

Council funding requirement and funding gap

Technical Document: Assumptions and outline results of the 2025 funding gap analysis

Preliminary LGA analysis¹ ahead of the 2020 Budget and Spending Review has identified that:

- Council services face an additional funding requirement for their annual day-to-day spending of £13.2 billion by 2024/25, growing at a pace of over £2.6 billion each year on average.
- When compared to the assumed changes to council funding levels, this leads to a funding gap of £6.4 billion forming in the day-to-day council budgets in 2024/25 in comparison to 2019/20 budgets.

The funding requirement for a given year is defined as the projected cost of funding day-to-day services in that year. This analysis focusses on the funding requirement arising from services funded via core spending power, retained business rates, the public health grant and NHS funding for adult social care.

The funding gap for any given year is the difference between:

- The funding requirement for local services estimated for a given year, projected on the basis of the same level of access to, and quality of, services as at the time when 2019/20 budgets were set (with some adjustments as set out later); and
- The estimated income available to fund local services in that year, with 2019/20 funding taken as a starting point and assumptions applied to the future path of income thereafter.

We have used 2019/20 budgets as a starting point in order to reflect that councils have to set balanced budgets every year. This is subject to the following exceptions:

- In line with our 2018 analysis, we have estimated the adult social care provider market shortfall. This is the difference between the rates paid by councils to commissioned providers of residential, nursing and home care, as compared against benchmarks such as the UKHCA Minimum Price for Homecare or the Laing&Buisson residential and nursing care cost benchmarks. This shortfall is estimated to have been worth £1.34 billion in 2018/19 and is added to the 2019/20 adult social care funding requirement, subject to projected demand and inflation increases thereafter.
- Children's social care and homelessness spending has been subject to significant and sustained overspends. On this basis, the 2018/19 overspends for children's social care (£805 million) and homelessness (£139 million) have been added to the 2019/20 funding requirement for each of the respective services, subject to projected demand and inflation increases thereafter.

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 on 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 2020 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, implementation of new funding arrangements or through grants.

¹ The figures are subject to review following the 2020 Budget. For example, refreshed inflation and housing growth forecasts could have a limited impact and Government announcements at the Budget might need to be reflected as well.

Key assumptions on the projected funding requirement (cost pressures)

All assumptions are applied at a national level.

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, 2013-2019</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, 2013-2019</p> <p>0-17 population projections applied to other spending lines (other children's social care and education services funded from non-DSG resource)</p>	<p>34.3% paybill projection</p> <p>65.7% CPI inflation</p>	<p>Paybill projections are current LGA internal estimates of the minimum % increases needed to the local government pay bill to meet the £10.50 minimum wage levels from 2024/25 and maintain pay differentials across the council pay spine.</p> <p>The split of paybill/CPI inflation is based on MHCLG statistics on 2018/19 spending which show that 34.3% of the gross cost of providing children's social care is employee cost, the rest being running costs.</p>
Homelessness	<p>Population projections, total population</p> <p>multiplied by</p> <p>11</p>	<p>13.9% paybill projection</p> <p>86.1% CPI inflation</p>	<p>Between 31 March 2012 and 31 March 2018, the number of homeless households supported by local authorities grew 11 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>The split of paybill/CPI inflation is based on MHCLG statistics on 2018/19 spending which show that 13.9% of the gross cost of providing homelessness services is employee cost, the rest being running costs.</p>
Adult social care – younger adults	Personal Social Services Research Unit (PSSRU) demand 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>This takes the 2020/21 NLW announcement into account and assumes equal £ increases thereafter to get to £10.50 by 2025.</p>
Adult social care – older people	PSSRU demand projections, 65+		
Adult social care - other, including spending funded through NHS	PSSRU demand projections, mixed on the basis of relative size of identifiable 18-64 / 65+ spending in categories above		
Other services funded from core spending power	Population projections, total population	<p>34% paybill projection</p> <p>66% CPI inflation</p>	<p>The split of paybill/CPI inflation is based on MHCLG statistics on 2018/19 spending (excluding education, adult social care, children's social care and police) which show that 34% of the gross cost of services is employee cost, the rest being running costs.</p>

Key assumptions on projected future funding

Please note that the assumptions set out in the table overleaf are not necessarily an expression of LGA policy preference. The following is a brief summary and discussion of caveats.

More detail on our assumptions is contained in the table below. Effectively, our central assumption is that most of council income will be increasing. Some funding streams from the Government would remain separate from the business rates retention system and we have assumed their cash value to be fixed over the period.

In 2020/21, LGA assumptions on council funding follow the information in the 2020/21 local government finance settlement, with the exception of public health grant (where no information is yet available) and income from the NHS (which is assumed to track NHS Long Term plan funding increases, as a large part of NHS income is additional to the mandated minimum so tracking that would underestimate NHS funding flowing to councils).

In 2021/22, the analysis assumes a full reset of business rates. In addition, revenue support grant, rural services delivery grant and public health grant are rolled into the business rates base. This is to reflect the Government's current ambition to implement the fair funding review and move to 75% business rates retention from April 2021.

It is important to note that, according to LGA estimates, the end of the grants listed above and the GLA transport grant will not be enough to move local government to 75% business rates retention in a fiscally neutral way, with at least an extra £2 billion which will need to be either:

- provided to councils without additional responsibilities;
- Counterbalanced by the phasing out of further grants;
- accounted for by reductions to business rates income as a result of the fundamental review of business rates.

As a result, the LGA's analysis does not include this potential additional funding. It also does not assume any taxbase growth for business rates from 2021/22 onwards as we await the detail of the fundamental review of business rates.

The Government has announced it will be consulting on the future of the housing incentive in 2020. In the absence of any further information, LGA analysis assumes that outstanding legacy payments will be honoured, with the unused balances moved into the business rates baseline each year as the new homes bonus is currently funded via topslice of council funding.

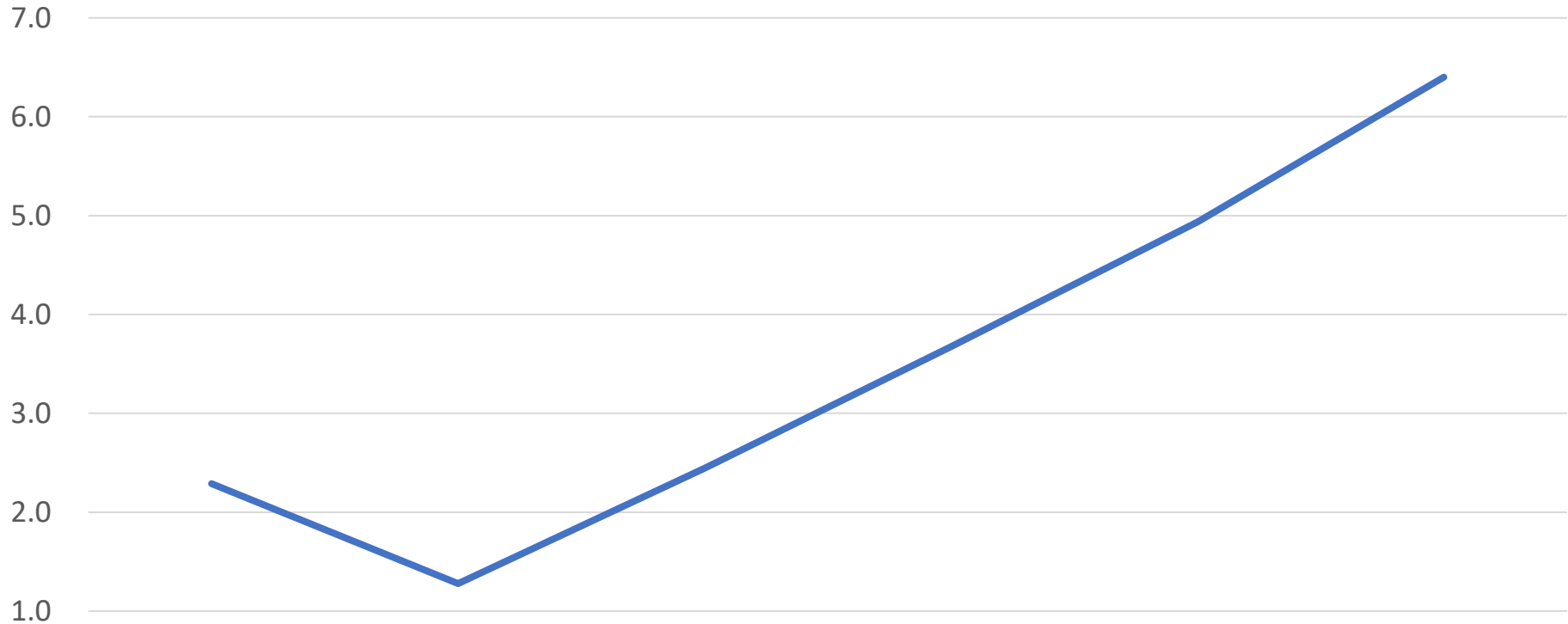
It has always been the LGA's view that funding for the new homes bonus, or any other housing incentive, should be funded by central government separately and not from existing council funding. On this basis, we are not estimating the new housing incentive to come at a cost of other council funding.

The 2019 Spending Round included some helpful announcements about additional funding of over £700 million for children with high or special educational needs through the Dedicated Schools Grant. This is an important issue, with the LGA previously estimating a deficit on this part of the education budget of over £1.2 billion in 2020/21. While the additional funding will be helpful in meeting part of that deficit next year, a long-term solution based on additional funding as well as reform is still required.

The Government has recently confirmed new rules which do not allow councils to use other funding to finance these costs, outside of Dedicated Schools Grant allocations, without the express permission of the Secretary of State. This effectively ringfences this part of council budgets from all others. As a result, expenditure and income related to high needs education is an additional consideration which sits outside this funding gap analysis, but that does not mean that there is not still a significant challenge that needs to be dealt with.

Funding stream	Assumption 2020/21	Assumption re: 21/22 reset	Assumption 21/22 onwards
Council tax	As per the settlement	NA	Taxbase growth based on OBR forecasts on housing growth (approx. 0.8% pa) 2% pa increase in council tax levels Adult social care precept separately identifiable and ringfenced but no additional precept flexibility allowed
Retained rates (including the s.31 grant for underindexing the business rates multiplier)	Baseline and underindexing grant as per the settlement. Retained growth above baseline on the basis of 2018/19 MHCLG estimates, uplifted for CPI and historic rate of growth above baseline. Excludes increased business rates retention arrangements ('pilots').	Growth retained above baseline up to this point is rolled into the baseline (as would be the case in a full reset)	Assumed to grow in line with CPI afterwards. No taxbase growth assumed due to uncertainty caused by the fundamental review commitment
Revenue support grant	As per the settlement	Rolled into business rates	See business rates assumption
Rural services delivery grant	As per the settlement	Rolled into business rates	See business rates assumption
Public health grant	Growth by inflation (in absence of settlement)	Rolled into business rates	See business rates assumption
Dedicated social care funding (improved Better Care Fund, adult and children's social care grant)	As per the settlement. The £1.41 billion adult and children's social care grant is split into adult and children's elements on the basis of the relative size of 2019/20 budgets for the services	Outside of business rates	Cash flat
New homes bonus	As per the settlement	Outside of business rates	No new payments, and remaining legacy payments phased out – with the equivalent amount being moved into the business rates baseline
Income from the NHS to fund adult social care (primarily through the 'core' Better Care Fund, but also other partnerships)	On the basis of 2018/19 actual income, projected to 2019/20 base and beyond along the lines of the NHS Long Term plan increases.	Outside of business rates	On the basis of 2018/19 actual income, projected to 2019/20 base and beyond along the lines of the NHS Long Term plan increases. The Long Term Plan finishes with 2023/24. For 2024/25, CPI inflation was used as the uplift.

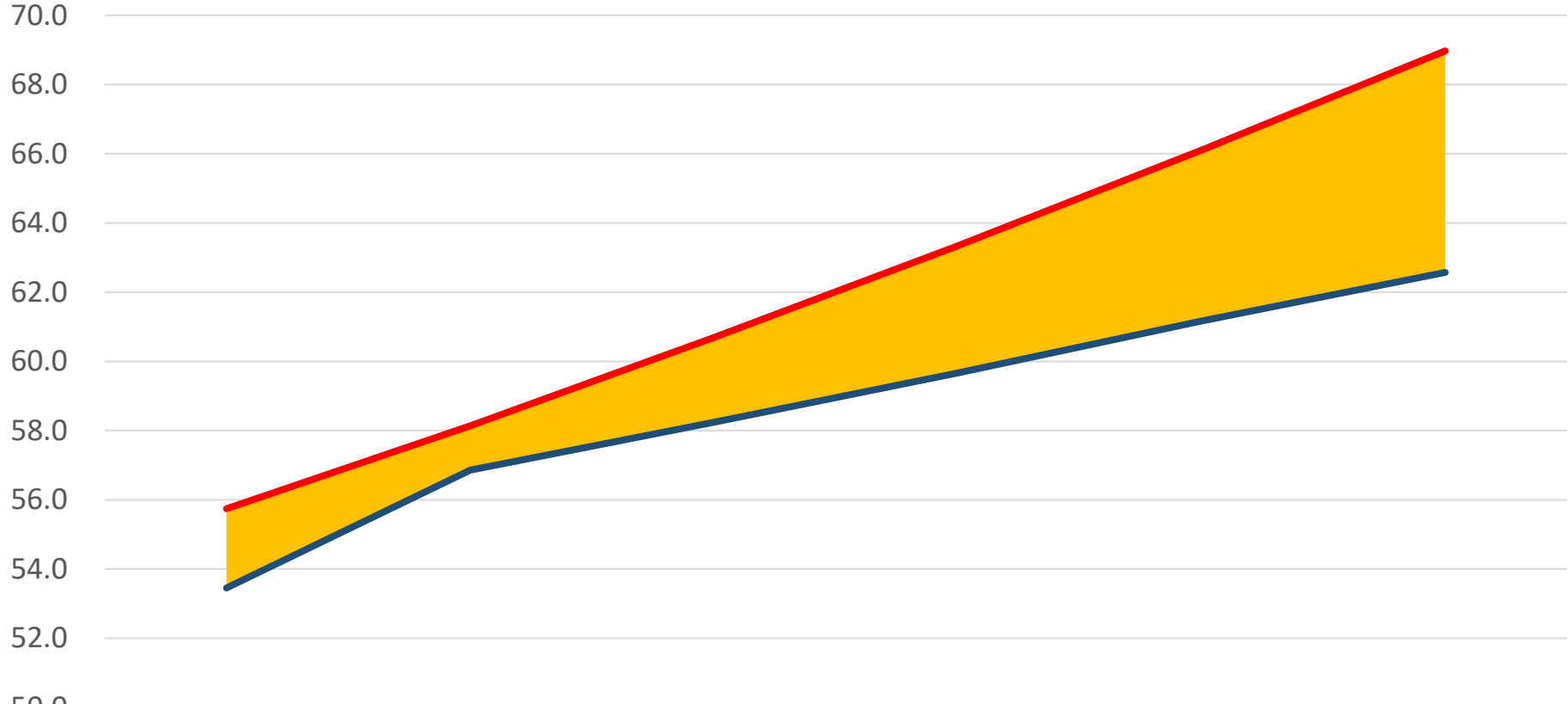
Funding gap



2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
£ billion	£ billion	£ billion	£ billion	£ billion	£ billion

— Funding gap

Funding requirement and funding gap



2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
£ billion	£ billion	£ billion	£ billion	£ billion	£ billion

■ Funding gap — Total projected funding requirement — Total projected available funding

Funding Requirement

	£000s 2019/20	£000s 2020/21	£000s 2021/22	£000s 2022/23	£000s 2023/24	£000s 2024/25
Adult social care	20,917,124	22,195,896	23,417,525	24,706,954	26,067,977	27,504,602
<i>Of which: social care for older people</i>	5,918,801	6,311,573	6,691,587	7,094,482	7,521,635	7,974,507
<i>Of which: social care for younger adults</i>	7,257,611	7,665,651	8,049,929	8,453,472	8,877,244	9,322,260
<i>Of which: adult social care services funded by income from the NHS</i>	2,785,041	2,954,305	3,115,851	3,286,304	3,466,160	3,655,943
<i>Of which: unallocated spending</i>	3,610,723	3,830,169	4,039,608	4,260,595	4,493,773	4,739,821
<i>Of which: pre-existing adult social care provider market pressure</i>	1,344,947	1,434,198	1,520,550	1,612,101	1,709,164	1,812,072
Children's services	13,604,432	14,127,002	14,739,547	15,366,414	16,012,304	16,669,132
<i>Of which: children looked after</i>	5,029,412	5,245,911	5,501,556	5,769,658	6,050,826	6,345,696
<i>Of which: child protection</i>	2,308,333	2,428,870	2,569,633	2,718,553	2,876,104	3,042,785
<i>Of which: other children's social care</i>	2,572,644	2,648,810	2,737,541	2,823,688	2,908,737	2,988,904
<i>Of which: other education services funded from the General Fund</i>	3,694,043	3,803,410	3,930,818	4,054,515	4,176,637	4,291,748
Homelessness	795,786	865,881	940,750	1,019,498	1,101,596	1,188,847
All other services funded from core spending power	20,424,213	20,946,924	21,590,418	22,248,245	22,919,655	23,608,559
Total funding requirement	55,741,554	58,135,703	60,688,240	63,341,112	66,101,532	68,971,139

Funding projection and overall funding gap

	£000s 2019/20	£000s 2020/21	£000s 2021/22	£000s 2022/23	£000s 2023/24	£000s 2024/25
Core spending power	46,226,229	49,173,591	55,169,181	56,437,193	57,738,596	59,072,930
<i>Of which: council tax</i>	25,977,227	27,017,395	27,794,498	28,589,182	29,403,365	30,240,735
<i>Of which: council tax adult social care precept</i>	1,803,484	2,373,510	2,420,980	2,469,399	2,518,787	2,569,163
<i>Of which: retained business rates - baseline</i>	12,675,717	12,984,758	21,040,245	21,670,321	22,329,444	22,776,033
<i>Of which: revenue support grant</i>	2,283,936	2,322,763	0	0	0	0
<i>Of which: social care grant funding attributable to adult social care</i>	2,334,804	2,963,594	2,963,594	2,963,594	2,963,594	2,963,594
<i>Of which: social care grant funding attributable to children's social care</i>	152,196	523,406	523,406	523,406	523,406	523,406
<i>Of which: new homes bonus</i>	917,865	907,166	426,459	221,290	0	0
<i>Of which: rural services delivery grant</i>	81,000	81,000	0	0	0	0
Business rates retained above baseline (ex pilots)	1,307,031	1,565,053	0	0	0	0
Better Care Fund: income for adult social care	2,785,041	2,925,809	3,073,855	3,229,392	3,429,033	3,497,614
Public health grant	3,134,000	3,193,410	0	0	0	0
Total funding available	53,452,301	56,857,863	58,243,036	59,666,585	61,167,629	62,570,544
Funding gap (funding requirement less funding available)	-2,289,253	-1,277,841	-2,445,205	-3,674,527	-4,933,903	-6,400,595

Individual service funding gaps

	£000s 2019/20	£000s 2020/21	£000s 2021/22	£000s 2022/23	£000s 2023/24	£000s 2024/25
Adult social care	-1,344,947	-805,782	-1,483,911	-2,212,643	-2,958,413	-3,900,513
Children's services	-805,388	-478,468	-743,085	-1,013,268	-1,292,991	-1,574,311
Homelessness	-138,918	-184,172	-240,969	-301,192	-364,271	-432,018
All other services funded from core spending power	0	190,581	22,760	-147,424	-318,228	-493,753
Grand total	-2,289,253	-1,277,841	-2,445,205	-3,674,527	-4,933,903	-6,400,595