

Local government funding: Moving the conversation on

Technical Annex:

Key assumptions and outline results of the 2025 funding gap analysis

Fresh LGA analysis, set out in our report [‘Local government funding: moving the conversation on’](#) has identified a predicted £7.8 billion funding gap facing local services by 2025.

This funding gap is difference between:

- The estimated cost of providing services in 2024/25, at the same level of access and quality as at the time when 2017/18 budgets were set; and
- The estimated income available to fund local services in 2024/25, with 2017/18 funding taken as a starting point and assumptions applied to the future path of income thereafter.

We have used 2017/18 budgets as a starting point in order to reflect that councils have to set balanced budgets every year. However, on the basis of our prior funding gap analysis, it means that in the year between 2016/17 and 2017/18 alone, a funding gap of another £2.4 billion will have had to be met.

This technical annex sets out the assumptions that have been used in producing the new set of funding gap estimates, and high level results on the basis of those assumptions. It also provides more information of what this funding gap means for various local services, and provides year-by-year figures as well.

This analysis is the starting point for the LGA’s campaign on the Spending Review. In the coming months we will be exploring local government finance issues in more detail as well as providing potential solutions to dealing with the challenges facing local services.

But we are clear that the challenge of this magnitude cannot be met without additional resources from central government, either through assignment of other tax income or through grants.

Key assumptions on cost pressures

Please note the demand assumptions are all set at local authority level, but Inflation assumptions are the same nationally.

Service area	Demand assumption	Inflation	Comments
Children's services	<p>Looked After Children costs rise by the annual average percentage change in the number of looked after children, 2013-2017</p> <p>Child safeguarding costs rise by the annual average percentage change in the number of children subject to a child protection plan on 31 March, 2013-2017</p> <p>0-17 population projections applied to other spending lines</p>	CPI inflation	
Homelessness	<p>Population projections, total population</p> <p>multiplied by</p> <p>10.9</p>	CPI inflation	<p>Over the 2012-2016 period, the number of homeless households supported by local authorities grew 10.9 times faster per year than the total population. This multiplier was applied to total population projections to work out expected homelessness demand pressures.</p> <p>This assumption translates to 78%, or 65,000 extra homeless households by 2025.</p>
Public health	Total population projections	CPI inflation	
Adult social care – younger adults	Population projections, 18-64	55% CPI inflation, 45% expected increases in the National Living Wage	<p>Inflation weighted to reflect that 60% of adult social care costs are labour-related, and 75% of all staff are direct care workers (Skills for care, 2017).</p> <p>£200m of the £1.44bn pre-existing market pressure is added to 17/18 as it relates to pay compliance for sleep-in shifts which occur more commonly in services for this age group.</p>
Adult social care – older people	Population projections, 85+	55% CPI inflation, 45% expected increases in the National Living Wage	<p>Inflation weighted to reflect that 60% of adult social care costs are labour-related, and 75% of all staff are direct care workers (Skills for care, 2017).</p> <p>£1.24bn of the £1.44bn pre-existing market pressure is added to 17/18 as it relates to benchmarks of prices of care for the elderly in various settings.</p>
Adult social care - other	Population projections, 18+	CPI inflation	ASC spending baseline and funding baseline exclude 'core' BCF.
Other services funded from core spending power in 2017/18	Population projections, total population	CPI inflation	

Key assumptions on future funding

From 2020/21 onwards, revenue support grant, rural services delivery grant and public health grant effectively become business rates income due to the Government's policy to implement 75 per cent business rates retention.

As a result, our central assumption is that instead of reducing further, most of council income will, in effect, start increasing in line with OBR forecasts for increases in business rate and council tax income. A few other funding streams from the Government would remain separate and we have assumed their cash value to be fixed over the period.

Please note that these assumptions are not necessarily an expression of LGA policy preference.

Funding stream	Assumption 17/18 to 19/20	Assumption 20/21 onwards	Comment
Council tax	As per the settlement	Increases in line with OBR forecasts	From 2020, the adult social care precept remains separately identifiable but no increases in the precept is assumed (except for national growth in line with OBR forecasts)
Revenue support grant	As per the settlement	Increases in line with business rates income (OBR forecasts)	Rolled into business rates.
Retained rates (including the s.31 grant for underindexing the business rates multiplier)	As per the settlement	Increases in line with OBR forecasts	We assume that from 2020 onwards the Treasury intends to allow councils to collectively keep 75 per cent of growth in business rates. If, instead, the 50 per cent retention system continued with grants kept cash flat, it would increase the funding gap by approx. £1.67 billion.
Rural services delivery grant	As per the settlement	Increases in line with business rates income (OBR forecasts)	Rolled into business rates.
Public health grant	As per the grant determination	Increases in line with business rates income (OBR forecasts)	Rolled into business rates.
Improved Better Care Fund	As per the settlement	Cash flat (£1,500m pa)	Outside of business rates. It assumes that the final tranche of the 2017 Spring Budget funding (£337m in 2019/20) will cease, and only the original £1.5bn amount is assumed to stay in the system. Officers are looking into whether the wider Better Care Fund can be incorporated.
New homes bonus	As per the settlement	Cash flat (£900m pa)	Outside of business rates
Education services grant	£50m each year (17/18 - £168m as per RA forms)	Cash flat (£50m pa)	Outside of business rates

Funding Gap - Breakdown of costs and income (£000s)

	2017/18 baseline	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Costs - adult social care	17,063,212	17,813,767	18,463,559	19,212,682	19,883,370	20,620,429	21,417,247	22,250,311
Costs - children's services	11,157,079	11,614,058	12,099,577	12,650,938	13,256,620	13,922,164	14,662,700	15,484,172
Costs - homelessness	396,067	447,045	500,952	559,843	625,309	697,791	777,452	864,715
Costs - public health	3,405,414	3,505,373	3,594,479	3,690,002	3,788,567	3,889,559	3,992,784	4,098,221
Costs - all other services funded from core spending power	17,297,587	17,677,551	18,001,879	18,358,112	18,724,968	19,099,468	19,481,457	19,871,086
Total costs	49,319,358	51,057,794	52,660,446	54,471,577	56,278,834	58,229,411	60,331,641	62,568,507
Funding: core spending power	44,296,297	45,126,708	45,622,085	46,460,641	47,624,289	48,800,109	50,006,911	51,245,519
Funding: education services' grant	168,436	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Funding: public health (+ assumed use of reserves in 17/18 to match with grant)	3,405,414	3,219,000	3,134,000	3,196,018	3,259,885	3,325,082	3,391,584	3,459,416
Total funding	47,870,147	48,395,708	48,806,085	49,706,659	50,934,174	52,175,192	53,448,495	54,754,935
Funding gap (17/18 corresponds to pre-existing adult social care provider market pressure)	-1,449,211	-2,662,086	-3,854,361	-4,764,918	-5,344,661	-6,054,219	-6,883,146	-7,813,572

Funding Gap: Service breakdown (£000s)

	2017/18 baseline	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Adult social care	-1,449,211	-1,263,068	-1,530,885	-2,201,372	-2,462,369	-2,786,106	-3,158,598	-3,556,035
Children's services	0	-639,027	-1,108,194	-1,366,278	-1,681,274	-2,052,949	-2,491,896	-3,003,857
Homelessness	0	-56,789	-112,774	-161,795	-217,431	-279,959	-349,407	-426,192
Public health	0	-286,373	-460,479	-493,984	-528,683	-564,476	-601,200	-638,806
All other services funded from core spending power	0	-416,829	-642,030	-541,489	-454,904	-370,729	-282,044	-188,682
Funding gap (17/18 corresponds to pre-existing adult social care provider market pressure)	-1,449,211	-2,662,086	-3,854,361	-4,764,918	-5,344,661	-6,054,219	-6,883,146	-7,813,572