Financial outlook: local governance and the credit crunch

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What happened?

- Bank lending grew and, when some repayments could not be made the impact rippled through the global banking system
- Many banks have become ‘toxic’, following an understanding of their exposure to such loans
- Governments have had to step in or world finance system would have collapsed

What the future holds…

- Uncertainty
  - Economic growth forecasts are guesses
  - 'V'; 'U' or 'L' shaped growth pattern?
  - Inflation: deflation or high inflation or both?
  - Possible further shocks to financial system
- Unpredictability for LG
  - LG finance settlements only till 2010-11
    - Could 2010-11 settlement be revised – downwards?
  - Future likely to be much worse than the past
- General Election in 2010

‘Known unknowns’

- Demand for services will increase during recession
  - Advice, support to NGOs
  - Economic development
  - Social services, libraries etc
  - Demands for ‘early payment’ of bills
- Economic development
  - Assistance for small firms
  - Promoting new growth sectors

‘Unknown unknowns’

- LG funding settlements from 2011-12
  - Central support likely to increase at less than the 2008-09 to 2010-11 rate
    - Zero grant increases for many authorities?
  - Council tax capping to be tightened?
- Pay pressures
  - Could increase or decrease…
- Pension costs
  - Impact of stock market falls
  - Challenge to concept of public sector pensions
  - LG will have to have a position on this issue

Impacts and issues - 1

- Likely increase in the cost of child care
  - Fallout from Baby P case etc
- Predictable increase in the number of older people in need of social services
- Fall in income from charges
- ‘Young’ vs ‘old’ struggle for resources?
- Pressure on services such as highways, local environment
- Whitehall efficiency demands – 3% pa

Impacts and issues - 2

- Need for LG to assist with boost in social housing investment
  - Private sector house-building now virtually at a standstill
- Need for ingenuity in funding regeneration projects
  - Temporary need for more public funding
    - Private capital has dried up – possibly for years
  - But, private expertise still important
- Need to lobby government for any necessary changes in regulations etc

Managing expectations

- Need to explain what is going on to the electorate
- No time for over-ambitious commitments
- Good time to stress local government's role in civic leadership
- Important to ensure Whitehall regulations do not impede action

Conclusions

- The recession will follow an unknown path and may last several years
- The public finances are in a poor condition
  - Public borrowing; PE as % of GDP to 50%?
  - Need to use reserves and investments?
- LG funding will be cut back for several years: possibly up to 10 years
- Public expectations must be adjusted to ensure rational judgements

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