

CCN

A n a l y s i s

**Local Government  
Funding Forecast  
Update 2020-25**



**February  
2020**

## Overview

In 2019 PricewaterhouseCoopers LLP (PwC) were commissioned by the County Councils Network (CCN) to undertake an independent analysis of the financial pressures that county authorities in England have experienced and expect to continue to experience over the period 2015-2025.

For this updated analysis, CCN commissioned Pixel Financial Management (Pixel) to provide new funding forecasts to enable CCN to update the expected funding gap analysis. This followed the provisional local government settlement 2020/21 published in December. We have also considered the content of the Conservative Party manifesto and the specific pledges made to inform our future forecasts.

Our analysis shows that as a result of these measures, local government's projected cumulative funding gap over the next five years is now forecast as £30.4bn, down 35% compared to PwC's original forecasts. A cumulative council tax rise of 12% by every council over the period could reduce the cumulative gap a further 24% to £19.1bn.

CCN authorities would face a cumulative funding gap of £13.2bn which equates to 43.2% of the overall funding gap for England over the 5-year period. A rise of 12% in council tax reduces the cumulative funding gap to £7.7bn, an average annual gap of £1.5bn.

The resources provided in the provisional settlement, and their expected minimum continuation, will make a significant contribution to easing the financial challenges facing counties and wider local government, allowing councils to preserve many frontline social care services, invest in local priorities.

The ability to raise council tax by 4% next year will help us to address growing demand for care services and meet other rising costs in the short term. A survey\* of county authorities shows that almost all counties plan to implement the rise ahead of next year's Spending Review.

However, looking ahead, our analysis shows that even if council tax increased at a rate above inflation beyond 2021/22, councils would still require an additional £19bn of resources over the next five years.

At the same time, there must be a recognition that yearly council tax increases add to the cost of living for families, especially in county areas. Historically lower funding has led to average council tax rates in some counties that are double those in Inner London, at the same time median incomes in counties are below the national average.

The forthcoming Budget in March provides a further opportunity for the Chancellor to provide additional support to councils in the next financial year, particularly to meet the rising costs of children's social care; where pressures are expected to rise fastest.

Most importantly, there remains a significant funding challenge beyond the next financial year. CCN is committed to working with Government to deliver a funding settlement that can help councils to sustain, enhance and improve local services, invest in growth, support housing delivery and continue to innovate service delivery to improve outcomes for residents.

A 2020 Spending Review should seek to set out a minimum four-year funding settlement for councils, reflecting the spending need requirements of different council types. It should also consider policy and legislative changes in specific areas to recognise new statutory duties and ease legislative burdens.

Alongside this, proposals for the long-term funding of social care, the Fair Funding Review, and reforms to the New Homes Bonus, alongside wider government policies on devolution and public service reform, are crucial to the long-term financial sustainability of councils and the services local people rely on.

## Summary

- Local government cumulative funding gap over the next five years is now forecast as £30.4bn. The annual shortfall is estimated as £4.1bn in 2020/21 rising to £8.2bn by 2024/25.
- A cumulative council tax rise of 12% over the period could reduce the cumulative gap to £19.1bn over the period. If councils all implement a 4% rise in council tax in 2020/21 the gap reduces to £3bn, with further annual rises of 2% reducing the gap in 2024/25 to £4.7bn.
- In 2020/21 increased government funding and the continuation of temporary grants reduces the gap by 39% compared to the original estimate by PwC. An assumed 4% council tax rise could reduce the gap by a further 16%. Cumulatively over the period, if this funding continues in line with our assumptions the overall cumulative gap would have reduced 35% over the period, with a cumulative council tax rise reducing the funding shortfall by a further 24%.
- CCN authorities would face an underlying funding gap of £1.8bn in 2020/21, this would increase year on year to £3.6bn in 2024/25 which is an increase of 33.5% over the 5-year period. They would face a cumulative funding gap of £13.2bn which equates to 43.2% of the overall cumulative funding gap for England over the 5-year period.
- A 4% rise in council tax in 2020/21 reduces the CCN funding gap in this year to £1.3bn. Further rises of 2% p/a from 2021/22 reduces the cumulative funding gap to £7.7bn, an average annual gap of £1.5bn.
- In 2020/21 for county authorities, increased government funding and the continuation of temporary grants reduces the gap by 37% compared to the original estimate by PwC. An assumed 4% council tax rise could reduce the gap by a further 18%.
- Cumulatively over the period, if this funding continues in line with our assumptions the overall cumulative gap for CCN member councils would have reduced 33% over the period, with a cumulative council tax rise reducing the funding shortfall by a further 27%.

## Key facts at a glance.....



**Funding gap for councils over the next Five years**



**Council tax rising 12% reduces the gap over the period**



**CCN shortfall between 2020-25 if all councils increase council tax by 12%**



**2020/21 gap after a 4% council tax rise by all councils**



**Spending need will rise for local government between 2015-25; £15.7bn**

## Background

In 2019 PricewaterhouseCoopers LLP (PwC) were commissioned by the County Councils Network (CCN) to undertake an independent analysis of the financial pressures that local authorities in England have experienced and expect to continue to experience over the period 2015-2025.

This report, based on estimating councils 'spending need' and comparing this to current and future funding forecast, is the most extensive and detailed analysis of funding pressures facing councils to-date. PwC's full Technical Report and a Summary Report can be downloaded from the CCN website.

For this updated analysis, CCN commissioned Pixel Financial Management (Pixel) to provide new funding forecasts to enable CCN to update the expected funding gap analysis. This followed the provisional local government settlement 2020/21 published in December. We have also considered the content of the Conservative Party manifesto and the specific pledges made to inform our future forecasts.

This analysis considers two separate scenarios for local government's future funding gap, one based purely on the impact of increased government funding and a second also includes assumed council tax increase over the period. **Please note this document is based on comparing PwC's original spending needs analysis with new funding forecasts provided by Pixel. The results presented are therefore those of CCN and Pixel, not PwC's.**

## Spending Need

Spending need is an evidence-based estimate of the amount of resources for local government, and specific tiers of councils, required to meet its demand and costs for services.

**In our revised forecasts contained in this document, no changes have been made to PwC's spending need forecasts nor the baseline year used.**

PwC's estimates on spending need are the product of the number of recipients for a given service (volume/demand) multiplied by the unit cost of providing the service for each tier of local government. In PwC's analysis they use 17 different service specific cost drivers (volume/demand indicators) across 10 different service areas. Table 1 below summarises the service areas and cost drivers. In addition generic cost drivers are applied to unit costs over time, such as inflation, the living wage, pension obligations and the apprenticeship levy.

PwC estimates spending need if all local authority tiers were to provide a more consistent level of service by adjusting unit costs at service and council level. Spending need based on a more consistent level of service recognises that while councils face different input costs arising from higher or lower geographical costs, historic funding levels may have allowed councils to deliver a higher quality or level of service for the recipient population beyond their actual real spending need.

**Spending need based on a more consistent level of service does not mean that every council should be delivering the same services, nor that every council faces the same demands and needs. Equally it does not mean this is the standard of service that every council should aim to provide. But it does allow a fairer approach to estimating spending need to ascertain the relative funding challenges facing different types of councils.**

For the analysis PwC needed to arrive at a 'baseline year' to begin their analysis. This represents the year when actual aggregate spending across all local authorities is assumed for the purposes of the modelling to best meet aggregate 'demand/need' for the service. PwC use 2015/16 as it represents the final year before the previous Spending Review period – since then, local government has started to face new challenges and further pressure on its resources. **Table 2 below provides a breakdown of total spending need by local authority type.** More detail breakdown of service level spending need can be found in PwC's full report.

**Table 1**

Service area	Specific/Generic drivers
<b>Adult social care</b>	18+ adults with learning disabilities Population 65+ in poor health Adult population (18+)
<b>Children social care</b>	Number of looked after children Number of children in need Population under 18
<b>Education services</b>	Home to school transport - Mainstream Home to school transport – SEN Children with SEN
<b>Public health</b>	Children 0-5 Population 5+
<b>Highways and transport</b>	Road length Population 65+ as a proxy for number of concessionary bus boarding
<b>Environment and regulatory services</b>	Number of households

**Table 2**  
£/m

	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
<b>CCN Unitary</b>	2,864	2,851	2,940	3,047	3,138	3,237	3,341	3,451	3,566	3,686
<b>County Council</b>	15,015	15,272	15,766	16,408	16,928	17,482	18,081	18,720	19,385	20,083
<b>Non-CCN Unitary</b>	7,623	7,959	8,195	8,547	8,807	9,083	9,379	9,693	10,018	10,357
<b>London Boroughs</b>	6,904	7,270	7,494	7,856	8,127	8,414	8,716	9,032	9,358	9,695
<b>Metropolitan Boroughs</b>	9,815	10,381	10,692	11,130	11,463	11,817	12,196	12,600	13,021	13,459
<b>District Councils</b>	2,795	2,873	2,950	3,012	3,081	3,153	3,230	3,311	3,393	3,477
<b>England</b>	45,016	46,606	48,037	50,000	51,544	53,188	54,941	56,805	58,741	60,757

## Funding Estimates

### Funding for the period from 2015/16 to 2019/20

To revise the funding gap Pixel matched PwC's baseline funding estimates for 2015/16, and for the following years to 2019/20 used publicly available Core Spending Power data, including council tax income, for these years. For funding for Special Educational Needs (SEN), Pixel adopted the same methodology as PwC, assuming in the baseline year that funding for services to children with SEN matched actual spending with growth projections to 2019/20 based on locally raised income in the Office of Budget Responsibility's "Economic and fiscal outlook" published in October 2018.

Although the methodologies adopted are similar in both funding estimates, for the years 2016/17 to 2019/20 it should be noted that Pixel's funding forecasts are higher than those of PwC. This therefore results in slightly smaller cumulative funding gap for these years of £11.9bn to £13.2bn compared to the original study.

### Funding for the period from 2020/21 to 2024/25

In the original analysis Pixel provided PwC with funding forecasts for each tier of local government for the period 2019/20 to 2024/25. For this analysis, Pixel updated their forecasts considering the outcome of the Spending Round (September 2019), provisional local government settlement 2020/21 and Conservative manifesto pledges.

It is important to note that in Scenario 2 below the increase in the council tax base plus the increase in the council tax rate means income grows at an average of 4.34% per annum from 2020/21. This is higher than the forecasts of the Office for Budget Responsibility which anticipates that council tax income will increase at a rate of 2.88% per annum from 2020/21. This means that Pixel's optimistic assumptions show a faster fall in the funding gap; this is especially relevant for CCN councils with larger council tax bases.

The below table summarises the main original assumptions contained in PwC's analysis published in May for the funding forecasts for the period 2020/21 to 2024/25, Pixel revised assumptions, and the rationale for the changes;

**Table 3**

Funding Stream	PwC Original (May 2019)	Pixel (January 2019)	Rationale for change
<b>Business Rates/Settlement Funding Assessment (SFA)</b>	<p>Business Rates reflect the Baseline Funding Level (BFL) in line with the basis used by the Government to estimate Core Spending Power for the period between 2015/16 to 2019/20.</p> <p>In addition, the retention of Business Rates is assumed to increase to 75% from 50%. The sum of Business Rates and grant funding is flat cash at the 2019/20 level for the future period.</p> <p>Retained rates above baseline excluded.</p>	<p>SFA p/a increase 1.7%</p> <p>No increase in retention to 75% business rates retention, with RSG, Public Health &amp; RSDG retained as separate grants</p> <p>Retained rates above baseline excluded.</p>	<p>Continuation of SR 2019 commitment.</p>

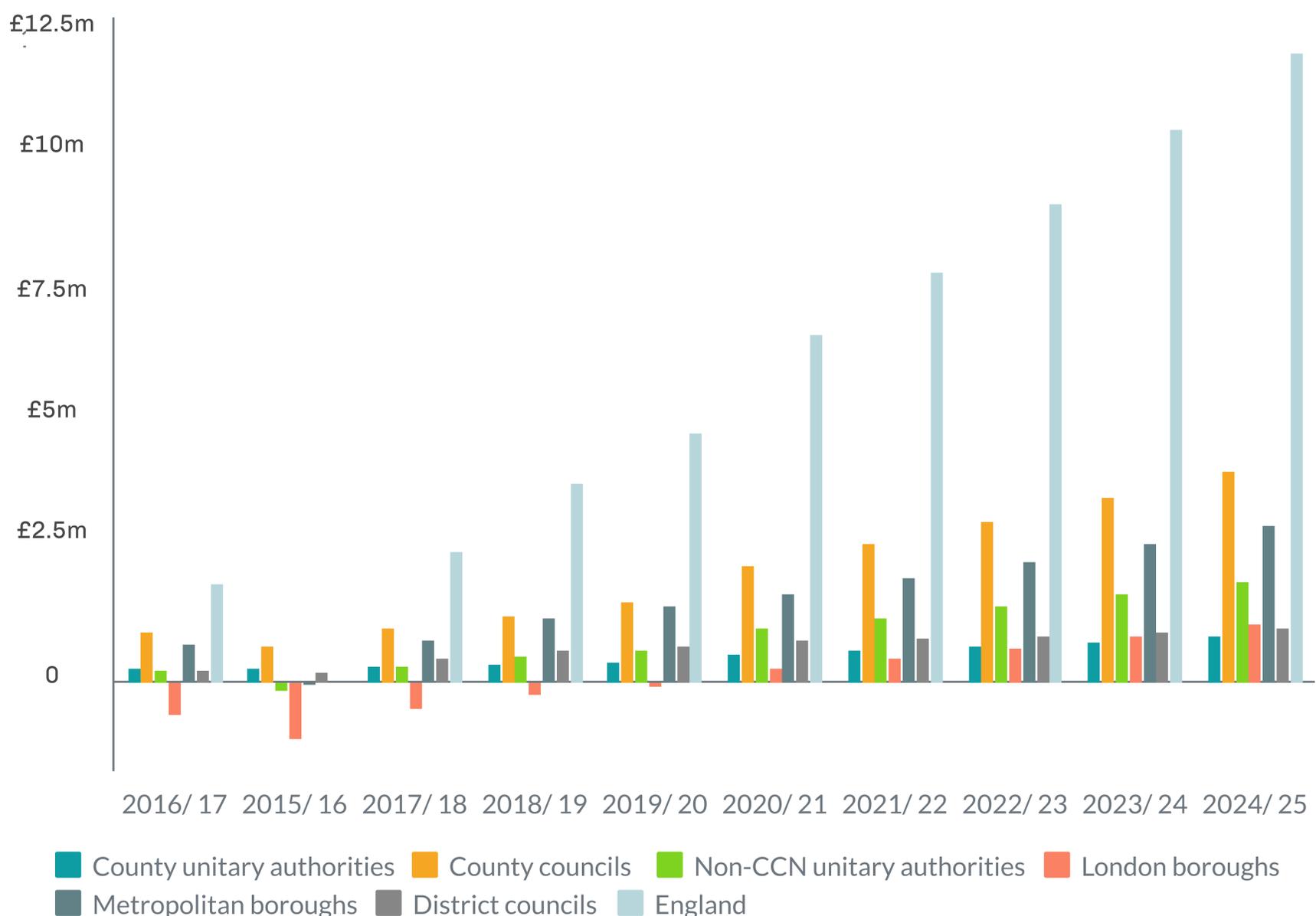
Funding Stream	PwC Original(May 2019)	Pixel (February 2019)	Rationale for change
<b>Council Tax</b>	<p>Growth in council tax base of 1.89% per annum, which reflects the average growth rate in the two years 2018/19 and 2019/20</p> <p>No rate growth in base-case scenario</p> <p>2.99% p/a increase considered separately</p>	<p>Growth in council tax base of;</p> <ul style="list-style-type: none"> <li>- 2020/21: 2.5%</li> <li>- 2021/22: 1.7%</li> <li>- 2022/23-24/25: 1.8%</li> </ul> <p>No rate growth in base-case scenario</p> <p>Rate growth increase considered separately of;</p> <ul style="list-style-type: none"> <li>- 2020/21: 4%</li> <li>- 2021/22-24/25: 2%</li> </ul>	<p>Rate increase in 2020/21 reflects continuation of 2% social care precept alongside core 2%</p> <p>Reversion to 2% post 2021/22 reflects Conservative manifesto commitment to maintain referendum limit</p>
<b>Improved Better Care Fund</b>	Flat cash of £1.837bn per year.	Flat cash of £1,837bn per year.	N/A
<b>New Homes Bonus</b>	Flat cash of £902m per year.	Flat cash of £915.9m per year.	Pixel revised data.
<b>Social Care Grants</b>	No continuation of £410m social care or £240m winter pressures grants	<p>Continuation £410m social care and £240m winter pressures grants</p> <p>£1bn additional social care funding announced at SR 2019</p> <p>Total flat cash of £1,653bn</p>	<p>Presumed continuation of £410m social care and £240m winter pressures grants indicates baselining of funding</p> <p>Conservative manifesto commitment to continuation of £1bn</p>
<b>Rural Services Delivery Grant</b>	Rolled into Business Rates from 2020/21 onwards	<p>Funding maintained as separate grant</p> <p>Flat cash as per SR 2019</p>	N/A
<b>Revenue Support Grant</b>	Rolled into Business Rates from 2020/21 onwards	Maintained in settlement funding assessment (see above)	N/A
<b>Public Heath Grant</b>	Rolled into Business Rates from 2020/21 onwards	Funding maintained as separate grant	Reflecting pre-election commitment to 'real terms increase'.
<b>Special Educational Needs &amp; Disabilities (SEND)</b>	Growth projections to 2019/20 based on locally raised income in the Office of Budget Responsibility's "Economic and fiscal outlook"	Same growth in SEN funding to 2020-21 (£756m in 2020/21) and cash flat thereafter	Matches SR19 funding in 2020-21 but no long-term commitment to growth in SEN funding beyond 2020/21
<b>2018/19 Local Highways Maintenance Grant/Pothole fund</b>	No continuation	Not included	Capital rather than revenue funding – spending need analysis only includes revenue costs

## PwC Funding Gap

For comparative purposes Table 4 and Graph 1 below presents the results from the original funding gap estimates from PwC's analysis.

Table 4 £/m	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
CCN Unitary	298	280	324	371	420	555	631	716	805	900
County Council	737	1,007	1,067	1,289	1,595	2,298	2,692	3,133	3,604	4,102
Non-CCN Unitary	-147	249	338	520	661	1,058	1,260	1,484	1,720	1,967
London Boroughs	-1071	-619	-481	-224	-57	284	481	694	917	1,148
Metropolitan Boroughs	-18	742	835	1,281	1,483	1,750	2,036	2,353	2,689	3,040
District Councils	201	271	487	631	738	818	874	934	995	1,058
England	0	1,930	2,569	3,868	4,839	6,763	7,975	9,313	10,730	12,215

Graph 1



## Revised Funding Gap

Based on the assumptions outlined above we now present the revised funding gap estimates. This is considered in **Scenario 1** with no council tax *rate* rises and only base growth, and separately under **Scenario 2** with council tax base growth and rate rises.

### Scenario 1

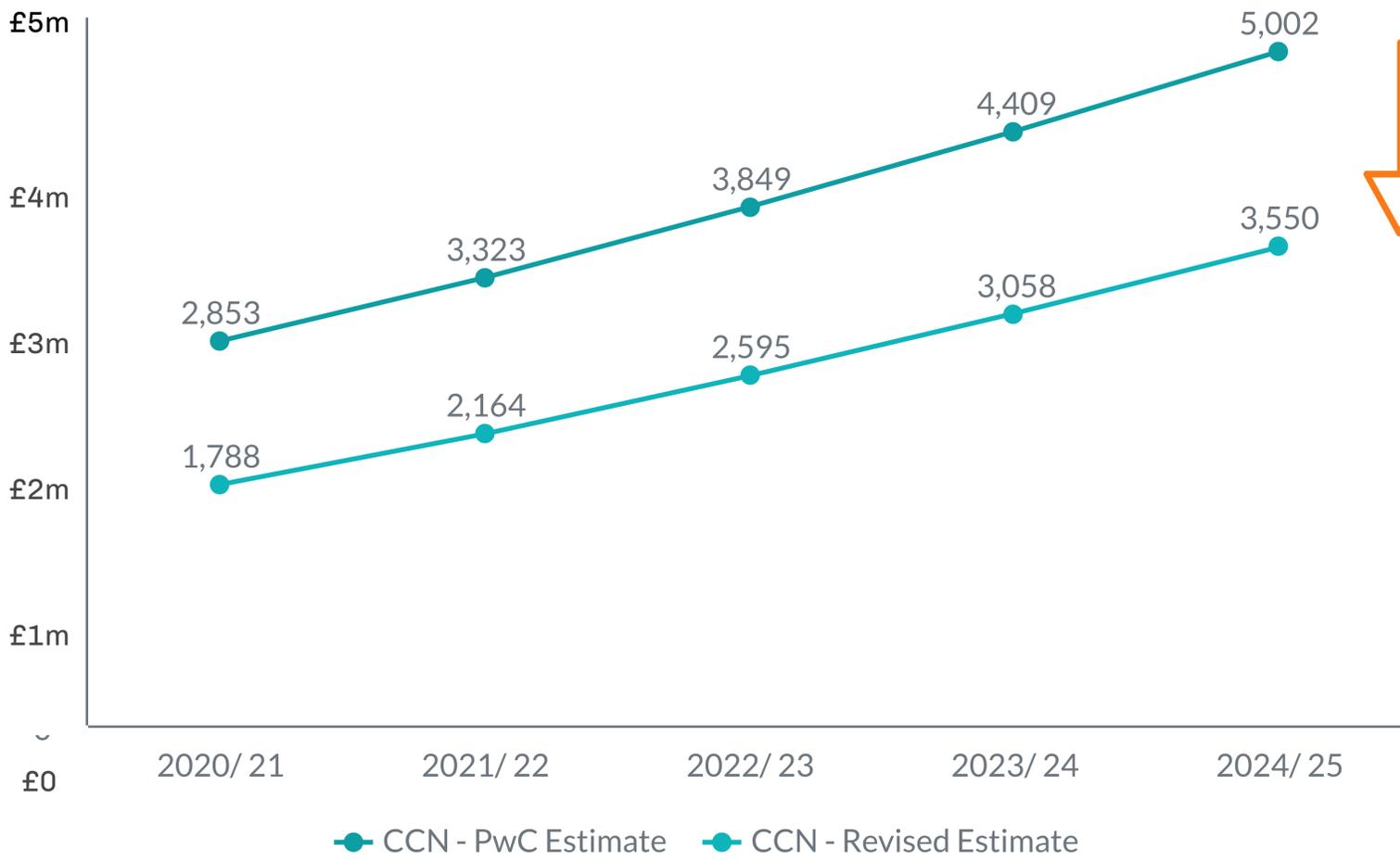
Table 5 shows the results of the analysis, with Graph 1 showing the results for the period 2020/21 to 2024/25. The main funding changes from 2020/21 onwards include the continuation of temporary social care grants, the additional £1bn social care funding, annual 1.7% increase in SFA and 3% growth in public health grant.

Table 5 £/m	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
CCN Unitary	298	273	310	350	391	391	450	518	589	665
County Council	737	962	975	1,148	1,403	1,397	1,714	2,077	2,469	2,885
Non-CCN Unitary	-147	227	292	450	566	605	750	915	1,092	1,278
London Boroughs	-1,071	-643	-530	-299	-159	-171	-41	105	258	419
Metropolitan Boroughs	-18	712	775	1,188	1,357	1,072	1,266	1,488	1,728	1,981
District Councils	201	271	487	631	738	808	854	904	955	1,008
England	0	1,802	2,309	3,468	4,296	4,102	4,994	6,008	7,091	8,236

As a result of the Spending Round announcements and assumptions for future funding based on the Conservative manifesto the results show the following:

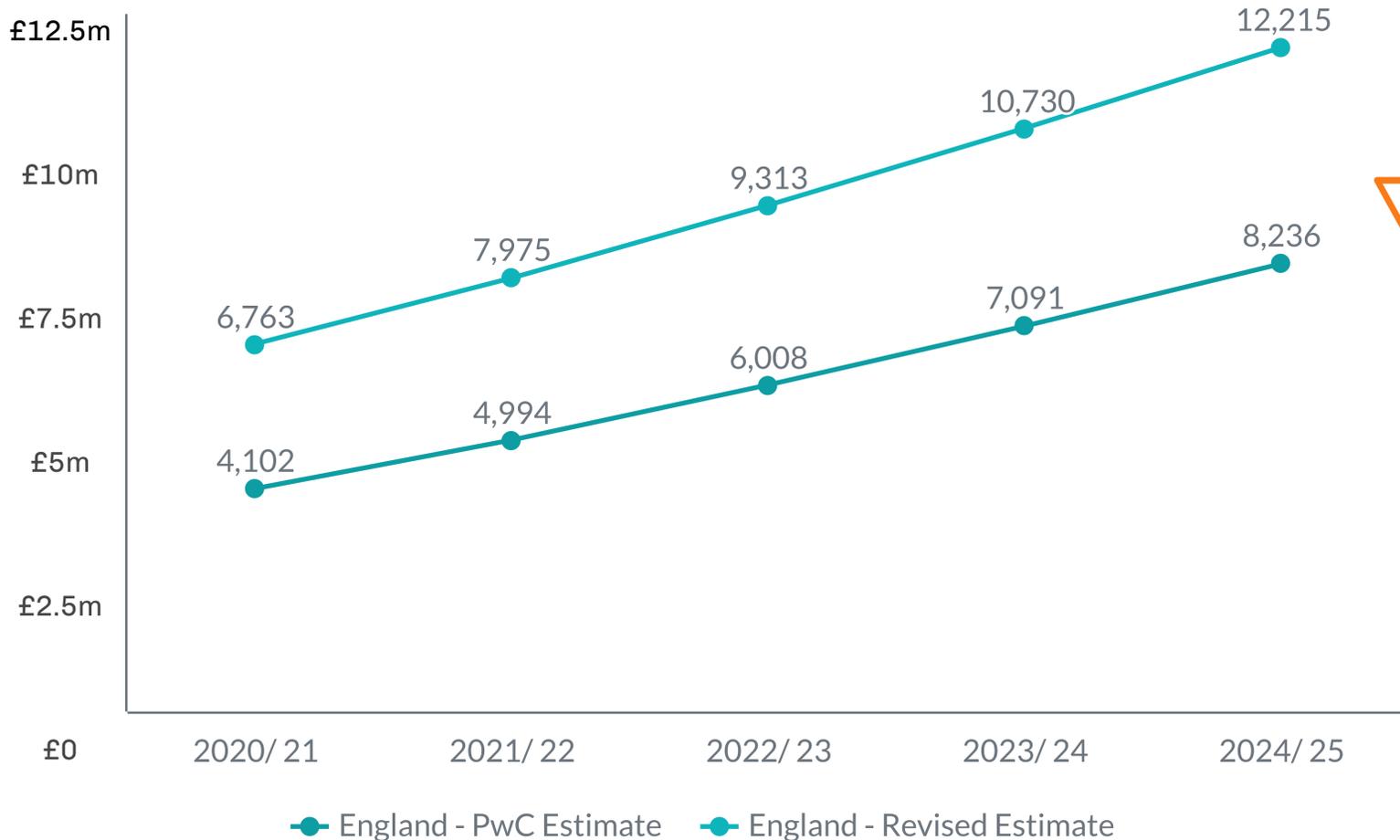
- Local authorities in England will see a funding gap increase year on year from 2020/21 – 2024/25 from £4.1bn to £8.2bn. Cumulatively over the 5-year period, local authorities will face a funding gap of £30.4bn.
- CCN authorities would face an underlying funding gap of £1.8bn in 2020/21, this would increase year on year to £3.6bn in 2024/25 which is an increase of 33.5% over the 5-year period. They would face a cumulative funding gap of £13.2bn which equates to 43.2% of the overall cumulative funding gap for England over the 5-year period.
- Metropolitan boroughs in 2021/22 will have a funding gap of £1bn which will increase to £1.9bn in 2024/25. Over the 5-year period metropolitan boroughs will cumulatively see a funding gap of £7.5bn, which is 24.7% of the overall funding gap.
- Non-CCN unitary authorities will have a funding gap of £0.6bn which will increase to £1.2bn in 2024/25. They will face a cumulative funding gap of £4.6bn which is 15.2% of the overall funding gap for England.
- London boroughs have a surplus in funding in 2020/21 but by 2022/23 will begin to have a funding gap and this will continue to increase to 2024/25. The London boroughs from 2022/23 – 2024/24 have a cumulative funding gap of £0.8bn, which is 2.5% of the overall cumulative funding gap for England over the 5-year period.
- District councils in 2020/21 will have a funding gap by £0.8bn which by 2024/25 will increase to £1bn, this equates to 14.8% of the cumulative funding gap for England over the 5-year period which is £4.5bn.

Graph 2 - CCN PwC Estimate v Revised Funding Gap



32%  
cumulative  
reduction in  
funding gap

Graph 3 - England PwC Estimate v Revised Funding Gap



35%  
cumulative  
reduction in  
funding gap

## Revised Funding Gap

### Scenario 2

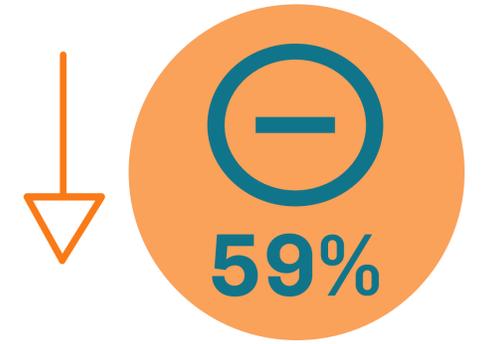
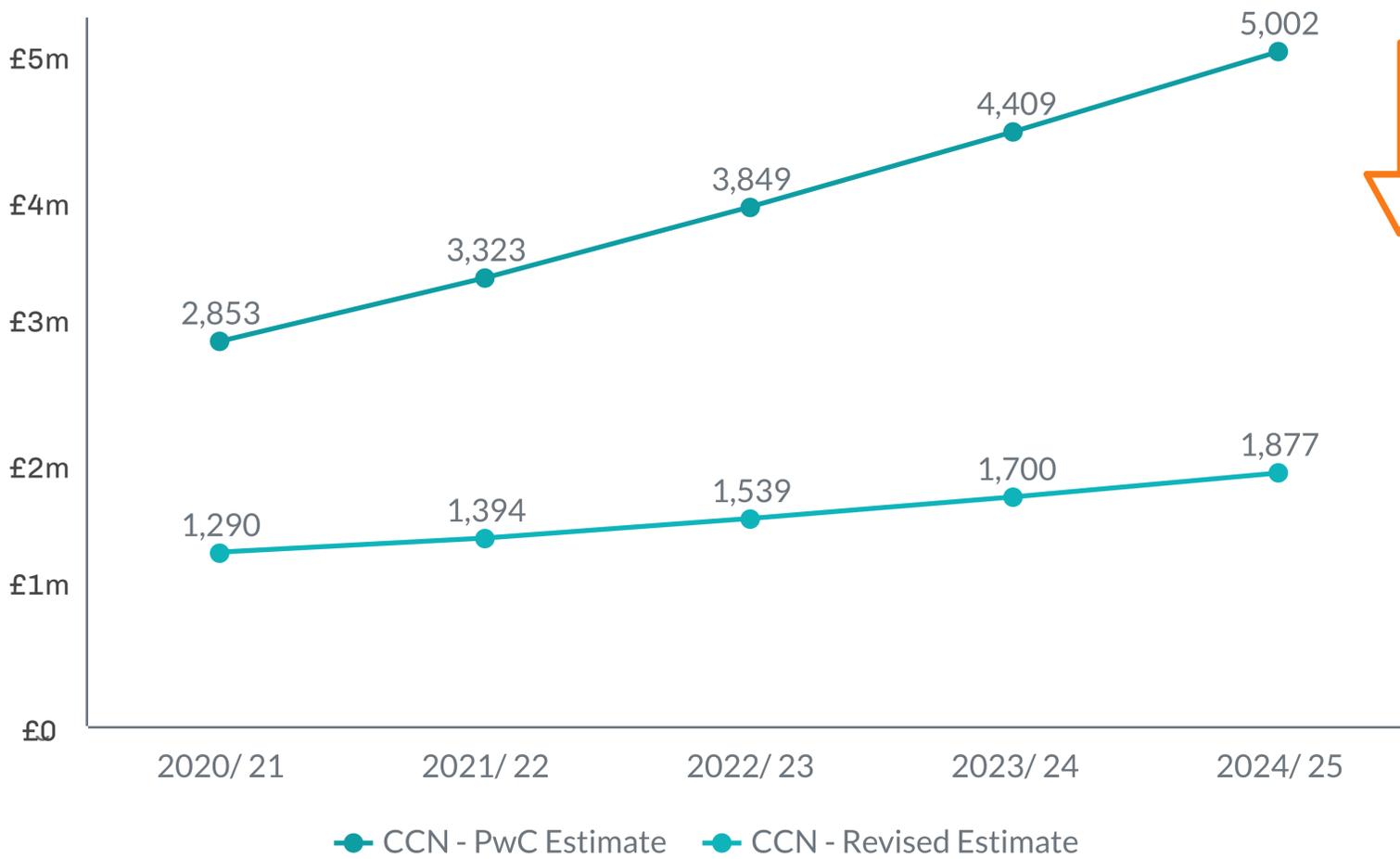
Table 6 show the results of the analysis, with Graph 2 showing the results for the period 2020/21 to 2024/25. From 2020/21 changes to funding assumptions are the same as Scenario 1, however council tax rises of 4% in 2020/21 and further annual rises of 2% from 2021/22 onwards are included.

Table 6 £/m	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
<b>CCN Unitary</b>	298	273	310	350	391	310	324	345	366	391
<b>County Council</b>	737	962	975	1,148	1,403	980	1,070	1,194	1,334	1,486
<b>Non-CCN Unitary</b>	-147	227	292	450	566	438	492	561	637	716
<b>London Boroughs</b>	-1,071	-643	-530	-299	-159	-313	-260	-198	-132	-65
<b>Metropolitan Boroughs</b>	-18	712	775	1,188	1,357	884	975	1,090	1,216	1,348
<b>District Councils</b>	201	271	487	631	738	769	774	782	789	797
<b>England</b>	0	1,802	2,309	3,468	4,296	3,067	3,375	3,774	4,210	4,674

As a result of the Spending Round announcements and assumptions for future funding based on the Conservative manifesto, alongside assumed council tax rises, the results show the following;

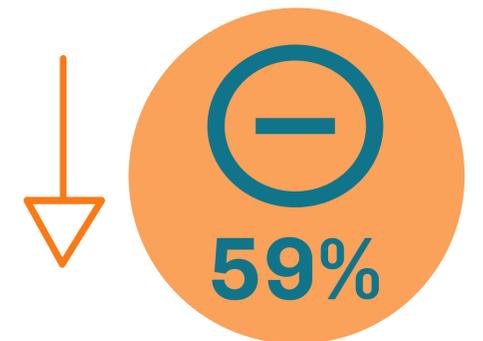
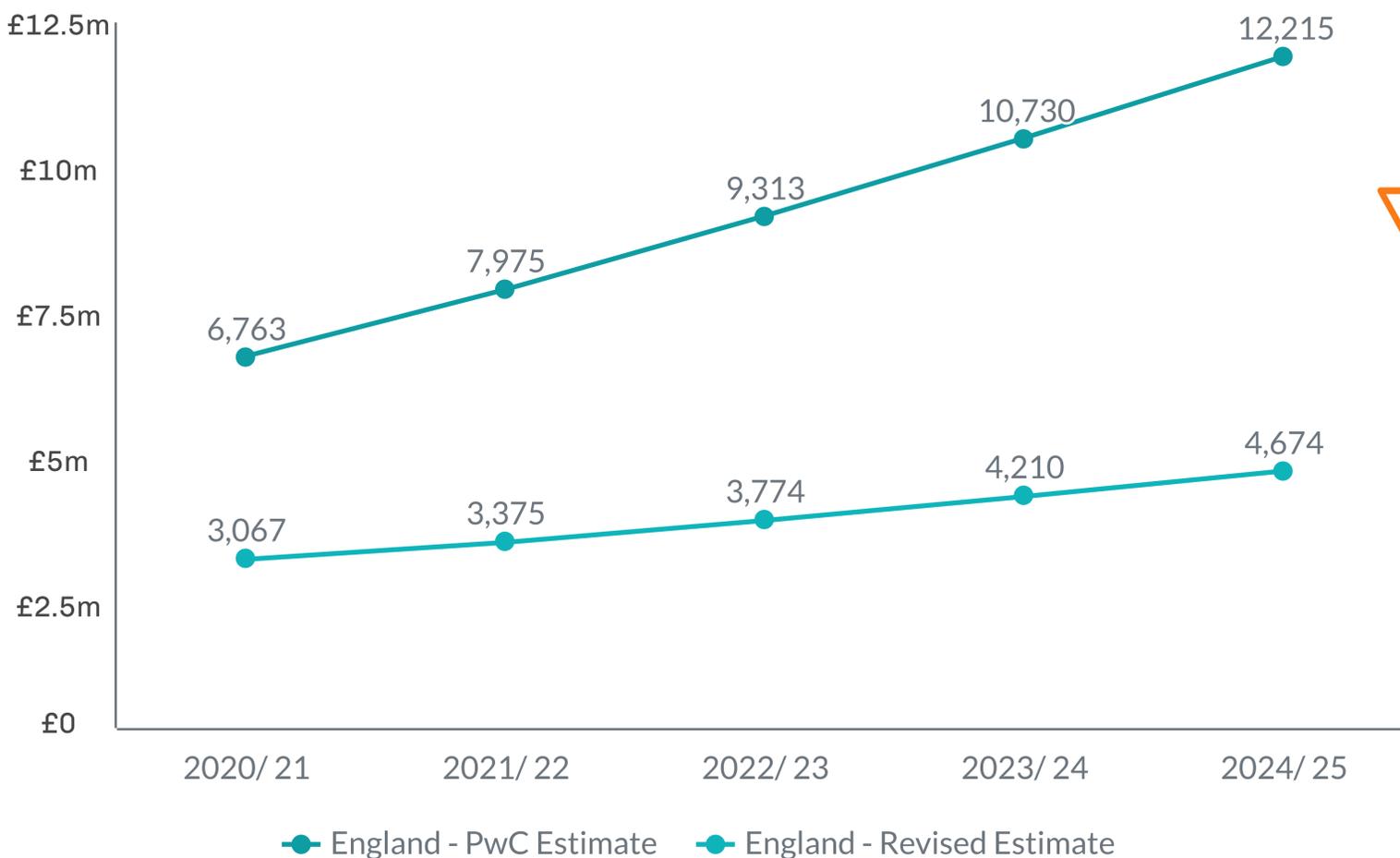
- For England's local authorities their funding gap will increase year on year, totalling at £19.1bn over the 5-year period. In 2024/25 it is predicted that local authorities will face a funding gap of £4.6bn, from £3bn in 2020/21.
- CCN authorities in 2020/21 will face a funding gap of £1.2bn which will increase to £1.8bn by 2024/25. Over the 5-year period CCN members will see a cumulative funding gap of £7.7bn which equates to 40.8% of the overall cumulative funding.
- Metropolitan boroughs will face a funding gap of £0.88bn in 2020/21 which is rise to £1.3bn in 2024/24, cumulatively this funding gap will be £5.5bn over the 5-year period. This equates to 28.8% of the overall cumulative funding gap for England.
- Non-CCN unitary authorities will see a cumulative funding gap of £2.8bn from 2020/21-2024/25 which equates to 14.8% of the overall cumulative funding gap for England. Non-CCN unitary authorities by 2024/25 will see an increase from £0.4bn (2020/21) to £0.7bn.
- London boroughs will see a financial surplus over the 5-year period, however this is predicted to decrease from +£0.3bn in 2020/21 to +£0.06bn in 2024/25.
- Cumulatively, district councils will have a £3.9bn funding gap over the 5 years, which equates to 20.4% of England's overall funding. Over the 5-year period, district councils have their funding gap increased from £0.76bn to £0.79bn.

Graph 4 - Scenario 2; CCN PwC Estimate v Revised Funding Gap



cumulative  
reduction in  
funding gap

Graph 5 - Scenario 2; England PwC Estimate v Revised Funding Gap



cumulative  
reduction in  
funding gap



COUNTY COUNCILS NETWORK

Founded in 1997, the County Councils Network is the voice of England's counties. A cross-party organisation, CCN develops policy, commissions research, and presents evidence-based solutions nationally on behalf of the largest grouping of local authorities in England.

In total, the 26 county councils and 10 unitary councils that make up the CCN represent 26 million residents, account for 39% of England's GVA, and deliver high-quality services that matter the most to local communities

The network is a cross party organisation, expressing the views of member councils to the government and within the Local Government Association.

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