Summary

1. The challenges to Local Government funding are not new or emerging, though they are increasing. The issues have been raised before by ourselves and others in a response to a number of recent consultations:

   **Cost Pressures**
   - There is too little funding to continue to provide the current level of Local Government services.
   - Reducing costs by reducing service is difficult. Some services have nationally set statutory minima.
   - When services change there are the costs and time for transition, requirements for consultation and the risk of legal challenges.

   **Funding gap**
   - The costs of providing services will rise more quickly than Local Government income due to demographic trends such as an aging population.
   - Significant funding is needed for regional infrastructure to address the projected growth in housing and population over the next 20 years. If this is not available there is a risk of poorer quality of life for residents and poorer economic growth.

   **Restrictions on income**
   - Options of increasing income are constrained by national caps on council tax rises, national constraints on fees and charges and the ability of residents and businesses to pay.

   **Allocation and sustainability**
   - MHCLG continue to base funding on historic levels. The result of this strategy has been to create an uneven landscape of eligibility, fee structures and service levels across local authorities
   - Funding for infrastructure and investment is uncertain and difficult to focus on local priorities. Much is provided through short term schemes, competitive bids or controlled via LEPs, Network Rail or Highways England.
   - Overall funding is uncertain with no clarity around how Local Government funding will work next year based on 75% Business Rate Retention and The Fair Funding Review. Replacements for European funds are also unknown.

2. The challenge is not to identify or justify these issues again, but to identify an appetite to address strategically, rather than address as a series of crises. Current funding is based on incremental decisions; future funding needs to be forward looking. Addressing the issues strategically would result in greater efficiency, lower risk to services and better opportunity to meet residents’ needs and to stimulate economic growth.
Lessons from past changes

3. Recent funding allocations have not provided a sustainable long-term solution to Local Government funding and have not provided certainty. The approach to Local Government funding has been fragmented, short-term and inconsistent. In order to get certainty, Local Authorities have had to sign up to reducing Revenue Support Grant.

4. Currently we have significant uncertainty with Business Rates Retention, the Spending Review and Fair Funding Review all proposing to implement from April 2020. It is unclear how much funding there will be from April 2020 and how it will be distributed.

5. Uncertainty and challenges with funding are not just driven by changes to the direct funding for Local Government. There is uncertainty on demand side with unresolved issues, in particular the delayed social care green paper.

6. Infrastructure funding has been uncertain. Funding via Local Enterprise Partnerships has been driven by a series of initiatives Regional Growth Fund, Growing Places Fund and Growth Deals via the Single Local Growth Fund. Proposals for the UK Shared Prosperity Fund to replace European Funds have also been delayed and it is not clear how these will be allocated to regions.

7. Short term initiatives such as the Stronger Towns Fund or one-off funding for potholes have limited value with uneven and uncertain distribution and short notice. The one-off nature prevents sustainable solutions being put in place.

8. Ring-fenced allocations limit ability to respond to local priorities.

9. Budget uncertainty would cause problems even were there a long-term trend of neutral balance between budgets and cost pressures. However, the trend has been for decreasing budget with rising cost.

10. The uncertainty and reducing funding have a detrimental effect on services and value for money. Changes to services cannot react rapidly to changing to funding. There is a need to plan, undertake consultation, meet the costs of transition and honour contractual commitments.

The current system

11. The funding system is not sustainable. For Essex County Council our 2019/20 plan shows a need to deliver £60m of savings and efficiencies (6% of our net budget) by the end of the financial year. This is on top of already delivering £311m of savings in the last four years. We plan for a need to find and deliver a further £116m of savings by 2021/22.

12. Cost pressures are increasing. In Essex, the gross adult social care and public health budget is £662 million in 2019/20. 21% of our population is over 65. Numbers of over 80s and over 90s are expected to grow by 61% and 100% respectively over the next decade driving costs upwards further.

13. Options to reduce service levels are limited and difficult. For example, local authorities continue to be challenged by individuals and their families when they seek to review care packages and achieve best value in how to meet eligible needs.

14. Essex has worked hard to turn around our children’s services. Latest forecasts indicate that Children and Families services are experiencing higher costs in 2018/19
particularly around children in care and unaccompanied asylum seekers. As we need to find savings, it seems inevitable that children’s services will not be able to continue to deliver the same level of support to children and young people. This is likely to have an impact on early intervention services which are invaluable in reducing the levels of children needing crisis support later on.

15. We are increasingly reliant on council tax as a source of funding. In 2013/14 council tax was 54% of Essex County Council’s total funding. In 2019/20 it will be 73%. Increases to council tax are capped by virtue of the referendum limits. However, the calculation of core spending power assumes that local authorities will increase council tax by the maximum amount. If council taxes were to increase significantly to match projected costs it would impact hardest on those least able to pay.

16. Increasing Business Rates Retention means more income will be raised locally. However, discounts and reliefs on rates are largely determined by Central Government, reducing local flexibility. Agricultural land and buildings are exempt, as are many home-based businesses. This means that income is raised from a smaller set of local businesses.

17. As a county we have net outflows of workers to London and neighbouring unitary urban areas. 149,000 residents travel daily to jobs at business premises in Greater London while 39,000 travel in the reverse direction. That flow reduces the business premises in the county which pay business rates to support the cost of services and infrastructure.

18. We raise income through 720 different fees and charges and through review expect to increase income by £8.2m to £135m. Fees and charges are restricted by numerous pieces of legislation. This means that the charging regime is not optimised to direct resources to those most in need or, in some cases, even capture administrative costs.

19. Changes in central government department policies can decrease central costs and increase cost for Local Authorities without these being reimbursed through the ‘new burdens’ doctrine. For example, increases to National Living Wage have been the biggest pressure to Social Care costs in recent years. There was a decrease in the costs of benefits paid from central funds and an increase in Local Authority costs. However, this shift was excluded from the definition and not funded.

20. Funding for growth causes challenges. Essex needs to build at least 136,000 new homes over the next 20 years – a 22% increase in the current number. This means a need for transformation of infrastructure for which full funding is not available, potentially stifling future economic growth.

21. Via the Housing Infrastructure Fund, we are applying for funding of £549m to deliver the transport infrastructure that is needed to support growth. However, bid funding is not certain.

22. The overall lack of financial sustainability is particularly acute for county councils and has already seen the well-publicised examples of financial crisis and reduction to core offerings. These core offers limit investment to save and investment for growth.
Assessment of funding needs

23. Local Government will need to respond to rapidly increasing demand driven by demographic trends. For upper tier authorities like ourselves, spending on adult’s services, children’s services and Special Educational Needs have increased and are projected to continue to increase. The LGA estimates in its response to the technical consultation on the Fair Funding review that nationally an £8 billion funding gap will form by 2024/25, with £3.1 billion in 2019/20.

24. Mechanisms to assess Local Government funding needs do not lead to even distributions or to distribution based on local costs. Work in 2016 by LG Futures and the County Councils Network (CCN) found that estimated per head over 65 funding allocations for counties were significantly lower than other local authority types. CCN member councils received 44% less cash funding per head compared to the national average, 61% less than London Boroughs and 53% less than Metropolitan Boroughs. However, the cost of delivering services and infrastructure is increased by rurality.

25. Council tax burden on Essex tax payers is proportionately higher. For example, residents in shire areas are paid, on average, 11% less than the national average. However, they tend to pay nearly 6% more in council tax. When compared to London boroughs, shire residents earn 20% less but residents in London that pay 4% less than shire residents.

26. Due to historically based allocations of funding, despite fully utilising council tax income, we and others levy fees on services that are offered free in other areas to all residents.

Approach to Local Government funding in the 2019 Spending Review

27. We acknowledge the challenge in funding Local Government. We continue to look for efficiencies and to transform our services to reflect new usage patterns and to use new technology. However, this will not balance the books. Funding needs to be raised from existing or new local taxes, from central funding or from user paid fees and charges. Alternatively, service levels or entitlements will need to reduce. We would encourage a review that looks at the long-term approach for all these areas and identifies plans to increase freedom for local authorities to locally manage fees and charges, entitlements to free services and exemptions and discounts.

28. We would also expect transparency and support where the expectation is that user-borne costs will need to rise or that exemptions and discounts reduce.

29. We would like to seek national planning for how users can be encouraged to save and finance old age care.

30. We would like greater openness about the level of central funding that is available and how it is distributed. We seek greater importance being placed on local cost drivers such as the age demographics of the population, geography of the area and wage levels. We would like to see less emphasis on patterns of historic funding.

31. We would encourage national fairness of local resident and business contributions and careful thought on the long-term ability of lower income residents or less profitable businesses to support regressive taxes.
32. As a service commissioner we can be most consistent and efficient if we have long-term stability, and visibility, of the forward plan for both services and investment. We would like early indications of the funding for each authority.

33. In balancing spending between government departments, we would like greater acknowledgment that services provided by Local Government are important and that funding for prevention schemes can limit cost on other services such as the NHS.

34. Where there are initiatives that will increase local costs and potentially reduce central burdens, such as Living Wage increases or immigration policy impact on social care labour costs, we would seek a mechanism for these to be fully identified and funded.

35. We would like greater certainty of the funding to support the infrastructure needed for significant housing growth.

36. We would like to see replacements for EU funding via the Shared Prosperity Fund devolving powers to local communities through Local Government.

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