Written evidence submitted by East Sussex County Council [FSR 084]

Executive Summary

- East Sussex County Council no longer receives sufficient revenue funding to deliver the services our residents need.
- This is due to removal of our central government grant funding combined with an increase in demand for our services.
- ESCC’s net revenue budget is now made up of predominantly Council Tax and Business Rates receipts. To meet growing demand and just maintain service provision at current levels, ESCC would need:
  - to raise Council Tax by 5.8% per year, an unsustainable ask of our residents;
  - 13.3% growth in Business Rates, when projected growth is less than 1% per annum; or
  - 7,400 new homes built each year, when approximately 1,100 properties were built in East Sussex in 2017/18.
- We already deliver high outcome and low cost services, as evidenced by our Outstanding Ofsted rating for Children’s Services in 2018, so there are no more opportunities for efficiencies locally that will reduce and maintain spend to within available resources.
- Current funding arrangements do not provide good value for public money, as we are increasingly unable to afford prevention and early intervention work, therefore creating higher future need and costs to the public sector.
- Additional spending in local government will provide a significant return for the Treasury by preventing and reducing costs in other parts of the public sector.
- While we are supportive of the fair funding review and its intention to improve the link between authorities’ needs and their resource allocations, this will do little to improve the financial sustainability of local authorities unless Government increases the total quantum of funding for local government in the Spending Review, to be distributed via the new formula.
- Additional funding for local government should be sourced from central resources, rather than retained local taxation and charges, to avoid entrenching inequitable taxation levels and service provision from place to place.

This response has been submitted on behalf of East Sussex County Council (ESCC). ESCC provides services and support to over 550,000 local residents and over 23,500 businesses. Our work is driven by four priority outcomes of keeping vulnerable people safe, helping people help themselves, driving sustainable economic growth and making the best use of resources. More information can be found at: www.eastsussex.gov.uk

1. 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?

East Sussex County Council’s current financial situation

1.1. As we have set out in previous submissions to Government, East Sussex County Council no longer receives sufficient revenue funding to deliver services that meet our local need and demand. This unsustainable funding situation, and the detrimental impact it has on our services, residents and staff, will worsen if we do not receive additional recurring funding in the Spending Review, from 2019/20 onwards.

1.2. Our unsustainable funding situation is driven by changes to local government funding over the past decade. Sustained reduction in Revenue Support Grant (RSG) has removed the central source of needs-based revenue for the authority. In 2010/11 we received £100m in needs-based grant from central government, in 2019/20 we were allocated £3.5m, a reduction of 96%.
1.3. £104m of services-specific grants have also been ‘rolled into’ RSG and disappeared along with that funding stream. As just one example, like all county councils we were required in April 2011 to take over the funding of the statutory English National Concessionary Travel Scheme (ENCTS) from our district and borough councils. Although Government originally provided £6.7m base funding for the service in our 2011/12 RSG allocation, as our total RSG allocation has fallen to £3.5m and is expected to fund an increasing number of services across the Council, we effectively no longer receive any central government grant funding for the concessionary travel scheme, the cost of which increased to £7.2m in 2018/19. We are still legally required to provide the service and Government amended legislation in April 2018 to ‘protect the scheme in its current format, so that it can continue for years to come’. This is just one example where funding has been rolled in to RSG and then lost, against the general principle of the no detriment clause.

1.4. The only increase in funding we have been able to access since 2010 is through Council Tax and Business Rates receipts. Business Rates growth is largely flat in East Sussex and Council Tax increases have been centrally capped below the increase required to meet growing demand.

1.5. The two main drivers of increased costs in East Sussex have been growth in older people and children’s services. East Sussex has one of the highest proportions of elderly people in the country – 25% of our population is over 65 compared with 18% nationally. This group has grown significantly, up by almost 20% since 2010/11, with the number of people over 85 increasing by nearly 12%. These residents make significant contributions to their local communities and the county but also have increasingly complex health needs for us to support. 39,110 older people in East Sussex are projected to have a long term illness limiting day to day activities a little by 2022 (up by 9% on 2018) and 30,050 are projected to have an illness limiting day to day activities a lot (up by 10%).

1.6. There are also an increasing number of children requiring support. In line with a national trend, the number of children needing help and protection is rising due to an increase in neglect cases and in child exploitation, particularly through county lines. There were 476 children on Child Protection Plans in East Sussex in 2016/17 and 550 in 2017/18, a 15% increase. There are also increasing numbers of children requiring Home to School Transport due to distance and Special
Educational Needs (SEN); and a growing number of children with SEN requiring support. Education Health Care Plans/ Statements of SEN maintained by ESCC increased by 50% between 2008 and 2018 to 3,297 and are forecast to rise to approximately 3,350 by 2021.

1.7. Alongside demand pressures, we are also experiencing an increase in costs to deliver our services and inflationary pressures.

1.8. To match demographic growth, inflation and increased costs ESCC would need to raise Council Tax by 5.8% annually (or £83 on a Band D property) across our Medium Term Financial Plan, just to stand still and maintain provision for those that need it.

1.9. Government discounts increasing demand and costs when it states that ‘Core Spending Power’ for councils has increased, by just calculating increase in total funding, rather than what it buys. While ESCC’s total revenue budget rises slightly year on year (as a result of Council Tax increases), the increase is nowhere near the level required to meet our rising demand. This produces an ongoing financial deficit, which is £21m for our coming two financial years (figure 2).

**ESCC Deficit 2020/21-2021/22**

| Inflation, Demographic Growth and Pressures | £36m | Additional Council Tax & Business Rates receipts | £15m | Savings Requirement | £21m |

Figure 2 – ESCC Deficit 2020/21 – 2021/22

How this has impacted our ability to deliver services

1.10. We have taken approximately one third of our net spend (£129m) out of our budget since 2010 to fill the significant and ongoing gap between the funding we receive and the funding we need, and have just agreed a further £5m reduction in our 2019/20 budget. These significant savings were in part achieved by working better and differently to reduce costs and waste, including reducing Senior Management posts by a third since 2010 and restructuring teams across the authority; developing a shared back office and legal service (Orbis); investing in early help in Children’s Services to avoid the rise in children in need seen elsewhere; undertaking groundbreaking health and social care integration with NHS partners; increasing income; and achieving excellent value for money with low spend and high outcomes across the board. However, it has also involved stopping and reducing important local services that are needed and valued by our residents.

1.11. While Government states councils’ funding is non-ringfenced and we have discretion to manage our budgets and fund services in line with local priorities, this is not the case in practice. With reduced funding and increasing demand, we have no choice but to dedicate resources to services for those most in need (66% of our revenue budget is now spent on Adults and Children’s services) or to services that Government has discontinued funding for but mandates us to provide (see 1.3).
1.12. The consequence of Adults and Children’s social care dominating our spend is that to afford those services we have had to remove provision from those that do not meet the rising threshold for support and reduce our universal service offer at the same time as increasing Council Tax. To significantly reduce our spend we have:

- reduced our support for vulnerable people - including daily self-care activities for working-age adults and older people, our learning disability offer, housing support, support for young parents, offenders, homeless people with complex needs, and youth offenders;
- closed day-care centres;
- reduced support for school improvement and to improve behaviour and attendance;
- reduced local economic development activities;
- reduced support to carers and families;
- eliminated all discretionary home to school transport;
- stopped careers advice;
- closed waste sites;
- ceased subsidised bus routes;
- reduced libraries provision; and
- funded only two grass verge cuts per year.

We are concerned that the ongoing reduction in services alongside Council Tax increases will weaken civic engagement and dis-incentivise people from standing as members.

1.13. Ongoing and systemic lack of funding also means we have little flexibility to make prudent investments in our services. Instead, to afford high need provision, we are having to reduce and remove preventative and early intervention activities that we know lead to better outcomes for our service users and reduce costs on us and other parts of the public sector (including the NHS, police and schools). For example, without additional funding we will soon have to consider ending a range of early intervention safeguarding services to focus Children’s Services spend on Looked after Children provision. This is frustrating and counterproductive, but necessary if we do not receive sustainable funding for high need services. These early intervention activities are regarded as best practice; they were recognised in our recent Ofsted inspection of Children’s Services for which we received an Outstanding rating and Government dedicates significant funding to introducing them in areas where Children’s Services are failing. Moreover, due to Government’s preference for ring-fenced one-off funding pots over ongoing sustainable settlement funding, we are now in the illogical position where ESCC is unable to access Department for Education Strengthening Families programme funding to maintain early intervention activities, as it is only available to authorities judged by Ofsted to be 'Requiring Improvement' to create the very services that we as an Outstanding authority are now looking to cut.

1.14. The approach we are forced to take is not the best use of public money. The national Troubled Families programme focuses on reducing demand and dependency of families with complex needs on costly, reactive public services and delivering better value for the taxpayer by investing in early help provision. The recent national evaluation of the programme 2015-2020 found every £1 spent on the programme delivers £2.28 of economic, social and fiscal benefits. For ESCC’s £2.2m Troubled Families funding, this equates to £5m of benefits. To continue the early intervention activities that produce benefits for our service users, our partners and the taxpayer, we need adequate funding.

2. The efficiency, fitness for purpose and sustainability of the current system for 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.

2.1. The unsustainability of the current system for funding local government cannot be understated. Removal of central government grant funding combined with demographic growth and increasing costs has left ESCC without adequate funding to deliver the services that Government
mandates us to provide and that our residents look to for support and to enhance their communities and their lives. We cannot continue to provide decent and cost-effective services without additional resources.

2.2. Reduction in services not only impacts our local communities, it increases public costs as spending on our services helps prevent and reduce costs in other parts of the public sector. For example, our £11.7m ASC Better Care Grant for community care and carer respite funds the care of nearly 500 of our most vulnerable clients in the community, avoiding hospital admissions and reducing the length of stay in acute care. Based on the estimated cost of non-elective admissions and excess beds, caring for these clients in hospital would cost the NHS around £62m annually. In other words, £11.7m spending in ESCC community care, saves the NHS and national exchequer £50m.

2.3. Government must recognise that spend and outcomes in the NHS and local authorities are fundamentally linked. In order to ensure more people can live in the community, with the right support, and close to home; and improve value for money, any transfer in spend from the NHS must be met with appropriate spend on local authority Adult Social Care. As two local examples:

- the estimated annual cost to ESCC of clients moving from NHS continuing healthcare (NHS funded social care) to local authority funded packages of care in 2018/19 was £3.4m. With the NHS looking to reduce spend on continuing healthcare, the cost to ESCC is likely to continue to increase and must be appropriately funded; and
- similarly, the estimated care costs of patients transferring to ESCC under the Transforming Care Programme is very high – as much as £5k to £10k per week. While we expect this to be mitigated in part by funding from the NHS, just a small number of patients transferring under the programme represents a significant financial cost to the Council that must be met with appropriate funding.

As set out above, providing additional and appropriate funding for provision of these services is pertinent to reduce the likelihood of risky and high cost admissions to hospital.

2.4. ESCC faces a further funding gap of £21m over the financial years 2020/21 and 2021/22 and reducing services to a core offer where we deliver little more than our statutory duties (more information: https://www.eastsussex.gov.uk/yourcouncil/about/keydocuments/coreoffer/) will only save £7m. ESCC, and the rest of the sector¹, is approaching a funding cliff-edge that Government must act to prevent to avert loss of services and increased costs across the public sector. Government acknowledged this funding crisis last autumn and provided a number of one-off grants to plug the gap for the 2019/20 financial year. In the 2019 Spending Review, Government must at least continue our funding at the level received this financial year, including matching the additional grants, for the next three years.

2.5. Further comments on the efficiency, fitness for purpose and sustainability of particular funding streams are set out below.

Central Government funding

2.6. In addition to increasing the funding allocation to authorities, Government must reset the way it provides funding. We currently receive £53m of funding in the form of one-off or time-limited specific monies and grant funding. We have no guarantee of the continuation of much of this funding after this financial year, so we are unable to plan for next year, let alone take a longer-term view on the provision of the core services it funds. **Government must at the very least commit to continuation of this funding in 2020/21 at the earliest opportunity**, but also provide all funding through sustainable settlements which allow us to plan and make decisions on service provision that optimise long term outcomes for local people.

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¹ The Local Government Association estimates the sector faces a funding gap of £8bn by 2025
2.7. In-year cash injections have helped avert financial crises in local government in recent years, but are not a sensible or efficient way to fund the sector. They undermine medium term financial planning, for example, the in-year additional funding for adult social services we received in 2018/19 arrived too late to avert the majority of the savings agreed in 2018/19 to set a balanced budget. The one-off nature of the funding also meant it could not be used for funding long-term care packages, one of our biggest budget pressures. Delivering savings and transformation is a lengthy and resource intensive process, and we are required to undertake public consultation on all service changes. Savings and transformation cannot be easily or affordably undone once they are made.

2.8. Similarly, we find it frustrating to be informed of a series of ‘cash boosts’ from Government at the end of the financial year, such as £10k we received in March for park improvements. At such small sums, these cash boosts cannot make a substantial difference to service delivery, but combined and given to fewer places on the basis of need, they could make a real difference to financial positions and delivery against authorities’ local priorities.

**Council Tax**

2.9. With local government facing such a substantial gap between income and expenditure, we recognise that it is tempting for Government to lift the cap on Council Tax increases to raise additional revenue. While we agree that local authorities should be given freedom to set Council Tax levels, there must be a link between the funding areas can access and local need.

2.10. Reliance on Council Tax to fund needs-led services creates a postcode lottery of taxation, as areas with historically low Council Tax bases, lower levels of need, or greater income from other sources (e.g. parking charges) are able to keep Council Tax low. Comparatively, in East Sussex where Council Tax is now our primary source of revenue (forming 77% of our net budget) we are required to increase Council Tax by the maximum amount possible each year to fund our adult and children’s services pressures (set out in 1.5 and 1.6). Our Council Tax is now fourth highest in the country for county areas and all five of our billing areas are within the top 25 local authorities in the county for total Band D Council Tax (table 1), which places a significant burden on our residents whose average annual income is well below the national average. Furthermore, increases are not enough to close the gap alone (figure 1) and we are also required to reduce and stop services that are used by the majority of residents (libraries and household waste recycling sites for example), creating a situation where residents are paying more and more Council Tax for access to fewer services. Increasing Council Tax above the cap to fund our rising demand would be unsustainable for our local population with increases of 5.8% per year (or £83 on a Band D property) required.

<table>
<thead>
<tr>
<th>Band D area Council Tax for local authorities (£)</th>
<th>East Sussex billing authorities</th>
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<tbody>
<tr>
<td>Rutland UA</td>
<td>2,043</td>
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<tr>
<td>City of Nottingham UA</td>
<td>2,038</td>
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<tr>
<td>Dorset Council</td>
<td>2,038</td>
</tr>
<tr>
<td>Lewes</td>
<td>2,024</td>
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<tr>
<td>Newark &amp; Sherwood</td>
<td>2,024</td>
</tr>
<tr>
<td>Hartlepool UA</td>
<td>2,015</td>
</tr>
<tr>
<td>Wealden</td>
<td>2,012</td>
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<tr>
<td>Durham UA</td>
<td>1,993</td>
</tr>
<tr>
<td>Oxford</td>
<td>1,989</td>
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<td>West Devon</td>
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<td>Bristol UA</td>
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<td>Gateshead</td>
<td>1,971</td>
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<tr>
<td>Ashfield</td>
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### Table 1 – Top 25 total Band D Council Tax for local authorities

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<tr>
<th></th>
<th>Authority</th>
<th>Total Band D Council Tax</th>
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<tbody>
<tr>
<td>18</td>
<td>Eastbourne</td>
<td>1,965</td>
</tr>
<tr>
<td>19</td>
<td>Pendle</td>
<td>1,965</td>
</tr>
<tr>
<td>20</td>
<td>Mansfield</td>
<td>1,963</td>
</tr>
<tr>
<td>21</td>
<td>Broxtowe</td>
<td>1,963</td>
</tr>
<tr>
<td>22</td>
<td>Rother</td>
<td>1,959</td>
</tr>
<tr>
<td>23</td>
<td>Gedling</td>
<td>1,958</td>
</tr>
<tr>
<td>24</td>
<td>Waverley</td>
<td>1,956</td>
</tr>
<tr>
<td>25</td>
<td>Tandridge</td>
<td>1,955</td>
</tr>
</tbody>
</table>

2.11. For this reason, ESCC is supportive of the intention to determine a measure of Council Tax income that reflects councils’ varying ability to raise local resources in the Fair Funding Review and to move away from a system where authorities are rewarded or penalised for historic local decision making. A uniform rate could be established using an average of the national Council Tax requirement for upper tier, lower tier and fire services (excluding police) divided by the national tax base. For determining the measure of Council Tax collection rate in the resources adjustment, ESCC believes that a single uniform collection rate based on national average should be used as this also incentivises collection.

2.12. In terms of increasing the total quantum of funding available to authorities, redistribution of taxation collected centrally (i.e. income tax) to local government would generate less disparity in taxation between authorities and lessen the burden on residents in areas of high local service demand. Residents that took part in our recent core offer engagement exercise agreed – 78% of respondents said that in the long term, Government should allocate more funds to meet our funding gap that is driven by rising local need.

### Business Rates Retention

2.13. ESCC is concerned that moving to a system of increased retention of Business Rates growth undermines Government’s stated intention to improve the relationship between authorities’ funding and local need. Areas with large property-based businesses are able to access more Business Rates growth, largely as an accident of location and regardless of their level of local need. Comparatively, areas such as East Sussex with an economy of predominantly small and micro-businesses will receive little additional revenue for rising service demand. Business Rate growth is largely flat in East Sussex (see figure 1) and due to poor strategic infrastructure and an abundance of areas of protected natural environment, there are limited opportunities to generate significant property-based business growth which the current system rewards. Annual Business Rates growth of 13.3% would be required in East Sussex to fill our budget gap to 2022, when projected growth is less than 1% per annum.

2.14. Instead, ESCC is investing in support for small businesses that are the bedrock of our local economy, and in improving broadband to support the growth of digital businesses. This digital business growth will be captured by an increase in corporation tax for the national exchequer but not in Business Rates and it feels counterintuitive that funding for our local services would be effectively penalised as a result.

2.15. Government should address the risk of significant disparity in funding between areas by implementing frequent resets to redistribute accumulated growth according to need.

### Other forms of income

2.16. It is stated Government policy to give authorities increased local discretion over service provision. For this to be the case we must have the powers and flexibility to manage services as we know best and in line with our residents’ priorities. Local discretion should predominantly be created by providing adequate funding to give Local Members a genuine choice over how our resources are spent (see 1.12) but it can also be granted by providing authorities with powers to raise revenue
through minor user charging for services, powers to means test services or to stop providing services that are not a local priority. This is particularly pertinent for services such as concessionary bus fares (see 1.3); if Government is no longer providing revenue for a service we should have the power to raise revenue to fund it or change the way we provide it to make it affordable.

2.17. At the same time, the limitation to raising income significant enough to stabilise local government finances must be recognised. ESCC will never be able to raise ongoing income from commercial activities or minor user charging of the level required to meet our growing demand in social care.

2.18. There must also be recognition of the disparity in income that can be raised in different areas and the risk of entrenching existing funding inequality. For example, due to the geography of our county and nature of the local economy there are very limited opportunities to raise significant income in East Sussex from a Tourist Tax or parking charges. While Government mandates us to provide certain services and expects the level and quality of that services to be standardised across the country, funding mechanisms such as Council Tax and parking charges should not be used to fund services when their potential to generate income varies so much from place to place.

3. 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.

3.1. At the national level, ESCC is supportive of Government’s review of local authorities’ relative need, particularly the intention to move on from regression methods of measuring need and expenditure to allocate resources. However, for this to make any difference to the financial sustainability of local authorities, Government must increase the total funding available to the sector in the Spending Review to be allocated via the new formula. We have been engaging with the review of relative needs and will continue to do so and we would ask that Government works to share the details of the Adults and Children’s formulas, then finalise the review and notify authorities of its outcomes at the earliest opportunities, to enable us to undertake informed budget planning for 2020/21.

3.2. At the local level, ESCC undertakes extensive planning and modelling of our current and future service demand and resulting funding needs. As set out above, we therefore know that to be financially sustainable (meeting additional demand without significantly reducing our service offer elsewhere) we need at least £21m additional funding over the next two financial years.

4. 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.

4.1. To summarise, Government’s approach to local government funding as part of the Spending Review should be to first and foremost increase the total quantum of funding available on an annual basis to the sector, to fill the gap between resources and required expenditure to meet demand. This additional resource must be provided from central resources, rather than local taxation and charges to improve sustainability and minimise disparity in taxation between places.

4.2. The key features of the new settlement should be:

1. that local authorities have adequate funding to deliver the services we are mandated to provide at the level required now and in the future, taking account of growing demand;
2. that local authorities have adequate funding to invest in future provision;
3. that any additional burdens are appropriately funded;
4. minimisation of disparities in funding between areas, particularly as a result of retained
   Business Rates growth;
5. providing information on future funding settlements at the earliest opportunity to provide
   certainty and allow us to plan; and
6. that Government listens to and trusts local authorities to use their democratic mandate to set
   local priorities and allocate resources to meet them.

<table>
<thead>
<tr>
<th>Summary of recommendations</th>
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<tbody>
<tr>
<td>Government must:</td>
</tr>
<tr>
<td>1. Increase the total quantum of funding for local government in the Spending Review, to be</td>
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  distributed via the new relative needs formula; |
| 2. Return to providing funding through sustainable settlements that allow authorities to plan and |
  make decisions on service provision that optimise long term outcomes for local people. Most |
  urgently, Government must provide certainty on funding allocations for 2020/21, including |
  continuation of vital one-off or time-limited grants; |
| 3. Source additional funding for local government from central resources, rather than retained |
  local taxation and charges, to avoid entrenching inequitable taxation levels and service |
  provision from place to place; and |
| 4. Address the risk of significant disparity in funding between areas under increased Business |
  Rates Retention by implementing frequent resets to redistribute accumulated growth |
  according to need. |

April 2019