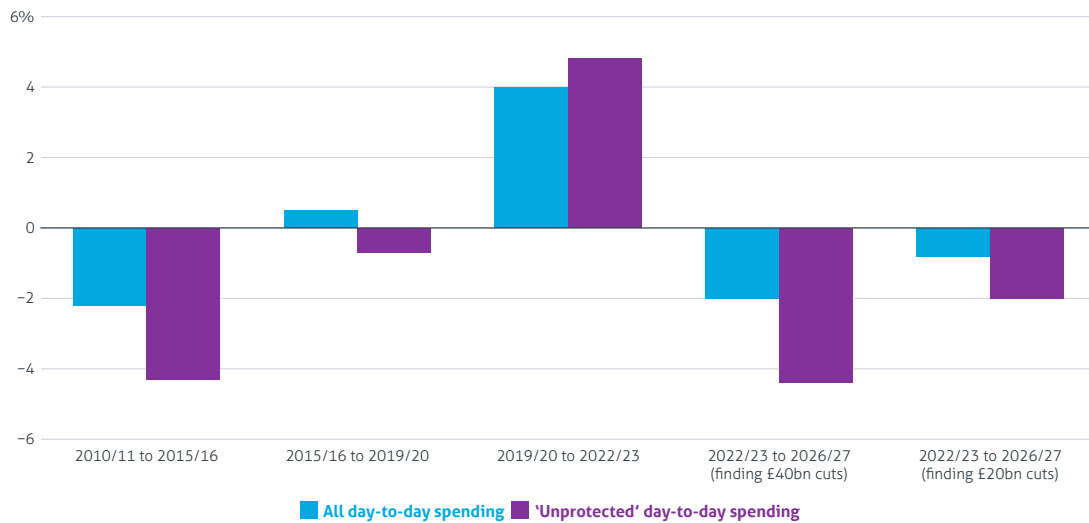
If the chancellor wanted to find all £40bn of cuts from day-to-day departmental budgets by 2026/27, that would require those budgets to fall by 7.8% in real terms (2% per year) over the next four years. Even cutting those budgets by £20bn relative to current plans (with the remainder found through higher taxes, lower capital spending or lower welfare spending) would require real-terms falls of 0.8% per year. And given government commitments to spend more on defence and the consistent protection of the health budget from cuts, this implies even larger cuts to other unprotected areas of spending.

As Figure 1 shows, finding £40bn from day-to-day budgets would require cuts on a par with the 2010 spending review period that launched the coalition's 'austerity' programme, while even cuts of £20bn would still require even tighter budgets than delivered in the 2015 spending review period. And while departmental budgets have increased in real terms over the last few years, this has coincided with additional demands wrought by the disruption of the pandemic and is not sufficient to unwind the cuts since 2010 in real terms, let alone once accounting for population and broader growth in demand.

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\* In practice, the chancellor may need to find somewhat less than that because the announced tax U-turns have reduced market expectations for interest rates (and therefore forecast debt interest spending) over the next few years).

Figure 1 **Average annual change in real day-to-day departmental spending since 2010 and going forwards under different scenarios**



Source: Institute for Government calculations using successive HM Treasury Public Expenditure Statistical Analyses and Spring Statement 2022. Note: Unprotected day-to-day spending includes all spending outside of the Department of Health and Social Care (previously Department of Health) and the Ministry of Defence. For scenarios, we assume that both health and defence spending increase by 2% in real terms after 2024/25 (when current spending review settlements end). We adjust the OBR's March 2022 GDP deflator to account for higher inflation as projected in OECD, World Economic Outlook, June 2022.

Capital budgets might also be cut, as they were in the 2010s. Reducing public sector net investment to 2% of GDP would mean cutting £14bn of capital spending in 2026/27. Assuming that defence spending would continue to increase, this would imply cuts of 13% to real-terms capital spending in other areas compared with 2022/23 budgets, although this would still imply quite high capital spending relative to recent history as it has increased substantially over the past few years.

## 2010s 'austerity' measures

### 1. Holding down wages

#### Why this may be considered again

Wages account for the majority of spending for most public services – direct staff costs account for 64% of hospitals spending and 80% of schools spending, for instance<sup>8</sup> – so a change in wages has a big impact on total public spending. A cross-the-board 1% reduction in pay equates to a saving of £2.4bn per year for the government.

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## Examples from the 2010s

Holding down public sector pay was an important tool during austerity for the coalition government, which implemented a two-year pay freeze between 2011 and 2013 and a 1% average pay cap from 2013 to 2017.<sup>9</sup> We estimate that this pay policy saved between £10bn and £20bn in 2021/22 prices relative to increasing public sector pay in line with the private sector over the same period.\*

## What's different now

It will be much harder for the government to make savings from wages now than in 2010. Wide-scale strikes are anticipated, even without further efforts to hold down public sector wages. Strike action is being discussed across services, in response to the below-inflation pay offers made over the summer. The Royal College of Nursing is balloting for strike action for the first time in its history,<sup>10</sup> and junior doctors are explicitly asking for 'pay restoration' – a pay increase of approximately 30% to bring them in line with 2008 real wages.<sup>11</sup>

Given the opposition to existing pay offers, it will be very difficult for the government to make further savings on wages, particularly given the inflationary environment. In the 2010s, low inflation meant that low nominal pay increases did not translate into massive real-terms pay cuts. With inflation now so high – surpassing 10% in September, for the second time this year – low growth in public sector pay will have a much greater impact on staff – many of whom are already struggling with the cost of living. The most recent NHS Providers report, for example, found more than a quarter of NHS trusts were offering food banks for staff and a further 19% actively planning to do so.<sup>12</sup>

Workforce problems predate the latest unrest. Despite relatively stable wages during the financial crisis, a decade of below-inflation pay increases means that public sector pay fell by 1.3% in real terms in the decade prior to the pandemic.<sup>13</sup> More importantly for recruitment and retention, analysis suggests public sector pay has lagged behind the private sector – increasing by 26% between 2010 and 2022 compared to 42% in the private sector.<sup>14</sup> As a result, the "public-private pay differential is now less favourable to the public sector than at any point in the past 30 years".<sup>15</sup>

Uncompetitive pay has played a part in workforce crises in a number of public services. In adult social care, it is estimated that 50,000 staff left the workforce in 2021/22, of which 35,000 were carers.<sup>16</sup> The proportion of roles in the NHS that are vacant was almost one tenth (9.7%) in June 2022 – the highest level on record. The Health Foundation estimates that there is a shortage of 4,200 GPs, which would equate to approximately 15% of the current GP workforce.<sup>17</sup> And in schools, postgraduate teacher training targets were missed in several subjects in 2021-22: in these, total trainee numbers were almost a third below the targeted level.<sup>18</sup>

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\* Average private sector weekly earnings increased by 15.1% between 2010 and 2017, whereas cumulative public sector pay awards imply an increase of 5.1% over that period. This would imply a saving of around £20bn, but this is likely to be an overestimate as the public sector promoted people more quickly to get around pay restraint. Average public sector pay increased by around 10% over this period – if it had instead increased in step with private sector pay it would have saved the public sector around £10bn in today's prices. But this is an underestimate because, on average, the public sector was more likely to cut lower paid roles so we would expect the average seniority (and so average salary) of the public sector to have increased. The true saving will lie somewhere between these two estimates.

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Maintaining public sector staffing levels is important in and of itself but is especially important given the size of backlogs in many public services. In *Performance Tracker 2022* we concluded that staffing was the key barrier to reducing backlogs in general practice, hospitals, criminal courts, adult social care, prisons and neighbourhood services – meaning these services are unlikely to return to pre-pandemic performance levels unless staff are better incentivised to join, and stay, in the public sector.

### **Likely outcomes**

- Holding down public sector wages would worsen recruitment and retention at a time when many services are already facing severe workforce problems.
- It will further increase the likelihood and probable severity of strikes among groups such as nurses, junior doctors and teachers.
- Both of these outcomes will contribute to larger backlogs and longer waiting times for public services as they recover from the pandemic.

## **2. Cutting staff**

### **Why this may be considered again**

As with cutting wages, a 1% reduction in staff numbers equates to a saving of £2.4bn per year for the government.

### **Examples from the 2010s**

Between September 2009 and May 2013, the NHS cut the number of managers and senior managers by 30.4% and 31.5% respectively.<sup>19</sup> By 2018 police officer numbers were down 14.8% on 2010 levels, equating to 21,000 fewer officers. The prison service lost 26.6% of its officers between 2009/10 and 2014/15, a reduction of 6,600. A substantial number of police and prison staff left through voluntary redundancy schemes introduced to enable budget cuts<sup>20</sup> – more than 1,500 prison officers in a single year between 2013 and 2014, many of whom had more than 20 years' service.<sup>21</sup>

In all three of these examples, the government subsequently increased staff numbers again, but only in the case of NHS senior managers did the headcount fully recover.

### **What's different now**

As noted, there are workforce problems across many services. The impact of this is already being felt. The NHS struggles to discharge patients from hospitals into social care due to staff shortages there. Evidence from patient surveys shows public frustration at difficulties in getting a GP appointment. The primary barrier to reducing the crown court case backlog is the shortage of judges and barristers.<sup>22</sup> Barristers' industrial action in 2022 gave a stark illustration of the impact of staff shortages on the service: on average fewer than 300 trials were completed a week between April and July 2022, down from an average of 350 in 2021/22.<sup>23</sup>

Many services have experienced high turnover of staff, either due to cuts to staff

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numbers since reversed or due to worsening retention, which requires hiring new staff. The result of this is that public service workforces are now less experienced. For example, the number of prison officers with fewer than five years' experience increased from less than a quarter to more than half between 2009/10 and 2021/22 (22% to 52%).<sup>24</sup> Less experienced staff tend to be less effective. In prisons the increase in relatively inexperienced officers during the 2010s has been tied to the number of assaults on both prisoners and staff increasing. In the NHS, one study found that having more experienced nurses and more nurses employed directly by the trust – as opposed to bank or agency nurses – on a shift led to improved mortality among patients.<sup>25</sup>

Hiring new staff is also expensive. Even without the additional salary, National Insurance and pensions costs, the Home Office expects to spend £3.6bn up to March 2023 recruiting, training and supporting new officers as part of the Police Uplift Programme.<sup>26</sup>

### **Likely outcomes**

- Reducing staff numbers will lead to a reduction in service delivery. There will be fewer teachers to facilitate learning catch-up, fewer nurses to care for patients in hospitals, or fewer GPs to deliver appointments – all at a time of surging demand.
- It will probably be deemed necessary to rehire and train new staff, at higher cost, in a few years when service standards become politically unacceptable, especially given the 2019 Conservative manifesto promise to “deliver world-class public services”.<sup>27</sup>
- This will mean less a experienced – and so effective – workforce than if staff had not been cut in the first place.

## **3. Pushing staff to work harder**

### **Why this may be considered again**

Improving the productivity of retained staff could allow government to cut staff numbers without reducing the quality or scope of public services. If productivity were to increase by 1%, public services could provide the same service using fewer staff and in effect save £2.4bn.

### **Examples from the 2010s**

Doing more with less is never easy. In schools between 2010 and 2021 the pupil–teacher ratio rose in both primary and secondary levels, from 20.4 to 20.6 and 14.8 to 16.7 respectively. This is despite research showing that smaller class sizes are more beneficial to pupils as teachers can better focus on smaller groups and teach more flexibly.<sup>28</sup> In adult social care, the early part of the last decade saw a rise in the number of local authorities commissioning home care visits in much shorter allocations – 15 minutes rather than 30, 45, or 60.<sup>29</sup> This meant carers being forced to do the same amount of work in less time, which in turn led to higher levels of unmet need for users.<sup>30</sup>

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## What's different now

Following a decade of spending cuts, or below-trend spending increases, there are few services where staff have not had to take on additional work, with many working longer hours. A prime example of that is GPs, where 'part-time' GPs now often find themselves working beyond the 37.5 hours per week expected of their full-time colleagues.<sup>31</sup> For their part, full-time colleagues work even longer hours – sometimes as much as 50 hours a week.<sup>32</sup>

This worsens retention rates. The proportion of staff citing work–life balance as a reason for leaving the NHS climbed to its highest level on record in 2021/22, to 18.7%, up from 9% in 2011/12 (the first year of the survey). A similar picture is true for GPs, where the GP work–life survey reveals that "increasing workloads" is the factor rated as the highest job stressor by respondents.<sup>33</sup>

There has also been a worsening of mental health among staff working in public services over the last decade. The proportion of available full-time equivalent (FTE) days in the NHS lost due to mental health reasons rose from 0.7% in 2015/16 to 1.3% in 2020/21. This was not just a pandemic effect; the proportion was 1.1% in 2019/20.

Staff productivity gains, even where possible, have an upper limit: no matter how efficiently a nurse works, without better equipment or systems, there are only so many people they can care for in a given shift. It is likely that this limit was neared if not reached during the 2010s and further reductions carry real risks. For example, increasing patient-to-nurse ratios in hospitals leads to worse outcomes for patients, extending to higher risk of in-hospital mortality.<sup>34</sup>

In recent years productivity had fallen in a number of services even before the effects of the pandemic are fully felt. Health care productivity, as measured in national accounts based on certain outputs such as the number of GP appointments and patients seen in hospital, declined in both 2018/19 and 2019/20, by 0.7% and 2% respectively.<sup>35</sup> The decline in adult social care productivity is longer term: the last time that productivity grew year-on-year was the 12 months to 2007/08 and productivity fell 3.4% between 2009/10 and 2019/20, followed by a more stark 7.4% fall in 2020/21 (though this is likely due to Covid).<sup>36</sup>

These falls have happened despite efforts to get more out of staff. And given the ongoing burden of Covid on the NHS and social care in particular, this approach, especially if hardened, is unlikely to enable services to return to pre-pandemic levels for a number of years. Future productivity improvements are more likely to come from systemically reducing service delivery bottlenecks.<sup>37</sup>

## Likely outcomes

- Pushing staff to work harder leaves retained staff with additional workload that will likely contribute to worsening mental health outcomes, higher levels of staff absences and lower retention rates – all of which place even more pressure on the workforce.



## 4. Cutting public service capital spending

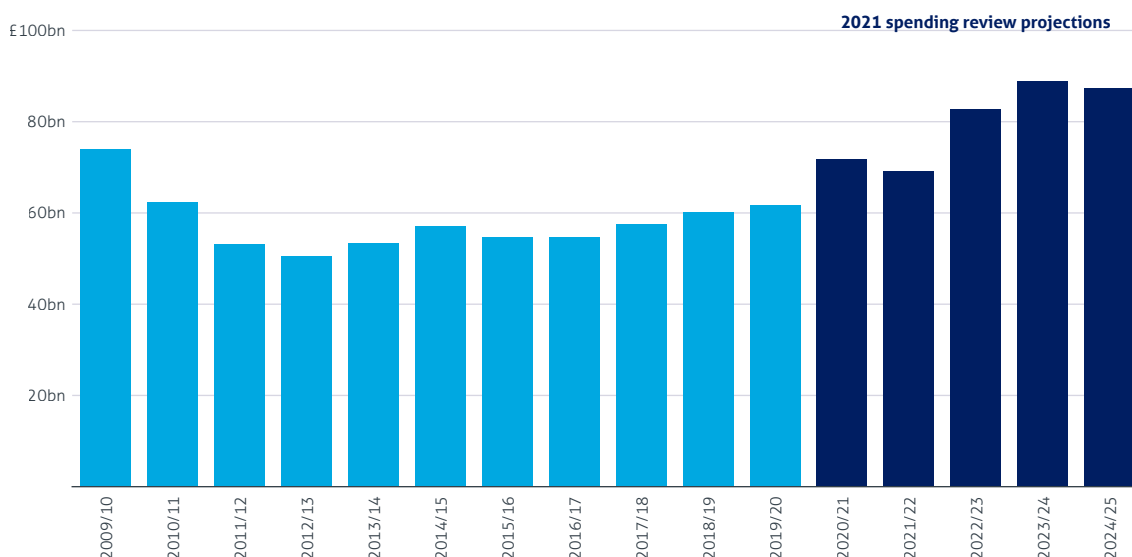
### Why this may be considered again

Public sector net investment is currently expected to be maintained at 2.5% of GDP, which would be a high level relative to the last 30 years or so. The impact of cuts to public service capital spending – which result in a gradual erosion of the quality of infrastructure, from hospital buildings to schools – also takes longer to become apparent to the public than cuts to day-to-day spending. Both factors could make investment spending an attractive option for cuts. In the 2021 spending review, the government announced average annual real-terms planned capital expenditure of £51.3bn for the years 2022/23 to 2024/25 (excluding spending by the business, defence and transport departments).<sup>38</sup>

### Examples from the 2010s

Capital spending fell by 31.9% in real terms between 2009/10 and 2012/13 (2021/22 prices) and took until 2020/21 to return to 2009/10 levels.<sup>39</sup>

Figure 2 **Government CDEL spending (real terms)**



Source: Institute for Government analysis of Office for Budget Responsibility, Fiscal supplementary tables: expenditure, table 3.3, March 2022, supported by CIPFA

For example, between 2013/14 and 2018/19, NHS providers cut spending on equipment such as MRI scanners by 62.6% in real terms. Some of the money intended for capital investment was also diverted to meet day-to-day spending pressures instead.<sup>40</sup> Spending to improve existing buildings, however, was comparatively protected, falling by just 16.3%.<sup>41</sup>

### What's different now

A sizeable and increasing estate maintenance backlog has built up across public services. In schools, the NHS, courts and prisons this amounts to £23.7bn.<sup>42</sup> Schools face a record backlog of £11.2bn with the latest assessment of the schools estate identifying

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the need for repairs of £311,000 for each primary school and £1.6m for each secondary school. Similarly the NHS hospital estate faces a maintenance backlog of £10.2bn. Prisons face a backlog of £1.3bn and courts £1bn.

Capital underinvestment is affecting current and future public service provision and inaction could lead to worse productivity and service reduction. This would be felt across services: poor quality prison cells are taken out of service adding further pressure to overall prison capacity; in hospitals, surgeries cannot be carried out in theatres that lack air-conditioning and faulty equipment reduces the throughput of procedures. The Health Foundation has found that ageing infrastructure and the repairs backlog is harming productivity, having negative effects on patient care and safety and is hampering medical staff's ability to deliver optimal care.<sup>43</sup> Left unchecked, this will impede NHS transformation plans including efforts to improve cancer survival.<sup>44</sup>

Even prior to the pandemic NHS Providers was warning that, following constraints on capital spending since 2010, the NHS has been unable to invest in new buildings, equipment, IT and digital technology necessary to improve efficiency and match physical capacity to increasing demand.<sup>45</sup>

### **Likely outcomes**

- Money saved in the short term from cutting capital budgets can be more than offset by the additional cost of addressing more complex maintenance problems in the future or the need to purchase completely new assets then.
- Cuts to capital will likely damage the long-term effectiveness of public services and reduce the productivity of highly trained and hard to recruit staff.

## **5. Cutting preventative and early intervention services in favour of acute and statutory services**

### **Why this may be considered again**

Preventative and early intervention services are intended to improve outcomes in the medium to long term by tackling the root causes of various problems, from early medical screening reducing the need for serious surgery later or early-intervention crime-prevention schemes keeping more people out of prison. Cutting these services is politically attractive because savings are immediate while benefits are often diffuse, accrue over a long period of time and are difficult to quantify.

Indeed, it is difficult to give a precise estimate of how much the government could save by pursuing this approach, as preventative and early-intervention services have different costs. But as an example, the Truss government announced that it intends to scrap plans to tackle obesity.<sup>46</sup> This is likely to include its 'Tackling Obesity' plan, which was set to cost £100m.<sup>47</sup>

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## Examples from the 2010s<sup>48</sup>

The governments in the 2010s cut many preventative services but one of the key areas was in children's services, where spending on Sure Start centres and youth services fell by 68.9% between 2009/10 and 2020/21. However, this proved something of a false economy, with spending on children's social care rising by 34.9%<sup>49</sup> over the same period.

Similarly, spending on the Supporting People Programme (SPP) – a service designed to allow vulnerable people to live independently – fell 79% in real terms between 2009/10 and 2019/20.<sup>50</sup> In the same period, spending on homelessness services increased 115% in real terms.

## What's different now

Many of the preventative and early-intervention services that existed at the beginning of the 2010s have already been cut deeply. The result is that the proportion of budgets spent on acute, demand-led and statutory services has increased.

When many of these cuts were first implemented, there was not an obvious short-term worsening in outcomes; children who did not go to Sure Start centres did not immediately require child protection services, and an underinvestment in preventative mental health services did not instantaneously translate into greater pressure on police to deal with mental health crises. However, the medium- to long-term outcomes are now being felt: there were 25.6% more 'looked after children' in 2020/21 than in 2009/10<sup>51</sup> and police now report spending more time dealing with mental health incidents.<sup>52</sup>

Examples are not limited to these two services: there is more homelessness than a decade ago following spending cuts on preventative housing support, worsening transport links due to reduction of bus and rail subsidies meaning lower productivity, and increasing complexity of conditions for people in the health and social care systems due to poor community and social care provision.

Cutting preventative and early-intervention services can also have an impact on macroeconomic outcomes, and would be difficult to square with any government's ambition for improved growth. There is evidence that investment in early-years education can improve acquisition of skills throughout an individual's life, making them more productive and helping increase GDP.<sup>53</sup> Likewise, providing secure housing can improve health, education outcomes, and even mortality, while reducing rates of criminal convictions.<sup>54</sup>

Finally, people from disadvantaged backgrounds are more likely to rely on and benefit from preventative services.<sup>55</sup> Cuts to these services over the past decade have had a negative impact on the social determinants of health, particularly in more deprived areas, contributing to growing health disparities.<sup>56</sup>

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## Likely outcomes

- Further cuts to preventative services are likely to lead to increased spending on acute services in the medium to long term.
- They will also either worsen outcomes for disadvantaged groups, or prevent progress in closing the outcome gap between more and less disadvantaged sections of society.
- Cutting these services is also likely to undermine the government's efforts to increase growth.

## 6. Reducing scope of services

### Why this may be considered again

Reducing the scope of services could mean outright cessation of government provision of a service, introducing a charge for a previously free service, or otherwise rationing a service. This can be attractive because it can often be done relatively subtly, for example, by not raising a means test in line with inflation (as has happened with adult social care).

It is difficult to quantify exactly how much this could save, as each service has vastly different costs, with different possibilities of reduction in scope. As an example, however, the Health Foundation estimated in 2019 that it would cost £12.2bn to return adult social care to 2010/11 levels of access – more than 60% of the amount spent on the service in 2019/20 – providing an indication of the extent to which the scope of that service was limited in the 2010s, and the difficulties the government would have in further reducing the scope.<sup>57</sup>

### Examples from the 2010s

Local authorities bore the burden of some of the worst cuts during the last decade and as a result reduced access to many neighbourhood services. Councils closed a third of libraries, local authority-subsidised bus miles halved – as did the proportion of local authorities providing weekly bin collections.

However, adult social care has arguably experienced the largest scaling back. This has happened through a combination of frozen financial eligibility thresholds, more stringent assessment of potential service users and insufficient funding of social care providers limiting the number of available places. The result has been a 16.6% decline per capita in the number of people aged over 65 accessing long-term care in 2020/21 compared to 2014/15.<sup>58</sup> This reduction contributed to rising unmet need which in turn meant a deterioration of condition for those not able to access care and an increased burden on unpaid carers.<sup>59</sup>

### What's different now

Many of the opportunities for easily reducing the scope of services have already been taken since 2010. The vast majority of spending is now accounted for by services that

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government has a statutory duty to deliver or which would be politically difficult to cut.

Indeed, the government has been unable to sustain all of the reductions that were made to public services in the first half of the 2010s. Spending on adult social care began to rise again from 2014/15, as it did for prisons the following year. Performance standards fell too far and it was necessary to provide emergency funding injections. Unfortunately, this cycle of “crisis, cash, repeat”<sup>60</sup> is less efficient than proper financial planning. This is evident in adult social care, where the trend towards short-term, emergency funding injections in response to crises makes it difficult for local authorities to forecast spending, which in turn contributes to financial uncertainty<sup>61</sup> for providers, disincentivising investment in the sector.<sup>62</sup>

There is also greater demand for many services than there was in 2010. Therefore, even if the government decides to reduce the scope of services, overtly or subtly, spending increases may still be necessary – as was the case in adult social care.

### **Likely outcomes**

- Reducing the scope of service provision will likely push people to other public services. For example, cuts to social care increase demand for primary and secondary care as users’ conditions worsen.<sup>63,64</sup>
- Scope reductions over the last 12 years have fallen on services – such as neighbourhood services and adult social care – that are of lower political salience than others. The services on which the most money is spent – namely the NHS and schools – are also the most politically sensitive. Cutting these services will likely have a higher political cost for the government.

## **7. Finding new revenue sources for services**

### **Why this may be considered again**

Developing new sources of revenue or increasing revenue from existing sources can help to offset any reductions in government grants to ensure services retain their existing level of provision. It can be more politically appealing to central government to place responsibility for raising revenue on local government, rather than raising headline tax rates.

Every 1% increase in council tax rates raises around £300m while a 10% increase in planning fees this could generate £45m.

### **Examples from the 2010s**

We estimate the UK government reduced grants to local authorities by £18.6bn (in 2019/20 prices) between 2009/10 and 2019/20, a 63% reduction in real terms.<sup>\*65</sup> Local authorities partially offset this reduction through a combination of raising council tax and charging for more services.

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\* Assessing the extent of the cuts is complicated by the devolution of business rates in 2013/14. This analysis counts retained business rates as a grant. For full details see IfG, *Neighbourhood services under strain*, p. 6.

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From 2015, councils were permitted to increase local council taxes more rapidly – above the 2% threshold that would normally trigger a referendum – to raise money for adult social care via a new “social care precept”.<sup>66</sup> This led to 70% of upper-tier local authorities increasing Band D council tax rates by at least 17% between 2015/16 and 2019/20.<sup>67</sup>

Local authorities also introduced or increased charges for garden waste collection.<sup>68</sup> Local planning departments increased the revenue they generated from developers by increasing planning fees and offering developers services such as pre-application advice, where developers pay councils to process their applications faster.<sup>69</sup> A larger percentage of net transport expenditure now comes from income generated by parking fees, increasing from 17.3% to 23.7% between 2015/16 and 2019/20.<sup>70</sup>

NHS parking income appears to have also increased. In the two years between 2017/18 and 2019/20 gross income generated from parking fees from patients and visitors increased in real terms by 21.8% to £199.2m while over the same period income generated from staff car parking increased in real terms by 24.3% to £90.1m.<sup>71,72</sup> (The NHS has not retained all this money as some car parks may be owned by other parties or part of PFI deals.) And there is evidence that charging for prescriptions, another revenue-raising measure in health care, means people fill fewer prescriptions and therefore end up demanding more advanced or complicated care later on as their condition worsens.<sup>73</sup>

### **What’s different now**

There was room to do this in the 2010s but even then this led to worse outcomes for deprived areas. The coalition government’s actions led to the most deprived areas receiving the largest grant cuts, which in turn led to greater levels of spending cuts among deprived local authorities.<sup>74</sup> These effects would likely be amplified now as households lack disposable income after a sustained low growth in incomes over the past 15 years<sup>75</sup> and the ongoing cost of living crisis. High inflation has outstripped wage and benefit increases.<sup>76</sup> Inflation measured by the Consumer Price Index stood at 10.1% in the 12 months to July 2022.<sup>77</sup> This has been driven by increases in key household essentials such as electricity and gas as well as transport – costs that households will reduce only as a last resort.<sup>78</sup> Though the introduction of the £2,500 average cap on households will reduce heating costs until April, these wider inflationary pressures are expected to continue into the future.<sup>79</sup>

Squeezed household incomes and low economic growth will limit the ability of government to find new revenue sources. With ONS survey data suggesting 52% of households reducing energy and 41% of respondents spending less on food and essentials,<sup>80</sup> many households lack the financial headroom to afford extra costs when accessing public services.<sup>81,82</sup>

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### Likely outcomes

- The government will struggle to raise meaningful revenue by charging extra for public services, particularly in areas with greater levels of deprivation. Any attempts would likely entrench disparity between local areas.<sup>83</sup>
- Rather than paying extra to access public services, many members of the public will do without. This will lead to worse outcomes for the public, and low levels of funding for public bodies

## Conclusion

The new chancellor has said that his cost-saving measures will be different to the 'austerity' programmes of the 2010s. But it is hard to see how he will fill an estimated £40bn funding gap, and the temptation to return to 2010s spending policies may be strong. Having rightly delayed the autumn statement until 17 November, the government can now follow a more evidence-based process that draws on input from the Office for Budget Responsibility and others. This will help government understand the feasibility and impact of its funding decisions. Though three weeks isn't enough time to fully evaluate the extent and effects of spending cuts, instead the autumn statement should lay out the timetable for making these tough calls and announce more detailed decisions in the spring statement.

Yet even with more time for the new administration to make decisions, what this paper, based on findings from our annual *Performance Tracker* report, has shown is that there is no meaningful 'fat to trim' from existing budgets – many of which are still feeling the effects of a decade of spending restraint and more recent pandemic pressures.

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**October 2022**

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The Institute for Government is a registered charity in England and Wales (No.1123926) with cross-party governance. Our main funder is the Gatsby Charitable Foundation, one of the Sainsbury Family Charitable Trusts.