Independent review of local government spending need and funding

Summary Report
May 2019

Strictly private and confidential

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Introduction

PricewaterhouseCoopers LLP (PwC) was commissioned by the County Councils Network (CCN) to undertake an independent analysis of the current and potential future financial pressures facing local government in England in the period up to 2024/25.

Local authorities deliver a wide range of important servies to their residents and provide support for some of the most vulnerable groups in society. All 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 the services they provide, the characteristics of their residents and the geography of their areas.

The structure of local government also 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 ability of different types of councils to develop financial and service strategies to meet the needs of their local residents.

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 Fair Funding Review aims to assess the underlying need of local authorities to ensure that funding is allocated fairly between different local authorities.

Context

Recently, there has been extensive analysis of local government finance and its sustainability including a report by the National Audit Office[1] and studies by the Centre for Cities[2], the New Policy Institute[3] and the University of Cambridge[4].

These analyses typically use historic spending data published by the Ministry of Housing, Communities & Local Government (MHCLG) to assess the extent to which local government's Core Spending Power and service expenditure have changed since the advent of austerity in 2010. Such analyses by service compare trends in spending across different local authorities.

Our report assesses how local government's spending "need" for the services they provide has evolved over time, how it can be expected to change in the future and its ability to fund this need. Understanding spending need and funding enables us to estimate the actual and potential funding gap over the period from 2015/16 to 2024/25: we define the funding gap as the difference between spending need and the funding available to meet this need (see Figure 1).

[1] National Audit Office (March 2018), "*Financial sustainability of local authorities 2018*"
[2] Centre for Cities (January 2019), "*Cities Outlook 2019 a decade of austerity*" https://www.centreforcities.org/publication/cities-outlook-2019/
[3] New Policy Institute (2018), "*A Quiet Crisis: Changes in local government spending on disadvantage"* https://www.npi.org.uk/publications/local-government/quiet-crisis/
[4] 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

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

Our approach to estimating spending need is based on a more consistent level and quality of service. As such, it addresses some of the key limitations of recent analyses which are based primarily on historical expenditure patterns. Specifically, we recognise that different local authorities face:

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

Neither factor is reflected in an analysis of historic expenditure. Higher expenditure may be the product of historic funding levels and political choices over desired service levels whilst lower expenditure may be due to lower levels of funding and may fail to recognise 'unmet needs'.

The rest of our summary report is in three further sections:

- Our assessment of spending need;
- Our analysis of funding and the funding gap; and
- Our conclusion, the key lessons and their implications.

A separate, longer report provides more detail of both our method and its results[5].

Spending need

Methodology

Our method for assessing spending need has two key elements:

- We develop a baseline assessment of spending need using a consistent evidence-based assessment; and
- We then use a range of generic and service specific volume and cost drivers for each type of local authority to project the effect of future demand and cost pressures.

We start by identifying elements of spending within each service area where the underlying volume and cost drivers are distinct and which form the largest share of spending. Table 1 sets out the different elements of spending included in the analysis and outlines the specific and generic drivers for each area.

There are some service areas where distinct groups of beneficiaries exist and where specific drivers are required. These include: adult social care; children's social care; education services; highways and transport; and environment and regulatory services. For other service areas, more generic drivers are required which reflect the entirety of the recipient population. These include cultural and related services, planning and development services, central services, other services and housing services.

[5] Further details can be found in the technical report which accompanies this summary report.

Table 1: Elements of spending within key service areas

Service area	Elements of spending	Specific volume drivers	Generic volume drivers
Adult social care	• 18+ adults with learning disabilities • Population 65+ in poor health • Rest of adult social care	• 18+ adults with learning disabilities • Population 65+ in poor health	• Adult population (18+)
Children's social care	• Looked after children • Children in need • Rest of children social care	• Number of looked after children • Number of children in need	• Population under 18
Education services	• Home to school transport for mainstream and children with Special Educational Needs (SEN) • Services to children with SEN	• Pupils excluding children with SEN • Children with SEN	• N/A
Public health	• Services to children 0-5 • Population 5+	• Children 0-5	• Population 5+
Highways and transport	• Road maintenance • Concessionary bus boarding • Rest of highways and transport	• Road length • Population 65+ as a proxy for number of concessionary bus boarding	• Total population
Environment and regulatory services	• Waste collection services • Waste disposal services • Recycling • Rest of environment and regulatory services	• N/A	• Number of households

Source: PwC analysis

We then select a baseline year where total actual spending on local government's services most closely matches underlying spending need for each service area. We use 2015/16 as the baseline. This is also the year before the previous Spending Review period: since when local government has faced new challenges and further pressure on its resources.

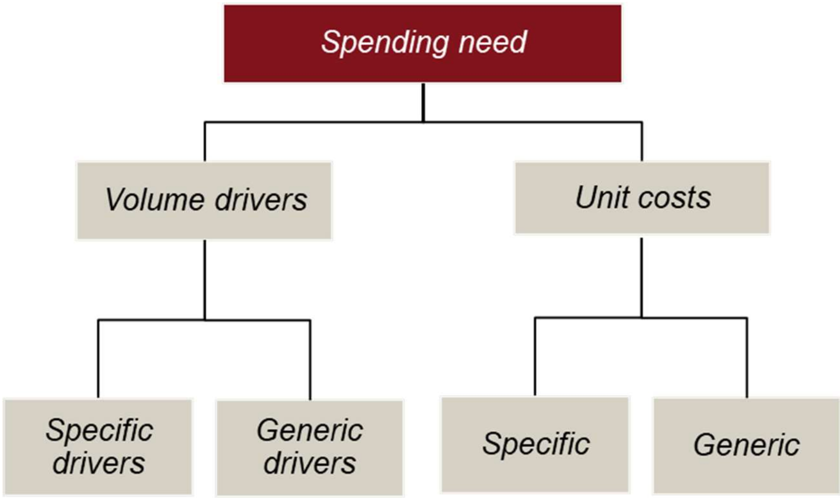
In the baseline year, the estimated number of beneficiaries reflects differences in demand for the service between local authorities which, in turn, depend on underlying socio-economic characteristics such as demography, levels of deprivation and geography.

Actual spending in each service area in the baseline year reflects the level and quality of service determined by each local authority tier. 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 we assume that total spending need in each service area matches actual spending, its breakdown by local authority tier will not match actual spending as we estimate spending need based on all local authorities providing a more consistent level of service.

Having established spending need in the baseline year, we assess its components for each tier of local authority for each service area based on a more consistent level and quality of service provision. Figure 2 sets out our high-level approach to estimating spending need for each service area. It 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.

Figure 2: Approach to estimating spending need



Having determined the number of beneficiaries for each service area, our next step is to estimate the average unit cost of service provision. We derive the average unit cost for each tier of local authorities for each service area by dividing total actual spending in 2015/16 by the relevant number of beneficiaries. We refer to this as the initial tier specific unit cost.

We adjust this estimate of unit cost so that it reflects a more consistent level and quality of service provision across all local authority tiers. To do this we adjust the unit cost estimates for differences in input costs. We assume that any resulting differences in average unit costs reflect spending above need and so we deduct this difference and scale up spending so that actual spending and notional spending need are the same in the baseline year. This means that the resulting unit costs reflect geographical service delivery costs – such as those in London – but reduce the extent to which there may be over or under provision by different tiers.

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 the Apprenticeship Levy. We project the unit costs estimated in the baseline year to reflect future unavoidable cost pressures to estimate the unit costs for subsequent years.

We adjust the (estimated) unit cost of service delivery in the basline year for the specific and generic drivers to include the effects of inflation for each of the subsequent years (see Figure 3). 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.

Results

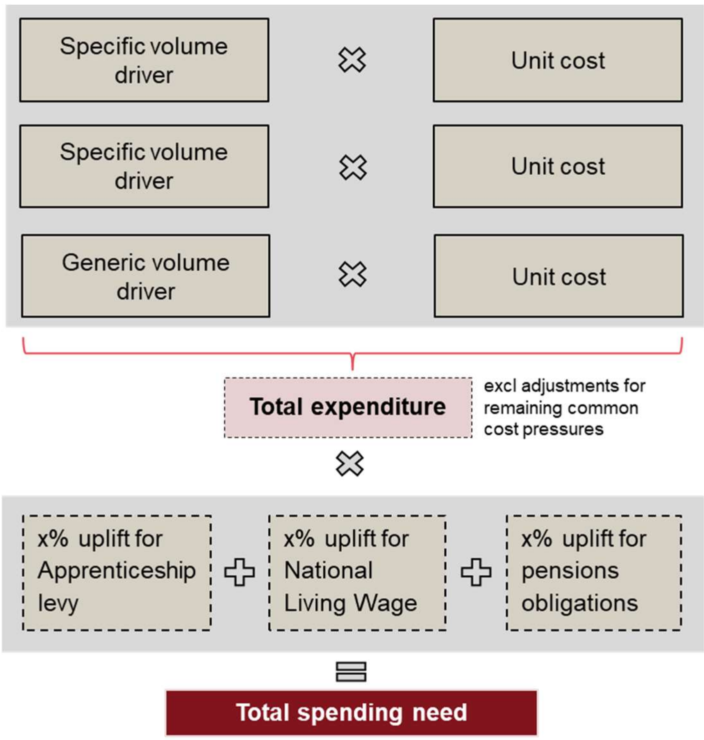
We estimate that spending need for local authorities in England will increase by 35% (£15.7bn) over the period from 2015/16 to 2024/25. As illustrated in Table 2, CCN authorities could face a 33% (£5.9bn) increase in spending need over this period. The change in spending need can be attributable to increases in the number of beneficiaries (i.e. the volume) and unit costs of service provision driven by increases in input costs.

Table 2: 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
Total	45,016	46,606	48,037	50,000	51,544	53,188	54,941	56,805	58,741	60,757

Source: PwC analysis

Figure 3: Approach to incorporating unavoidable cost pressures



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The five largest spending areas in 2015/16 accounted for more than 75% of spending:

- **Adult social care:** Spending on adult social care accounted for 32% of total spending in the baseline year. For CCN authorities, their spending need made up 38% of the total in the baseline year and is set to grow to 43% (£2.9bn) over a 10 year period. Spending need in other upper tier councils is set to increase by a similar proportion. CCN authorities' share of total spending need on adult social care in the baseline year was the largest (47%) and is estimated to remain constant through to 2024/25.
- **Children's social care:** Spending on children's social care accounted 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 made up 17% of their spending need in the baseline year and

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 to rise faster than spending need in other areas.

- **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.
- **Education services:** In the baseline year, total spending on education service included in scope accounted for 9% of total actual spending across all local authorities. For CCN authorities, it is set to increase by 27% (£472bn) over the period from 2015/16 to 2024/25.
- **Public health:** Local government spending on public health accounted for 7% of total actual spending in the baseline year and is expected to increase by £724mn over the 10 year period. For CCN authorities, spending need is set to increase by £316mn which accounts for around 44% of the estimated total increase in spending need across all local authorities.

Funding and funding gap

To determine the funding gap we estimate local authorities' actual and expected funding over the time period of our analysis (from 2015/16 to 2024/25).

Methodology - funding

For the period 2015/16 to 2019/20, Income from Council Tax is obtained from data published by MHCLG. Business Rates and grant funding include the Settlement Funding Assessment, New Homes Bonus, Rural Services Delivery Grant, Public Health Grant, Adult Social Care grant and funding for education services included within the scope of our analysis.

The scope of education services covered within our analysis includes 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. We estimate funding for this services separately and add it to the funding estimates.

To project local authorities' future funding (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 Heath 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 in cash terms at £1.8bn and £902mn per annum respectively.

Our key assumptions underpinning our projections of the main funding streams for the period from 2020/21 to 2024/25 are as follows:

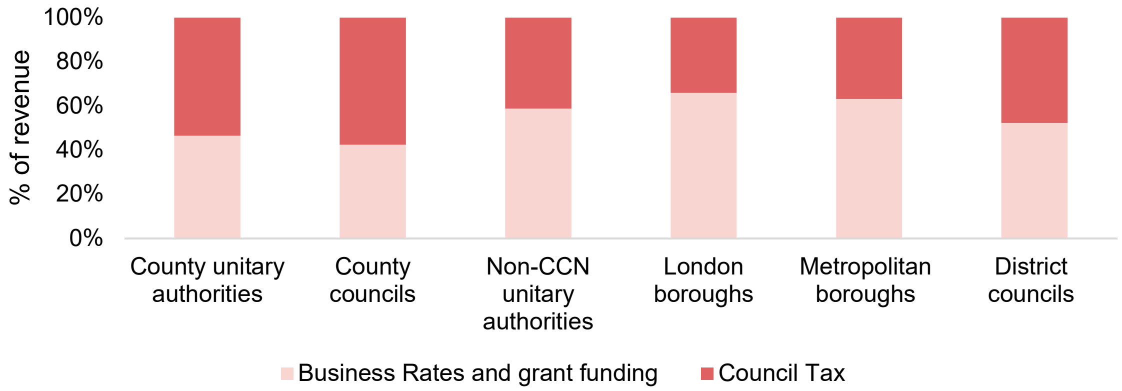
- Business Rates and grant funding remain flat cash at the 2019/20 level; and
- Income from Council Tax in our base case scenario assumes growth in the Council Tax base but no growth in the rate of Council Tax and an alternative scenario examines the implications of a 2.99% per annum rise in the Council Tax rate.

Results - funding

Figure 4 illustrates the share of funding from Business Rates and grant funding and Council Tax for each local authority tier in the baseline year (2015/16). 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 authority.

Figure 4: Breakdown of local authority funding by tier between Business Rates and grant funding and Council Tax (% of revenue, 2015/16)

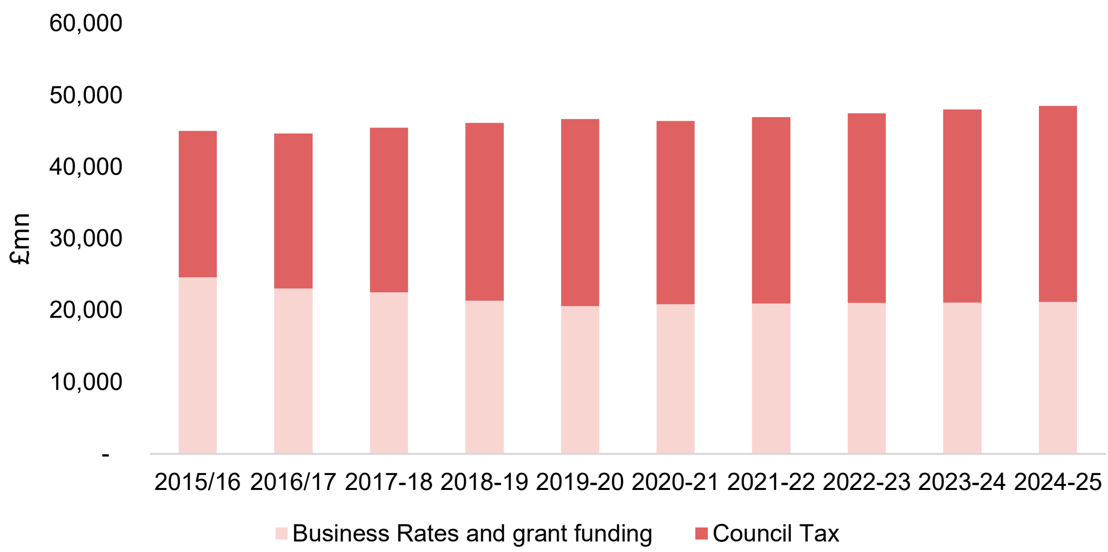


Source: PwC analysis

Figure 5 shows the expected changes in Business Rates and grant funding and Council Tax income over the period from 2015/16 to 2024/25.We assume that the Council Tax base increases at a rate of 1.89% per annum from 2020/21. Our base case analysis also assumes no growth in the Council Tax rate from 2020/21 onwards and Business Rates and grant funding is expected to be held at the 2019/20 level. The share of total funding from Business Rates and grant funding is expected to fall from 55% to 44%.

Council Tax income accounted for 45% of total funding in 2015/16 and is projected to increase to 56% of total funding in 2024/25. The share of total funding from Business Rates and grant funding is expected to fall from 55% to 44%. Our Core Spending Power estimates exclude business rate growth above baseline. While this income would offset some of the funding gap identified below for all tiers of local government, it has particular implications for district councils, who in two-tier areas retain the majority (80%) of retained growth and is a large proportion of their income. The effect of this is to potentially understate the resources that are available to district councils, both past and future.

Figure 5: Estimated breakdown of funding for local authorities (£mn, 2015/16 - 2024/25)

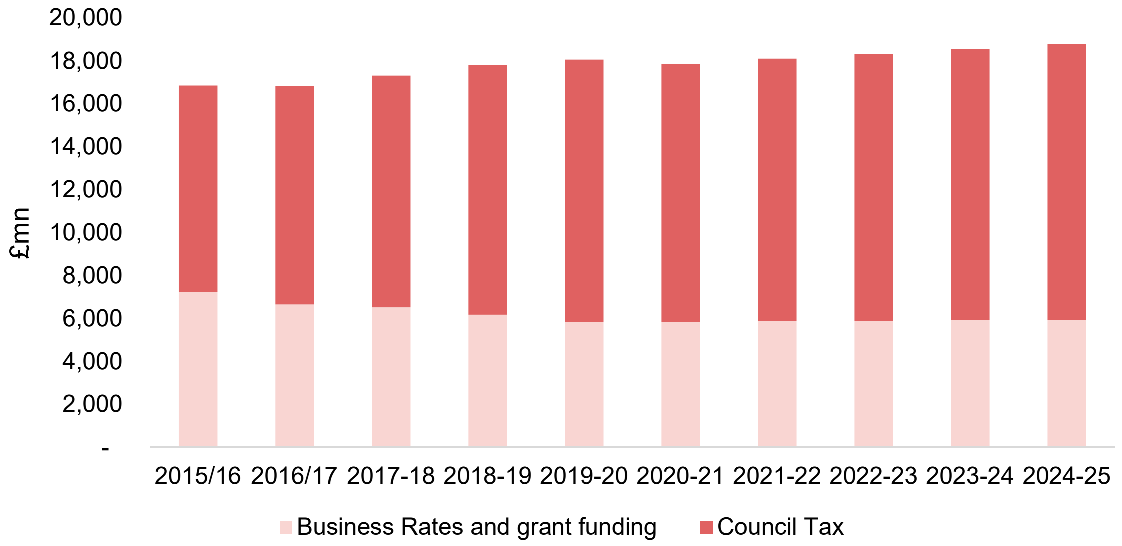


Source: PwC analysis

Figure 6 sets out the breakdown of funding for CCN authorities for the period from 2015/16 to 2024/25. Income from Council Tax is expected to increase by 33%, accounting for around 68% of income in 2024/25. In contrast, Business Rates and grant funding are expected to decline by 18%.

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 same period. For district councils, Business Rates and grant funding is expected to decrease by 34% with income from Council Tax increasing by 23%.

Figure 6: Estimated breakdown of funding for CCN authorities (£mn, 2015/16 - 2024/25)



Source: PwC analysis

Funding gap estimates

We define the funding gap as the difference between estimated spending need for the services provided by local government and expected funding. The projected funding gap is based on estimating spending need for a more consistent level and quality of service provision across local government.

We analyse the funding gap over two periods: from 2015/16 to 2018/19 and from 2019/20 to 2024/25 excluding a rise in Council Tax rates from 2020/21.

Table 3: 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
Total	0	1,930	2,569	3,868	4,839	6,763	7,975	9,313	10,730	12,215

Source: PwC analysis

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

Between 2015/16 and 2018/19, our analysis suggests that local government 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 Council Tax rises and any injection of resources provided outside of the four-year local government settlement.[6]

Our analysis shows that:

- CCN authorities would have faced an underlying funding gap of £1bn in the baseline year if all local authorities 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 notional funding surplus in the baseline year. Their actual funding exceeds the 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.
- 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 shows 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. Overall, our analysis of the period between 2019/20 to 2024/25 estimates that councils could face a cumulative funding gap of £51.8bn if they deliver a consistent level of service.

As set out in Table 3, our analysis shows that:

- CCN authorities would face a £5bn funding gap in 2024/25 to meet rising demand and costs 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 from 2019/20 amounts to £21.5bn.
- Metropolitan boroughs face the second largest funding gap in 2024/25 (£3bn), 25% of the total funding gap.
- Non-CCN unitary authorities see their funding gap increase by £1.3bn over the period and their funding gap accounts for around 15% of the overall gap.

[6] Injections of resources include the Improved Better Care Fund and Adult Social Care Grant.

- 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.

Funding gap – with Council Tax increase

Our analysis above assumes no change in the rate of Council Tax. Below, we consider the implications of increasing the Council Tax rate 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. Table 4 shows the funding gap. Increasing the Council Tax rate reduces the funding gap in 2024/25 by 43% from £12.2bn to £6.9bn although councils would still face an estimated cumulative funding gap of £30.2bn over the period from 2020/21 to 2024/25.

Table 4: 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
Total	5,213	5,572	6,004	6,457	6,919

Source: PwC analysis

Other potential responses to the 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.

Table 5 shows the fees and charges in 2017/18[7] 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. It also shows that two-tier county councils have the smallest income from fees and changes as a percentage of their total spending need and district councils have the largest. Amongst upper-tier councils, London boroughs have the largest income from fees and charges as a proportion of their total spending need.

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. The comparable figure in county unitary authorities in 2020/21 is 7.3% and compares to 24.2% for district councils.

[7] This is the latest year for which data are available.

Table 5: 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	Increase in fees and charges in 2020/21
County unitary authorities	2,940	326	11%	33
County councils	15,766	752	5%	75
Non-CCN unitary authorities	8,195	1,248	15%	125
London boroughs	7,494	2,126	28%	213
Metropolitan boroughs	10,692	1,097	10%	110
District councils	2,950	1,757	60%	176

Source: PwC analysis

Ultimately, in the absence of additional funding, councils would need to draw on their reserves to balance budgets to meet their statutory requirements.

One of the reasons local authorities hold reserves is so that they can respond to unexpected events or emerging needs.[8] Without sufficient reserves, they would be unable to balance their budgets.

The use of reserves to meet the funding gaps estimated in this study is not a sustainable strategy. As an illustration, Table 6 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. 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.

Table 6: Unallocated reserves at the start of 2018/19 compared to cumulative funding gap after Council Tax rise (2020/21 to 2024/25)

	Unallocated reserves at the start of 2018/19 (£mn)	Cumulative funding gap after council tax rises 2020/21-2024/25 (£mn)	Unallocated reserves as % of cumulative funding gap after council tax rises 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

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., London boroughs could meet 55% of their funding gap through the use of reserve, while district councils could 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.

[8] https://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/the-role-of-reserves-in-local-government-financial-resilience

Conclusion, lessons & implications

Conclusion

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 tier 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 notional 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) [9]. Table 8 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'.

[9] 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

Table 8: 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

Lessons & 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.