Written evidence submitted by Colchester Borough Council [FSR 051]

1. Executive Summary and recommendations for action

1.1 The Ministry of Housing, Communities and Local Government (MHCLG) needs to engage with the local government sector and with other departments through the Spending Review to enable local systems to deliver services that are truly sustainable in the medium to longer term, beyond statutory service provision. This needs to recognise the importance of district councils in supporting preventative activity that reduces dependency on more acute public services.

1.2 The current system of funding is inherently short term and inefficient, having been developed through siloed departmental working that does not reflect the needs and priorities in localities. Colchester, and local Councils generally, have demonstrated an ability to transition from dependency on central government grant to place-based approaches that could be boosted by a joined-up approach in the Spending Review.

1.3 The Council broadly supports the findings of the MHCLG review of local authorities’ relative needs and resources; as a district tier authority the great majority of available funding would be distributed through the Foundation Formula, which reflects the fact that a large proportion of district tier services are population driven.

1.4 The Council would welcome the freedom to apply levels of fees and charges that do not need to have regard to simple cost recovery, but which rather could be adjusted at individual authority to reflect local needs and demands. Whilst noting that, unlike Council Tax, sales, fees and charges have not previously been taken into account in a relative resources’ adjustment, the Council does not think it appropriate to include adjustments for specific service areas that might generate significant levels of surplus income for some authorities, such as on and off-street parking.

1.5 We agree with the view of the District Councils’ Network that the new scheme should be introduced alongside additional resources to close the funding gap that all local authorities are facing. In addition, it should create incentives for growth and support Councils delivering innovation whilst providing a safety net for those authorities where growth is more difficult. Fair funding must reflect the role of district tier authorities in prevention and reducing the demand on adult social care. Boroughs/districts with their own housing and supported housing can take great pressure off adult care services and the NHS and there should be recognition of this in the formula.

1.6 The level of financial uncertainty facing Colchester and all local authorities makes financial forecasting and planning almost impossible. Further guidance on what central government is planning to do is essential. We call for a multi-year settlement plus options to enable greater fiscal devolution so local government has greater local dispensation on tax-raising.
2. **What lessons can be learned from past changes to local government funding in England, the current financial situation of councils, and how this has affected their ability to deliver services?**

2.1 Colchester Borough Council has a sound record of financial management, and in order to produce a balanced budget over the years, has delivered savings in expenditure, managed reductions in service and additional revenue streams. These actions have protected services to local people while addressing the reductions in central government support for local authorities. The net impact on annual budgets has been £11 million since 2015/16 (and £17.2 million since 2012/13).

2.2 Balancing the budget has been a challenging exercise and has been achieved mainly through significant organisational restructuring and service reviews across all Council departments. These have involved transformation, new ways of working, increased use of new technology and smarter working. The Council's scrutiny processes and management have ensured that the changes have as far as possible benefited front-line services.

2.3 As regards more recent challenges, reductions in New Homes Bonus has meant that anticipated investment in borough improvements has had to be reduced by £1.7 million. The council has plans in train to generate additional income from initiatives such as commercial asset activity, an ultra-speed broadband project and the formation of trading companies that will deliver dividends back to the Council.

2.4 In 2015 MHCLG attempted to take a cross-cutting view on the level of funding needed for local government, taking into account the other calls on government resources and the evidence provided by departments about potential risks of financial and service failure. This approach should be used again in 2019.

2.5 The February 2019 LGA briefing on the House of Commons Motion relating to the Local Government Finance Report 2019/20 is clear about the positive announcements in the 2018 Autumn Budget Statement relating to increased funding in certain areas, but goes on to state that ‘councils will still face an overall funding gap in excess of £3 billion next year. We estimate this will rise to £8 billion by the middle of the next decade.’ It is vital that the Government uses the opportunity of the Spending Review to provide a sustainable basis for local government financing.

2.6 The February 2019 report of the Public Accounts Committee reminds us that ‘Over the last eight years, the government has cut the funding it gives to English local authorities by nearly half, while, at the same time, demand for critical council services has risen.’ The report is critical of MHCLG lacking a clear plan to secure the financial sustainability of local authorities in the long-term.
2.7 Colchester Borough Council (CBC) has seen a reduction in Core Spending Power for the 4 years of the current spending review period of around £2.5m or 11.2%, whilst the National Audit Office estimates the overall figure for tier two local authorities is 13.9% and states there has been a real-term reduction of 32.6% in local authority spending on non-social-care services between 2010-11 and 2016-17.

Source: DCN, 2019

The year-on-year changes in core spending power in the Local Government Finance Settlement have hit district councils far harder than others, with disproportionate reductions in core spending power for shire districts of over 5% from 2016-17 to 2017-18 and over 3% from 2017-18 to 2018-19, as shown in the graph below.

Source: DCN, 2019

2.8 In Colchester the balance and overall quantum of government funding has changed a lot over the past nine years:

Colchester has very effectively managed costs to avoid any reduction in the delivery of frontline services. The Council broadly supports the findings of the MHCLG review of local authorities’ relative needs and resources; as a district tier authority the great majority of available funding would be distributed through the Foundation Formula, which reflects the fact that a large proportion of district tier services are population-driven.

Source: CBC, 2019
2.9 The Council would welcome the freedom to apply levels of fees and charges that do not need to have regard to simple cost recovery, but which rather could be adjusted at individual authority to reflect local needs and demands. Whilst noting that, unlike Council Tax, sales, fees and charges have not previously been taken into account in a relative resources’ adjustment, the Council does not think it appropriate to include adjustments for specific service areas that might generate significant levels of surplus income for some authorities, such as on and off-street parking.

2.10 We agree with the view of the District Councils’ Network that the new scheme should be introduced alongside additional resources to close the funding gap that all local authorities are facing. In addition, it should create incentives for growth and support Councils delivering innovation whilst providing a safety net for those authorities where growth is more difficult. Fair funding must reflect the role of district tier authorities in prevention and reducing the demand on adult social care. Boroughs/districts with their own housing and supported housing can take great pressure off adult care services and the NHS and there should be recognition of this in the formula.

2.11 In particular, the Council is keen that any decisions about future funding or spending plans are evidence based. A great deal of performance-based information is generated as part of the annual financial cycle (for example RO/CO and RA/CA returns) and it is important that models of future need and resource availability have regard to this data.

2.12 MHCLG needs to engage with the local government sector and with other departments through the Spending Review to enable local systems to deliver services that are truly sustainable in the medium to longer term, beyond statutory service provision. This needs to recognise the importance of district councils in supporting preventative activity that reduces dependency on more acute public services.
3. The efficiency, fitness for purpose and sustainability of the current system of funding local government (central government funding, council tax, business rates retention and other income); how it could be improved, including options for widening the available sources of funding; and what lessons can be learned from other jurisdictions.

3.1 Colchester, as with other local councils, invests a lot of time and resources in applying for central government funding pots that become available, often at short notice, during each financial year. In the final quarter of 2018/19, just on Town Centre initiatives, this has included Future High Streets Fund, Stronger Towns Fund, High Streets Community Clean-up Fund for example.

3.2 MHCLG needs to get much better at anticipating funding that is available and allocating this early, over a multi-year settlement period, to allow local government to plan how to invest over the medium term. This will be considerably more efficient and provide services that are more proactive and focused on preventative activity and community resilience.

3.3 The Institute for Fiscal Studies (IFS) report Taking Control includes a number of examples of lessons from other jurisdictions. See also section 6 below.

3.4 Alongside the changes to central government funding for local councils illustrated in section 2, changes in financing in other sectors, notably NHS, have a huge impact on outcomes in local areas. For example, the impact of anticipated sustainability and transformation investment being swallowed up by deficits in acute NHS services during 2016-2018 was to damage trust between local partners committed to working together through STPs and Integrated Care Systems. In Colchester we have built strong partnerships through the North East Essex Health Alliance where we are investing together in wellbeing.

3.5 The current system of funding is inherently short term and inefficient, having been developed through siloed departmental working that does not reflect the needs and priorities in localities. Colchester, and local Councils generally, have demonstrated an ability to transition from dependency on central government grant to place-based approaches that could be boosted by a joined-up approach in the Spending Review.

4. How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

4.1 There should be no further erosion of spending power created by other changes, for example to New Homes Bonus and Business Rates. It is important to incentivize local authorities for rewarding them for growing both their business and household bases.

4.2 The Council agrees with the LGA’s view that it is probably possible to simplify the needs assessment to a single formula that will be easier to understand, but that there may be areas where a more specific approach may be required: high cost areas (Social Care) or services of a distinct nature (Highways Maintenance) that may not fit in a single formula.

4.3 The Council broadly supports the MHCLG that the number of people in each local authority area is an important predictor of the costs that councils face.
5. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review.

5.1 These is a strong consensus across the sector local government should be given greater certainty of funding. At this point there is great uncertainty. MHCLG should move quickly to agree a multi-year settlement figure to allow local government to plan adequately going forward and avoid the alternative consequences, including a weaker ability to invest in preventative activity and local government budget strategies informed by inaccurate assumptions.

5.2 We support the approach outlined by the LGA in their written evidence to the Public Accounts Committee that MHCLG should establish “a dedicated engagement programme which would allow local government to feed in evidence and suggestions directly to government. This work should also include engagement with other Government departments to develop a better joint understanding of how Spending Review decisions affect local government either directly or indirectly through other departments’ settlements”.

5.3 The IFS report Taking Control examines the ways in which devolution of additional tax revenues and powers could play a role in meeting local authorities’ short and long-term cost pressures. We agree with the IFS that this is a logical next step to the current government strategy of giving councils more control over their funding and providing stronger financial incentives to councils to drive local growth and development (e.g. business rates retention). This also provides an opportunity to better align funding with needs, with due regard to the risks that volatility and variation in tax revenues from one year to another could impact on the provision and level of local services.

5.4 The challenge for both local and national government is therefore to devise tax equalisation processes that limit volatility; ensure equity between richer and poorer parts of the country; and provide incentives for growth in the tax base. Furthermore, as the District Councils’ Network set out in the response to the consultation on Fair Funding Review, the option for local government to raise an additional ‘prevention precept’ would enable greater investment in services that reduce demand on the wider system.

Options for additional tax raising powers

6.1 Council Tax

6.1.1 Allow local authorities to have the discretion to alter tax bandings at a local level (e.g., introduce a ‘Band J’ Mansion Tax and/or vary the ratios between Council Tax Bands from the one set nationally to meet local needs).

6.1.2 Remove the requirement to hold a referendum for proposed annual Council Tax increases of over 3%. As the IFS point out: ‘decisions over tax rates by the UK government (or devolved and local governments elsewhere in the UK) are not subject to referendum’.

6.1.3 Allow local authorities to ‘levy’ local residents to fund specific council-wide amenities (for example, new leisure facilities, development of parks, open spaces, etc.) along the lines of the
London Olympic Council Tax Levy (£20 at Band D for all households in the Greater London Area in each of the years 2006/07 to 2015/16).

6.1.4 Allow local authorities to vary the Single Person Discount (currently set at 25% nationally) to reflect local demographics and demands for services.

6.1.5 Allow greater freedoms in the setting of tax for second homes, holiday homes and unoccupied properties.

6.1.6 According to the District Councils’ Network, if all districts raised an additional 3% prevention precept on their existing council tax charge, this has the potential to raise up to an additional £42m funding per year (based on an approximate £5.42 increase on the district council charge on an average Band D property) for investment in preventative activity.

6.2 National Non-Domestic Rates (NNDR)

6.2.1 Expand the use of ‘Business Rate Supplements’ to fund infrastructure that benefits local businesses. As with Crossrail, such supplements could be used for sub-regional infrastructure at County/Local Enterprise Partnership level. For example, this could help Colchester, Braintree, Tendring and Essex County Council to deliver the infrastructure requirements associated with the North Essex Garden Communities.

6.2.2 Allow councils to set their own annual ‘multiplier’ (currently set nationally) to reflect local demographics and demands for services, possibly within a centrally mandated ‘floor and ceiling’. The annual multiplier would need to be agreed across all participating councils where pooling arrangements are in place.

6.2.3 We share the concerns of the District Councils’ Network that the government wants to push ahead with a full reset in 2020/21. The complexity of the changes being made to the local government finance system introduces a real risk of destabilising the system if all the planned changes were introduced in the same year alongside the fair funding review and the impact of any other changes that may be announced in the Spending Review.

6.3 Tourist accommodation tax

6.4.1 A number of councils have or are considering the idea of being able to levy a tax on overnight stays in tourist accommodation. Such taxes are common in other countries and many major European cities levy some form of occupancy tax, with a similar scheme approved for Edinburgh by the Scottish Parliament.

6.4.2 Tourism imposes additional costs on local services e.g., increased street cleaning and maintenance; extra congestion created; regulation of entertainment venues and attractions. It seems reasonable to attempt to offset these additional costs by collecting a contribution from visitors rather than burdening local residents via Council Tax. The IFS accept that the elasticity, or responsiveness, of tourism to differing levels of tax are hard to predict and this needs to be modelled using evidence from existing schemes.

6.4.3 Any tax on overnight stays would have to include short-term lettings and other providers such as AirBnB alongside the hotel sector to avoid distortions in demand that might damage local businesses.
6.4.5 It would be important for the level and scope of any tourism tax to be devolved to the local authority.

6.5. Municipal Bonds

6.5.1 The United Kingdom Municipal Bond Agency points out that any means of raising funds by borrowing or issuing debt instruments must be backed by councils’ ongoing ability to service and repay such debts. The restriction on local authorities providing security for borrowings, in section 13 of the Local Government Act 2003, also potentially places a limit on how much private finance will be provided. This legislation would require review to encourage the issuing of municipal bonds.

6.5.2 Bonds have a number of advantages over Public Works Loan Board (PWLB) finance. A bond’s repayment profile can better fit the capital project’s income profile. For example, in large infrastructure projects it could require making initial repayments low, then raising them as income from the project started flowing in.

6.6 Local Income Tax

6.6.1 Local income taxes (LIT) can be relatively progressive, taking into account the ability of individuals to pay, and keeping pace with wage inflation. A LIT scheme could conceivably replace or reduce local property taxes like NNDR or Council Tax over time and incentivise productivity in line with Local Industrial Strategies.

6.6.2 The devolved administrations in Scotland and Wales already have powers to levy an income tax. Using the same basis of calculation, it has been estimated that a 3% flat rate LIT would raise £19 billion per annum for local government in England.

6.6.3 Measures would need to be developed to overcome the fact that the tax take would be likely to drop during periods of recession, when demand for public services increases, and a LIT would need to be administered over a wider geographical area (for example, Local Enterprise Partnership) to allow for equalization between areas of differential growth.

7. Conclusion

The level of financial uncertainty facing Colchester and all local authorities makes financial forecasting and planning almost impossible. Further guidance on what central government is planning to do is essential. We call for a multi-year settlement plus options to enable greater fiscal devolution so local government has greater local dispensation on tax-raising.

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