



The economic and fiscal outlook: modelling the impact on local government

Presenters: David Phillips and Kate Ogden

Drawing on analysis by themselves and Carl Emmerson (IFS) and Ben Zaranko (IFS)

LGA annual local
government finance
conference

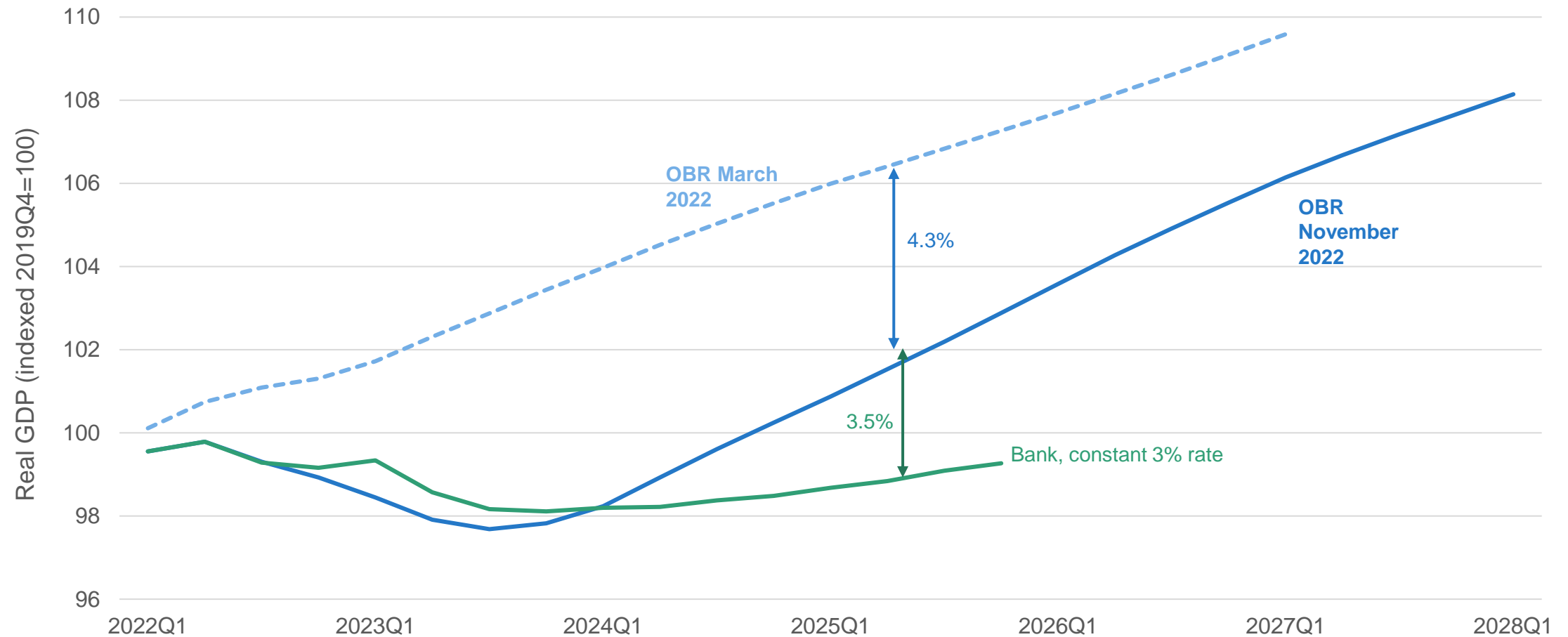
10 January 2023

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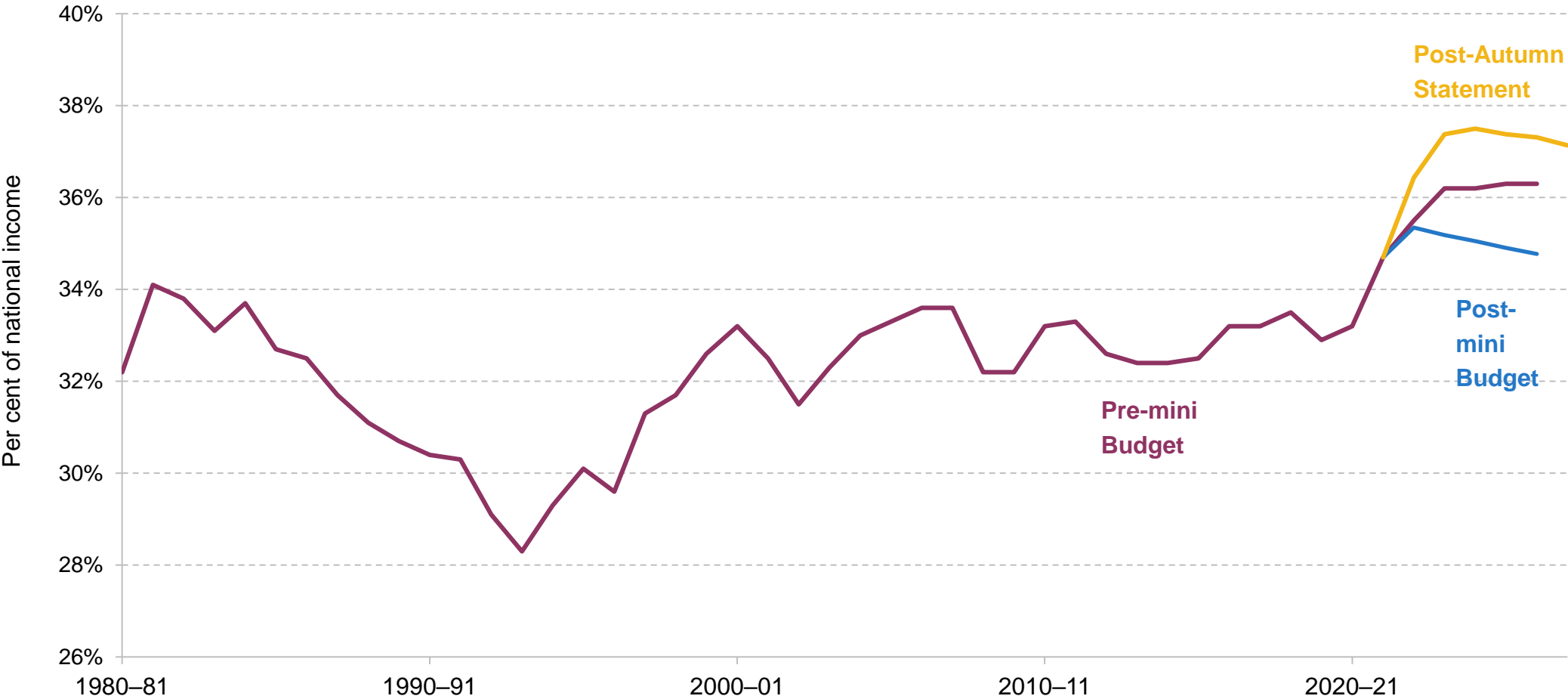
Economic
and Social
Research Council

The OBR's growth forecast is much less gloomy than the Bank's



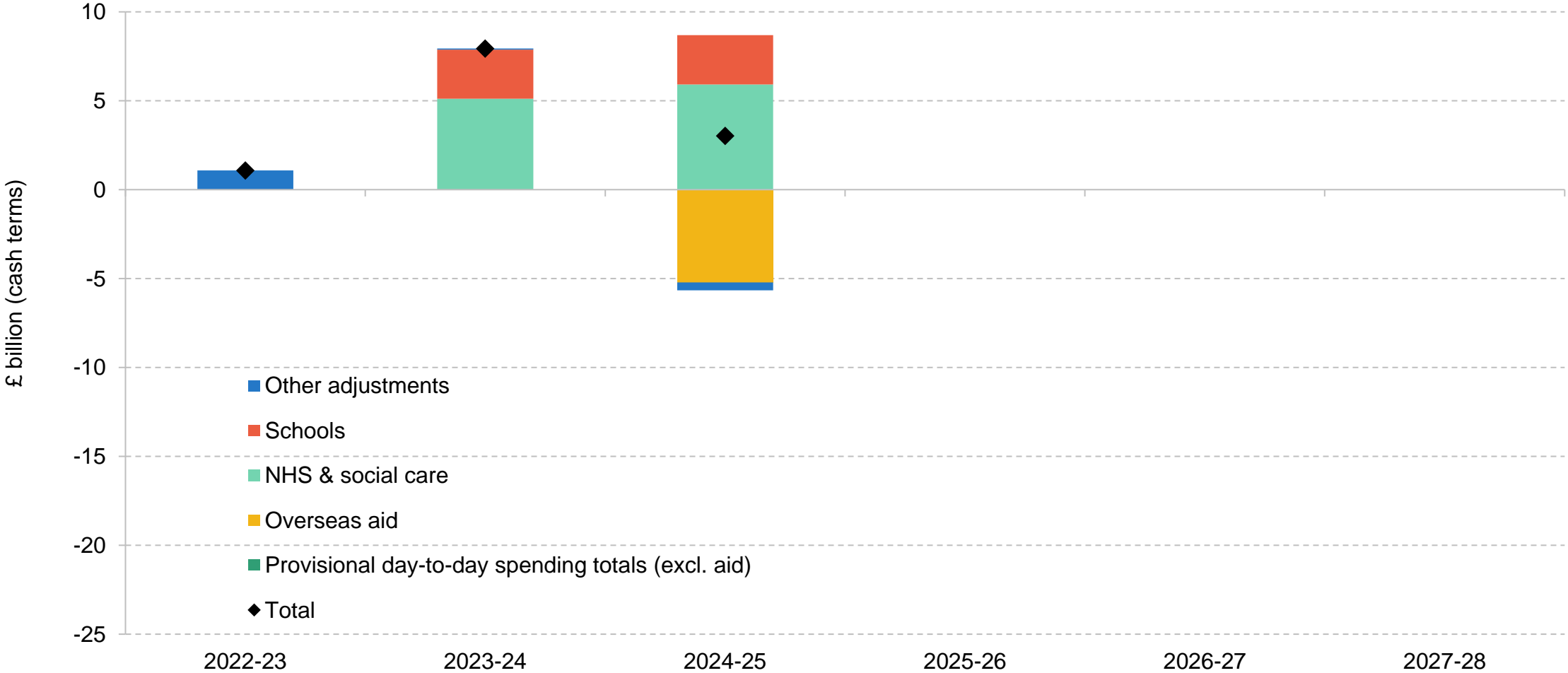
Sources: OBR and Bank of England, Monetary Policy Report (November 2022)

Tax as a share of national income is forecast to increase above 37%



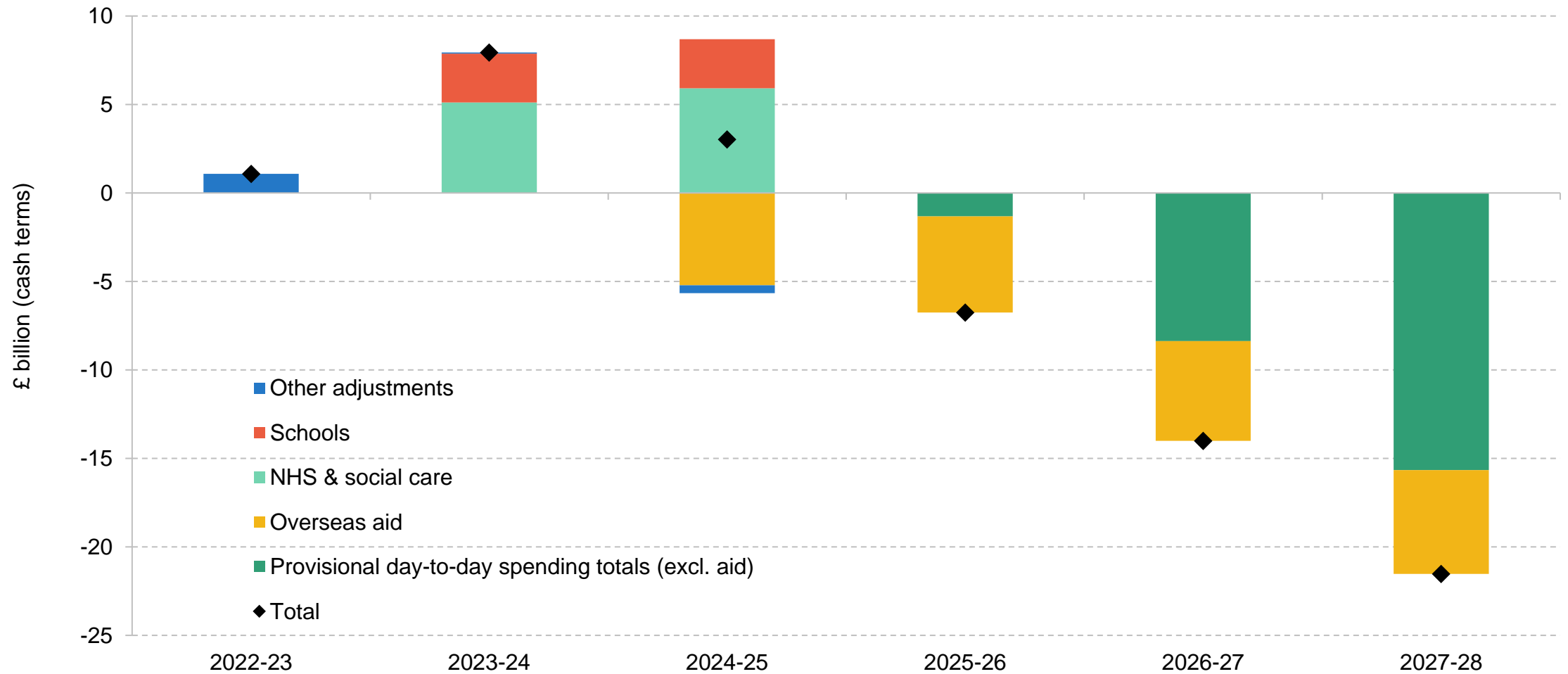
Source: IFS analysis of HMT Autumn Statement 2022, see <https://ifs.org.uk/collections/autumn-statement-2022>.

Short-term spending increase



Note: Overseas aid figures for 2025-26, 2026-27 and 2027-28 represent the estimated saving from maintaining ODA spending at 0.5% of GNI, rather than returning to 0.7% of GNI, as was implicit in pre-Autumn Statement plans. Source: IFS analysis of HMT Autumn Statement 2022, see <https://ifs.org.uk/collections/autumn-statement-2022>.

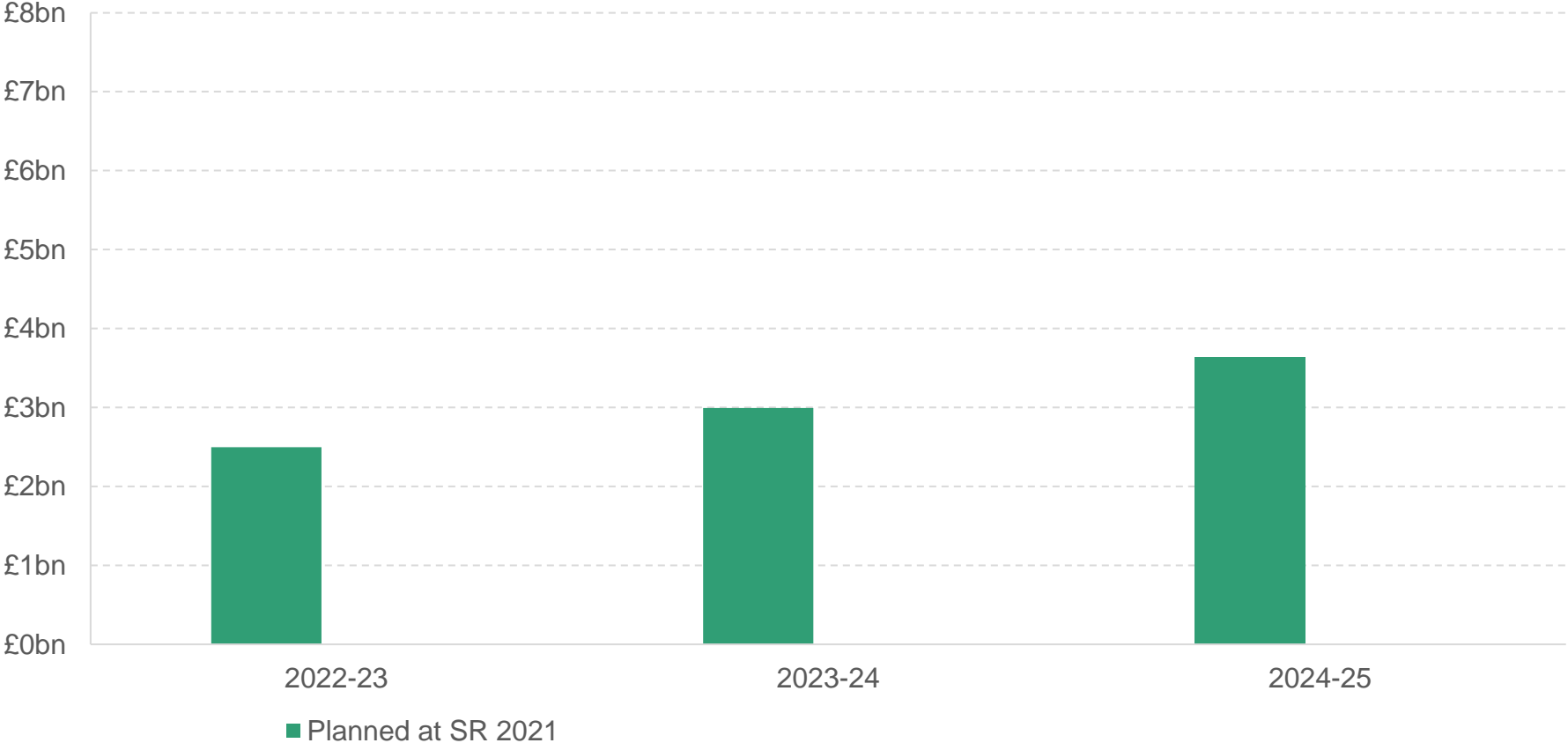
Longer-term spending squeeze



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Sector-wide funding projections

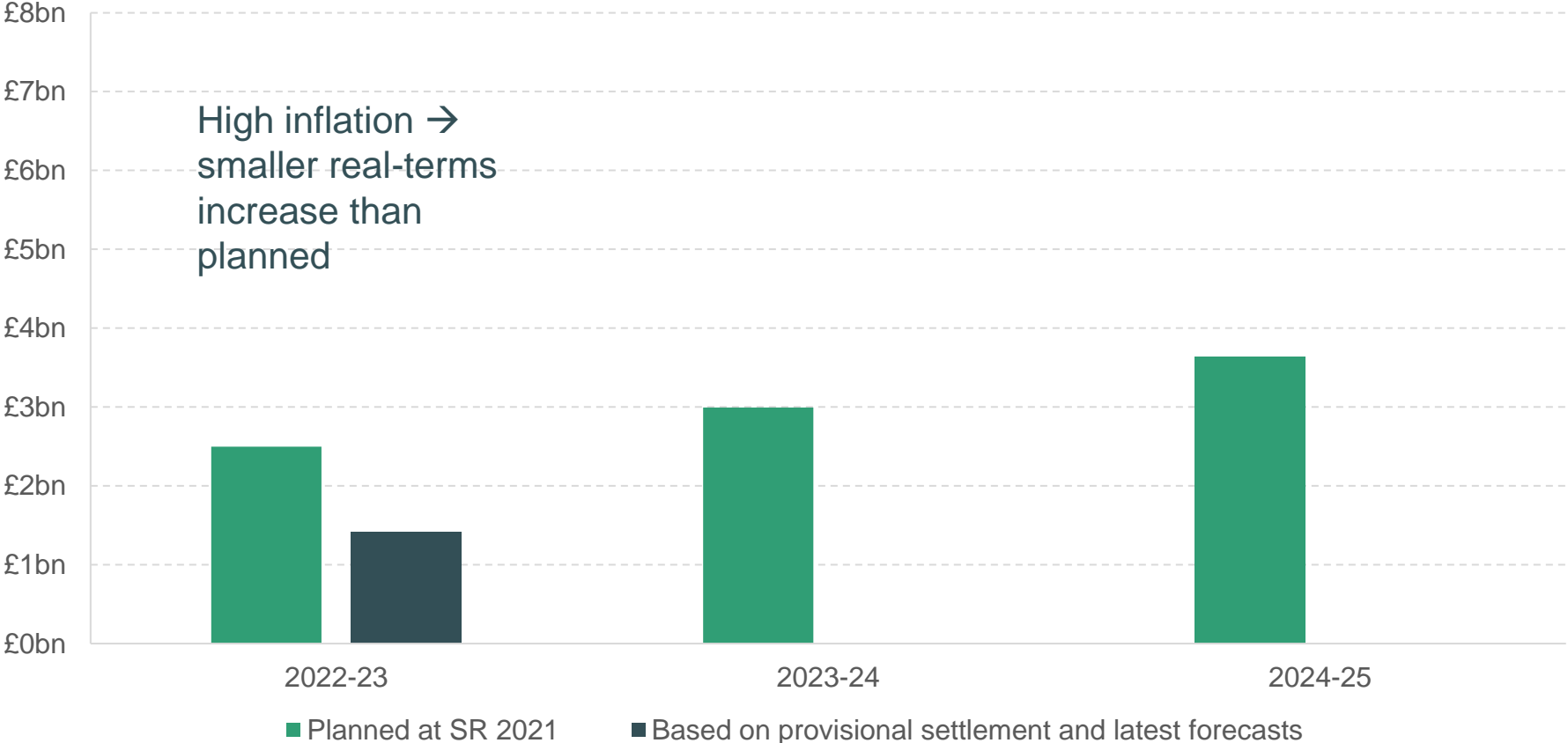
Real-terms increases in core spending power since 2021-22



Note: Figures are 2021-22 prices, are reflect the forecast GDP deflator. Change in core spending power excludes the impact of rolling in grants. 2024-25 figures are estimates based on assuming only changes to total grant funding are those already announced, maximum use of allowed council tax rises and council tax base growth of 1% each year. Source: Final local government finance settlement 2022-23; Provisional local government finance settlement 2023-24; Local government finance policy statement 2023-24 to 2024-25; and OBR EFO – Oct 2021 and Nov 2022.

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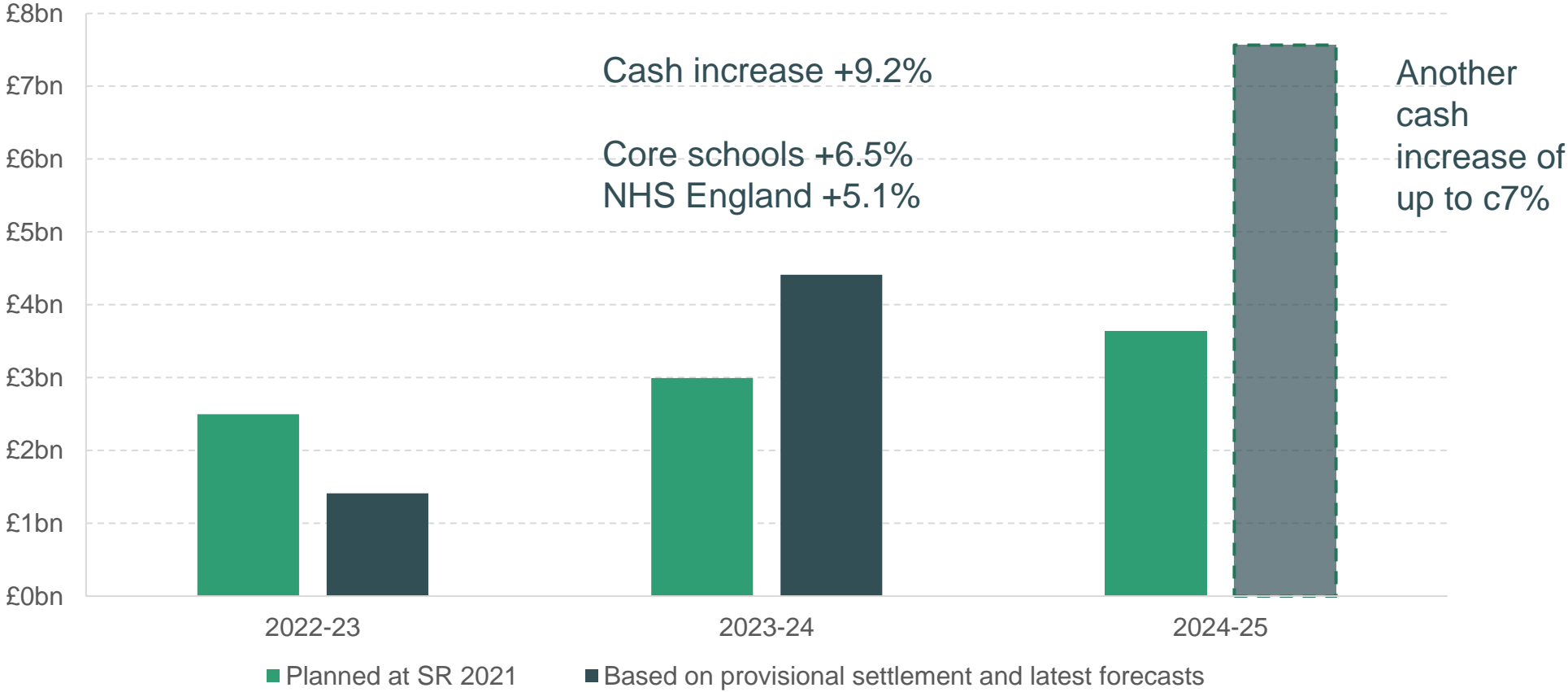
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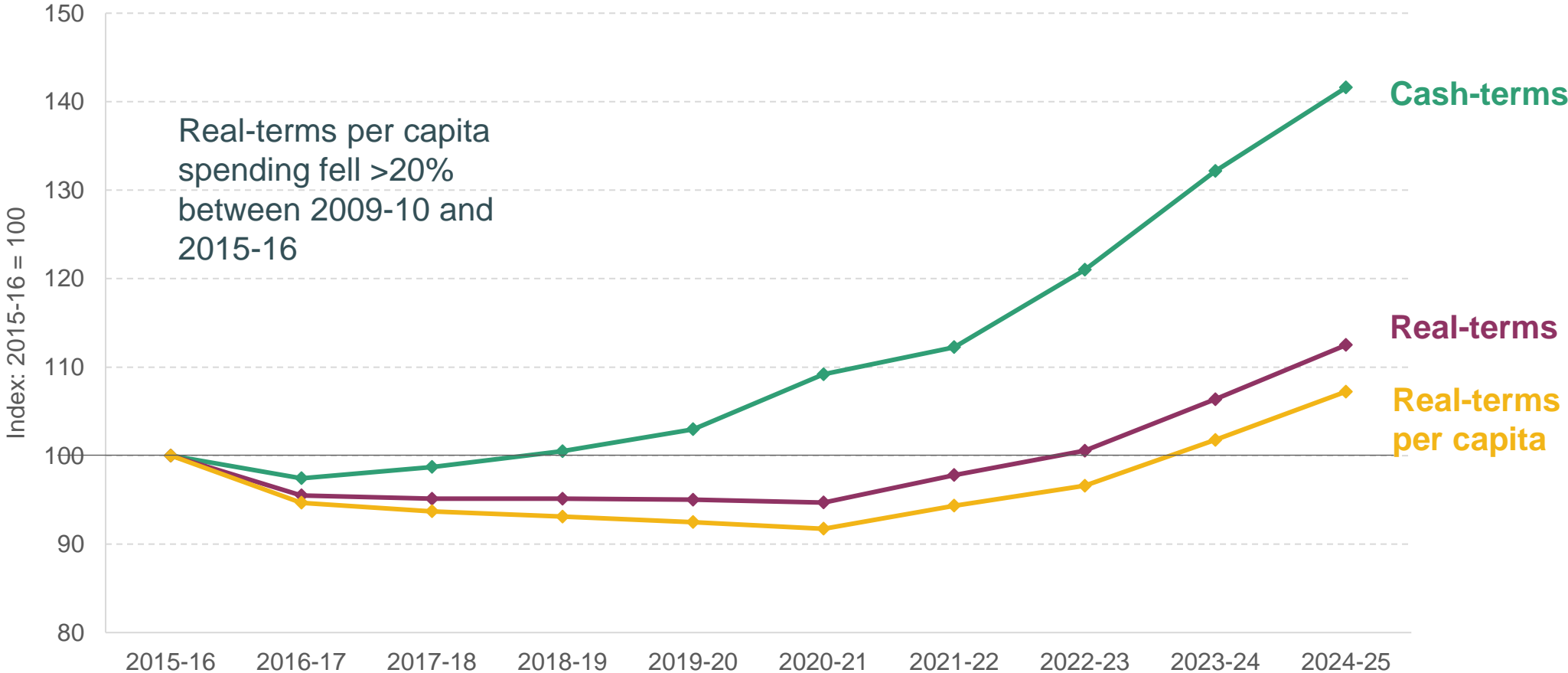
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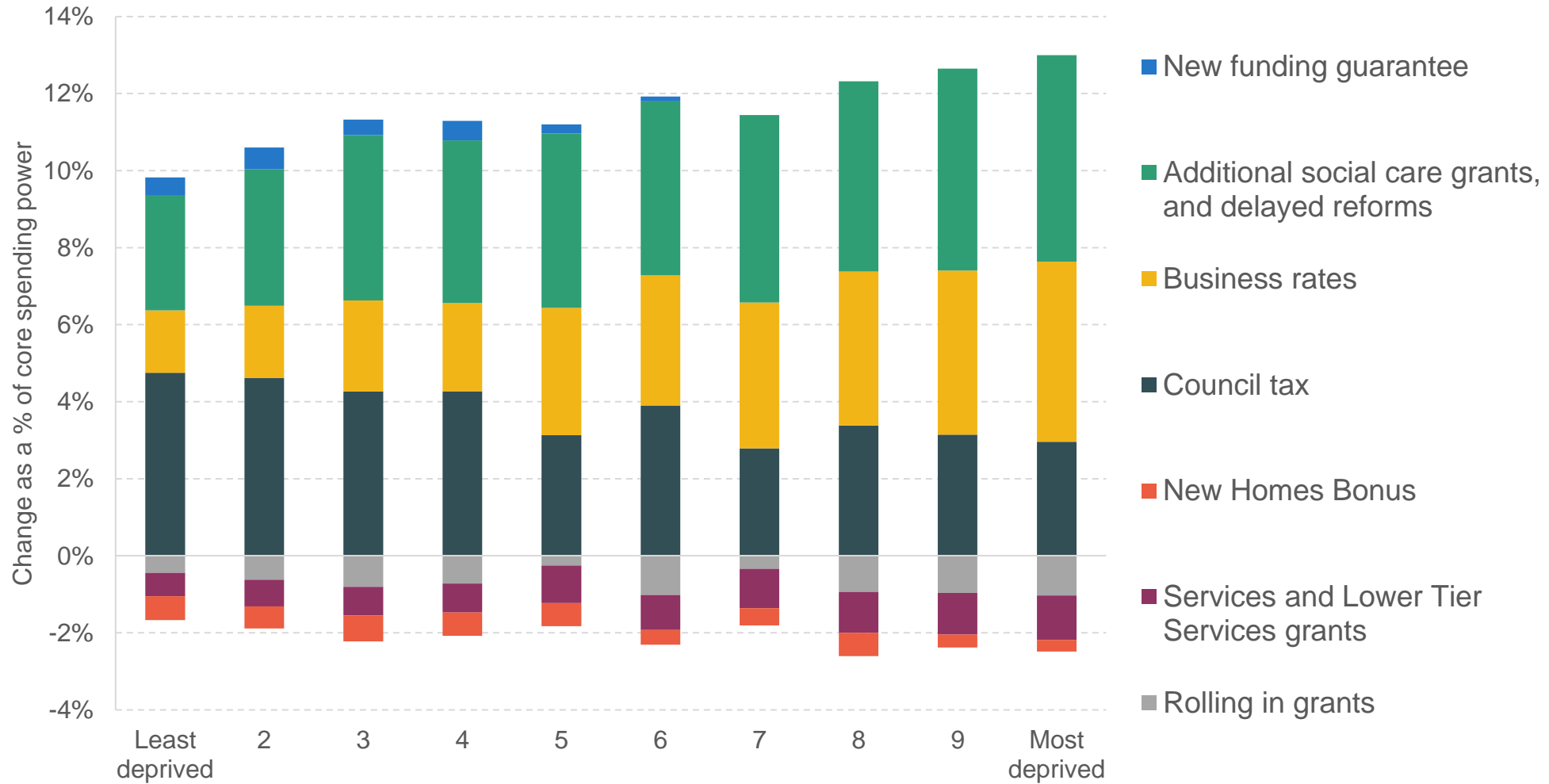
Sector-wide funding projections

Core spending power since 2015



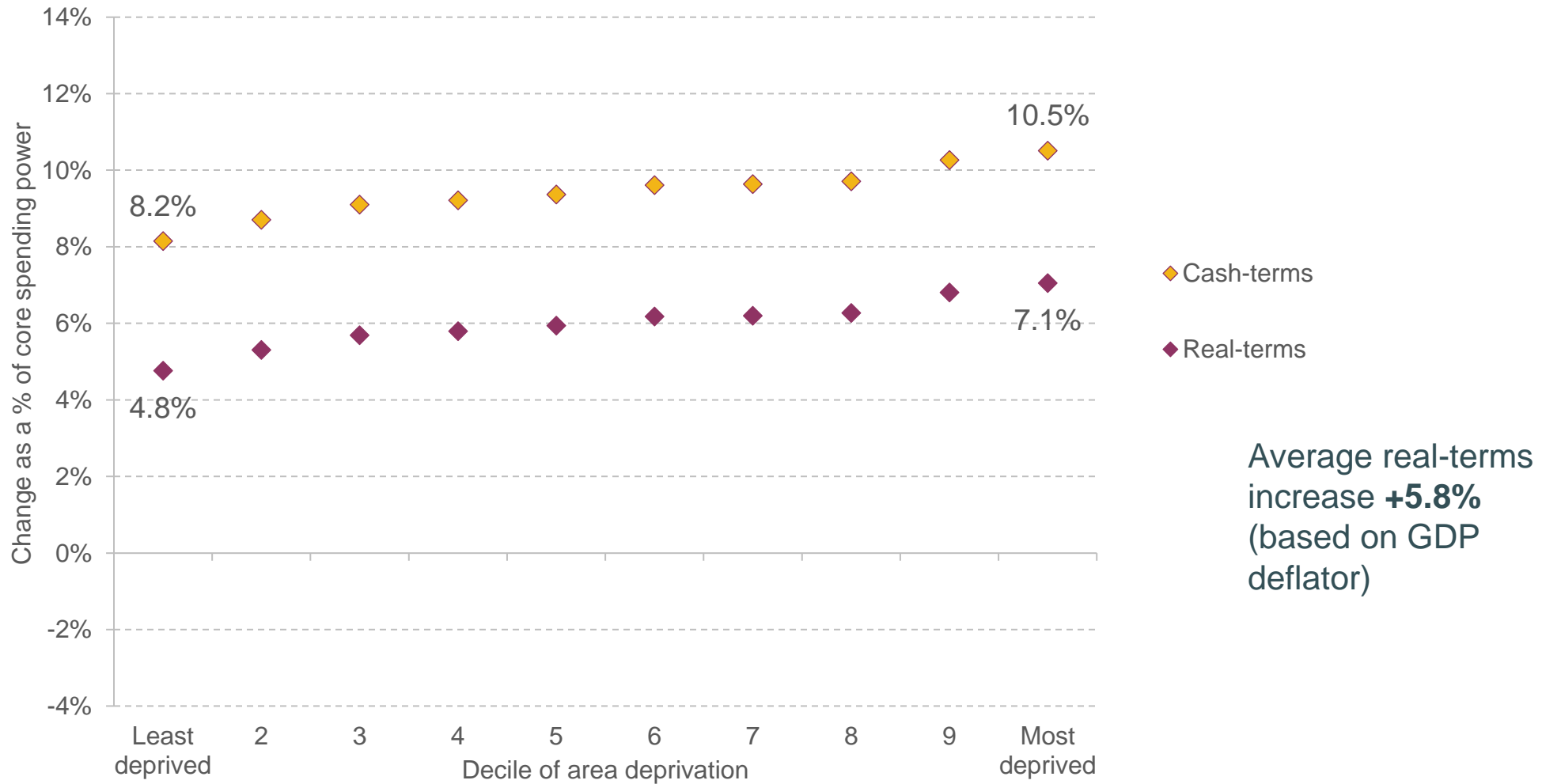
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2023 settlement by deprivation



Note: Deprivation deciles are based on IMD 2019 Average Score at the upper-tier authority level. Main council types only. Source: Provisional local government finance settlement 2023-24; and OBR EFO – November 2022; English Indices of Deprivation, 2019.

2023 settlement by deprivation



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A better estimate of rises in cost and demands?

	Change in CSP (cash-terms)	Change in GDP deflator	Real-terms change in CSP (GDP deflator)
2022-23	7.8%	4.9%	+2.8%
2023-24	9.2%	3.2%	+5.8%
2024-25	7.1%	1.3%	+5.8%

- Typical measure of inflation affecting public services
- May **underestimate** cost rises facing councils

A better estimate of rises in cost and demands?

	Change in CSP (cash-terms)	Change in GDP deflator	Real-terms change in CSP (GDP deflator)	Alternative estimate of cost growth	Real-terms change in CSP (alternative measure)
2022-23	7.8%	4.9%	+2.8%	9.0%	-1.1%
2023-24	9.2%	3.2%	+5.8%	3.7%	+5.3%
2024-25	7.1%	1.3%	+5.8%	1.5%	+5.5%

- Employee costs rise with forecast average hourly earnings, and running costs by a weighed average of CPI and earnings growth.
- Earnings growth reflects OBR forecast for the whole economy (5.4% in 2022-23) although council workers received an average pay settlement of 7% in 2022-23.
- SFCs rise by 3.7% in 2022-23 (forecast for CPI when councils made decisions around fee levels) and then by latest CPI forecast.

A better estimate of rises in cost and demands?

	Change in CSP (cash-terms)	Change in GDP deflator	Real-terms change in CSP (GDP deflator)	Alternative estimate of cost growth	Real-terms change in CSP (alternative measure)	Alternative estimate of cost growth + demand growth	Adjusted real-terms change in CSP
2022-23	7.8%	4.9%	+2.8%	9.0%	-1.1%	10.2%	-2.2%
2023-24	9.2%	3.2%	+5.8%	3.7%	+5.3%	4.8%	+4.2%
2024-25	7.1%	1.3%	+5.8%	1.5%	+5.5%	2.6%	+4.5%

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- Demand for services grows in line with population or household projections, with faster demand growth for adult and children's social care (as default in [IFS-CIPFA model](#))

Will funding ever be 'fair'?

- Policy Statement confirmed business rates reset and 'Fair Funding Review' will be delayed until 2025-26 at the earliest.
 - Most (but not all) districts likely to breathe a sigh of relief
- But this is a missed opportunity and risks even further delay
 - Spending needs last updated in 2013 and based on data from as far back as 2001!
 - Reform originally planned for 2019 so already much delayed
 - Harder to implement reform creating losers when overall funding is constrained, as it will be in mid-late 2020s
 - Election due, at latest in January 2025

Fairness requires toughness

- Reform, after so long, will inevitably create some big losers
 - Redistribute substantial retained business rates revenues
 - Adjust for years of differential population growth and changes in local socio-economic circumstances
 - Changes in councils' activities and spending mix, which are only growing over time as social care looms larger and larger
- Transitional protections will be needed, but when money is tight even more important it is allocated fairly and efficiently
 - Should this (and setting in train council tax reform) be a lasting legacy for Gove?

The IFS-CIPFA model – use it!



- You can access the IFS-CIPFA local government finance model for your own medium-to-longer term financial scenario planning
- Projects spending and revenues for each council, and will be (very soon!) updated to reflect the settlement

www.ifs.org.uk/local-finance-model



The economic and fiscal outlook:

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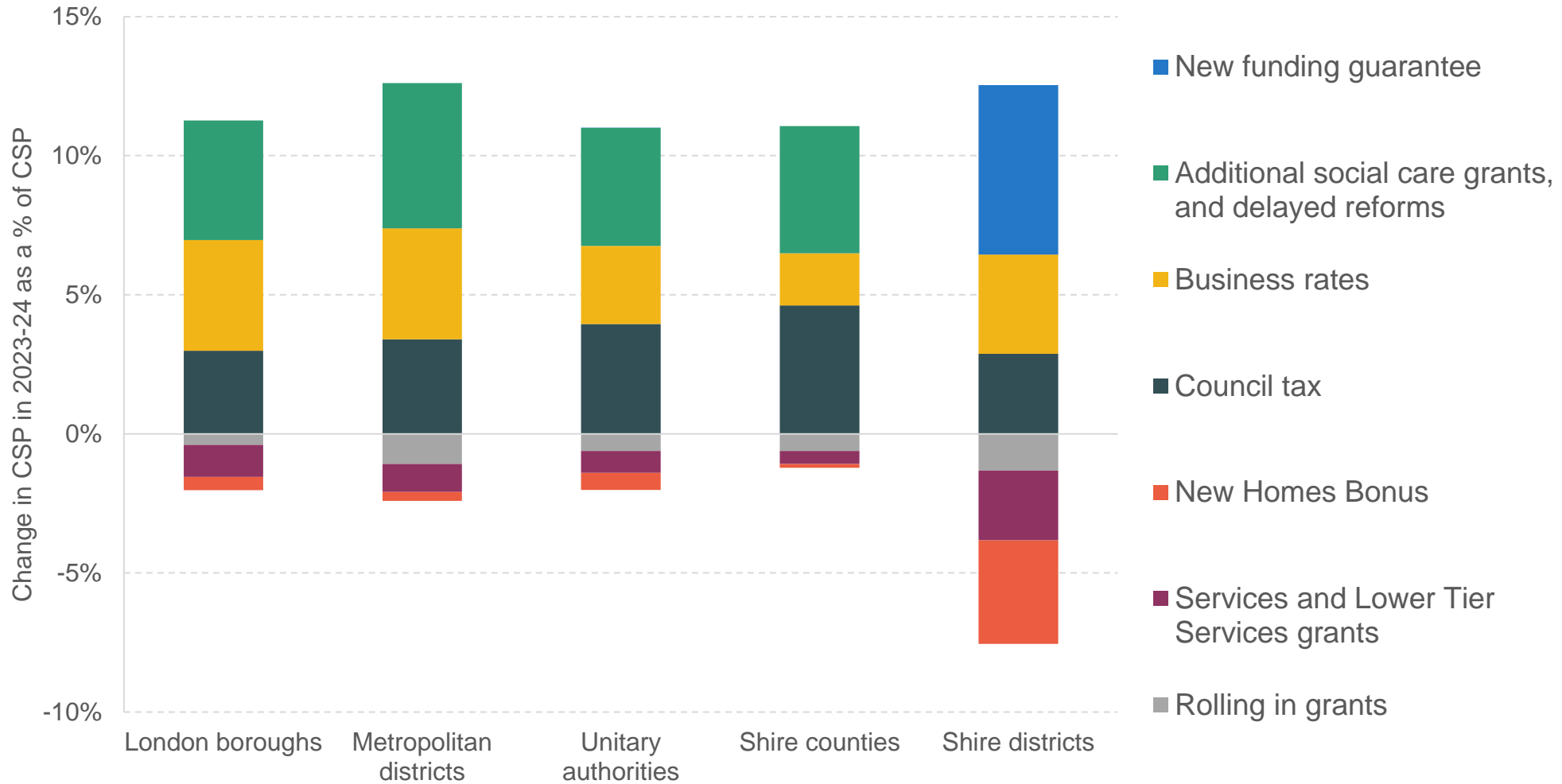
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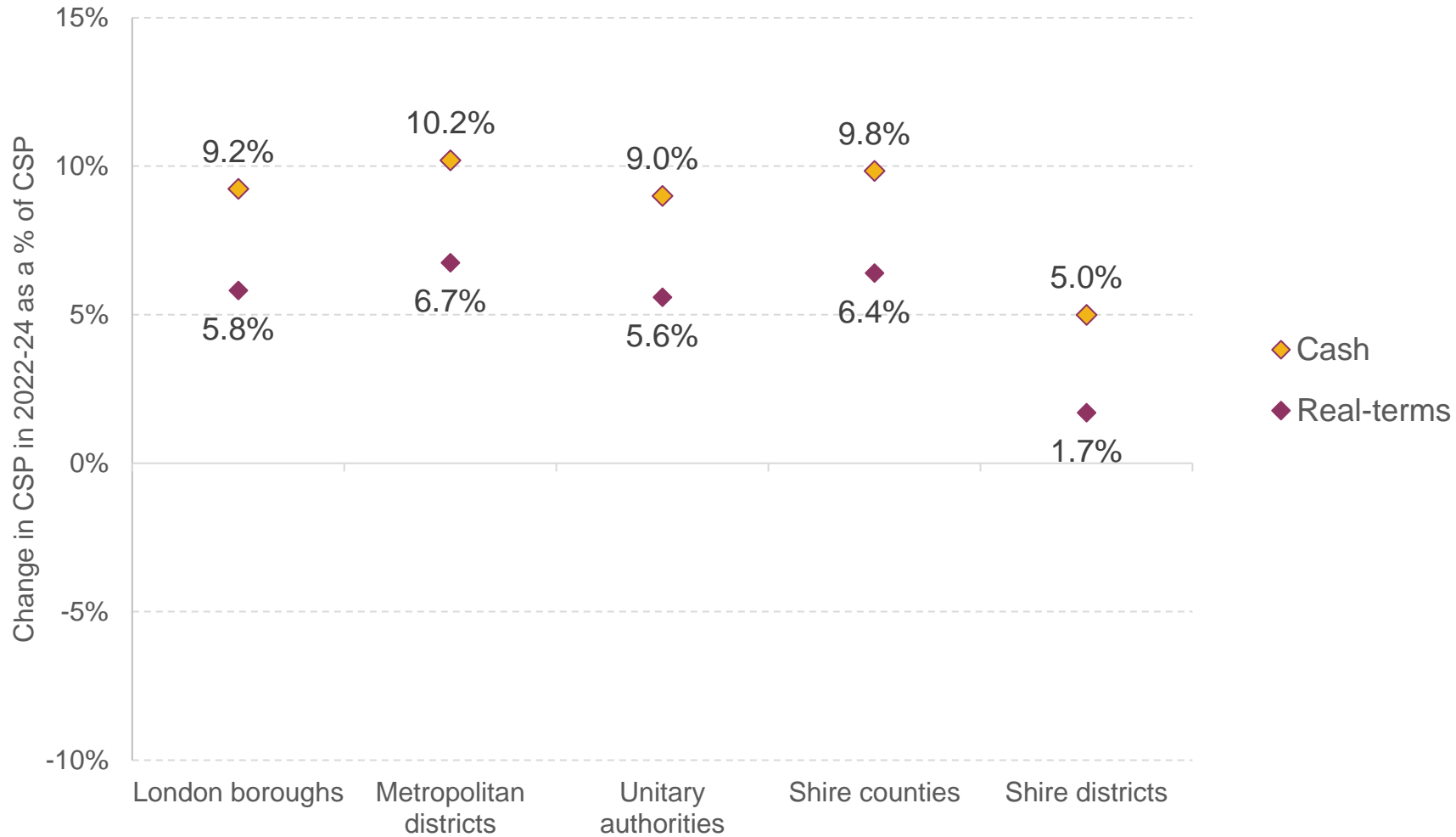
- Higher-than-expected inflation in 2022-23 meant a (relatively) generous settlement went less far than planned
 - CSP increased by 7.4% in cash-terms in 2022-23 – expected to be 4.6% in real-terms
 - Based on GDP deflator (4.9%) a much more modest 2.4% increase
 - Even this likely understates cost rises this year (e.g. 7% average pay award)
- Had expected a much smaller increase in CSP in each of the next 2 years, but now expect significant increase of £5.0bn (9.2% cash-terms) in 2023-24
 - Higher than most other public services – core schools' +6.5%; NHS England +5.1%
 - Inflation expected to slow. Based on forecast GDP deflator (3.3%), equivalent to 5.8% real-terms on average in 2023-24
- Announcements on social care grants and CT rises, and continued indexation of BR to CPI, imply a further increase of up to £4.2bn (around 7%) in 2024-25 (5.8% real-terms)

2023 settlement by council type



Note: Council types as of April 2023. New authorities are compared to their former constituent authorities in 2022-23. Source: Provisional local government finance settlement 2023-24; and OBR EFO – November 2022.

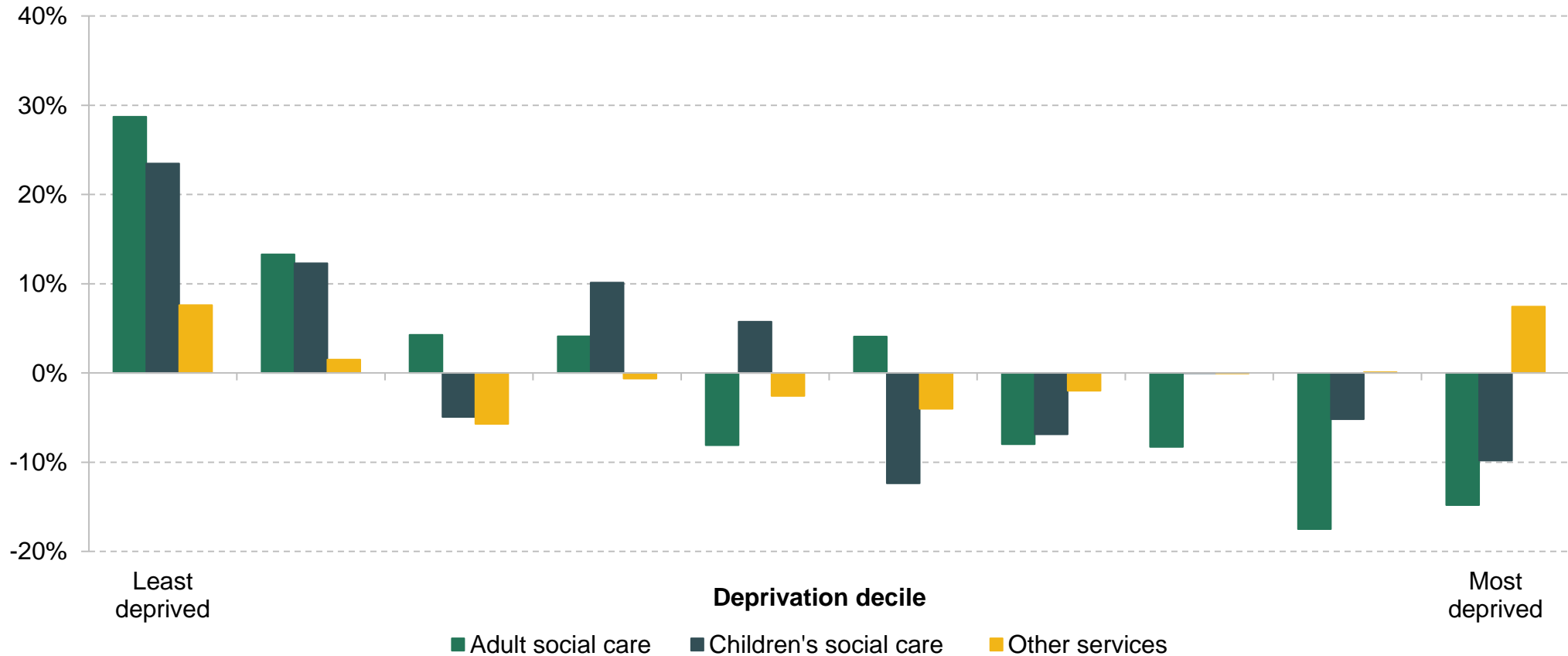
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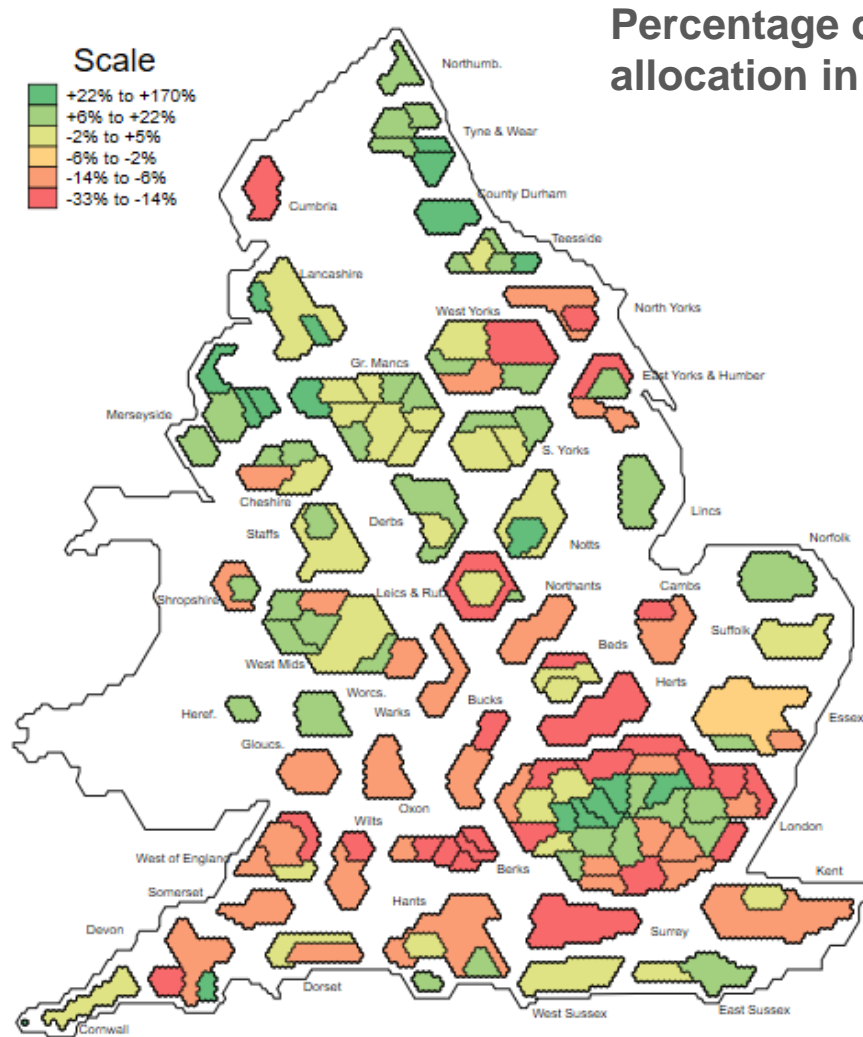
A council funding system not fit for purpose

Difference between councils' spending per capita and assessed needs per capita, by service area
(2019-20)



Source: Figure 6.16(a). Ogden et al (2022) Does funding follow need? An analysis of the geographic distribution of public spending in England, <https://ifs.org.uk/publications/does-funding-follow-need>.

Public health funding differs massively from assessed needs



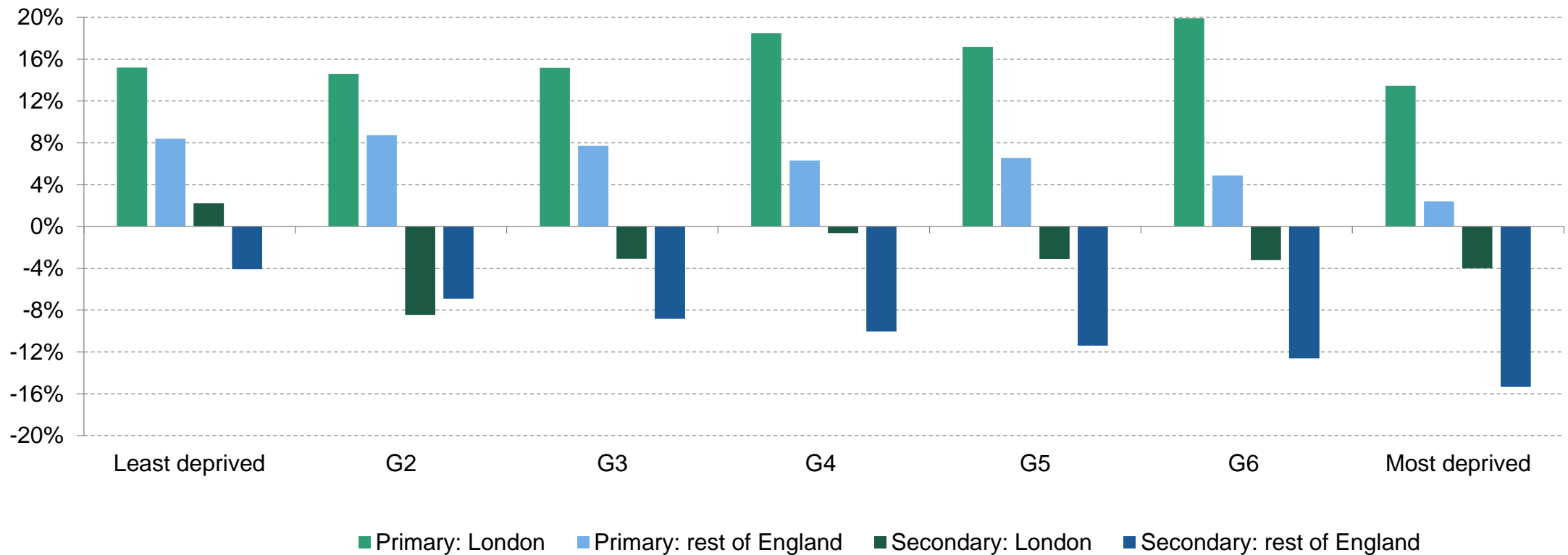
Councils in inner London and much of north receive a higher share of funding than they are assessed to need, in general.

Councils in outer London and the South generally receive less funding than they are assessed to need.

Source: Figure 4.20. Ogden et al (2022) Does funding follow need? An analysis of the geographic distribution of public spending in England, <https://ifs.org.uk/publications/does-funding-follow-need>.

Schools outside London cut more and perform worse

% change in funding per pupil, 2010-11 to 2019-20, real-terms



Source: Figure 5.10. Ogden et al (2022) Does funding follow need? An analysis of the geographic distribution of public spending in England, <https://ifs.org.uk/publications/does-funding-follow-need>.