

# A review of the UK's Economic and Political Landscape

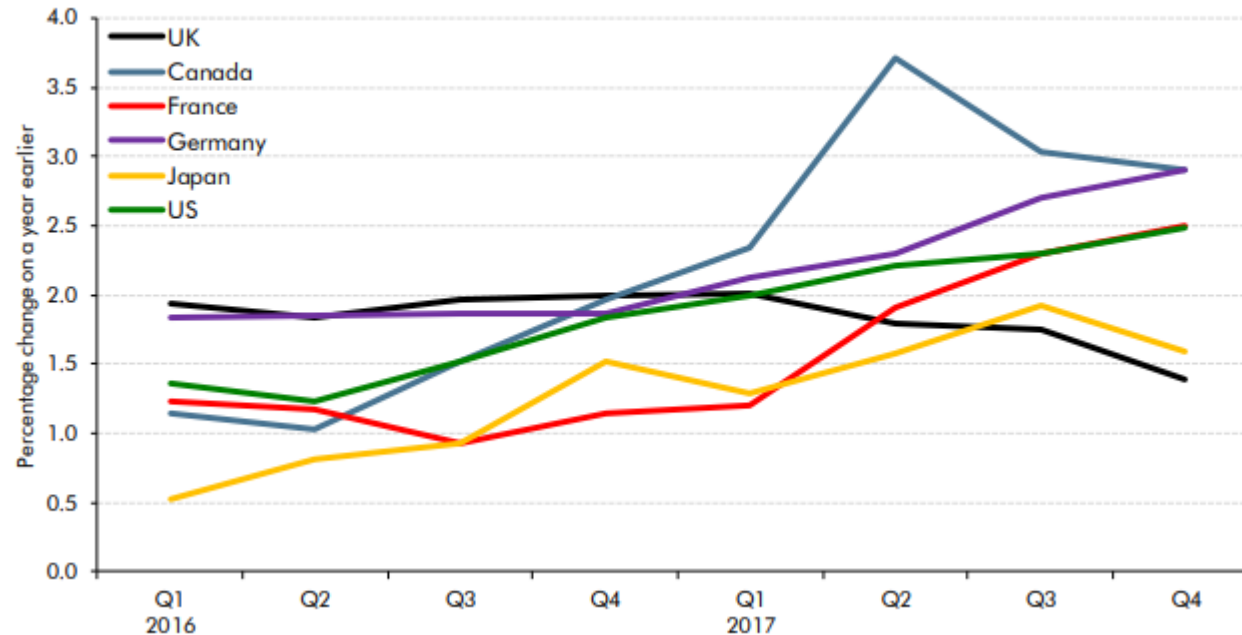
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# UK and other G7 countries' growth

- 2016Q1 to 2017Q4

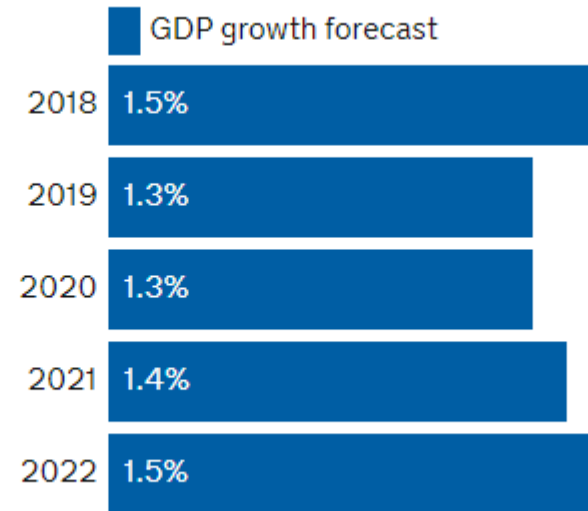
Chart 2.3: Headline GDP growth in the UK and other G7 countries



Source: Thomson Reuters

Source: OBR

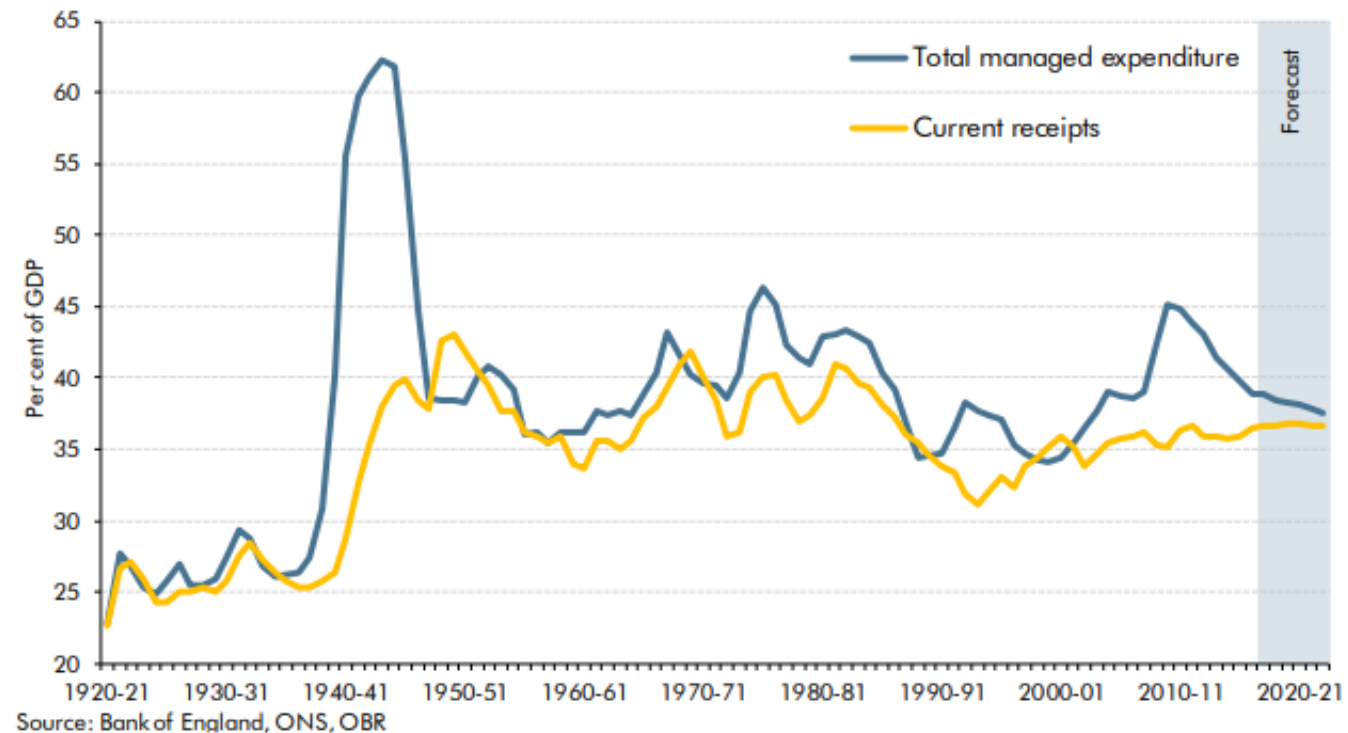
# UK growth to average 1.4 to 1.5% to 2022



Source: HM Treasury

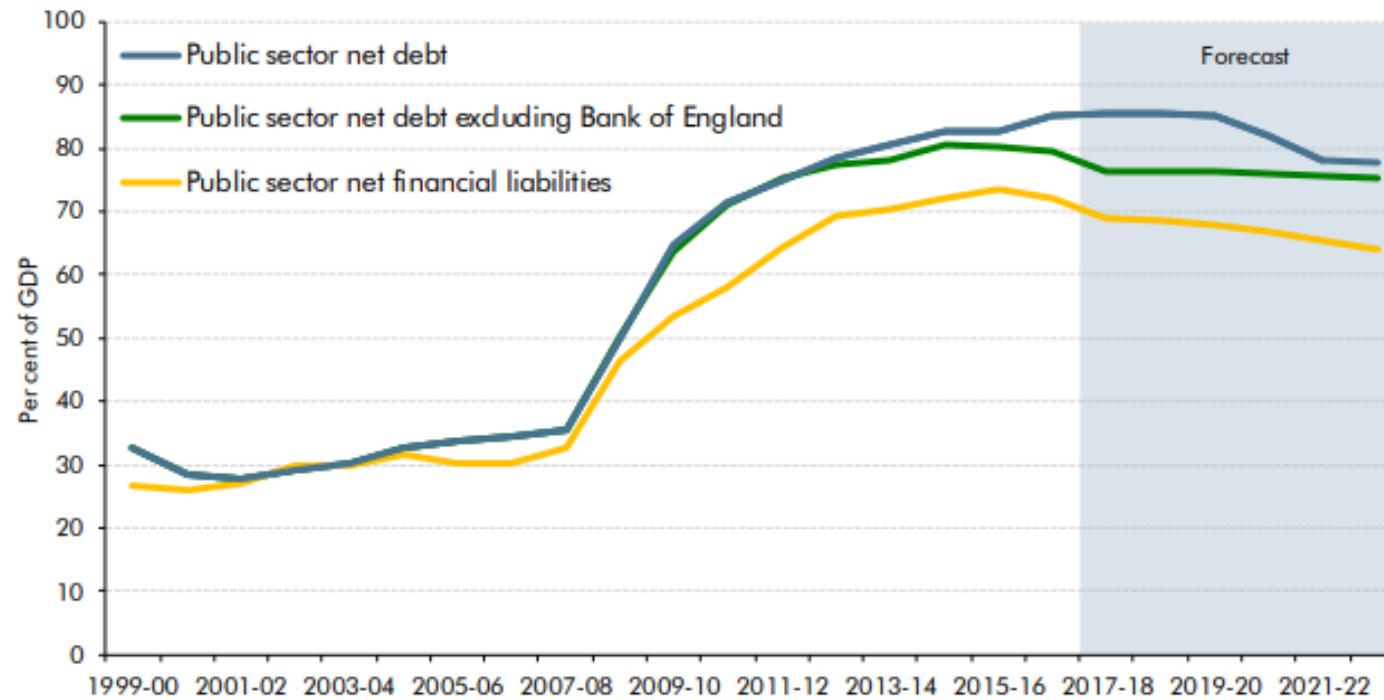
# UK government receipts and spending

- Spring Statement 2018



# UK public sector borrowing

- Spring Statement 2018

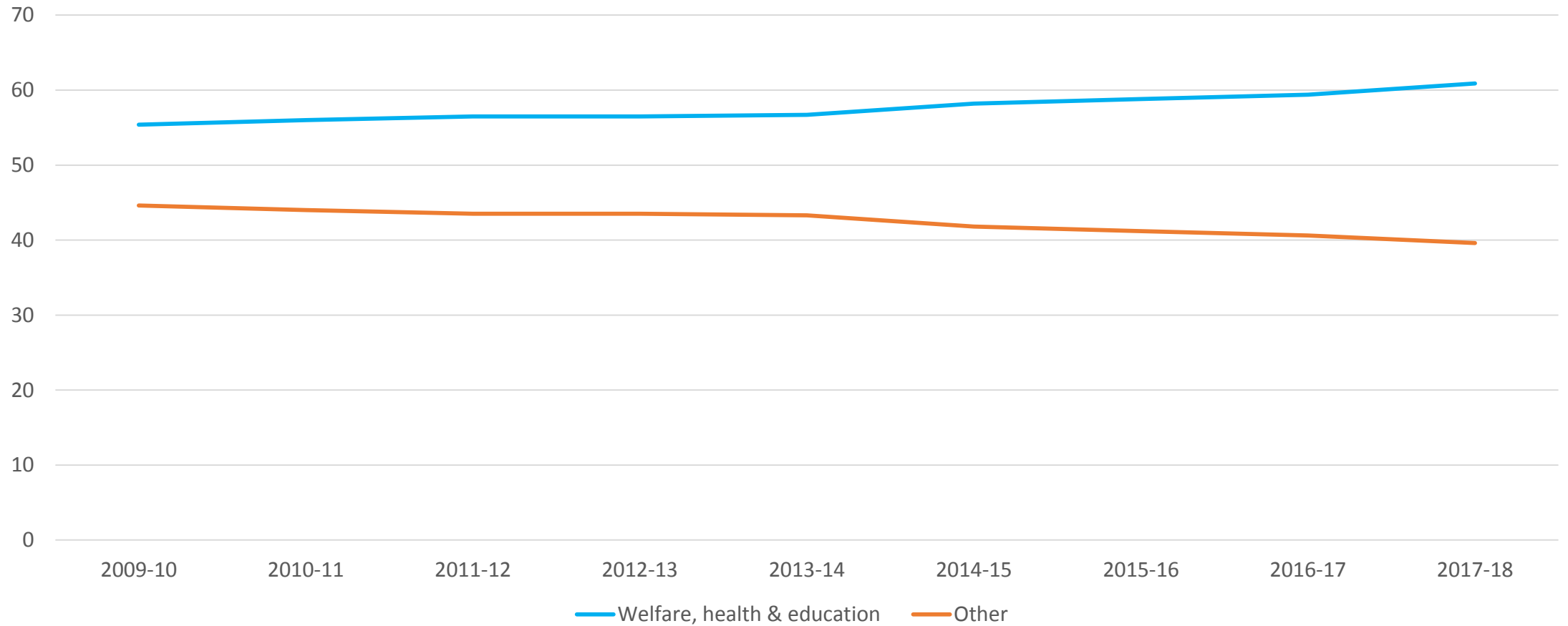


Source: ONS, OBR

# Recent public spending policy has affected services differently

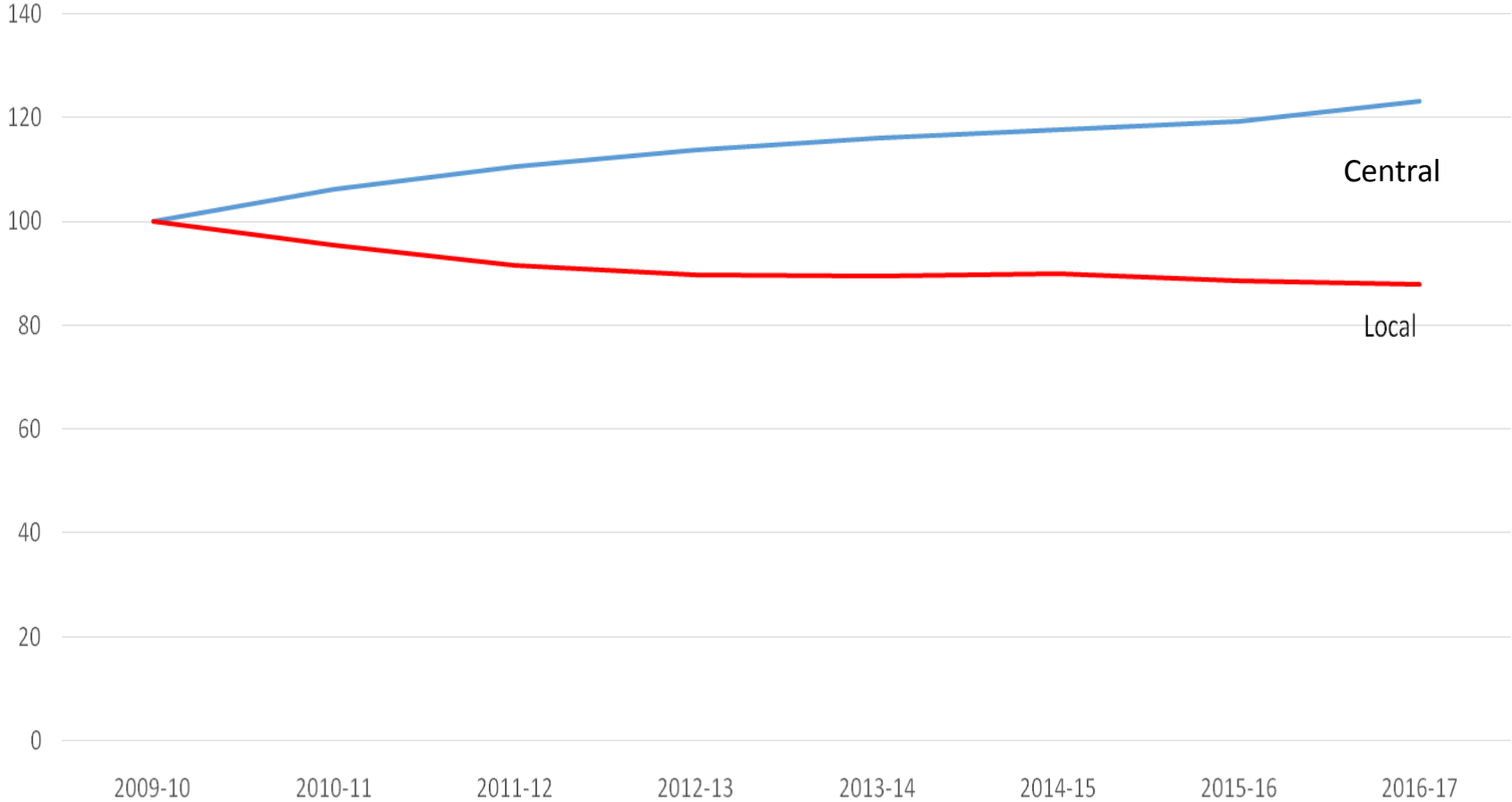
- NHS, schools, social security generally protected in real terms
- Adult care, Home Office/Justice services, local government all reduced
- This pattern is a longer-term one...
- The shape of the UK State is changing over time:
  - Relatively more spent on welfare, health and education spending
  - Relatively less spent on local government, defence, justice and law & order
  - Unless this trend is halted, there will be a continuing difficulty in securing the full range of public services currently provided – unless taxation rises as a % of GDP

# Welfare, health & education vs the rest - can this continue?



# Central government (UK) and local government (England) current expenditure (cash)

2009-10 to 2016-17



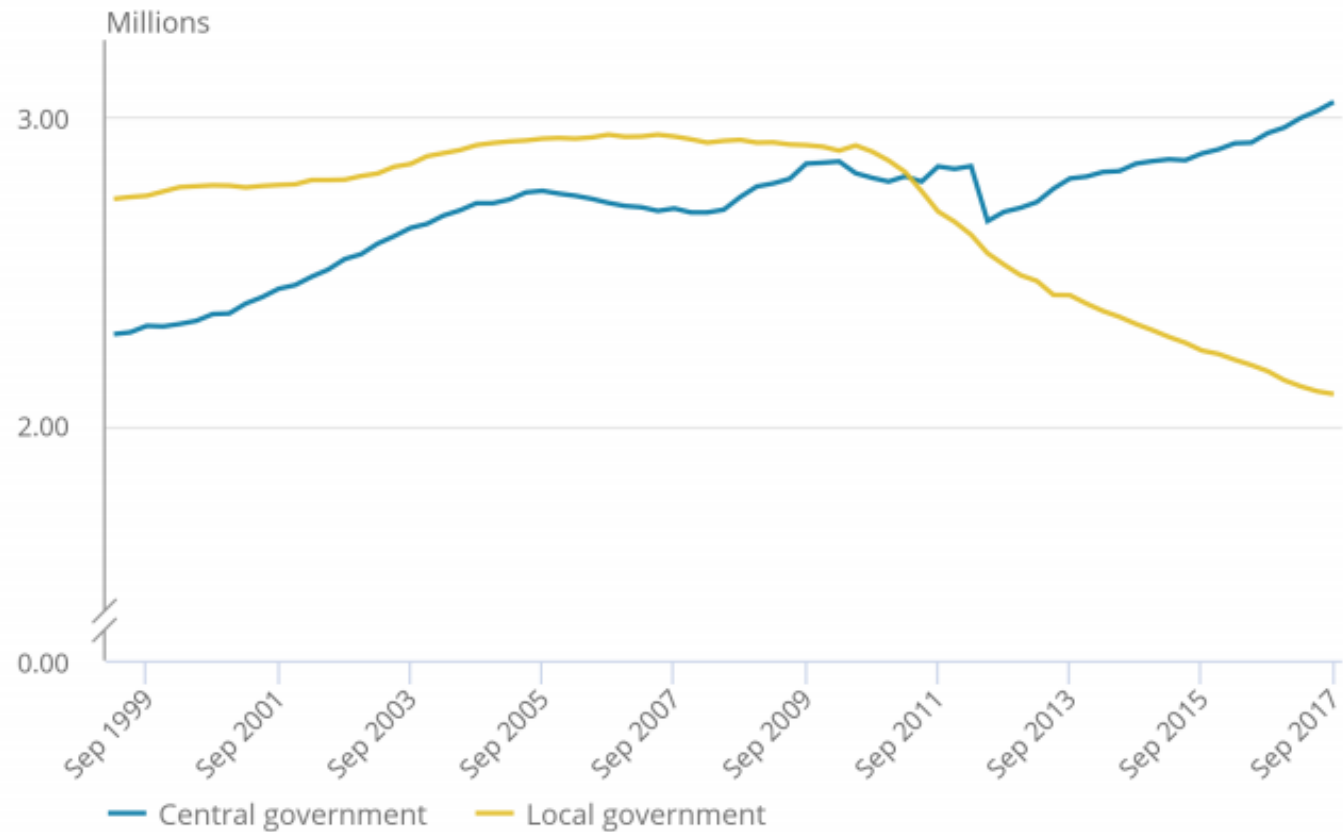
Sources: (i) Central government – HM Treasury, *Public Expenditure Statistical Analyses 2016*, Cm 9322, Table 6.2 and *Public Expenditure Statistical Analyses 2014*, Cm 8902, Table 6.2

(ii) Local government - DCLG, *Local authority revenue and financing England*, successive statistical bulletins, annual, 2009-10 to 2016-17, figures adjusted to



Figure 2: UK public sector employment in local and central government, March 1999 to September 2017, seasonally adjusted

- FE colleges removed in 2012



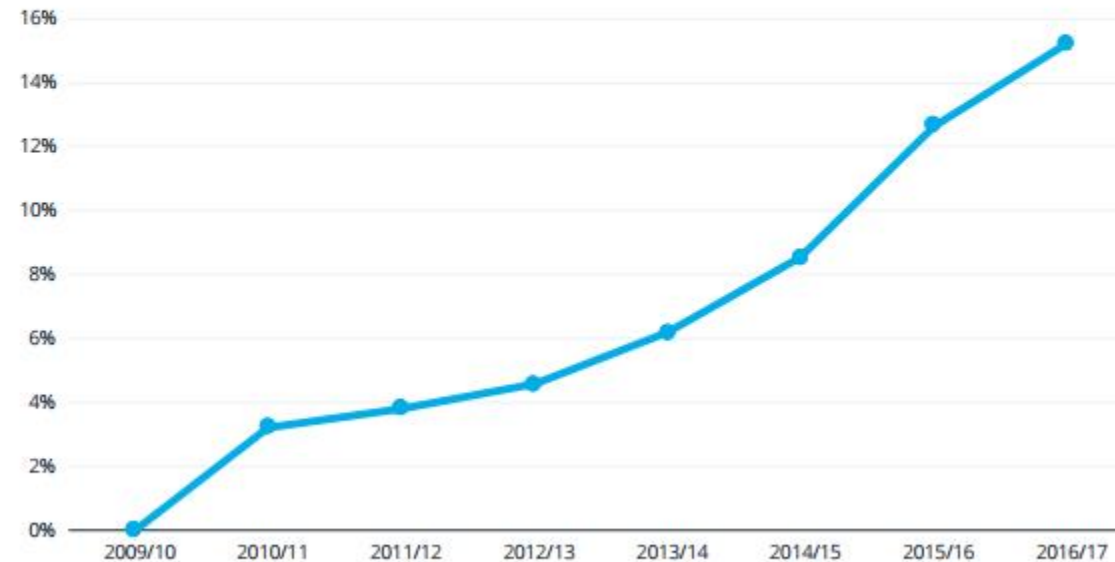
*NB: some classification changes, eg public health, academies*

Source: ONS

# NHS spending: hospitals

Spending on hospitals increased in real terms between 2009/10 and 2016/17.

Figure 2.7 Change in spending on NHS providers in England (real terms), 2009/10 to 2016/17

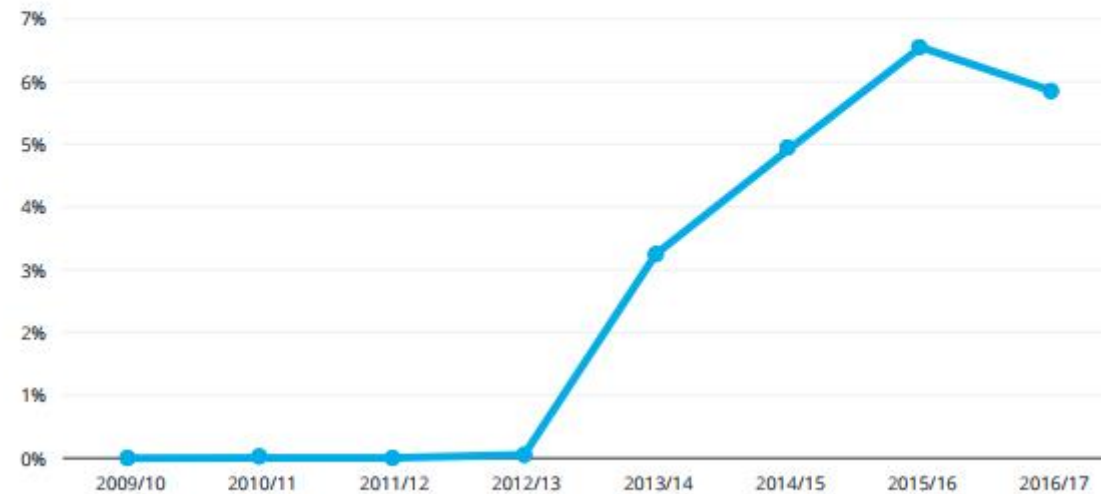


Source: Department of Health, *Annual Report and Accounts*

# Schools' spending has also increased

**Spending on schools has risen by 6% in real terms since 2009/10.**

**Figure 3.1 Change in spending on schools in England (real terms), 2009/10 to 2016/17**



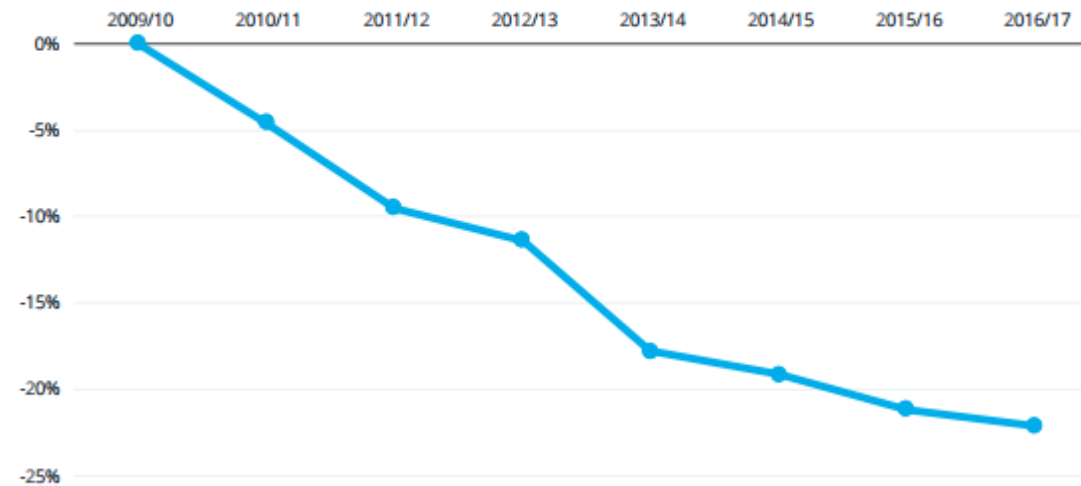
Source: Department for Education, *Dedicated Schools Grant Allocations and Pupil Premium Allocations*

Source: Institute for Government

# Justice spending has fallen: prisons

Spending on prisons fell by more than a fifth between 2009/10 and 2016/17.

Figure 4.13 Change in spending on prisons in England and Wales (real terms), 2009/10 to 2016/17



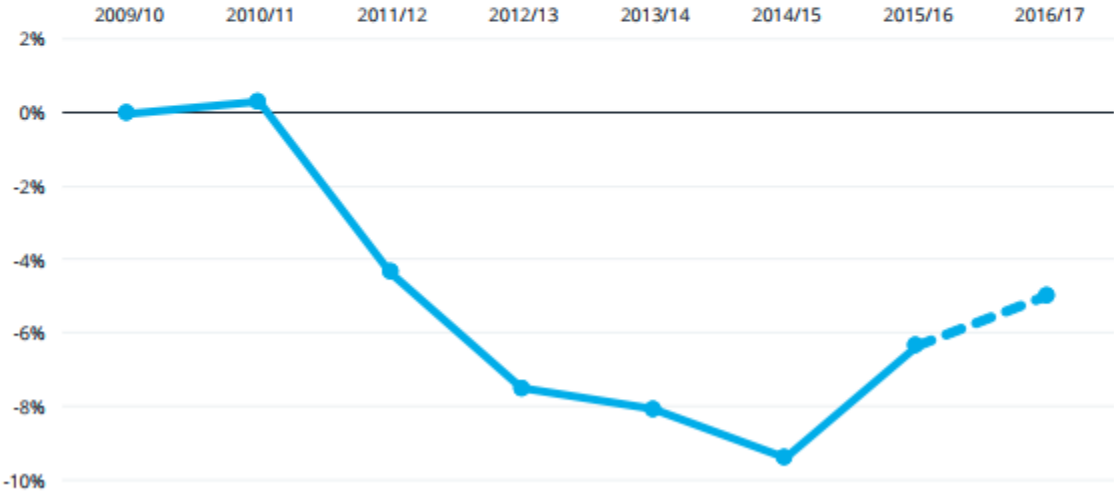
Source: 2009/10 to 2015/16: MoJ, *NOMS Annual Report and Accounts Management Information Addendum: Costs per Place and Costs per Prisoner*. 2016/17 derived from gross expenditure growth from NOMS accounts, applied to 2015/16 figure.

# Local government spending: adult social care

**Spending on adult social care has fallen by around 5% in real terms since 2009/10.**

Adult social care – the provision of support and personal care (as opposed to treatment) to meet needs arising from illness, disability or old age – is funded by the Department for Communities and Local Government (DCLG) and managed through local authorities.

**Figure 2.12 Change in spending on adult social care in England (real terms), 2009/10 to 2016/17**

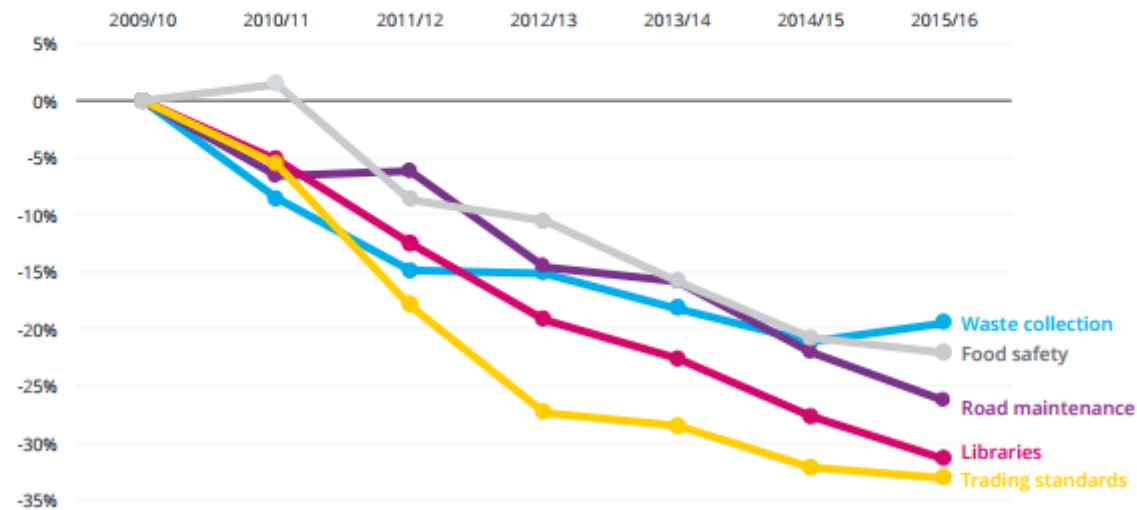


Source: NHS Digital, *Personal Social Services: Expenditure and Unit Costs*, 2009/10 to 2015/16, England; DCLG, *Local Authority Revenue Financing*, 2015/16 to 2016/17

# Local government spending: environment, leisure, trading standards, food safety

Spending on services which affect people's local environment has fallen by around a quarter since 2009/10.

Figure 5.1 Change in local authority net spending on waste collection, food safety, road maintenance, libraries and trading standards in England (real terms), 2009/10 to 2015/16

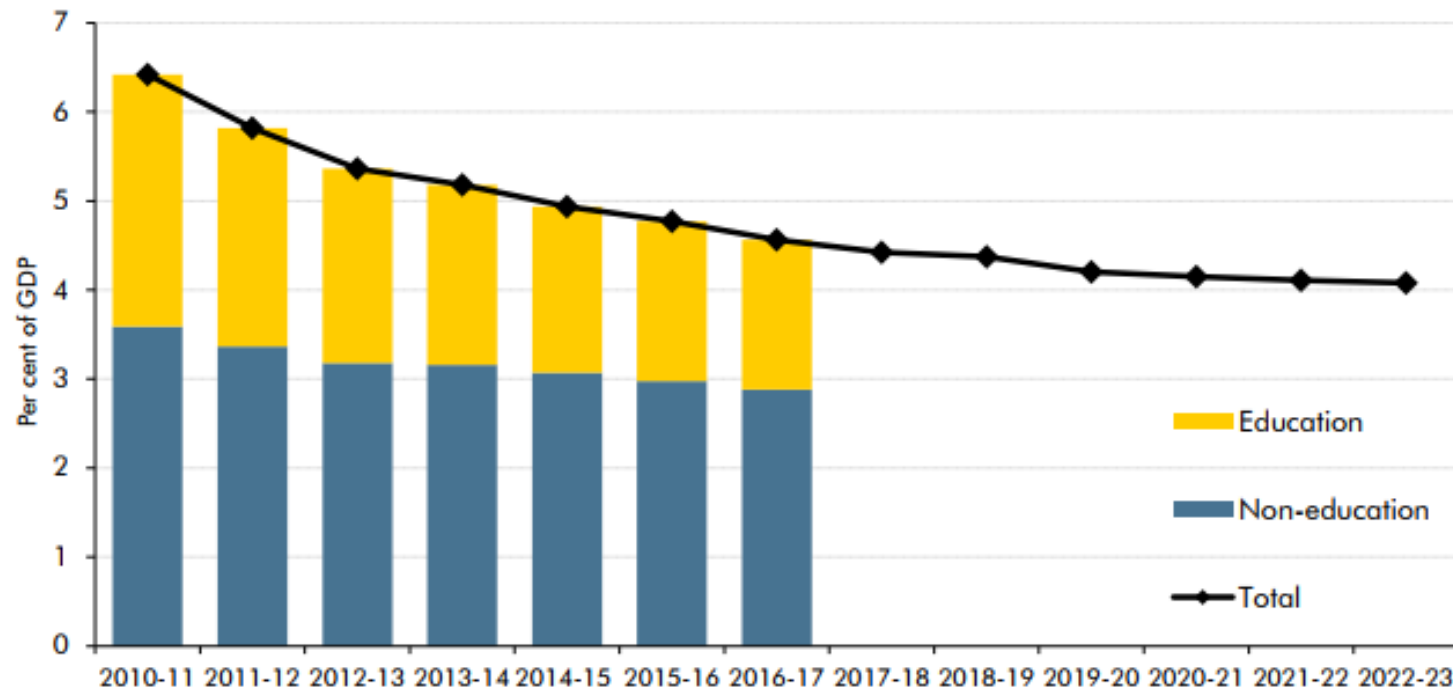


Source: DCLG, *Local Authority Revenue Financing*, Tables RO2 and RO5

Source: Institute for Government

# Local government expenditure as % of GDP

- 7+ years of reductions as % of GDP



Note: Responsibility for spending on public health was transferred to local authorities from 2013-14, so numbers in previous years are not directly comparable. Figures exclude housing benefit, as the rollout of universal credit creates a discontinuity in the series.

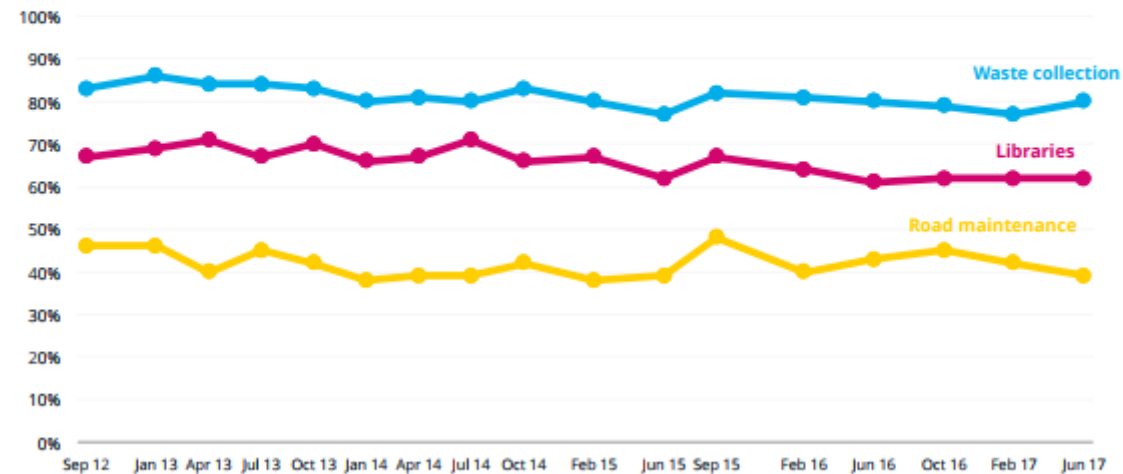
Source: DCLG, OBR

Source: OBR

# Yet, local government satisfaction maintained

**In spite of sharp spending reductions, residents' satisfaction with these services has largely held up.**

Figure 5.6 **Percentage of residents 'very' or 'fairly' satisfied with their local waste collection, library and road maintenance services, September 2012 to June 2017**



Source: Local Government Association, *Polling on Resident Satisfaction with Councils*, August 2017



# By international standards, GB is doing OK

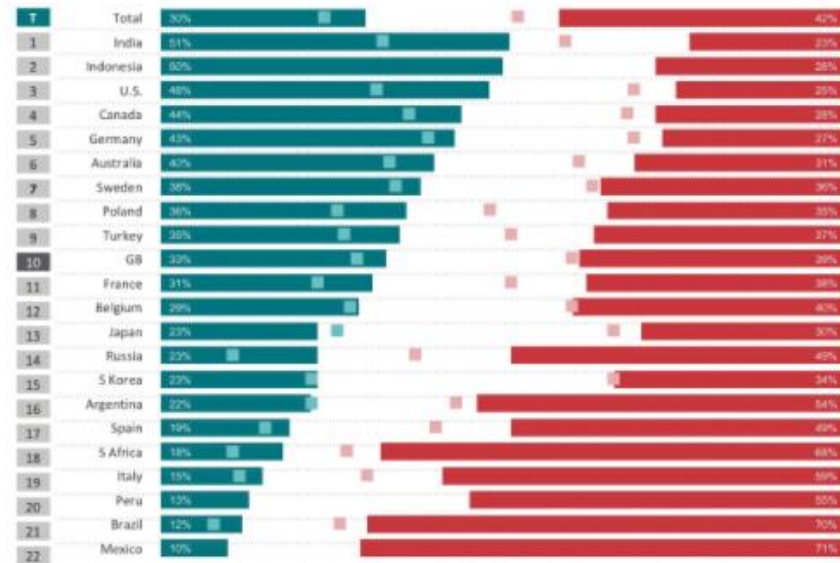
...local public services [e.g. public transportation, public education, public safety and social services]?

## OVERALL SATISFACTION / DISSATISFACTION

Overall, how satisfied or dissatisfied are you with each of the following...

...local public services (e.g. public transportation, public education, public safety and social services)?

KEY:  
Satisfied 2016  
Dissatisfied 2016  
Satisfied 2014  
Dissatisfied 2014



Base: 17,180 adults across 22 countries, online, 12th Sep – 11th Oct 2016

# How governments have sought to deliver efficiency and effectiveness

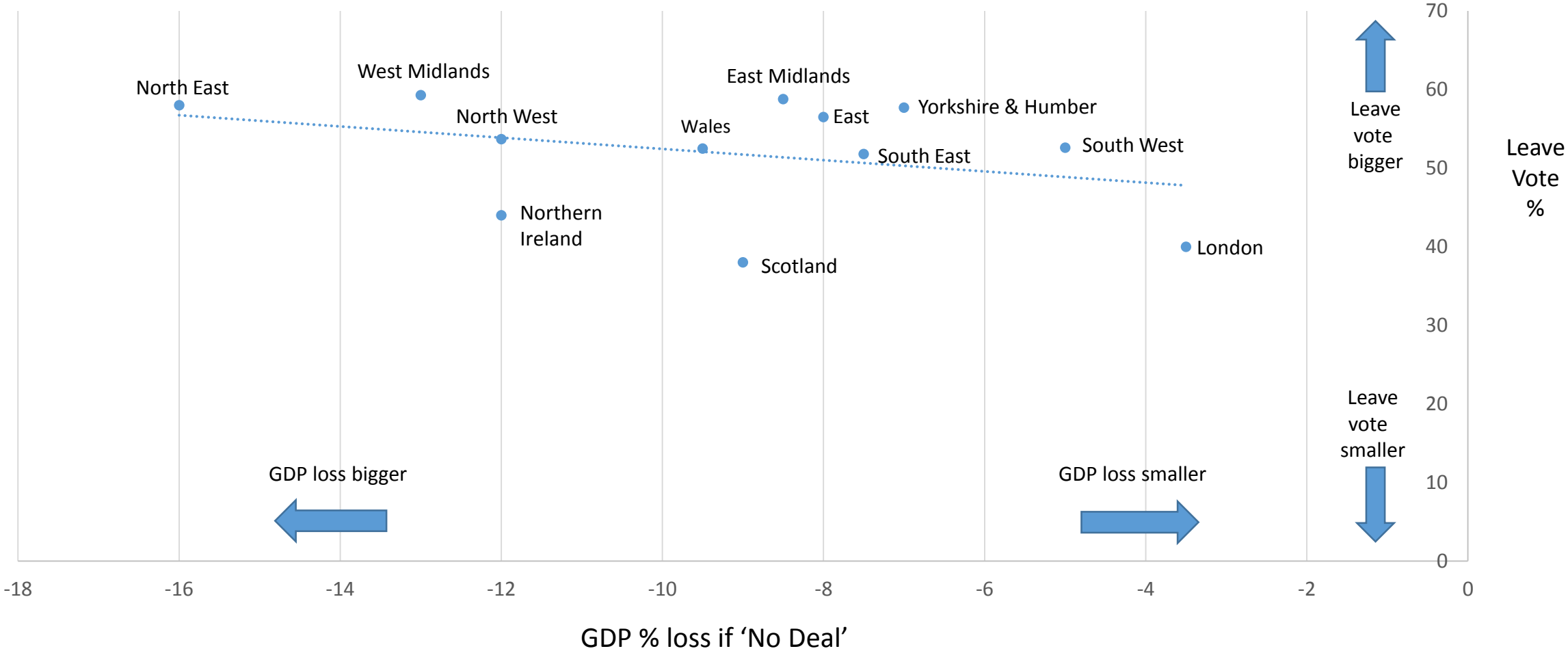
- Top-down initiatives/organisations, eg:
  - Next Steps agencies; Rayner review, Gershon review; Public Service Agreements, Office of Government Commerce, Major Projects Authority/Infrastructure & Projects Authority, initiatives against 'red tape' etc
- Reorganisations
  - Whitehall departments, NHS, quangos, local government
- Quasi-market forces
  - Free-standing and self-governing NHS trusts, schools etc with per capita funding
- Privatisation/contracting out
  - Extension of use of major companies to drive down costs and share risk
- PPPs/PFIs
  - More complex contractual and risk-sharing arrangements, involving long-term contracts
- Audit
  - NAO, (Audit Commission), regulators, 'armchair auditors'
- Reducing expenditure
  - Driving improvement by innovation brought about by reducing budgets

# How far can such initiatives go and what are the downsides of 'continuous revolution'?

- Endless top-down initiatives may breed 'normalisation'
- Risk that initiatives can give the impression that £100 can always buy £110 and then £120 worth of services
  - "3% efficiencies per year" forever...
- Reorganisations of services often have no proven efficiency or effectiveness outcomes
- The evolution of free-standing, self-governing, trusts and schools creates so much fragmentation that 'following the money' becomes difficult
  - ...and makes economies of scale virtually impossible
- Contracting out/PFIs can save money, but can also make it hard to hold services to account or fully to transfer risk
- All audit and regulation relies on consistent and timely data which, increasingly is not available
- Reducing expenditure may deliver efficiencies, but it is hard to know where service reductions rather than efficiencies take place

# Economic impact of 'No Deal' Brexit

- HMG calculations of GDP effect



# Longer-term challenges

- How to manage public expectations about what a public sector of 37-38% of GDP can achieve
  - Different to Sweden or France where the figure is 50%+ of GDP
- Have cuts to local government gone as far as is possible?
  - Northamptonshire
- Spending Review
- Fair Funding Review
- Brexit
  - Short- and longer-term consequences
  - UK to leave the EU in March 2019
  - Impact on the economy impossible to predict

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