

# Independent review of local government spending need and funding

Technical Report  
May 2019



Strictly private and confidential

# Acknowledgements

PwC would like to thank the local government officers and members who formed the oversight group for this work and provided input for this report.

We also thank Simon Edwards and James Maker at CCN for their guidance as we undertook this project and for signposting us to relevant reports and sources of information

# Contents

---

1.	Introduction .....	4
2.	Our approach.....	6
3.	Understanding spending need of local government.....	14
4.	Understanding actual and expected funding .....	24
5.	Funding gap estimates and implications .....	26
6.	Conclusion .....	34
7.	Annex.....	36



# 1. Introduction

## 1.1 Purpose

PricewaterhouseCoopers LLP (PwC) was 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. We also explore the different strategies that they could use to address these pressures.

CCN represents 27 county councils in England and nine county unitary authorities.

The findings of this analysis are intended to enable CCN to:

- Highlight the challenges and opportunities facing county authorities at present and in the future;
- Contribute to discussions on how the relative needs and resources of local authorities should be assessed in a way that is fair for all types of local authority; and
- Present evidence to government to inform the upcoming Spending Review on the extent of the financial challenges facing local government, including specific tiers of councils, financial resilience and the effectiveness of different strategies in meeting their spending needs.

## 1.2 Context

Local authorities deliver a wide range of important services to their residents and provide support for some of the most vulnerable groups in society.

The structure of local government varies across England with different types of local authorities being responsible for delivering different groups of services. In the context of two-tier local government, service provision is split between county and district councils. This impacts on the relative strengths and weaknesses of different types of councils in developing financial and service strategies to meet the needs of their local residents.

All local authorities face increasing demand for their services partly driven by demographic changes; the costs of service provision have also increased over time. These pressures impact on different local authorities in different ways depending on the composition of services they provide, the characteristics of residents and the geography of areas.

During the coming year, the Government will need to consider these factors as it conducts its Spending Review and finalises the outcome of the Fair Funding Review. The former will set department expenditure limits, which will determine the overall 'quantum' of resources. Separately, the Government's Fair Funding Review aims to assess the underlying need of local authorities to ensure that funding is allocated fairly across the different local authorities. This recognises that past spending patterns do not necessarily correlate with underlying spending needs of local authorities and their ability to provide a more consistent level of service across the country.

Considering this context, this report aims to inform discussions within the CCN, the wider sector and government on the interaction between these factors.

## 1.3 Scope of our analysis

In order to facilitate comparison across all tiers of local authorities, our analysis is presented by local authority tier type. The tiers of local authorities include<sup>1</sup>:

---

<sup>1</sup> Our analysis excludes the implications of the reorganisation in Dorset, or future reorganisation in Northamptonshire and Buckinghamshire. This is due to the reliance on existing national and local authority level data.

- County councils;
- County unitary authorities;
- Non-CCN unitary authorities;
- London boroughs;
- Metropolitan boroughs; and
- District councils.

The Greater London Authority (GLA) and the combined authorities are excluded from the scope of our analysis which focuses on local government's core services. The services provided by the GLA and combined authorities are not comparable to those provided by the other local authorities included in our analysis as they are funded separately, often through other grants.

The service areas included with the scope of our analysis are:

- Adult social care;
- Children's social care;
- Education services (which cover home to school transport and Special Educational Needs (SEN) services only);
- Highways and transport;
- Environment and regulatory services;
- Cultural and related services;
- Planning and development services;
- Central services;
- Other services; and
- Housing services.

#### **1.4 Report structure**

Our report is structured in five further sections:

- An overview of our approach and methodology;
- A summary of trends in local government's spending needs for the period from 2015/16 to 2024/25;
- A summary of trends in local government's funding for the period from 2015/16 to 2024/25;
- Our assessment of the potential funding gap facing local government through to 2024/25; and
- A set of key conclusions including an assessment of options for bridging the funding gap.

A set of Annexes provides further details of:

- A.1 Methodology;
- A.2 Volume and unit costs in the baseline year;
- A.3 Incorporating the effects of unavoidable cost pressures; and
- A.4 Future funding assumptions.

# 2. Our approach

## 2.1 Introduction

This section outlines our approach to assessing local government's spending need and funding for the period from 2015/16 to 2024/25. First, we set out the background and context for our work. Second, we provide a high-level overview of our approach, followed by our assessment of the appropriate baseline year for the analysis. We then discuss our approach to undertaking the spending need assessment based on a more consistent level of service. Finally, we outline our approach to determining funding for the period of our analysis.

## 2.2 Background

In recent years there has been extensive analysis on local government finance and sustainability. This includes recent reports by the National Audit Office on local government sustainability<sup>2</sup> and studies by the Centre for Cities,<sup>3</sup> New Policy Institute<sup>4</sup> and Cambridge University.<sup>5</sup>

Using official data published by the Ministry of Housing, Communities & Local Government (MHCLG), these studies focus on the extent to which local government's Core Spending Power (CSP) and service expenditure have reduced since the implementation of fiscal austerity in 2010. Such an analysis of spending by service enables a comparison of trends in spending across different local authorities.

Our approach seeks to estimate changes in spending need of local government based on a more consistent level and quality of service provision across all English local authorities. The key parts of the analysis establish:

- An agreed baseline from which to project future spending need and funding using a consistent evidence-based assessment; and
- The key drivers of future demand and cost pressures.

Neither of these is readily measurable based simply on analysis of historic expenditure.

### Estimating spending need

Our analysis estimates spending need based on a more consistent level of service. It is intended to address some of the key limitations of an analysis of the financial pressures facing local government now, and in the future, based solely on historical expenditure patterns. It recognises that different local authorities face:

- Higher or lower demand for their services, depending on underlying socio-economic characteristics such as demography, levels of deprivation and geography; and
- Different input costs (for labour and property), which are reflected in the Area Cost Adjustment (ACA) factors.

Furthermore, it uses a broad range of generic and service specific cost drivers at a tier level. In this way, it mitigates the problem that actual expenditure may not correlate with actual spending need. Higher expenditure may be the product of historic funding levels and political choices over desired service levels. Lower expenditure could be due to lower levels of funding and may fail to recognise 'unmet needs'.

<sup>2</sup> National Audit Office (March 2018), "*Financial sustainability of local authorities 2018*"

<sup>3</sup> Centre for Cities (January 2019), "*Cities Outlook 2019 a decade of austerity*"

<https://www.centreforcities.org/publication/cities-outlook-2019/>

<sup>4</sup> New Policy Institute (2018), "*A Quiet Crisis: Changes in local government spending on disadvantage*"

<https://www.npi.org.uk/publications/local-government/quiet-crisis/>

<sup>5</sup> Cambridge Journal of Regions, Economy and Society (2018)

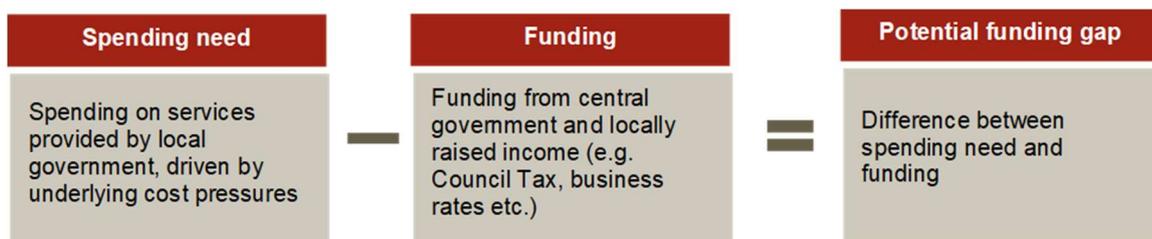
<https://www.cam.ac.uk/research/news/austerity-cuts-twice-as-deep-in-england-as-rest-of-britain>

### 2.3 Model overview

As noted above, our focus is on assessing how local government's spending "need" for the services they provide and their ability to fund this need have evolved over time and how they can be expected to change in the future. Understanding future spending need and funding enables us to estimate the actual and potential funding gap over the period from 2015/16 to 2024/25.

The funding gap is the difference between spending need and the funding available to meet this need. Figure 1 sets out our high-level approach to assessing the potential funding gap facing local government.

**Figure 1: High level approach to assessing local government's funding gap**



The starting point of our analysis is to determine the baseline year when total actual spending on local government's services most closely matches the underlying spending need for each service area. Having established the baseline year for each service area, we assess the spending need for each tier of local authorities on the basis of a more consistent level and quality of service provision.

Actual spending by each local authority tier in the baseline year incorporates differences in the level and quality of service provision across different areas. Our analysis attempts to estimate spending need if all local authority tiers were to provide a more consistent level of service. It recognises that while councils will face different input costs arising from higher or lower geographical costs, historic funding levels may have allowed different councils to deliver a higher quality or level of service for the recipient population beyond their actual real spending need.

As such, although total actual spending for each service area in the baseline year matches spending need, the spending need by local authority tiers within each service area does not match their actual spending as we estimate spending need based on a more consistent level of service provision. As explained below, we do this by adjusting service level unit costs for councils in the baseline year.

Having estimated spending need in the baseline year for each service area for each local authority tier, we project forward spending need to 2024/25. We define spending need as the total amount of resources required in a given year if local government is to provide a consistent level of service across all local authority tiers. By understanding the spending need of local authorities, we can determine the level of funding required to maintain service level and quality.

The second element of our analysis is the amount of funding that local government has or will receive. We define funding to include grant funding from central government and locally funded income (e.g. Council Tax, Business Rates and income from sales, fees and charges).

### 2.4 Establishing the baseline year

As explained above, the first stage of our analysis is to determine a baseline year where spending need was most closely aligned with actual spending and, therefore, funding. The significance of the baseline year is that we consider actual spending in that year to be the best starting point from which to estimate the resources required to meet the demand for all services provided by local government. The baseline is also the year from which we project future spending need on a more consistent basis by incorporating the key drivers of change.

We considered several different options for the baseline year for our analysis: 2009/10; 2015/16 and 2017/18. We 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. We assume actual spending in 2015/16 most closely reflects the underlying spending need.

## 2.5 Estimating spending need

### **Baseline year**

The spending need of local authorities can be estimated in several potential ways. Our approach to estimating spending need is based on the premise that spending need for each service area is a product of:

- The volume of service use/beneficiaries (i.e. the number of times the service is provided); and
- The unit costs of providing the service.

Our approach to estimating spending need for each service area by tiers of local authorities consists of two key steps:

1. Estimating the actual volume and unit costs for each service area

For each service area, we start with actual spending in the baseline year (i.e. 2015/16) by local authorities which we obtain from the “Local authority revenue expenditure and financing England: 2015 to 2016 final outturn” data published by the MHCLG.

We identify elements of spending within each service area where the underlying volume and cost drivers are distinct and which form the largest share of spending. Having determined distinct elements of spending within each service area, we identify the best estimates of the number of beneficiaries. In the baseline year, the estimated number of beneficiaries reflects differences in demand for the service between different local authorities which, in turn, depend on underlying socio-economic characteristics such as demography, levels of deprivation and geography. We expect the number of beneficiaries to vary over time for each local authority.

The remainder of spending within each service area after accounting for elements of spending with specific drivers are mapped against a generic volume driver which captures the entire recipient population of the service. Table 1 sets out the different elements of spending for the key service areas and Table 2 in Section 2.6 outlines the specific and generic drivers for each area.

The service areas with elements of spending with specific drivers include: adult social care; children social care; education services; highways and transport; and environment and regulatory services. The spending need for the remaining service areas is estimated by generic drivers that apply to the entirety of the recipient population for the service area. These services include cultural and related services, planning and development services, central services, other services and housing services (GFRA).

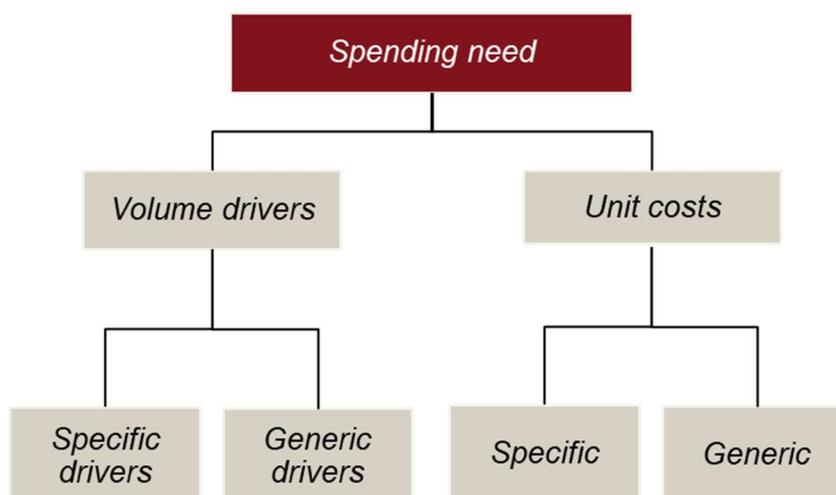
**Table 1: Elements of spending within key service areas**

Service area	Elements of spending
Adult social care	<ul style="list-style-type: none"> <li>• Spending on 18+ adults with learning disabilities</li> <li>• Spending on population 65+ in poor health</li> <li>• Rest of adult social care spending</li> </ul>
Children social care	<ul style="list-style-type: none"> <li>• Spending on looked after children</li> <li>• Spending on children in need</li> <li>• Rest of children social care spending</li> </ul>
Education services	<ul style="list-style-type: none"> <li>• Spending on home to school transport for mainstream and children with Special Educational Needs (SEN)</li> </ul>

Service area	Elements of spending
	<ul style="list-style-type: none"> <li>• Spending on services to children with SEN</li> </ul>
Public health	<ul style="list-style-type: none"> <li>• Spending on services to children 0-5</li> <li>• Spending on population 5+</li> </ul>
Highways and transport	<ul style="list-style-type: none"> <li>• Road maintenance spend</li> <li>• Spending on concessionary bus boarding</li> <li>• Rest of highways and transport spending</li> </ul>
Environment and regulatory services	<ul style="list-style-type: none"> <li>• Spending on waste collection services</li> <li>• Spending on waste disposal services</li> <li>• Spending on recycling</li> <li>• Rest of environment and regulatory services spend</li> </ul>

We assess spending need for each element of spending within a service area by combining the volume drivers (both specific and generic) with its associated unit costs. Figure 2 sets out our high-level approach to estimating spending need for each service area.

**Figure 2: Approach to estimating spending need**



## 2. Estimating unit costs for each element of spending based on more consistent level of service

Having determined the volume drivers for each service area, the next step is to understand the unit cost of service provision. We derive the average unit cost for each tier of local authorities for each element of spending within a service area by dividing the total actual spending in 2015/16 which we obtain from the “Local authority revenue expenditure and financing England: 2015 to 2016 final outturn” data by the relevant volume drivers. We refer to this as the initial tier specific unit cost.

We further adjust the tier specific unit cost to estimate the unit cost on the basis of a more consistent level and quality of service provision across all local authority tiers. To do this, we estimate the differences in the unit costs between tiers which are attributable to input cost differences by deflating the tier specific unit cost using a weighted average Area Cost Adjustment (ACA) factor for each tier. The ACA is the factor used to reflect differences in the cost of providing services in different geographical areas. We obtain the ACA factors from the ‘Calculation of 2013/14 Formula Funding’ document published by the then Department of Communities and

Local Government. We interpret the remaining differences in unit cost between tiers as a measure of the difference in the level and quality of service provision.

We then reflate the estimated differences in unit cost by the weighted average ACA factors using actual spending in 2015/16 as weights. We subtract the reflated difference in unit cost from the initial tier specific unit cost in the baseline year. The result of this process is our estimate of the notional unit cost of delivery for a more consistent level of service provision across the tiers of local government. As previously stated, this means that unit costs continue to reflect regional/geographical service delivery costs – such as those in London boroughs – but reduce the extent to which there may be service over or under provision by different tiers.

We then estimate notional aggregate spending need for each tier by multiplying the revised unit cost by the actual number of beneficiaries (i.e. the volume driver).

County and district councils collectively provide services that are offered by other single tier areas to beneficiaries in their area. We have amended the approach by estimating the combined tier specific unit cost for each element of spending within a service area for areas with county and district councils by dividing the sum of the total expenditure on the service by county and district councils in 2015/16 by the total number of beneficiaries in the area.

We then follow the steps discussed above to estimate the unit cost based on a consistent level of service provision across all local authority tiers. This unit cost is then apportioned between county and district councils based on their respective shares of total expenditure on the service in the baseline year. We provide further detail on the methodology and its limitations in Annex A.1.

We note that due to the service profile of district councils, their main volume driver for most service areas is population whereas spending need for other tiers of local government is based on a broader set of drivers. As such, we acknowledge the limitations posed by the reliance on population based drivers for district councils in estimating their spending need.

We employ the approach outlined above as it provides an estimate of spending need for a more consistent level and quality of service provision across local authority tiers than actual spending would provide. In addition, it takes into account estimated input cost differences across the different geographical areas.

If the objective of the analysis was to project forward current spending patterns, an alternative approach to determining the unit cost in the baseline year would be to use the actual tier specific unit costs without adjusting for service level and quality differences across the tiers. Under this approach, you would assume that the tier specific unit costs would reflect the actual cost of providing the level and quality of service determined by each local authority tier and the underlying input costs in the different geographical areas. This means that each local authority tier provides its desired level and quality of service unlike our preferred approach which attempts to understand the unit costs of all local authority tiers to deliver a more consistent service provision.

We note that whichever approach is used to estimate unit costs in the baseline year – with either a more consistent level of service or using actual tier specific unit costs - the estimated *overall* spending need and, therefore, funding gap across all local government is the same in the baseline year.

In order to understand how spending need in each service area has changed (and will change) over time relative to actual spending, we assess how the volume of service use and unit cost of service provision change for each element of spending within the service area by each tier of local authorities relative to the baseline year.

We identify the drivers of change in volume and unit cost. We consider both:

- Specific volume and unit cost drivers: focusing on the key areas of service provision that have distinct groups of beneficiaries and form the largest share of spending need within each service area; and

- Generic volume and unit cost drivers: which we apply to the entire recipient population for the service area.

## 2.6 Selecting volume and cost drivers for each service area

We select the specific and generic drivers for each service area based on the following principles:

- *Availability and robustness of data:* Data should be available at the local authority level to enable analysis to be completed by each tier of local authority. In addition, to ensure data are of high quality, they should be Official Statistics.
- *Time period:* Data should be available for the time period selected for the analysis (both forward looking as well as backward looking). If data are not available for the future period, an appropriate proxy to project the future trend of the driver should be available.
- *Consistent approach to data collection:* Data should be collected on a consistent basis over the period of the analysis to enable comparison.

Table 2 summarises the specific and generic drivers that were selected for the key service areas. It only covers the key service areas provided by local authorities. We use total population as the generic volume driver to project spending need for the remaining service areas. Further details on the data sources and the unit costs associated with each volume driver are set out in Annex A.2.

**Table 2: Specific and generic volume drivers for key service areas**

Service area	Specific drivers	Generic drivers
Adult social care	<ul style="list-style-type: none"> <li>• 18+ adults with learning disabilities</li> <li>• Population 65+ in poor health</li> </ul>	<ul style="list-style-type: none"> <li>• Adult population (18+)</li> </ul>
Children social care	<ul style="list-style-type: none"> <li>• Number of looked after children</li> <li>• Number of children in need</li> </ul>	<ul style="list-style-type: none"> <li>• Population under 18</li> </ul>
Education services	<ul style="list-style-type: none"> <li>• Pupils excluding children with SEN</li> <li>• Children with SEN</li> </ul>	
Public health	<ul style="list-style-type: none"> <li>• Children 0-5</li> </ul>	<ul style="list-style-type: none"> <li>• Population 5+</li> </ul>
Highways and transport	<ul style="list-style-type: none"> <li>• Road length</li> <li>• Population 65+ as a proxy for number of concessionary bus boarding</li> </ul>	<ul style="list-style-type: none"> <li>• Total population</li> </ul>
Environment and regulatory services	<ul style="list-style-type: none"> <li>• Number of households</li> </ul>	

Source: PwC analysis

## 2.7 Determining future spending need

We estimate spending need for the period from 2019/20 to 2024/25 by projecting forward both the volume and unit costs using the relevant drivers. The unit costs are projected by adjusting for inflation and the other unavoidable cost pressures (discussed in Section 2.4.4 below). Table 3 illustrates the basis we use to project volume for each key service area. For the remaining service areas, we use population projections from the Office for National Statistics (ONS) to estimate future volume.

**Table 3: Basis for projecting changes in volume**

Service area	Volume drivers	Basis for projections
Adult social care	<ul style="list-style-type: none"> <li>• 18+ adults with learning disabilities</li> </ul>	<ul style="list-style-type: none"> <li>• ONS population projections for adults 18+</li> </ul>
	<ul style="list-style-type: none"> <li>• Population 65+ in poor health</li> </ul>	<ul style="list-style-type: none"> <li>• ONS population projections for adults 65+</li> </ul>
	<ul style="list-style-type: none"> <li>• Adult population (18+)</li> </ul>	<ul style="list-style-type: none"> <li>• ONS population projections for adults 18+</li> </ul>

Service area	Volume drivers	Basis for projections
Children social care	<ul style="list-style-type: none"> <li>Looked after children</li> <li>Children in need</li> <li>Population under 18</li> </ul>	<ul style="list-style-type: none"> <li>ONS population projections for population &lt;18</li> </ul>
Education services	<ul style="list-style-type: none"> <li>Pupils excluding children with SEN</li> <li>Children with SEN</li> </ul>	<ul style="list-style-type: none"> <li>ONS population projections for population &lt;16</li> </ul>
Public health	<ul style="list-style-type: none"> <li>Children 0-5</li> </ul>	<ul style="list-style-type: none"> <li>ONS population projections for children 0-5</li> </ul>
	<ul style="list-style-type: none"> <li>Population 5+</li> </ul>	<ul style="list-style-type: none"> <li>ONS population projections for population 5+</li> </ul>
Highways & transport	<ul style="list-style-type: none"> <li>Road length</li> </ul>	<ul style="list-style-type: none"> <li>Compound annual growth rate from 2015/16 to 2017/18 is used to project road length from 2018/19 onwards</li> </ul>
	<ul style="list-style-type: none"> <li>Population 65+ as a proxy for number of concessionary bus boarding</li> </ul>	<ul style="list-style-type: none"> <li>ONS population projections for adults 65+</li> </ul>
	<ul style="list-style-type: none"> <li>Total population</li> </ul>	<ul style="list-style-type: none"> <li>ONS population projections</li> </ul>
Environment and regulatory services	<ul style="list-style-type: none"> <li>Number of households</li> </ul>	<ul style="list-style-type: none"> <li>ONS household projections</li> </ul>

Source: PwC analysis

## 2.8 Incorporating the effects of unavoidable cost pressures

We adjust the unit costs estimated in the baseline year for future unavoidable cost pressures to estimate the unit costs for subsequent years. We identify a set of unavoidable generic cost pressures that apply uniformly across different service areas and local authorities. These include: inflation which we measure using the GDP deflator; National Living Wage (NLW); pension obligations and Apprenticeship Levy.

We adjust the (estimated) unit cost of service delivery in the baseline year for the specific and generic drivers to include the effects of inflation for each of the subsequent years. We use the inflation adjusted unit costs with the relevant volume drivers to estimate spending need. We then estimate the effects of the remaining cost pressures for each year in our analysis. Further details of our approach to estimating the effects of unavoidable cost pressures are provided in Annex A.3.

## 2.9 Determining funding over the historic and future time period

In order to determine the funding gap, we estimate local authorities' actual and expected funding over the time period of our analysis (i.e. 2015/16 to 2024/25). Our definition of funding encompasses:

- Business Rates and grant funding, which includes the Settlement Funding Assessment, New Homes Bonus, Rural Services Delivery Grant, Public Health Grant, Adult Social Care grant, Improved Better Care Fund and funding for education services included within the scope of our analysis. The scope of education services covered within our analysis includes home to school transport and SEN services; and
- Income from Council Tax, obtained from Core Spending Power data published by MHCLG for the historic period and from the model developed for CCN by Pixel Financial Management for the period from 2020/21 to 2024/25.

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

We obtain data on the Settlement Funding Assessment, New Homes Bonus, Rural Services Delivery Grant, Adult Social Care grant, Improved Better Care Fund and Council Tax for the period from 2015/16 to 2019/20 from the Core Spending Power published by MHCLG. Data on the Public Health Grant is obtained from the "Local authority revenue expenditure and financing England: 2015 to 2016 final outturn" data which is published by MHCLG.

The scope of education services covered within our analysis includes home to school transport and services to children with SEN. We obtain data on spending in these areas from the Section 251 outturn data published by the Department for Education (DfE). Home to school transport funding is included within the Core Spending Power envelope. We estimate funding for services to children with SEN separately and added this onto the funding estimates. In the baseline year, we assume that funding for services to children with SEN matches actual spending. In order to project future funding for education services (SEN services), we rely upon the projections of locally raised income in the Office of Budget Responsibility's "Economic and fiscal outlook" published in October 2018. We use the growth in locally raised income as a proxy for education funding as the underlying composition of education funding includes elements of locally raised income (e.g. Council Tax etc.).

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

In order to project local authorities' funding for the future period (i.e. from 2020/21 to 2024/25) we rely upon the model developed for CCN by Pixel Financial Management. The model assumes Rural Services Delivery Grant, Revenue Support Grant and Public Health Grant are rolled into Business Rates from 2020/21 onward. In addition, it assumes that the Improved Better Care Fund and New Homes Bonus remain flat cash at £1.8bn and £902mn per annum respectively.

We summarise the assumptions underpinning our projections of the main funding streams for the period from 2020/21 to 2024/25:

- Business Rates and grant funding: We assume flat cash at the 2019/20 level for the future period.
- Income from Council Tax: In our base case scenario, we assume growth in the Council Tax base at a rate of 1.89% per annum, which reflects the average growth rate in the two years 2018/19 and 2019/20, but no growth in the rate of Council Tax; we do, however, assess the implications of a 2.99% per annum rise in the rate of Council Tax separately.

We provide further detail on the set of assumptions used to project each funding stream in Annex A.4.

# 3. Understanding spending need of local government

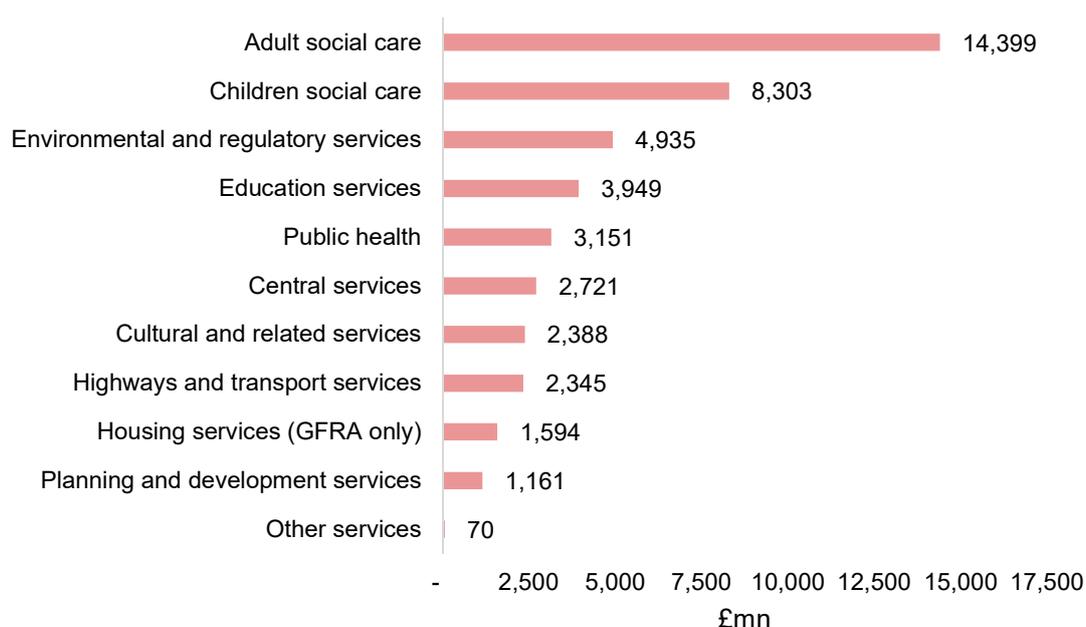
## 3.1 Introduction

This section presents our assessment of spending need for all local authorities in England in scope for the period from 2015/16 to 2024/25. The spending need is notional and reflects the amount of spending that the different tiers of local authorities would require to provide a more consistent level and quality of service.

## 3.2 Estimated spending need by tiers of local authorities

Total actual spending by local government for the services within the scope of our analysis in the baseline year (2015/16) was £45bn. Figure 3 provides a breakdown of spending by service area. Local government spending on social care services for adults and children accounted for 50% of the total spending. This is followed by spending on environmental and regulatory services which accounts for around 11% of total spending. In addition, spending on education services and public health was around 9% and 7% of total spending, respectively. The five highest spending areas accounted for more than 75% of spending in the baseline year.

**Figure 3: Breakdown of actual spending by service area (£mn, 2015/16)**



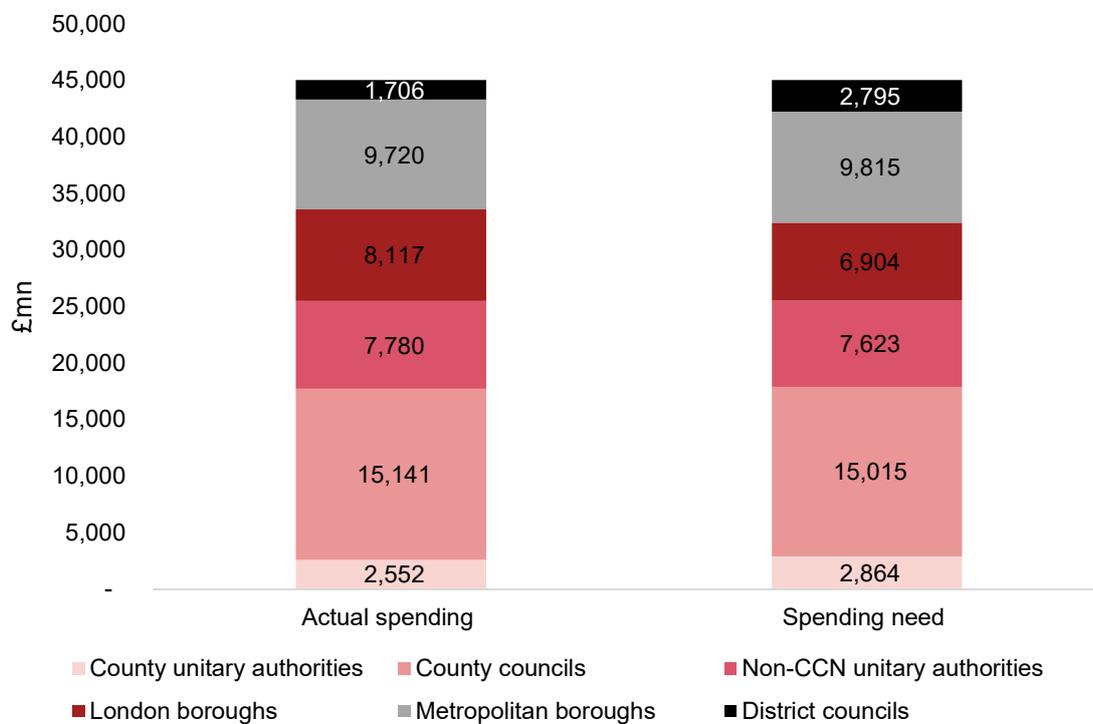
Source: PwC analysis

The actual spending on the service areas in the baseline year reflects the level and quality of service determined by each local authority tier. As described in detail earlier, our estimate of spending need in the baseline year is based on a more consistent level and quality of service across local authority tiers. This means that although total spending need in each service area matches actual spending, the breakdown of spending need by each local authority tier will not match their actual spending as we estimate notional spending need based on all local authorities providing a more consistent level of service.

Figure 4 illustrates the difference between our estimate of notional spending need and actual spending by local authority tier in 2015/16. The estimated spending need for county unitary authorities, district councils and metropolitan boroughs is higher than actual spending in 2015/16

by 12%, 64% and 1% respectively. In contrast, London boroughs, non-CCN unitary authorities and county councils see a decrease in their notional spending need in comparison to actual spending by 15%, 2% and 1% respectively.

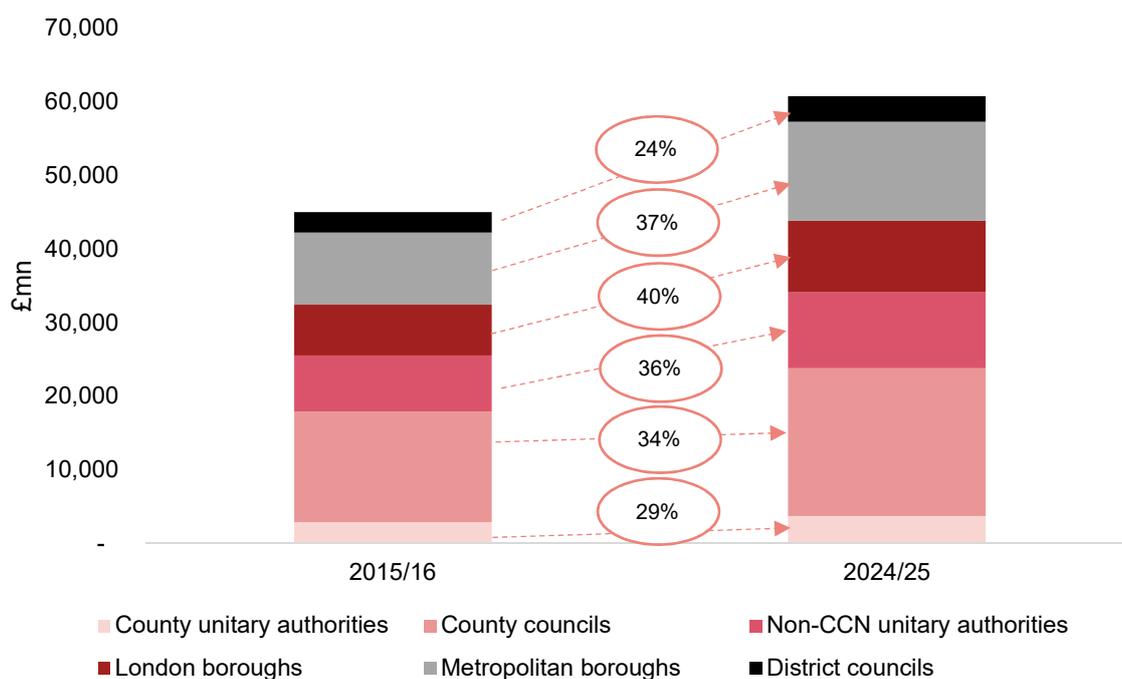
**Figure 4: Actual spending and estimated spending need by local authority tier (£mn, 2015/16)**



Source: PwC analysis

We estimate that spending need for local authorities in England will increase by 35% (£15.7bn) over the period from 2015/16 to 2024/25. As illustrated in Figure 5, county councils and county unitary authorities could face a 34% (£5.1bn) and 29% (£822mn) increase in spending need respectively over this period.

**Figure 5: Estimated change in total spending need (£mn, 2015/16 to 2024/25)**



Source: PwC analysis

Table 4 sets out estimated (notional) spending need for the period between 2015/16 to 2024/25. The change in spending need across the time period can be attributable to increases in the number of beneficiaries (i.e. the volume) and unit costs of service provision driven by increases in input costs.

**Table 4: Estimated total spending need by local authority tier (£mn, 2015/16 to 2024//25)**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	2,864	2,851	2,940	3,047	3,138	3,237	3,341	3,451	3,566	3,686
County councils	15,015	15,272	15,766	16,408	16,928	17,482	18,081	18,720	19,385	20,083
Non-CCN unitary authorities	7,623	7,959	8,195	8,547	8,807	9,083	9,379	9,693	10,018	10,357
London boroughs	6,904	7,270	7,494	7,856	8,127	8,414	8,716	9,032	9,358	9,695
Metropolitan boroughs	9,815	10,381	10,692	11,130	11,463	11,817	12,196	12,600	13,021	13,459
District councils	2,795	2,873	2,950	3,012	3,081	3,153	3,230	3,311	3,393	3,477
<b>Total</b>	<b>45,016</b>	<b>46,606</b>	<b>48,037</b>	<b>50,000</b>	<b>51,544</b>	<b>53,188</b>	<b>54,941</b>	<b>56,805</b>	<b>58,741</b>	<b>60,757</b>

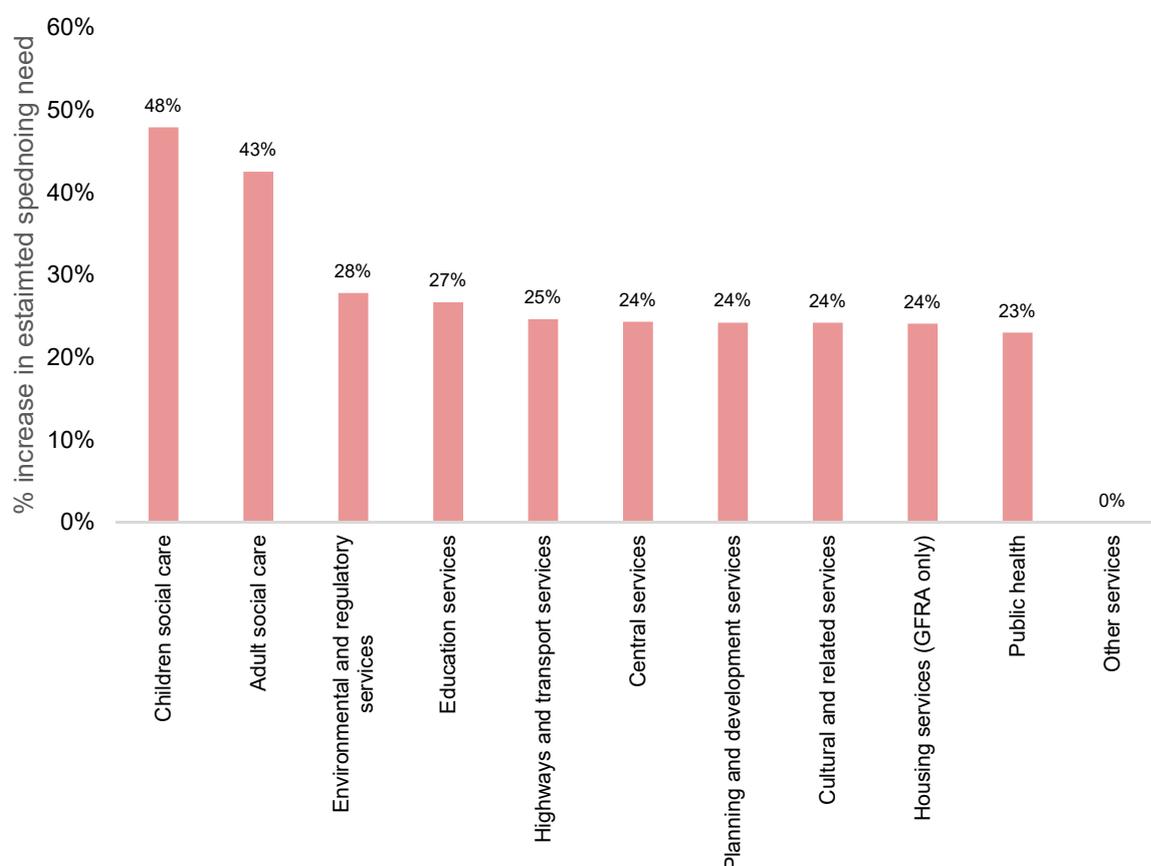
Source: PwC analysis

### 3.3 Estimated spending need for key service areas

As discussed in Section 3.2, the top five spending areas accounted for more than 75% of spending in 2015/16. These include adult and children social care, environment and regulatory services, education and public health. This section explores how spending need in these service areas is expected to evolve for the different tiers of local authorities.

Figure 6 shows the percentage increase in estimated spending need by service area between 2015/16 and 2024/25.

**Figure 6: Increase in estimated total spending need by service area (% increase in estimated total spending need, 2015/16 – 2024/25)**



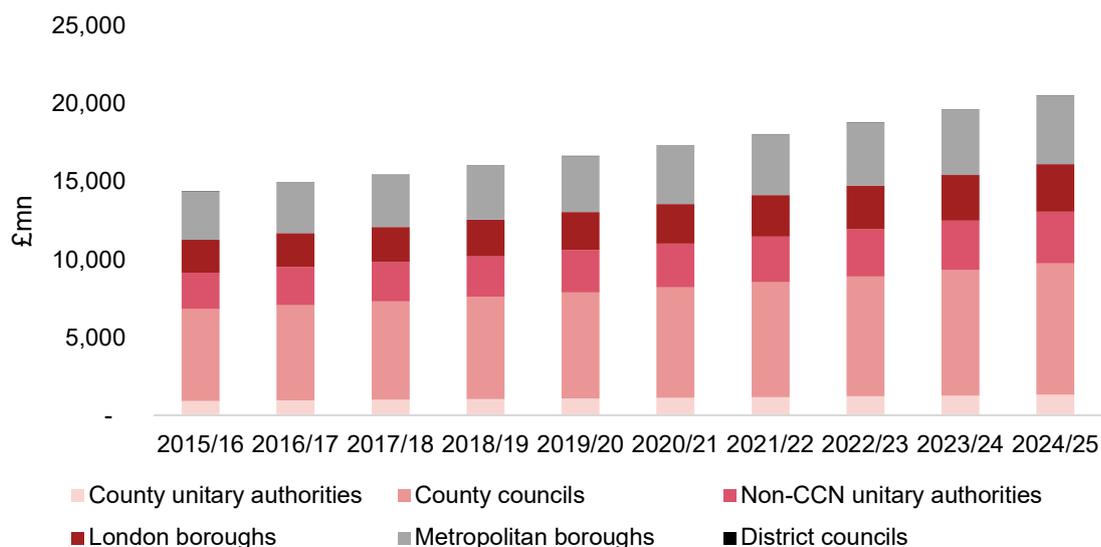
Source: PwC analysis

### Adult social care

Spending on adult social care accounts for 32% of total actual spending across all local authorities in the baseline year. For CCN authorities, the spending need for adult social care makes up 38% of their spending need in the baseline year.

Estimated total spending need is set to escalate by 43% (£2.9bn) over the 10 year period. The spending need in other upper tier councils is set to increase by a similar magnitude. Non-CCN unitary authorities, London boroughs and metropolitan boroughs could see their spending need rise by 41% (£972mn), 46% (£958mn) and 40% (£1.2bn) respectively. CCN authorities' share of total spending need on adult social care across local government is the largest at around 47% and remains constant throughout the period. Figure 7 and Table 5 outline the spending need for adult social care by local authority tier for the period from 2015/16 to 2024/25.

**Figure 7: Estimated spending need on adult social care by local authority tier (£mn, 2015/16 to 2024/25)**



Source: PwC analysis

**Table 5: Estimated spending need on adult social care by local authority tier (£mn, 2015/16 to 2024/25)**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	945	982	1,017	1,055	1,096	1,140	1,187	1,239	1,295	1,354
County councils	5,877	6,103	6,309	6,551	6,804	7,074	7,366	7,688	8,033	8,404
Non-CCN unitary authorities	2,351	2,439	2,515	2,612	2,710	2,812	2,924	3,047	3,180	3,323
London boroughs	2,090	2,173	2,243	2,346	2,443	2,546	2,658	2,779	2,909	3,048
Metropolitan boroughs	3,126	3,240	3,340	3,461	3,586	3,718	3,861	4,020	4,191	4,375
District councils	9	10	10	10	11	11	12	12	13	14
Total	14,399	14,946	15,434	16,034	16,649	17,301	18,010	18,786	19,620	20,519

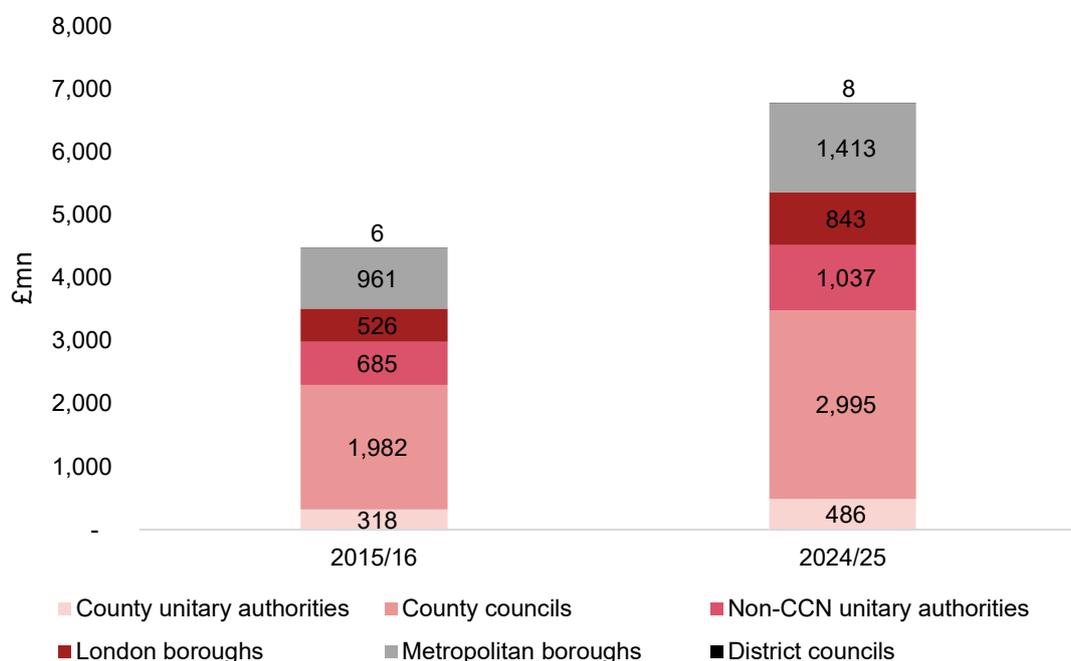
Source: PwC analysis

Given its scale and the diversity of beneficiaries, we consider spending on key groups of beneficiaries separately. Just over one third of estimated spending need in 2015/16 (34%) was on learning disability support for adults 18 or over and 31% was on adults who are 65 or over in poor health. The total estimated spending need on adults 65 or over in poor health is expected to increase at a faster rate than the estimated spending need on adults who are 18 or over with learning disabilities by around 51%.

For CCN authorities and non-CCN unitary authorities, spending need on adults 65 or over in poor health is set to escalate by 51% over the 10 year period. London boroughs and metropolitan boroughs could see their spending need increase by 60% and 47% respectively. Spending need on adults 18 or over with learning disabilities for CCN authorities is set to escalate by 39% over the 10 year period. Non-CCN unitary authorities, London boroughs and metropolitan boroughs could see their spending need increase by 37%, 42% and 36% respectively. CCN member

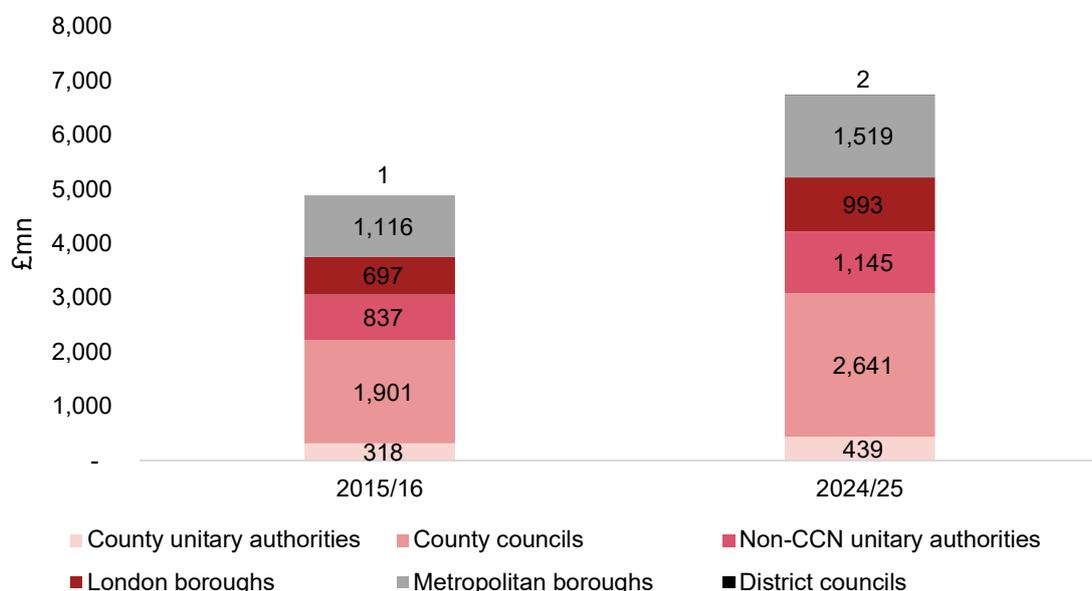
councils account for the largest share of spending need in both these areas: they constitute 51% of all spending need on adults 65 or over in poor health and around 45% of spending need on learning disabilities support for adults 18 or over.

**Figure 8: Estimated spending need on adults 65 or over in poor health by local authority tier (£mn, 2015/16 and 2024/25)**



Source: PwC analysis

**Figure 9 Estimated spending need on adults 18 or over with learning disabilities by local authority tier (£mn, 2015/16 and 2024/25)**



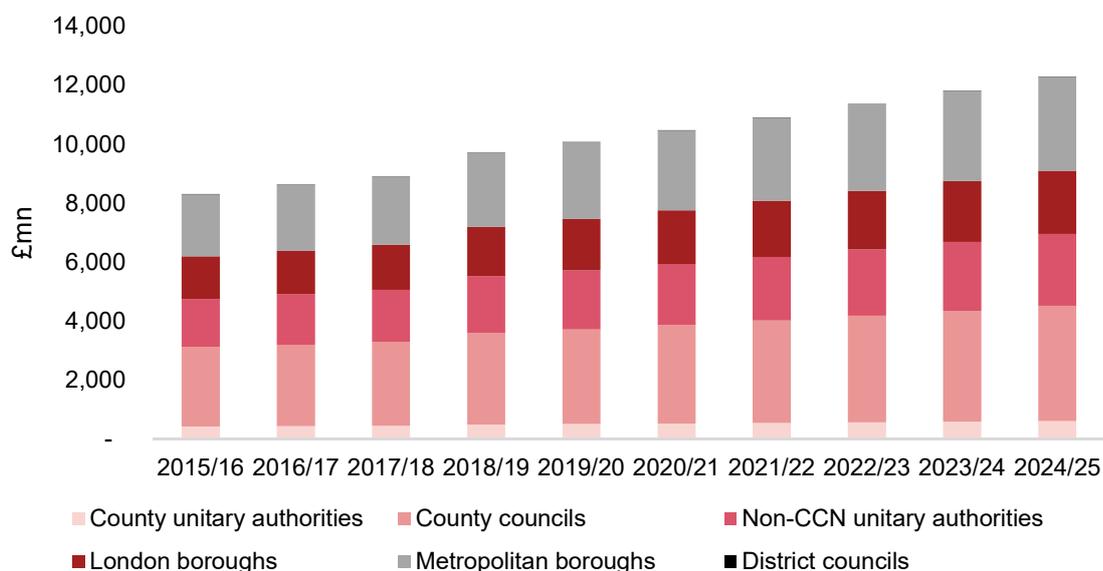
Source: PwC analysis

### Children's social care

Spending on children's social care accounts for 18% of total actual spending across all local authorities in the baseline year. For CCN authorities, the spending need for children's social care makes up 17% of their spending need in the baseline year. It is set to escalate faster than

spending in other service areas by 45% (£1.4bn) over the 10 year period. Spending need on children’s social care for other upper tier councils is also expected rise faster than spending need in other areas. Metropolitan boroughs are expected to face a 51% (£1.1bn) increase in spending need over the 10 year period followed by non-CCN unitary authorities with a 50% (£806mn) increase and London boroughs with 48% (£700mn) increase. Figure 10 and Table 6 set out the spending need for children’s social care by local authority tier for the period from 2015/16 to 2024/25.

**Figure 10: Estimated spending need on children’s social care by local authority tier (£mn, 2015/16 to 2024/25)**



Source: PwC analysis

**Table 6: Estimated spending need on children’s social care by local authority tier (£mn, 2015/16 to 2024/25)**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	421	436	449	489	505	524	544	565	586	609
County councils	2,702	2,763	2,848	3,105	3,215	3,338	3,474	3,617	3,761	3,911
Non-CCN unitary authorities	1,627	1,708	1,762	1,926	1,997	2,076	2,161	2,250	2,340	2,433
London boroughs	1,446	1,481	1,532	1,677	1,746	1,820	1,899	1,980	2,063	2,147
Metropolitan boroughs	2,106	2,230	2,303	2,511	2,605	2,707	2,819	2,936	3,055	3,178
District councils <sup>6</sup>	1	1	1	1	1	1	1	1	1	1
<b>Total</b>	<b>8,303</b>	<b>8,620</b>	<b>8,895</b>	<b>9,709</b>	<b>10,069</b>	<b>10,466</b>	<b>10,897</b>	<b>11,348</b>	<b>11,806</b>	<b>12,278</b>

Source: PwC analysis

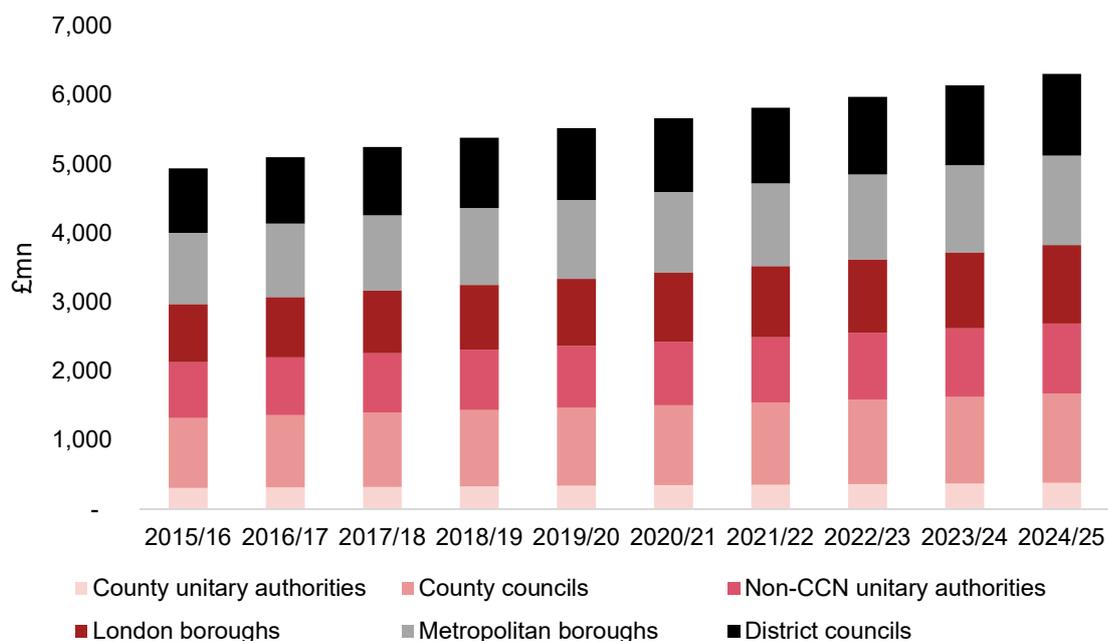


<sup>6</sup> This refers to spending need on children’s social care services excluding spending on looked after children.

## Environmental and regulatory services

In the baseline year, spending on environmental and regulatory services accounted for 11% of total spending need of local government. Within this service area, 40% of spending by local authorities was on waste disposal services. Over the 10 year period to 2024/25, spending on environment and regulatory services is expected to increase by 28%. CCN authorities would see their spending on environmental and regulatory service increase by 26% (around £350mn) over the same period. Figure 11 and Table 7 outline the spending need for environment and regulatory services by local authority tier for the period from 2015/16 to 2024/25.

**Figure 11: Estimated spending need on environmental and regulatory services by local authority tier (£mn, 2015/16 to 2024/25)**



Source: PwC analysis

**Table 7: Estimated spending need on environmental and regulatory services by local authority tier (£mn, 2015/16 to 2024/25)**

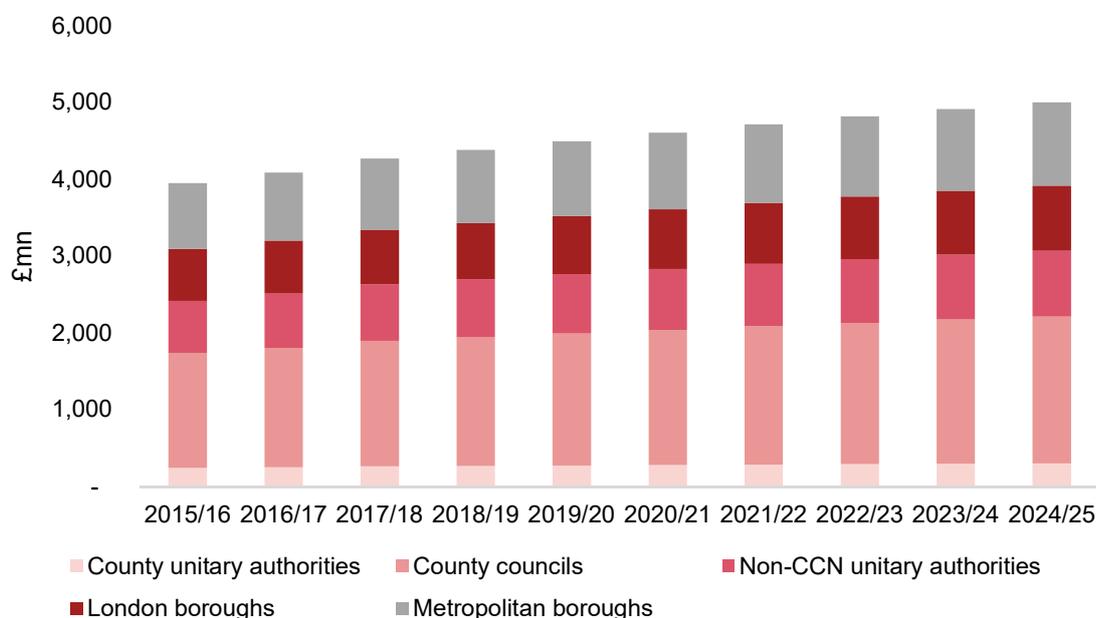
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	302	312	320	328	335	343	352	361	370	380
County councils	1,017	1,050	1,079	1,105	1,132	1,161	1,191	1,223	1,255	1,289
Non-CCN unitary authorities	808	834	857	878	899	921	945	969	994	1,020
London boroughs	842	877	908	938	968	1,000	1,032	1,067	1,102	1,138
Metropolitan boroughs	1,032	1,064	1,092	1,118	1,144	1,172	1,201	1,231	1,263	1,295
District councils	935	965	992	1,016	1,041	1,067	1,095	1,124	1,154	1,185
<b>Total</b>	<b>4,935</b>	<b>5,101</b>	<b>5,248</b>	<b>5,381</b>	<b>5,518</b>	<b>5,663</b>	<b>5,816</b>	<b>5,975</b>	<b>6,139</b>	<b>6,307</b>

Source: PwC analysis

## Education services

In the baseline year, spending on education services included in scope accounts for 9% of total actual spending across all local authorities. As set out in Figure 12 and Table 8, for CCN authorities, spending need for education is set to increase by 27% (£472bn) over the period from 2015/16 to 2024/25.

**Figure 12: Estimated spending need on education services by local authority tier (£mn, 2015/16 to 2024/25)**



Source: PwC analysis

**Table 8: Estimated spending need on education services by local authority tier (£mn, 2015/16 to 2024/25)**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	241	249	260	265	271	277	283	289	294	299
County councils	1,497	1,557	1,638	1,678	1,719	1,761	1,802	1,841	1,878	1,911
Non-CCN unitary authorities	678	706	734	755	774	793	812	829	845	859
London boroughs	677	689	709	734	755	776	796	814	831	846
Metropolitan boroughs	855	888	927	950	975	999	1,023	1,045	1,067	1,087
Total	3,949	4,088	4,268	4,381	4,495	4,606	4,716	4,818	4,915	5,002

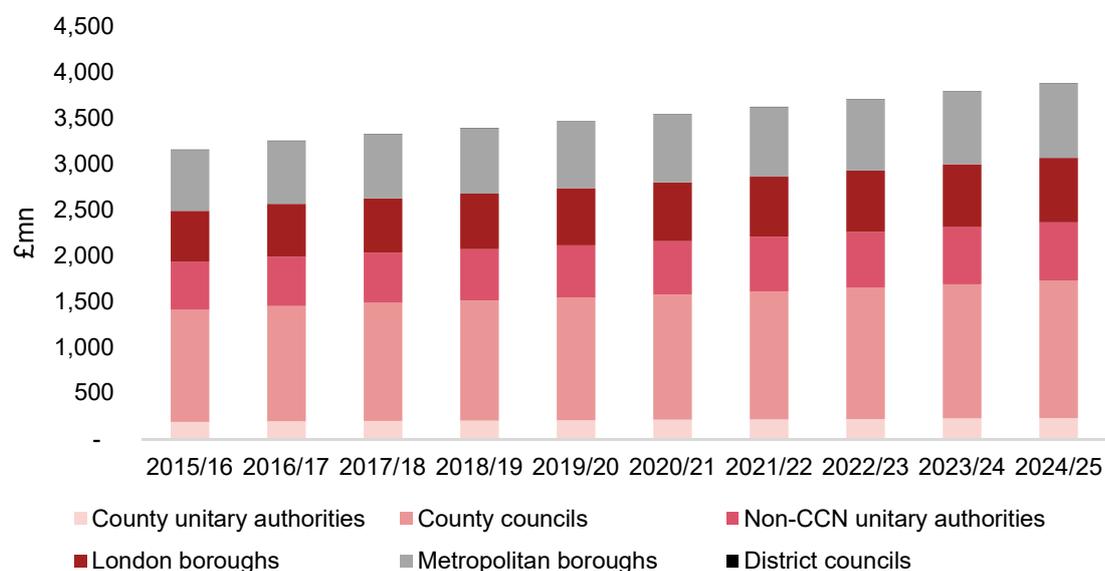
Source: PwC analysis

## Public health

Local government spending on public health accounts for 7% of total actual spending in the baseline year. As illustrated in Figure 13, it is expected to increase by £724mn over the 10 year period. For CCN authorities, spending need for public health service is set to increase by £316mn which accounts for around 44% of the total increase in spending need across all local authorities.

Table 9 outlines the spending need for public health by local authority tier for the period from 2015/16 to 2024/25.

**Figure 13: Estimated spending need on public health by local authority tier (£mn, 2015/16 to 2024/25)**



Source: PwC analysis

**Table 9: Estimated spending need on public health by local authority tier (£mn, 2015/16 to 2024/25)**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	186	192	196	199	203	208	212	217	222	227
County councils	1,220	1,257	1,286	1,309	1,336	1,366	1,396	1,429	1,463	1,496
Non-CCN unitary authorities	521	537	549	560	571	583	596	609	623	637
London boroughs	558	577	590	607	622	637	653	670	686	703
Metropolitan boroughs	664	684	700	713	728	743	759	776	793	811
District councils	2	2	2	2	2	2	2	2	2	2
<b>Total</b>	<b>3,151</b>	<b>3,249</b>	<b>3,322</b>	<b>3,391</b>	<b>3,462</b>	<b>3,539</b>	<b>3,618</b>	<b>3,702</b>	<b>3,789</b>	<b>3,876</b>

Source: PwC analysis

# 4. Understanding actual and expected funding

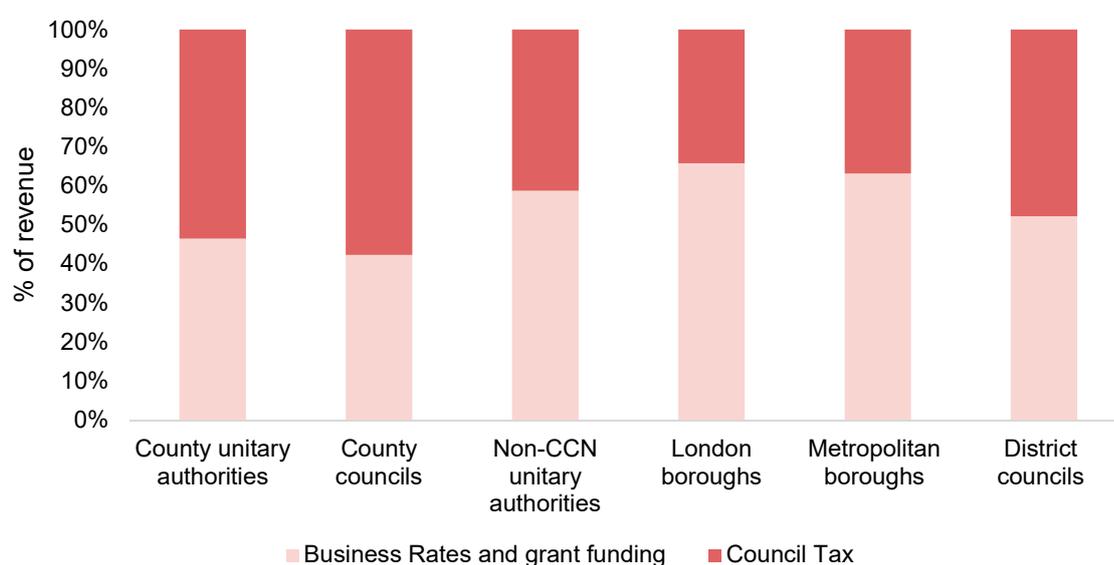
## 4.1 Introduction

This section sets out our funding estimates for the period from 2015/16 to 2024/25.

## 4.2 Funding estimates

As discussed in Section 2.8, our definition of funding encompasses Business Rates and grant funding and income from Council Tax. Figure 14 illustrates the share of funding from Business Rates and grant funding and Council Tax for each local authority tier in the baseline year. Income from Council Tax accounts for the majority of funding for county unitary authorities (around 54%) and county councils (around 58%) whereas Business Rates and grant funding form the main funding stream for the other tiers of local authorities. As shown in Figure 14, CCN authorities are the lowest funded type of upper-tier council.

**Figure 14: Breakdown of local authority funding by tier between Business Rates and grant funding and Council Tax (% of revenue, 2015/16)**



Source: PwC analysis

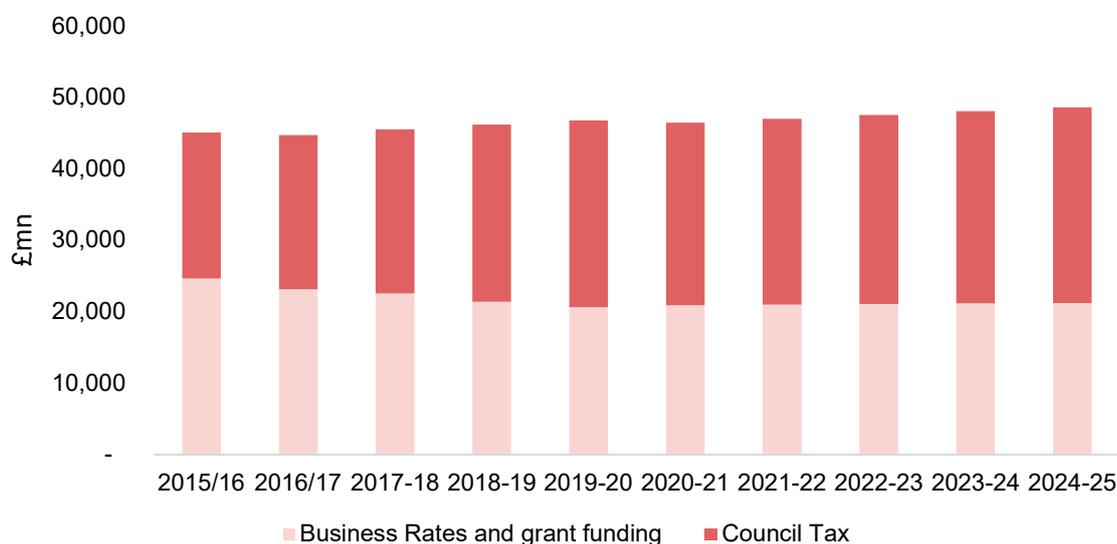
Figure 15 shows the expected changes in Business Rates and grant funding and Council Tax income over the period from 2015/16 to 2024/25. Our base case analysis assumes that there is no growth in the Council Tax rate from 2020/21 onwards. We note the increase in Council Tax from 2020/21 onwards is driven by changes to the Council Tax base not the Council Tax rate. We assume that the base increases at 1.89% per annum. In addition, we explore the implications of a 2.99% per annum rise in the Council Tax rate from 2020/21 onwards in the next section.

We also assume Business Rates and grant funding is held at the 2019/20 level for the period from 2020/21 to 2024/25. We note that council that heavily rely on Business Rates and grant funding could face increased pressure on their budget. For example, Business Rates and grant funding for district councils account for more than 50% of their total funding in 2015/16 and holding this income stream constant for the period from 2020/21 to 2024/25 could have a significant impact on their potential funding gap.

As outlined in 2.9, our core spending power estimates exclude the effect of business rate growth above the baseline. While this income would offset some of the funding gap we have identified for

all tiers of local government, this has particular implications for district councils in two-tier areas which retain the majority (80%) of growth. This is a large proportion of their income and, therefore, the effect is potentially to understate the resources that are available to district councils, both in the past and in the future. Council Tax income accounted for 45% of funding in 2015/16 and is projected to increase to 56% of total funding in 2024/25. Over the same period, the share of total funding from Business Rates and grant funding is expected to fall from 55% to 44%.

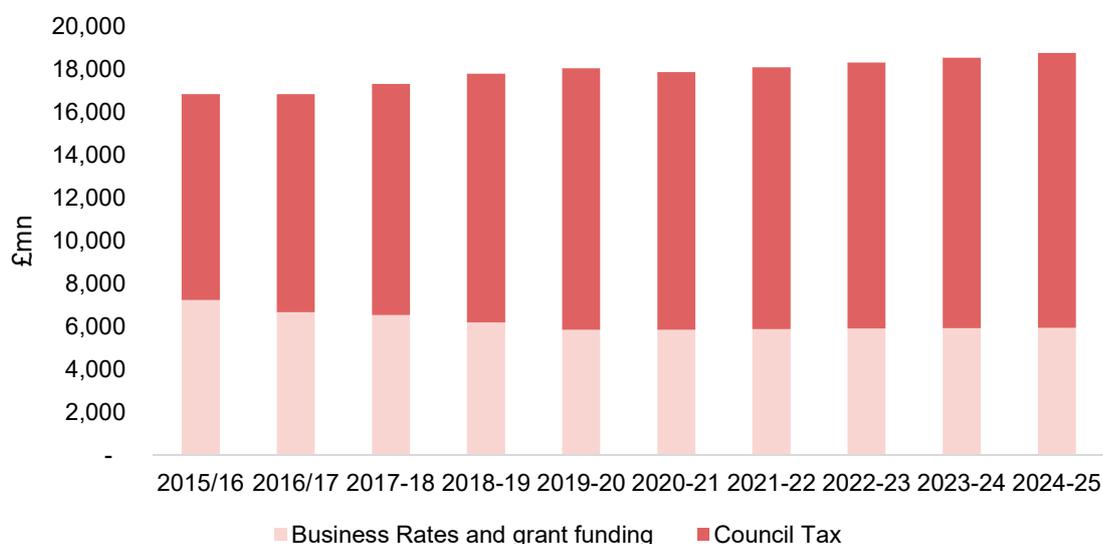
**Figure 15: Estimated breakdown of funding for local authorities (£mn, 2015/16 - 2024/25)**



Source: PwC analysis

Figure 16 sets out the breakdown of funding for CCN authorities for the period from 2015/16 to 2024/25. Income from Council Tax for CCN authorities is expected to increase by 33% over the 10 year period, accounting for around 68% of income in 2024/25. In contrast, Business Rates and grant funding are expected to decline by 18% over same period. The Business Rates and grant funding are expected to decrease by 11% for both non-CCN unitary authorities and metropolitan boroughs and by 10% for London boroughs over the 10 year period. For district councils, Business Rates and grant funding is expected to decrease by 34% with income from Council Tax increasing by 23% over the period from 2015/16 to 2024/25.

**Figure 16: Estimated breakdown of funding for CCN authorities (£mn, 2015/16 - 2024/25)**



Source: PwC analysis

# 5. Funding gap estimates and implications

## 5.1 Introduction

In this section, we analyse the funding gap faced by local government overall, and at a tier specific level, based on local authorities providing a more consistent level of service. We then analyse the potential impact of an increase in the Council Tax rate on the funding gap. Finally, we consider how far other potential funding sources – specifically fees and charges and reserves – can potentially bridge the estimated funding gap.

## 5.2 Funding gap – baseline analysis

The funding gap is defined as the difference between estimated (notional) spending need for the services provided by local government and the expected funding. We analyse the gap over two periods 2015/16 to 2018/19 and 2019/20 to 2024/25. Our assessment of the funding gap for the former period is based on our estimate of notional spending need and actual historic funding whereas our analysis for the latter period includes projections of both future spending need and funding<sup>7</sup>.

### Funding gap for the period from 2015/16 to 2018/19

As described in Section 3, the potential funding gap at tier level is based on estimating spending need for a more consistent level and quality of service provision across local government. Between 2015/16 and 2018/19, our analysis suggests that local government would have faced a *cumulative* funding gap of £8.4bn. This is the gap between our estimate of notional spending need based on a more consistent level and quality of service and funding after accounting for Council Tax rises and any injection of resources provided outside of the four-year local government settlement.<sup>8</sup>

As set out in Table 10, our analysis of the funding gap for the historic period from 2015/16 to 2018/19 suggests that:

- CCN authorities would have faced an underlying funding gap of £1bn in the baseline year if all local authorities in England provided a more consistent level and quality of service. These councils then face an increasing funding gap over the period from 2015/16 to 2018/19. This suggests that these councils have ‘unmet need’ which is not reflected in their actual historic expenditure on services. CCN Members have a cumulative funding gap of £5.4bn, 64% of the total funding gap.
- Metropolitan boroughs and non-CCN unitary authorities have an underlying funding surplus in the baseline year if we use our estimate of spending need for a more consistent level of service. This suggests that these councils were providing a higher level or quality of service in the baseline year. These councils then see an emerging funding gap in the period from 2016/17 to 2018/19. In cumulative terms for the period from 2015/16 to 2018/19, the funding gap amounts to £2.8bn for metropolitan boroughs and £1.0bn for non-CCN unitary authorities
- London boroughs also have a funding surplus. Their actual funding exceeds the estimated spending need required to provide a more consistent level and quality of service throughout the period. This suggests that these councils were providing a higher level or quality of service.

---

<sup>7</sup> Funding for 2019/20 is based on Core Spending Power data published by MHCLG. We estimate funding for the period from 2020/21 to 2024/25 based on a set of assumptions outlined in Annex A.4.

<sup>8</sup> Injections of resources include the Improved Better Care Fund and Adult Social Care Grant.

- District councils' funding gap increases at a faster pace than other tiers partly due to their Core Spending Power reductions being higher than other types of councils and the exclusion of retained Business Rates growth. In addition, they did not benefit from specific in-year funding announcements. In 2017/18, their allocation of the New Homes Bonus was reduced by £72m as part of the introduction of the Adult Social Care Grant of £240m. In contrast, other tiers benefited from these changes which is reflected in their funding gap in those years.

### **Funding gap for the period from 2019/20 to 2024/25**

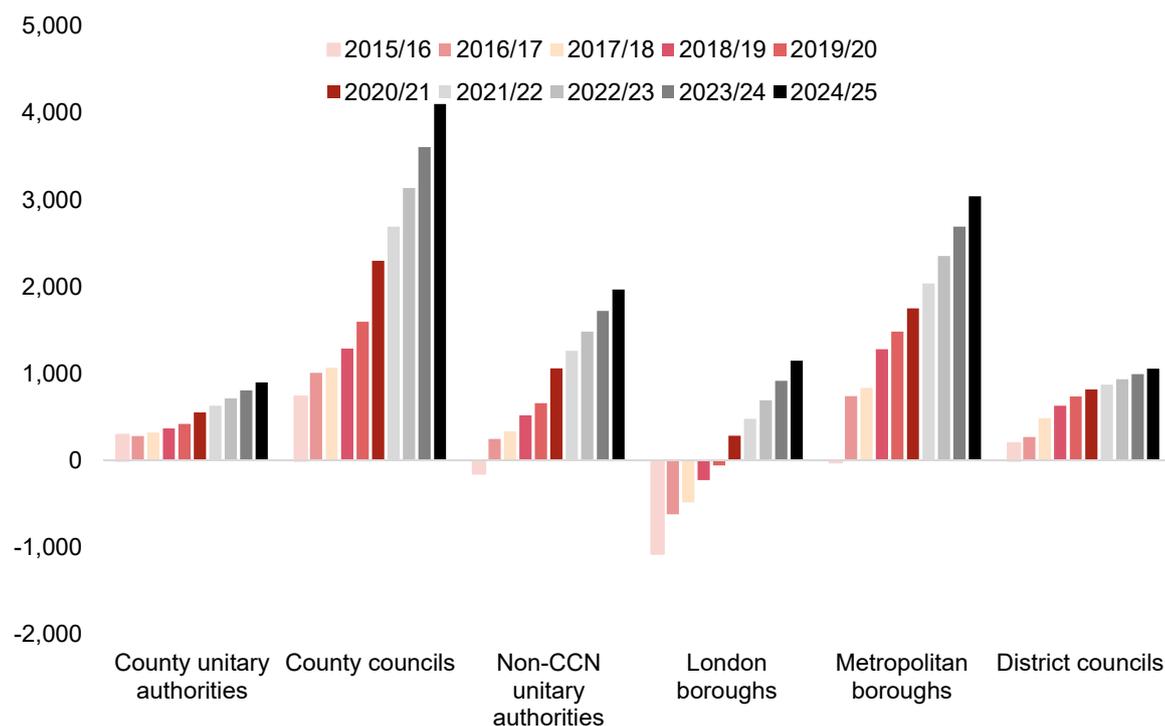
Our analysis suggests that for the current financial year (2019/20), local authorities could face a funding gap of £4.8bn, rising to £9.3bn by 2022/23 if all local authorities provide a more consistent level and quality of service. By 2024/25 local government is expected to require additional resources of £12.2bn in order to fund the range of services it offers to local residents.

Based on our analysis of the period between 2019/20 to 2024/25, councils could face a cumulative funding gap of £51.8bn to deliver a consistent level of service provision across local government. This could be met with higher grant funding and Business Rates, Council Tax rises, increases in fees and charges combined with on-going efficiency savings. In the absence of these, closing the funding gap will require further service reductions and/or the risk that some councils will not be able to deliver balanced budgets.

As set out in Table 10, our funding gap analysis for the period from 2019/20 to 2024/25 shows:

- CCN authorities would face a £5bn funding gap in 2024/25 to meet rising demand and costs for services based on provision of a more consistent level of service. This represents around 40% of the overall funding gap for all local authorities in 2024/25. The cumulative funding gap over the six year period amounts to £21.5bn.
- Metropolitan boroughs face the second largest funding gap in 2024/25 which amounts to £3bn. This represents 25% of the funding gap.
- Non-CCN unitary authorities see their funding gap increase by £1.3bn over the period from 2019/20 to 2024/25. In 2024/25, their funding gap accounts for around 15% of the overall funding gap for all local authorities.
- London boroughs move from a notional funding surplus in 2019/20 to a gap of £284m in 2020/21. This rises to £1.14bn in 2024/25, which accounts for around 10% of the overall funding gap for all local authorities.
- District councils' funding gap only rises by £240mn from £818mn in 2020/21 to £1,058mn in 2024/25.

**Figure 17: Estimated funding gap by local authority tier (£mn, 2015/16 to 2024/25)**



Source: PwC analysis

**Table 10: Estimated funding gap by local authority tier (£mn, 2015/16 to 2024/25)**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	298	280	324	371	420	555	631	716	805	900
County councils	737	1,007	1,067	1,289	1,595	2,298	2,692	3,133	3,604	4,102
Non-CCN unitary authorities	-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
<b>Total</b>	<b>0</b>	<b>1,930</b>	<b>2,569</b>	<b>3,868</b>	<b>4,839</b>	<b>6,763</b>	<b>7,975</b>	<b>9,313</b>	<b>10,730</b>	<b>12,215</b>

Source: PwC analysis

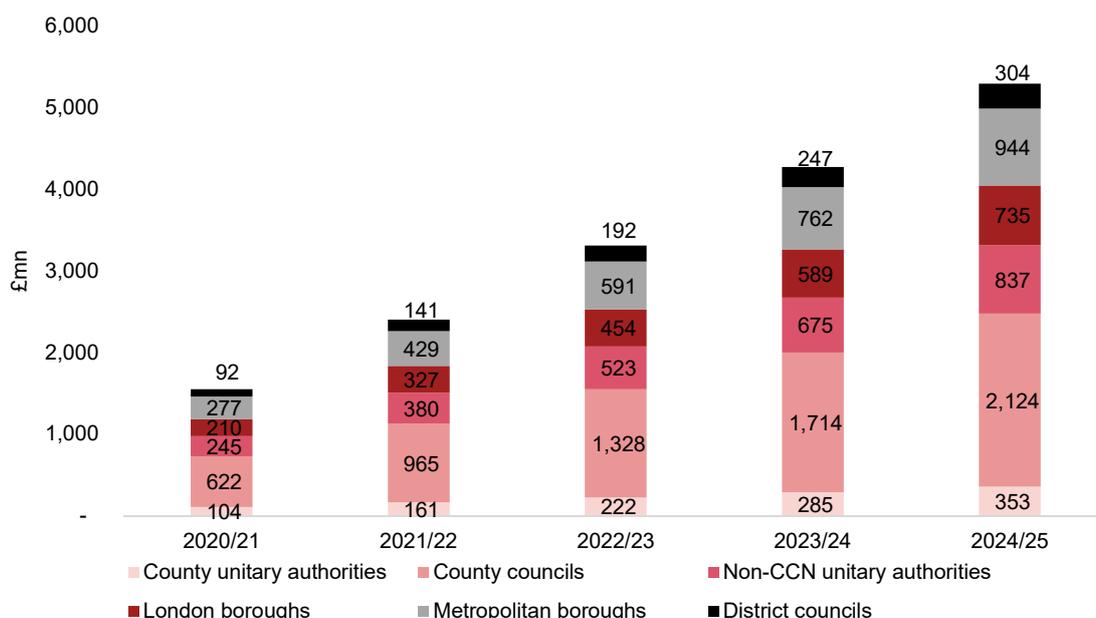
### 5.3 Funding gap – with Council Tax increase

The analysis above assumes no change in the rate of Council Tax. Below, we consider the implications of increasing Council Tax by 2.99% per annum for all local authorities (except district councils) and the higher of £5 or 2.99% for district councils in the period from 2020/21 to 2024/25.

As discussed in Section 4, income from Council Tax forms the biggest source of funding for local authorities, accounting for 56% of funding in 2019/20.

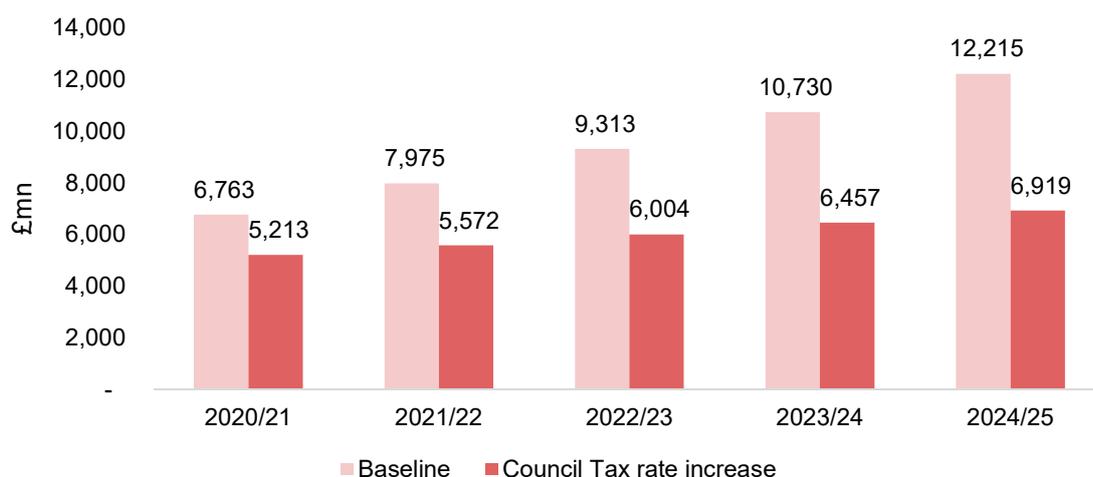
Figure 18 illustrates our results. Local government can expect to raise £1.55bn in 2020/21 increasing to £5.29bn in 2024/25. Figure 19 shows the funding gap with a Council Tax increase compared to the baseline. Increasing Council Tax reduces the funding gap in 2024/25 by 43%, from £12.2bn to £6.9bn. However, councils would still face a cumulative funding gap of £30.2bn over the period from 2020/21 to 2024/25.

**Figure 18: Increase in funding from increase in Council Tax rate (£mn, 2020/21 to 2024/25)**



Source: PwC analysis

**Figure 19: Total funding gap with and without increase in Council Tax rate (£mn, 2020/21 to 2024/25)**

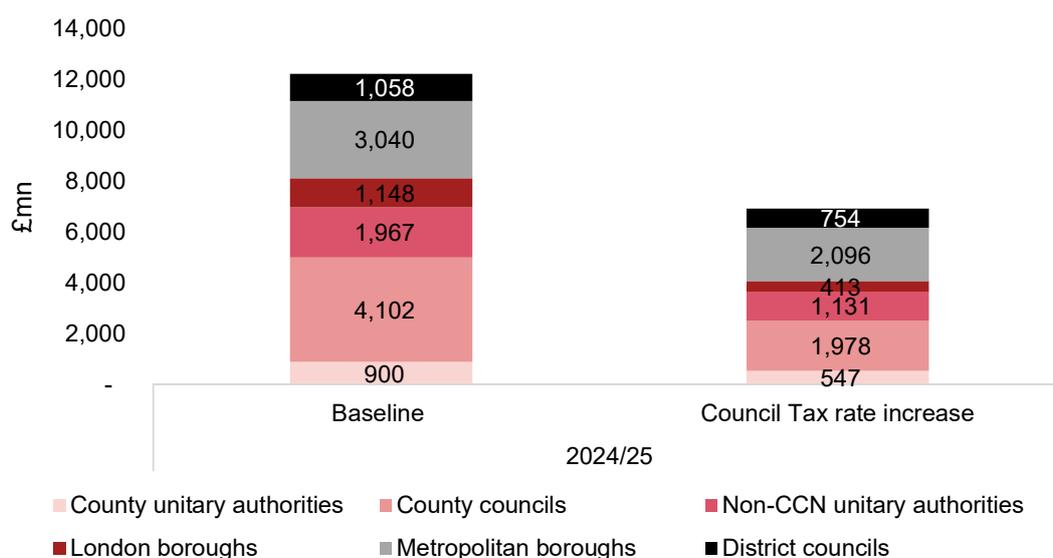


Source: PwC analysis

Figure 20 and Table 11 show the remaining funding gap for each tier of local government from 2020/21 to 2024/25.

We note that the combination of the increase in the Council Tax base plus the increase in the Council Tax rate means that Council Tax income grows at 4.94% per annum from 2020/21 onwards. 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 our analysis shows a faster fall in the funding gap; this is especially relevant for CCN authorities which have the largest Council Tax bases.

**Figure 20: Estimated funding gap in 2024/25 under the baseline and with an increase in the Council Tax rate (£mn)**



Source: PwC analysis

**Table 11: Funding gap by local authority tier with an increase in the Council Tax rate (£mn, 2021/22 to 2024/25)**

	2020/21	2021/22	2022/23	2023/24	2024/25
County unitary authorities	450	470	494	520	547
County councils	1,675	1,727	1,805	1,889	1,978
Non-CCN unitary authorities	813	881	961	1,045	1,131
London boroughs	74	154	240	328	413
Metropolitan boroughs	1,473	1,607	1,762	1,927	2,096
District councils	727	733	742	748	754
<b>Total</b>	<b>5,213</b>	<b>5,572</b>	<b>6,004</b>	<b>6,457</b>	<b>6,919</b>

Source: PwC analysis

In addition, Table 12 provides a summary of the expected increase in the average Band D Council Tax for different tiers of local government if all local authorities raise the rate of Council Tax by 2.99% per annum from 2019/20. Given the large difference between average Council Tax rates between inner and outer London, we have separated these two groups. We have combined the county council and district total.

**Table 12: Average Band D Council Tax rate by local authority tier after 2.99% per annum increase (£)**

	Council Tax rate 2019/20	Potential Council Tax rate 2024/25	Increase in Council Tax rate 2019/20 to 2024/25
County and district councils	1,512	1,810	248
County unitary authorities	1,456	1,747	239
Non-CCN unitary authorities	1,436	1,710	234
Inner London boroughs	902	1,087	149

	Council Tax rate 2019/20	Potential Council Tax rate 2024/25	Increase in Council Tax rate 2019/20 to 2024/25
Outer London boroughs	1,246	1,504	206
Metropolitan boroughs	1,436	1,723	236

Source: MHCLG

The key implications of our analysis are that:

- CCN authorities would be able to achieve the largest increase in Council Tax revenue. This reflects their higher Council Tax base in CCN authority areas which helps offset their funding gap at a quicker pace than other types of local authorities. By 2024/25 the increase in Council Tax rate reduces the funding gap of CCN authorities from £5bn in the baseline to £2.5bn. This would still leave CCN authorities facing a combined cumulative funding gap over the period from 2020/21 to 2024/25 of £11.6bn.
- London boroughs can raise the least additional funding amongst upper-tier councils by increasing the Council Tax rate. Income rises from £210m in 2020/21 to £735m in 2024/25. As Table 12 shows, this is partly due to the lower than average Council Tax rates, particularly in inner London boroughs.
- Metropolitan boroughs see the second largest increase in Council Tax income from £277m to £944m in 2024/25.
- Residents in two-tier counties would see the largest increase in Band D Council Tax rates by 2024/25 (£248). In contrast, London boroughs would see the smallest increase. If Inner London boroughs implemented a 2.99% increase per annum in Council Tax rates the increase in the average Band D property bill would be £149 over the period between 2018/19 to 2024/25, and £206 for an outer London borough.

#### 5.4 Other potential responses to funding gap

Besides increasing Council Tax rates, the funding gap could potentially be met with some combination of more income from grant funding and Business Rates, increased fees and charges and on-going efficiency savings. In the absence of these, it will require further service reductions and/or the risk that councils will be unable to balance their budgets, which is a legal requirement.

Our analysis shows that, even with an increase in the Council Tax rate by 2.99% per annum over the period from 2020/21 to 2024/25, local government as a whole would still face a funding gap of £30.2bn over the period.

Councils could consider increasing other income streams as a means mitigating their funding pressures, for instance fees and charges. Table 13 shows the fees and charges in 2017/18<sup>9</sup> for all service areas excluding those from adult and children's social care and education services which are regulated and where local authorities have less discretion to change them.

Table 13 also shows that two-tier county councils have the smallest income from fees and charges as a percentage of their total spending need and districts have the largest. Amongst upper-tier councils, London boroughs have the largest income from fees and charges as a proportion of total spending need.

<sup>9</sup> This is the latest year for which data are available.

**Table 13: Income from fees and charges as a share of estimated total spending need (2017/18)**

	Estimated spending need 2017/18 (£mn)	Fees and charges 2017/18 (£mn)	Fees and charges as % of estimated spending need in 2017/18
County unitary authorities	2,940	326	11%
County councils	15,766	752	5%
Non-CCN unitary authorities	8,195	1,248	15%
London boroughs	7,494	2,126	28%
Metropolitan boroughs	10,692	1,097	10%
District councils	2,950	1,757	60%

Source: PwC analysis

As illustrated in Table 14, if we assume that fees and charges in 2020/21 are the same as in 2017/18 and increase by 10%, the additional income would only contribute around £730mn to mitigating the funding gap in 2020/21. For county councils such an increase would raise enough additional resources to offset 3.4% of the gap with the comparable figure in county unitary authorities in 2020/21 being 7.3%. This compares to 24.2% for district councils.

**Table 14: Increase in fees and charges (£mn, 2020/21)**

	Increase in fees and charges in 2020/21	Potential funding gap in 2020/21 with an increase in Council Tax rate
County unitary authorities	33	450
County councils	75	1,675
Non-CCN unitary authorities	125	813
London boroughs	213	74
Metropolitan boroughs	110	1,473
District councils	176	727

Source: PwC analysis

Ultimately, in the absence of additional funding and after accounting for Council Tax rises and income from fees and charges, councils would need to draw on reserves to balance budgets to meet their statutory requirements.

One of the reasons local government holds reserves is so that it can respond to unexpected events or emerging needs.<sup>10</sup> Without sufficient reserves, councils would be unable to balance their budgets.

This means that the use of reserves to meet the funding gaps estimated in this study is not a sustainable strategy. As an illustration, Table 15 shows the level of allocated reserves at the start of 2018/19 and compares it to the cumulative funding gap between 2020/21 to 2024/25 for each tier of local government.

<sup>10</sup> <https://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/the-role-of-reserves-in-local-government-financial-resilience>

It shows that reserves amounted to £3.5bn across local government. If councils drew down all their reserves over the period 2020/21 to 2024/25, it would only meet 11% of the cumulative funding gap over the period.

At tier level, county councils are in the weakest position: their reserves would meet only 7.1% of their cumulative funding gap, followed by Metropolitan boroughs and county unitary authorities. Based on providing a consistent level of service, London boroughs could meet 55% of their funding gap through the use of reserve, while district councils can meet 25%.

What this comparison shows is that the use of reserve is unsustainable for local government in meeting their future spending need requirements with county councils facing the most severe sustainability risk.

**Table 15: Unallocated reserves at the start of 2018/19 compared to cumulative funding gap after Council Tax rises (2020/21-2024/25)**

	Unallocated reserves at the start of 2018/19 (£mn)	Cumulative funding gap after increase in Council Tax rate (£mn, 2020/21-2024/25)	Unallocated reserves as % of cumulative funding gap (2020/21-2024/25)
County unitary authorities	193	2,481	7.7%
County councils	650	9,074	7.1%
Non-CCN unitary authorities	458	4,831	9.4%
London boroughs	668	1,209	55.2%
Metropolitan boroughs	663	8,865	7.4%
District councils	898	3,704	24%
Total	3,530	30,165	11.4%

Source: CCN analysis

# 6. Conclusion

## 6.1 Overview

Spending need for local government services is expected to increase over the next few years, driven by increasing demand and the rising cost of service provision. The relative financial pressures facing different tiers of local government will be influenced by how the number of beneficiaries and the associated cost of providing the services evolve for different local authorities.

Our report estimates the spending need and potential funding gap for local government. For each type of local authority, we estimate these based on councils providing a more consistent level of service than they have historically done.

Our analysis suggests that over the period from 2015/16 to 2018/19, local government would have faced a cumulative funding gap of £8.4bn. This is the gap between the estimated spending need (based on a more consistent level and quality of service) and actual funding after accounting for a rise in the rate of Council Tax and increases in other funding streams.

CCN authorities would have faced a notional underlying funding gap of £1bn in the baseline year (2015/16) if all local authorities in England provided a more consistent level and quality of service. These councils then face an increasing funding gap over the period to 2018/19. This suggests that they have 'unmet need' which is not reflected in their actual historic expenditure on services.

In contrast, London boroughs have a notional funding surplus in the baseline year. Their actual funding exceeds their estimated spending need required to provide a more consistent level and quality of service. This suggests that these councils were providing a higher level or quality of service.

Going forward, our analysis suggests that for the financial year 2019/20, local authorities could face a funding gap of £4.8bn. This is estimated to rise to £9.3bn by 2022/23. By 2024/25 local government is expected to require additional resources of £12.2bn in order to fund the range of services it offers to local residents on a more consistent basis across all tiers. It is important to note that these projections assume the continuation of funding streams such as the Improved Better Care Fund and flat cash settlement for local government; if these were to end, the funding gap would increase by £1.8bn per annum from 2020/21 onwards.

If we assume a 2.99% rise per annum in the rate of Council Tax from 2020/21 onwards, our overall estimate of the cumulative funding gap is bigger than that previously estimated by the Local Government Association (LGA)<sup>11</sup>. Table 13 compares the two sets of results.

We note, however, that there are important differences between the two analyses: for example, the LGA:

- Uses 2017/18 as the baseline year;
- Has a lower rate of growth of Council Tax income in the period from 2020/21: our analysis assumes that Council Tax income will grow at 4.94% per annum whereas the LGA analysis is based on an assumed growth rate of 2.88% per annum;
- Includes retained business rate growth; and
- Includes a factor for 'pre-existing adult social care provider market pressure'.

---

<sup>11</sup> Local government funding: Moving the conversation on Technical Annex: Key assumptions and outline results of the 2025 funding gap analysis  
<https://www.local.gov.uk/sites/default/files/documents/Technical%20Annex%20%281%29.pdf>

Our analysis of local authorities' income from fees and charges and their reserves shows that neither is likely to be able to make a significant contribution to bridging the funding gap:

- A 10% increase in income from uncontrolled fees and charges would contribute around £730mn per annum; and
- If councils drew down all their reserves over the period 2020/21 to 2024/25, it would meet about 11% of the cumulative funding gap.

**Table 16: Comparison of funding gap estimates (post Council Tax increase): PwC and LGA (£mn, 2015/16 to 2024/25)**

	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	Cumulative gap
LGA analysis	n/a	n/a	1,449	2,662	3,854	4,765	5,345	6,054	6,883	7,814	38,826
PwC analysis	0	1,930	2,569	3,868	4,839	5,213	5,572	6,004	6,457	6,919	43,372

Source: PwC analysis and LGA funding gap analysis

## 6.2 Lessons and implications

Both the Spending Review and the Fair Funding Review will need to consider how local government as a whole, and different tiers of councils, are able to respond to the financial challenges they will face going forward. It will be important that any decisions in relation to funding take account of the relative spending need of different councils. Our study has shown that the options available to local government to meet their expected funding gap are limited. The key lessons and implications of our study are:

- The current local government funding model does not reflect underlying spending need;
- Local government faces significant underlying spending pressures from both cost and volume drivers;
- The scale of these pressures varies across different tiers of local government – CCN authorities are the most exposed;
- All decisions in relation to funding need to take account of relative spending need of councils, recognising variations in demand for services, the cost of their delivery and the ability of councils to provide a more consistent level and quality of service; and
- CCN member councils are most limited in the options they face.

# 7. Annex

This section consists of four annexes which supplement the main report. These include:

- Methodology;
- Volume and unit costs in the baseline year;
- Incorporating the effects of unavoidable cost pressures; and
- Future funding assumptions.

## 7.1 Methodology

For some local authority tiers and service areas, we amend the methodology outlined in Section 2.4.1 to take into account specific considerations. In particular, we undertake three adjustments as set out below:

- **Adjustment for county councils and district councils:** County councils and district councils collectively provide services that are offered by other single tier areas to beneficiaries in their area. We have amended the approach by estimating the combined tier specific unit cost for areas with County councils and District councils using the following formula for each element of spending within a service area:

$$\text{Combined unit cost for County councils and District councils for a particular element of spending} = \frac{\text{Sum of total expenditure by County councils and District councils in 2015/16}}{\text{Number of beneficiaries in County councils and District councils}}$$

We then estimate the unit cost based on a more consistent level of service provision across all local authority tiers. This unit cost is then apportioned between County councils and District councils based on their respective shares of total expenditure in the service area in the baseline year.

- **Service areas where revenue streams offset costs:** For both ‘Highways and transport (residual spending)’ and ‘Other services’, certain tiers of local authorities receive revenue which offsets the costs of service provision. For these two service areas, we use the tier specific unit costs without the adjustment to allow for consistent level of service provision across the different areas.
- **Responsibilities of local authorities:** The statutory requirement to provide home to school transport for pupils without SEN (when a school is more than two miles away) is not consistent across different local authorities. As such, for home to school transport (mainstream), we use the tier specific unit costs without the adjustment to allow for a consistent level of service provision across the different areas.

## 7.2 Volume and unit costs in the baseline year

Due to the lack of nationally available data on unit costs, we estimate the unit costs for all services except education services based on actual spending on the services in the baseline year. We obtain data from “Local authority revenue expenditure and financing England: 2015 to 2016 final outturn” data published by the MHCLG. The data published by MHCLG provides a breakdown of service spending within each service area. For education services, we rely upon Section 251 outturn data published by the Department for Education (DfE).

Table 17 below summarises the tier specific unit costs that correspond to each volume driver which are used as the starting point of the spending need analysis. These unit costs are then

adjusted to take into account the differences in the level and quality of service across the different areas to arrive at the unit cost which reflects all tiers of local authority providing a more consistent level and quality of service.

**Table 17: Approach to estimating the initial unit costs for each service area**

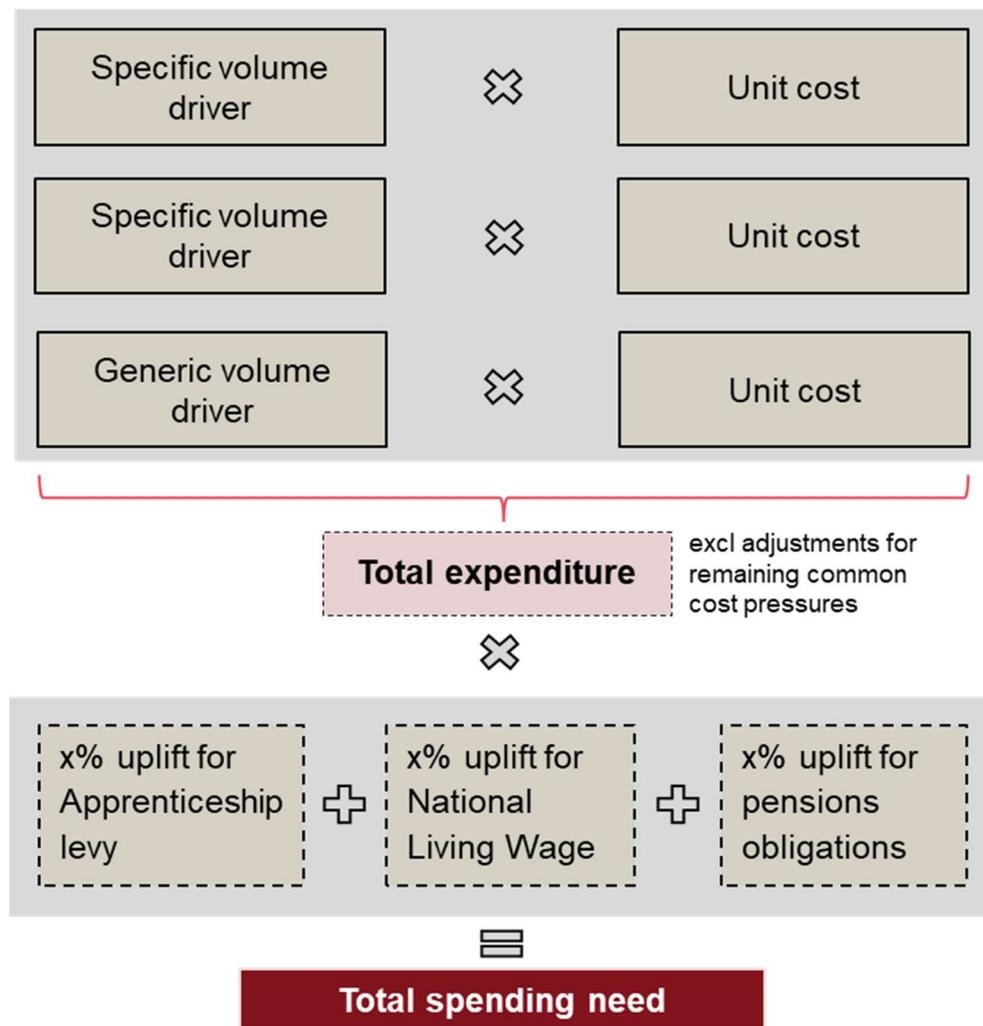
Service area	Volume drivers	Initial unit costs in 2015/16 before adjusting for service level and quality differences across local authority tiers
Adult social care	18+ adults with learning disabilities	Estimated by dividing the spend on 'Learning disability support adults (18-64)' and 'Learning disability support older people 65+' with the number of adults 18+ with learning disabilities.
	Population 65+ in poor health	Estimated by dividing the spending on physical support, sensory support, support with memory and cognition and mental health support for older people (65+) by the number of adults 65+ in poor health.
	Adult population (18+)	Estimated as the residual by deducting the spend on the two groups above from the total expenditure on adult social care.
Children social care	Looked after children	Estimated by dividing the spend on 'Children Looked After' within the Children's social care expenditure with the number of looked after children
	Children in need	Estimated by dividing the spend on family support services and safeguarding children and young people's services within the Children's social care expenditure with the number of children in need.
	Population under 18	Estimated as the residual by deducting the spend on the two preceding groups from the total expenditure on Children social care.
Educational services	Home to school transport - Mainstream	Estimated by dividing 'Home to school transport (pre-16): mainstream home to school transport expenditure' obtained from the Section 251 schools expenditure data by the number of pupils excluding pupils with SEN
	Home to school transport - SEN	Estimated by dividing 'Home to school transport (pre-16): SEN transport expenditure' obtained from the Section 251 schools expenditure by the number of pupils with SEN.
	Children with Special Educational Needs (SEN)	Estimated by dividing the top up funding (maintained providers, academics, free schools and colleges and non-maintained and independent providers) obtained from the Section 251 schools expenditure by sector data by the number of pupils with SEN.
Public health	Children 0-5 years	Estimated by dividing the expenditure on children services divided by the number of children 0-5 years.
	Population over 5 years	Estimated as the residual by deducting the spend on the children 0-5 years from the total expenditure on public health.
Highways and transport	Road length	Estimated by dividing maintenance spend within Highways and Transport expenditure by the total road length in each local government tier type.
	Population 65+ as a proxy for number of concessionary bus boarding	Estimated by dividing the expenditure on concessionary travel by the number of older and disabled concessionary travel passes in 2015/16.
	Total population	Estimated as the residual by deducting the spend on the two preceding groups from the total expenditure on Highways and Transport.
Environment and regulatory services	Number of households	Share of spend within Environment and regulatory services in 2015/16 that was spent on waste collection, waste disposal and recycling, divided by the number of household in each tier of local authority. The remainder is treated as the residual and is also divided by the number of households.

### 7.3 Incorporating the effects of unavoidable cost pressures

We incorporate the effects of generic unavoidable cost pressures by applying an uplift to the total expenditure estimated using the specific and generic cost drivers and their associated unit costs

(after adjusting for inflation). The uplift is estimated in **terms** of share of total expenditure in each service area.

**Figure 21: Approach to incorporating unavoidable cost pressures**



### Apprenticeship Levy

We model the implications of the Apprenticeship Levy from 2017/18 when the legislation was introduced. The Levy is payable by all employers with a pay bill greater than £3 million a year and is set at a rate of 0.5% on an employer's pay bill. The outturn data published by MHCLG provides information on the share of expenditure that employee costs account for. We assume that employee costs are made up of employee wages and salaries, National Insurance Contribution and employers' pension contribution.

We assume that employers pay 13.8% of the pay bill as employers' National Insurance Contribution.<sup>12</sup> In addition, we assume that employers' contribution to pensions is 13% of their pay bill. The Local Government Pension Scheme (LGPS) guidance states that in general employers contribute two thirds of the pension costs whilst employees contribute one third. The average employee contribution rate published by the LGPS is 6.5%. Based on this, we estimate that employers' contribution to pensions is 13% of their pay bill. As the employers' contribution to National Insurance and pensions is presented as a share of the pay bill, we use this to estimate

<sup>12</sup> HM Revenue & Customs (April 2018), *Rates and allowances: National Insurance Contributions*. <https://www.gov.uk/national-insurance-rates-letters>

the share of total employee costs that they represent. We estimate the pay bill, employers' National Insurance Contribution and employers' pension contribution to represent 79%, 11% and 10%, respectively.

We apply the Levy rate of 0.5% to the pay bill for each service area to estimate the effect of the Levy from 2017/18 onwards. As part of this policy, an allowance of £15,000 per employer is offered to offset against the Levy payment. To account for this allowance, we deduct £15,000 for each local authority that is subject to the Apprenticeship Levy. The total spending need for each service area is then uplifted by the net amount of the Apprenticeship Levy.

### **Pensions obligations**

Our analysis incorporates the implications of the increase in local authorities' contribution to their employees' pensions. As outlined above, we assume employers' pay 13% of their pay bill as employers' contribution to pensions. We model the increase in pension contribution over the time period of our analysis by assuming that pensions increase in line with Consumer Price Index (CPI). The increase in pension contribution is estimated for each service area. We then uplift total expenditure of each service area estimated using the changes in volume and unit costs by our estimate of the increase in pension contribution.

### **National Living Wage**

We model the implication of changes in National Living Wage (NLW) for adult and children social care as evidence suggests that in general workers within the care sector are most materially impacted by NLW changes. Within adults and children social care, we distinguish between care workers that are employed by local authorities and those that are employed by the independent sector who are commissioned to provide services on behalf of local authorities.

We use data published in a report by Skills for Care<sup>13</sup> to estimate the increase in costs faced by local authorities as a result of changes in the NLW. The report sets out data on the share of the care workforce within the adult social care sector that is paid the same as the hourly NLW rate in each year. We apply this share to the total number of independent and local authority workers to estimate the number of workers that are paid at the NLW rate each year. We assume that this group of workers is impacted by the changes in NLW in each year. In the baseline year, we assume that the hourly wage rate for care workers is £6.70 per hour.

The NLW was introduced in 2016/17 at £7.20 per hour and increased to £7.50 in 2017/18 with a further rise to £7.83 in 2018/19. The Skills for Care report suggests that the NLW will increase to £9 per hour in 2020/21. We use this information to estimate the rate in 2019/20 using the compound annual growth rate between 2018/19 to 2020/21. For the subsequent years, we assume that the NLW increase match the growth rate estimated for 2019/20.

We estimate the impact of NLW changes in each year with respect to the counterfactual. We define the counterfactual as the hourly wage rate of £6.70 in 2015/16, adjusted for inflation in the subsequent years using GDP deflator. Our analysis distinguishes between full time and part time employees. We estimate the increase in costs incurred by local authorities as a result of the difference in NLW and the hourly rate estimated in the counterfactual for adult social care.

For children social care, data are not available to the level of granularity required. We therefore assume that the implication of changes in NLW on the total expenditure on children social care are the same as those for of adult social care. We apply this share to the total expenditure estimated for children social care to estimate the increase in costs due to NLW.

---

<sup>13</sup> Skills for Care (March 2018), Pay in the Adult Social Care sector

## 7.4 Future funding assumptions

Table 18 sets out the assumptions we use to project the future funding in the period from 2020/21.

**Table 18: Funding assumptions**

<b>Funding streams</b>	<b>Assumptions for 2020/21 onwards</b>
Business Rates	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. 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.
Council Tax	Growth in Council Tax base at 1.89% per annum  No growth in Council Tax rate - although we assess the implications if the rate grows at 2.99% per annum
Improved Better Care Fund	Flat cash of £1.837bn per year.
New Homes Bonus	Flat cash of £902m per year.
Adult Social Care Grant	No continuation
Rural Services Delivery Grant	Rolled into Business Rates from 2020/21 onwards.
Revenue Support Grant	Rolled into Business Rates from 2020/21 onwards.
Public Health Grant	Rolled into Business Rates from 2020/21 onwards.

Strictly confidential. This document has been prepared for and only for the County Councils Network (CCN) in accordance with the terms of our contract dated 10<sup>th</sup> September 2018 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

© 2019 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.