

Future Funding Outlook 2015 Technical Annex

2015 Funding outlook for
councils: methodology,
assumptions and data
sources

Local Government Association
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FUTURE FUNDING OUTLOOK - TECHNICAL ANNEX

Methodology

This section explains the methodology used to prepare the LGA Future Funding Outlook Model 2015.

The majority of base data on the financial positions of councils was taken from Communities and Local Government finance statistics. Key data sources include:

- 2010/11 Revenue Outturn (RO)
- 2011/12 Revenue Outturn
- 2012/13 Revenue Outturn
- 2013/14 Revenue Outturn
- 2014/15 Revenue Account (RA)
- Data from the 2015/16 final local government finance settlement.

A full list of data sources is provided in 0.

The model calculates the individual position of each council based on a number of assumptions and cost projections and then aggregates each individual case up to provide a national picture.

Funding Assumptions

The model projects the likely path of council revenue, based on a number of assumptions:

Council tax: Figures for 2010/11, 2011/12, 2012/13 and 2013/14 are taken from the RO, for 2014/15 from the RA and for 2015/16 from CLG Council Tax levels statistics. We have assumed that the rate of council tax will increase by 1.0 per cent in 2016/17 and 2017/18 and will thereafter grow by 1.5 per cent per year.

Tax base growth in 2015/16 is based on CLG tax base data. We have assumed a modest growth in the tax base from 2016/17 that is calculated from the geometric mean of current tax base trends and projected household growth in each local authority area. This works out at an average of 0.5% annual growth.

Business Rates: For 2010/11 to 2014/15 we use data from the RO and RA. For 2015/16 we use NNDR1 statistics.

We have assumed for 2016/17 and beyond that Business Rates grow by retail price index (RPI) plus a local growth estimate that combines a two year local trend in rateable value with the 0.3 GDP fan from OBR predictions. We have uprated tariffs and top-ups by RPI inflation and calculated levy and safety net payments where applicable.

Grant funding: Figures for 2010/11, 2011/12, 2012/13 and 2013/14 are taken from RO; for 2014/15 from RA and for 2015/16 from the final local government finance settlement. Other specific grants from CLG specific grant data are either individually

listed or combined dependent on size.

For 2016/17 and later the grant funding trajectory is based on a calculation of the overall reduction in Settlement Funding Assessment. The central assumption is based on an analysis of OBR projections for departmental expenditure limits taken at face value. The reductions in SFA from 2016/17 are as follows: 4.5%, 8.8%, 8.0% and 3.6%. The New Homes Bonus is projected separately using a rolling average to project current year amount summed with the preceding years, up to a total of six years.

The Better Care Fund is assumed to benefit social care authorities by £650 million in 2015/16 and each year thereafter. This is distributed on the basis of 2013/14 social care funding allocations.

Public health: We have used the RO for 2013/14, and RA data for 2014/15. For later years assume that the overall level of funding rises in line with CPI inflation. The in year reduction of £208 million announced in June 2015 has been excluded.

Investment income: We used the RO returns for 2010/11, 2011/12, 2012/13 and 2013/14, and RA returns for 2014/15. We have thereafter assumed that investment income will rise in line with RPI inflation.

Transfers to and from reserves: We have used the RO returns for 2010/11, 2011/12, 2012/13 and 2013/14, and RA returns for 2014/15. The model assumes that where a funding gap exists in future years each authority will draw up to 5 per cent of their reserves each year to plug the gap, with the reserve level never going below 5 per cent of total annual expenditure. If the funding level is above predicted expenditure then all surplus will be added to reserves for that year.

Expenditure

The funding model then projects the path of council spending between 2015/16 and 2019/20 in ten major service blocks:

- education (excluding the Dedicated Schools Grant)
- social care
- highways, roads and transport
- housing (not including housing revenue account (HRA) or housing benefit)
- culture, recreation and sport
- environment including waste
- regulatory
- planning and development
- other services
- public health

Net Expenditure was split into its four composite parts and then drivers were applied to each as applicable. The four parts to net expenditure are

- employee expenditure

- running Costs
- sales, fees and charges
- other income

The RA data that forms the baseline for 2014/15 does not include data on fees and charges, so we assumed a consistent level of income from 2013/14 RO forms and used RO data to provide a split in expenditure categories.

We assumed that additional income from sales, fees and charges would be sensitive to prevailing economic conditions and applied a multiplier derived by calculating the difference between consumer price index (CPI) and the output gap to market-facing services.

Sales, fees and charges and other similar income are treated as reductions to gross expenditure to arrive at 'net expenditure' within the model, rather than being treated as a source of funding. This means that an increase in sales, fees and charges would reduce the funding gap by reducing total expenditure rather than by increasing total funding.

Spending has been excluded on Fire (as a group of single-service authorities with their own precept), Police (for the same reason, as well as reflecting the likelihood that they will continue to receive differential treatment in the Spending Review and future council tax frameworks). The exceptions to this are where Fire Services are provided by a county or unitary authority – in such authorities it is impossible to isolate the funding for fire services separately so we have included this expenditure within "other" services. The total of such expenditure nationally is £0.3 billion, which is immaterial in terms of the overall funding gap. The model also includes within "other" expenditure spending on Police services by the City of London – again this amount is immaterial nationally at £77 million.

Spending has been excluded on HRA and housing benefit spending (as self- or separately-funded areas), and schools spending funded by the Dedicated Schools Grant and pupil premium.

For each service area, baseline spending has been set using 2014/15 Revenue Accounts and projected using the major drivers of cost for those services.

Drivers essentially break down into two categories:

- drivers of unit cost (e.g. inflation, pay drift, efficiencies, etc.)
- drivers of service usage (e.g. population change, increased traffic miles, etc.).

The model also builds in efficiency assumptions. In this version of the model, the assumption is uniform for most services: councils start by achieving 1.5 per cent annual efficiency savings which tapers to 1.0 per cent by the end of the period. This is increased for Central Services. It is sensible to assume diminishing returns from efficiency as LGA research has shown that the well of efficiencies is running dry.¹

¹ Under Pressure, LGA 2014

Cost Drivers in Service Expenditure

This section sets out the primary cost drivers that have been applied to each service area and identifies other factors which are likely to drive costs but which we have not been able to quantify.

All service expenditure has, where possible, had local authority level data applied.

Additional spending pressures arising from announcements made in the 2015 summer budget (eg on the National Living Wage) have not been included.

Education

- Expenditure excludes services funded by Dedicated Schools Grant, Pupil Premium, and Further Education Funding.
- CPI inflation, Pay Drift and the Office for National Statistics (ONS) projections for child population were applied as cost drivers in the model.
- Child population numbers were used rather than pupil numbers because education-related services that are funded from outside the Dedicated Schools grant have a user base that extends beyond pupils.
- The impact of central government policy decisions such as increased number of academies and knock-on effects of any future changes to the schools funding formula are not reflected in the model.

Children's social care

- CPI inflation, Pay Drift and the Office for National Statistics (ONS) projections for child population were applied as cost drivers in the model.
- Service usage is projected based on the change in child population in each local authority area.
- The Children and Family Court Advisory and Support Service also report that there has been a sustained increase in the number of councils applying to the courts for Care Order since the Baby P case, but the numbers are still too volatile for a trend to be predicted and the average costs for councils leading up to a court application have not been accurately determined.

Adult social care

- CPI inflation, Pay Drift and the Office for National Statistics (ONS) projections for adult population were applied as cost drivers in the model: population projections are broken down into working-age population, and 65 and over population, depending on the service subgroup.
- Service usage is projected based on the change in either over 65 (for older people services) or working age (for other adults) population in each local authority area.
- The impact of changes to the types of care that people receive, Dilnot proposals/ government changes to funding of ASC, changes to NHS spending on reablement and other services, and the impact of shortfalls in Disabled Facilities Grant funding have not been applied to the model.

Highways, roads and transport

- For concessionary fares, CPI inflation, pay drift and the projected increase in people over the State Pension Age are applied as cost drivers.
- For other transport spending, we applied CPI inflation, pay drift and vehicle miles based on the Department for Transport's (DfT) 2011 Road Traffic Forecasts.

Housing

- CPI inflation, pay drift and the change in the number of households are applied as cost drivers.
- The model includes an adjustment designed to take account of the impact of housing benefit changes and the economic downturn on demand for housing advice, applications for homelessness, demand for Disabled Facilities Grant, etc. This is based on a report by the Cambridge Centre for Housing and Planning Research.

Culture, recreation and sport

- CPI inflation, pay drift and the change in population are applied as cost drivers.

Environment

- CPI inflation, pay drift and the change in population are applied as cost drivers to non-waste management areas.
- Inflation, pay drift and the change in households are applied as cost drivers to waste collection, waste disposal and recycling.

Planning and development

- CPI inflation, pay drift and the change in population are applied as cost drivers.

Other services

- CPI inflation, pay drift and the change in population are applied as cost drivers.
- The model assumes that councils will continue to target corporate and back office functions to achieve maximum savings, but will soon reach a point when they see diminishing returns, given the high levels of efficiency savings from these functions they have already realised. The efficiency savings applied to Central services are hence double those applied to all other services.
- The cost of servicing capital financing costs has also been included as an expenditure item and assumed to stay flat throughout the period. This may be an underestimate since borrowing costs can be expected to return to higher levels over the decade. Higher interest rates would only apply to a small proportion of total local authority borrowing and the resulting cost pressures are not expected to have a material impact on expenditure for councils at a national level.

Public Health

- As the service is funded solely by a ringfenced grant the projected expenditure is materially the same as agreed funding in 2014/15, increasing by inflation only. This makes it materially cost neutral within the model – its small contribution to the funding gap is due to the net over and underspend councils reported on the 2014/15 RA form being “carried through” to future years.
- In June 2015 the Government announced an in year reduction of £208 million in the Public Health grant for 2015/16. It is not yet clear how this will reduction will be applied to individual councils. The model takes no account of this reduction in grant nor of any associated reduction in expenditure.
- Councils will take over Public Health responsibilities for 0-5 year olds in October 2015. We have used funding allocations for 2015/16 as both funding and expenditure in 2015/16 and doubled these for 2016/17 (the first full year when councils are responsible for this service. From 2017/18 onwards both funding and expenditure on 0-5 Public Health is assumed to increase by inflation and is therefore cost neutral in the model.

Summary of Cost Drivers

	CPI Inflation	Pay drift	Population						Other	Sales, Fees and Charges	Efficiencies
			All	Child	Working Age	65 & over	SPA & over	Households			
Education	X	X		X						2.8 - 2%	2-1%
Transport	X	X								2.8 - 2%	2-1%
Maintenance and Winter Service	X	X						X		2.8 - 2%	2-1%
Parking	X	X						X		1.1-2.5%	2-1%
Road Safety Education	X	X		X						2.8 - 2%	2-1%
Street Lighting	X	X						X		2.8 - 2%	2-1%
Concessionary Fares	X	X					X			1.1-2.5%	2-1%
Social Care	X				X			X		2.8 - 2%	2-1%
Children	X			X				X		2.8 - 2%	2-1%
Older People	X					X		X		2.8 - 2%	2-1%
Other adults	X				X			X		2.8 - 2%	2-1%
Housing	X	X						X	X	2.8 - 2%	2-1%
Cultural	X	X	X							1.1-2.5%	2-1%
Libraries	X	X	X					X		1.1-2.5%	2-1%
Environmental	X	X	X							2.8 - 2%	2-1%
Waste Disposal	X	X						X		1.1-2.5%	2-1%
Waste Collection	X	X						X		1.1-2.5%	2-1%
All other Waste	X	X								1.1-2.5%	2-1%
Regulatory	X	X	X							2.8 - 2%	2-1%
Planning and Development	X	X						X		1.1-2.5%	2-1%
Planning Policy	X	X						X	X	1.1-2.5%	2-1%
Central Services	X	X								2.8 - 2%	4-2%
Capital Financing										n/a	0%
Public Health	X									n/a	0%

Appendix 1: Comparison with previous models

This is the fourth iteration of the model. With each iteration, one more year of outturn data is added and therefore the funding gap “closes” for another year due to service reductions and efficiencies already made.

This section is intended to highlight the key differences between models. It is difficult to quantify the effect that each of these has on the final funding gap as many of them are inter-related.

Table 1: Differences between current and previous expenditure methodologies

2012 Preliminary Model	2013 Model	2014 Model	2015 model
Uses 2010/11 RO data and 2011/12 RA data.	Uses 2010/11 and 2011/12 RO data and 2012/13 RA data.	Uses 2010/11, 2011/12 and 2012/13 RO data, and 2013/14 RA data.	Uses 2010/11, 2011/12, 2012/13 and 2013/14 RO data, and 2014/15 RA data. ²
Excludes Public Health	Includes Public Health	Includes Public Health	Includes Public Health, and 0-5 Public Health from October 2015
Figure for English Councils is calculated at the aggregate level (i.e. cost drivers applied to national figure)	Figure for English Councils is derived from each council figures being totalled (i.e. local cost drivers applied at local level and then aggregated).	Figure for English Councils is derived from each council figures being totalled (i.e. local cost drivers applied at local level and then aggregated).	Figure for English Councils is derived from each council figures being totalled (i.e. local cost drivers applied at local level and then aggregated).
Cost drivers were applied to Net Expenditure gross of SFC and SFC then totalled to reach Net Expenditure figure.	Cost drivers are applied to each element of next expenditure (employee costs, other running costs, SFC and other income) and then combined.	Cost drivers are applied to each element of next expenditure (employee costs, other running costs, SFC and other income) and then combined.	Cost drivers are applied to each element of next expenditure (employee costs, other running costs, SFC and other income) and then combined.
Expenditure was divided into 13 aggregate elements and then cost drivers were applied.	Expenditure is split into the most granular elements possible given the data which equates to 77 lines of expenditure.	Expenditure is split into the most granular elements possible given the data which equates to 77 lines of expenditure.	Expenditure is split into the most granular elements possible given the data which equates to 82 ³ lines of expenditure.
Cost drivers were	Some cost drivers	Some cost drivers were	Some cost drivers

² 2014/15 RA data for adult social care differs significantly from previous datasets in terms of the breakdown of expenditure by subheading. This has no impact on the bottom line expenditure but will have a marginal impact in the way in which cost and demand drivers are allocated by the model to adult social care expenditure.

³ The additional lines of expenditure arise from the new classification of adult social care expenditure as per the previous footnote

based on policy assumptions and data as at May 2012.	were updated based on new available data or shifts in policy/economic assumptions.	updated based on new available data or shifts in policy/economic assumptions.	were updated based on new available data or shifts in policy/economic assumptions.
Used inflation projections as at May 2012.	Uses updated CPI inflation figures from the OBR forecast March 2013.	Uses updated CPI inflation figures from the OBR forecast March 2014.	Uses updated CPI inflation figures from the OBR forecast July 2015.

Table 2: Differences between current and previous funding methodologies

2012 Preliminary Model	2013 Model	2014 Model	2015 Model
Uses 2010/11 RO data and 2011/12 RA data and data from the March 2012 Budget.	Uses 2010/11 and 2011/12 RO data and 2012/13 RA data and data from the March 2013 Budget.	Uses 2010/11, 2011/12 and 2012/13 RO data and 2013/14 RA data, data from the 2014/15 final settlement and 2015/16 indicative settlement.	Uses 2010/11, 2011/12, 2012/13 and 2013/14 RO data and 2014/15 RA data, and data from the 2015/16 final settlement.
Excludes Public Health	Includes Public Health	Includes Public Health	Includes Public Health, and 0-5 Public Health from October 2015
Reserve levels from 2013/14 estimated to decrease by £300 million then increase by £600 million over the next six years.	Reserves are used or invested based on need – if a funding gap exists up to 5% of reserves would be used each year with level never going below 5% total annual expenditure. Where funding greater than expenditure reserves are increased.	Reserves are used or invested based on need – if a funding gap exists up to 5% of reserves would be used each year with level never going below 5% total annual expenditure. Where funding greater than expenditure reserves are increased.	Reserves are used or invested based on need – if a funding gap exists up to 5% of reserves would be used each year with level never going below 5% total annual expenditure. Where funding greater than expenditure reserves are increased.
Interest and investment income was increased by the Gilt Market rate each year. Gilt rate taken from March 2012 budget.	Interest and investment income was increased by the Gilt Market rate each year, but a small proportion was affected by changes to reserves to reflect equity profile. Gilt rate taken from March 2013 budget and was lower than previous year.	Interest and investment income increased by RPI inflation projection each year.	Interest and investment income increased by RPI inflation projection each year.
Council Tax was estimated for 2013/14 and then increased by 0.5% (base) and rate frozen till 2014/15 then increased at 2%.	Council Tax data for 2013/14 from requirement. Base increased based on local base calculation incorporating adjustment for projected local household change. Rate increased by 1% in 2014/15 then by 1.5% per annum.	Council Tax for 2014/15 calculated from CLG council tax statistics. Base increased based on local base calculation incorporating adjustment for projected local household change. Rate increased by 1% in 2015/16 then by 1.5% per	Council Tax for 2015/16 calculated from CLG council tax statistics. Base increased based on local base calculation incorporating adjustment for projected local household change.

		annum.	Rate increased by 1% in 2016/17 and 2017/18 then by 1.5% per annum.
Business rates estimated for 2013/14 and then increased by standard 3.5% a year.	CLG Headline information is used for 2013/14 and 2014/15. Rates increase by RPI plus estimate of local growth based on two year average trend and projected GDP growth.	2013/14 and 2014/15 Business Rates data taken from CLG NNDR data. Rates then increase by RPI plus estimate of local growth based on two year average trend and projected GDP growth	2013/14 and 2014/15 Business Rates data taken from RO and RA data. 2015/16 rates data taken from NNDR1 data. Rates then increase by RPI plus estimate of local growth based on two year average trend and projected GDP growth
Grant funding up to 2012/13 taken from RO and RA. For 2013/14 and 2014/15 assumptions made based on assumed settlement. For years beyond assumed a constant rate of decrease at same rate as previous spending review period.	Grant funding up to 2012/13 taken from RO and RA. For 2013/14 and 2014/15 figures from CLG headline figures from LG finance settlement. 2015/16 headline reduction applied as per Spending Round announcement of June 2013. For years beyond, assumed a constant rate of decrease (adjustable) but accounted for level of grant funding for new homes bonus.	Grant funding up to 2013/14 taken from RO and RA. For 2014/15 and 2015/16 figures from LG finance settlement. For years beyond, calculated based on a decrease in Settlement Funding Assessment of 8% in 2016/17 and 7% each year thereafter.	Grant funding up to 2014/15 taken from RO and RA. For 2015/16 figures taken from LG finance settlement. For years beyond, calculated based on a change in Settlement Funding Assessment based on OBR's July 2015 projections of departmental expenditure limits at face value.

Appendix 2: References and Data Sources

Revenue Outturn data:

<https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>

Council Tax levels in England 2015/16:

<https://www.gov.uk/government/statistics/council-tax-levels-set-by-local-authorities-in-england-2015-to-2016>

Population and Household Projections

2011 Population projections (ONS)

<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-270247>

2011 Household projections (DCLG)

<https://www.gov.uk/government/publications/household-interim-projections-2011-to-2021-in-england>

Other Background Data

Rateable Value statistics (VOA)

http://www.voa.gov.uk/corporate/statisticalReleases/120517_CRLFloorspace.html

Economic and Fiscal Outlook (OBR)

<http://budgetresponsibility.org.uk/economic-fiscal-outlook-july-2015/>

<http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2015/>

Road Transport Forecasts (DfT)

<https://www.gov.uk/government/publications/road-transport-forecasts-2011-results-from-the-department-for-transport-national-transport-model>

PSSRU, 2011. *Projections of Demand for Social Care and Disability Benefits for Younger Adults in England* <http://www.pssru.ac.uk/pdf/DP2880-3.pdf>

PSSRU, 2011. *Projections of Demand for and Costs of Social Care for Older People in England, 2010 to 2030, under Current and Alternative Funding Systems* <http://eprints.lse.ac.uk/40720/1/2811-2.pdf>

CCHPR, 2010. *How will changes to Local Housing Allowance affect low-income tenants in private rented housing?*

http://england.shelter.org.uk/_data/assets/pdf_file/0016/290041/CCHPR_final_for_web_2.pdf

DEFRA, 2012. *Forecasting 2020 waste arisings and treatment capacity*

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181816/pb13883-forecasting-2020-waste-arisings.pdf.pdf