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Fair Funding for the South East

Executive Summary

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1. Introduction

- 1.1. In March 2011, South East England Councils (SEEC) commissioned research from LG Futures into public sector funding issues and cost pressures for the South East, with a particular focus upon local government. The research took place in the context of the Department for Communities and Local Government (DCLG) Local Government Resource Review, which also commenced in March 2011.
- 1.2. LG Futures has produced a main report, 'Fair Funding for the South East', supported by detailed Appendices, which set out the full findings of this research. The report covers three key themes:
- Background to the current funding system
 - Funding levels for the South East (SE) compared to other regions
 - Current and potential future cost pressures
- 1.3. This research represents the first stage in terms of 'setting the scene' in relation to the key funding issues and cost pressures currently facing the SE region. The key findings of LG Futures' main report have been provided within this executive summary
- 1.4. In June 2011, SEEC commissioned the second stage of research from LG Futures which will build upon these initial findings. This work will consider potential proposals for change to the funding system, including the operation of funding formula itself, relocalisation of business rates and the principles for the operation of incentivisation schemes. A separate scoping paper has been prepared on the potential approach to this stage two research.

2. Background to the Local Government Funding System

- 2.1. The current local government funding system is based upon the 'four-block' model, which was introduced in 2006/07. Authorities are allocated Formula Grant (£29.4bn nationally for 2011/12), using the following approach:

	Relative Needs Block
Less:	Relative Resources Amount
Plus:	Central Allocation
Plus:	Floor Damping Block
Equals:	Formula Grant

- 2.2. The Relative Needs Block reflects spending requirements, based on local circumstances, assessed through Relative Needs Formulae (RNF) and taking account of population/client numbers and a range of socio-economic factors. The Relative Resources Amount takes account of authorities' relative abilities to raise Council Tax, the Central Allocation distributes remaining funding based upon population; and Damping provides 'protection' through a grant floor. The four-block model has been the subject of considerable debate, and there are a number of criticisms of the system as a whole from local government.

2.3 These broader criticisms, including their potential impact upon the SE region can be summarised as:

- **Judgement.** The current system has provided Ministers with much greater scope for judgement within the grant regime, meaning that subjective decisions can be taken over resource allocation bases, leading to a lack of transparency.
- **Thresholds.** Local authorities might reasonably expect that assessed needs above the threshold (i.e. the minimum Relative Needs Formulae (RNF) per head and minimum taxbase per head) are funded at the same rate as those below the threshold. However, this is not the case: for the 2011/12 settlement, an authority that has twice the identified level of need received 2.2 times as much grant. The use of thresholds also means that any change in the threshold causes an arbitrary redistribution in funding between authorities.
- **Floor Damping.** The use of damping within the system has increased in recent years and, nationally, authorities lose between 3% and 9% of their resources to fund the damping system. Authorities in the South East are heavily reliant upon floor damping (London and the South East are the only two regions that are net beneficiaries of damping within the Formula Grant regime). Although at individual level, the picture is mixed within the SE region, for some SE authorities, the damping amount is the most important element of their Formula Grant allocation and represents over one-third of their grant funding.
- **Scaling.** In order to pay for the floor level of funding, authorities above the floor have their grant 'scaled back'. For 2011/12, the level of scaling back is significant and means that increases in calculated grant above the floor were scaled by 99.7% for districts, compared to 71.4% for upper tier authorities i.e. districts and upper tier authorities only receive 0.3 pence and 28.6 pence in the pound of their allocations above the floor.
- **Multi-level floors.** The 2011/12 settlement introduced four different floor levels, with authorities that were more reliant on Formula Grant receiving a higher floor. For the SE region, where authorities are generally less reliant upon Formula Grant, due to their higher taxbase and ability to raise resources from Council Tax, this change has adverse consequences. For example, for the 19 upper tier authorities in the SE region, 11 are in the band with the lowest floor (-14.3%), 5 are in the third band (-13.3%) and 3 are in the second band (-12.3%).
- **Reliance upon previous spending patterns.** The indicators used within the RNF formulae are based upon regression analysis of historic spending levels, in order to determine the factors that drive spending. It is therefore sometimes argued that the indicators used within the system do not necessarily accurately reflect need, but rather, previous spending patterns. The SE region as a whole is likely to broadly benefit from a move away from regression against past spending, which would benefit more rural authorities and perceived 'lower need' authorities, although, clearly, there would be some authorities in the SE who would not benefit from such changes (mostly the urban unitaries).

3. Basis of Resource Allocation

3.1. Analysis of the 2011/12 settlement took place to identify how funding is currently distributed through the Relative Needs Formulae (RNF) and the key elements which affect the SE region in comparison to other regions. In summary, the analysis showed that:

- Relative to England as a whole and the other regions in the country, the South East is perceived to be 'lower need', based on the measures that successive governments have used to distribute funding between local authorities.
- For lower need authorities, the basic amount e.g. the amount per head of population/per client/per km of road etc. without any top-ups e.g. deprivation, is the most important element of the RNF. The greater the weighting of the basic amount within the RNF, the flatter that the funding distribution will be and the larger the proportion of national funding distributed to lower need areas, such as the SE. The basic amount distributes the largest proportion of grant funding to the SE region (26.6% for the SE compared to 22.8% for England as a whole).
- At national level, the benefits indicators (which are used as proxies for deprivation) distribute more than the basic amount; in other words, the various top-ups are more important to the rest of the country on average than the basic amount. Benefits indicators distribute 28.6% nationally, but only 25.0% for the SE.
- For the three social care RNF blocks (Children, Younger Adults and Older People), these blocks have negative or very small basic amounts. This means that the other indicators in these RNFs have a much more significant redistributive effect. This works against lower need authorities, and explains why many authorities in the SE were such heavy losers in the changes in social care RNFs in 2006/07.
- This overall regional position will not, however, be a universal pattern within the SE, because some of the unitary councils have urban characteristics, which attract additional funding from the deprivation and density-related indicators.
- Density is an indicator that particularly stands out as being high, in terms of the level of funding that it currently distributes (5.1% for the SE and 5.4% for England as a whole). Some unitary councils in the SE have relatively high density indicators, but not in comparison to the proportion of funding received by London and some other regions. The SE region has a higher proportion of the sparsity indicator (1.0% for the SE compared to 0.9% for England as a whole) than density, and is likely to benefit from greater weighting being given to a sparsity indicator, although sparsity currently distributes very little funding in absolute terms.

3.2 More widely, when seeking any potential changes to the funding formulae, it should be noted that cases built around changing a single indicator will have limited success. A strong case for change would therefore need to be made from the current pattern of funding and why a larger proportion of funding is needed for the SE region.

3.3 As considered previously, most of the current RNFs are based on historic spending or funding patterns. This is the case for RNFs derived from statistical models or judgement, where Ministers are usually reluctant to make significant changes. London and metropolitan areas tend to benefit from this approach because they have historically had higher spending. To avoid the circularity where funding is based on previous spending patterns, future funding allocations would need to be based on a methodology that is independent of historic funding, spending or usage, although this would require further research and the use of judgement to determine the way in which such allocations would operate.

4. Formula Grant

4.1. The level of funding received from Formula Grant per head of population was analysed by region between 2009/10 to 2011/12, together with the provisional Formula Grant allocation for 2012/13. The analysis identified that:

- The SE region received/is expected to receive the lowest Formula Grant allocation per head in each of the four years.
- Average Formula Grant for 2011/12 for the SE region was £374 per head, with the average for England being £560 per head and the average for London (the highest funded region) being £834 per head.
- The SE region's allocation, relative to the England per head allocation, has also remained relatively stable, at between 66.1% and 66.9% of the England average.

5. Council Tax

5.1. The level of funding received from central government is key in determining the amount of funding that is required to be raised locally from Council Tax. The levels of Council Tax within the SE, compared to other regions, were analysed using average Band D Council Tax, allowing a comparison of Council Tax levels for properties of similar value. This analysis took place over the period 1997/98 to 2011/12 and identified that:

- The average increase in Council Tax for England as a whole over the 15-year period was 109%, an average of around 7% per annum (from £688 in 1997/98 to £1,439 in 2011/12).
- The SE had the second highest Council Tax increase at 129% over the period (the highest was the East of England at 132% and the lowest was the North West at 84%).
- During this period, the SE has risen from having the 8th to the 6th (out of 9 regions) highest average Band D Council Tax. The SE has moved from being below the England average in 1997/98 to being above the England average (from 2004/05 onwards), with the magnitude of this differential increasing year on year.

- In 2011/12, the average Band D Council Tax in the SE was £1,468, compared to £1,439 for England. The highest Council Tax level in 2011/12 was in the North East, at £1,512, with the lowest being London at £1,308.

5.2 Clearly, when comparing Council Tax levels, consideration also needs to be given to the extent to which there is a funding 'gap' between the resources provided by central government and the level of expenditure required to deliver services locally, as part of policy decisions taken. It is not, however, possible to objectively determine the extent to which the higher levels of Council Tax in the South East might reflect relative underfunding, as opposed to delivering higher levels of service provision.

6. Education

6.1. The main funding that local authorities receive for education is from the Dedicated Schools Grant (DSG), which distributed £36.5bn in 2011/12 and which includes baseline funding for all pupils, in addition to allocations for factors such as deprivation, area costs etc. Each local authority receives a Guaranteed Unit of Funding (GUF) i.e. the amount that they receive per pupil.

6.2. Regional average GUFs were calculated by taking the total guaranteed funding for each region divided by the total number of pupils in the region. This showed that, for 2011/12:

- Of the 10 regions (Inner and Outer London were analysed separately), the SE had the 6th highest regional average GUF per pupil (£4,273), below the average for England as a whole (£4,394).
- The highest GUFs were in Inner London (£6,073) and Outer London (£4,821), with Inner London authorities, on average, receiving 42% more funding per pupil than SE authorities.
- At an individual local authority level, the highest overall funding per pupil is in Inner London (£6,792 for Tower Hamlets). The lowest funding per pupil is in the East Midlands (£3,888 for Leicestershire), with SE authorities ranging from £4,132 to £4,792 per pupil.

6.3 The funding provided for a range of specific grants was also analysed, including: School Standards Grant; School Standards Grant (Personalisation); School Development Grant; Specialist Schools; High Performing Specialist Schools; School Lunch Grant; Ethnic Minority Achievement Grant (EMAG); 1-2-1 Tuition; Extended School Subsidy; Extended School Sustainability; National Strategies (Primary and Secondary); Diplomas; London Pay Addition and Exceptional Circumstances Grant.

6.4 Regional average GUFs were again calculated by taking the total specific grant funding for each region divided by the total number of pupils in the region. This showed that, for 2011/12:

- Of the 10 regions (Inner and Outer London were analysed separately), the SE had the lowest regional level of grants per pupil (£575), compared to the average for England as a whole (£685).

- The highest levels of grant were in Inner London (£1,024) and in the North East (£778), with Inner London authorities, on average, receiving 78% more funding through grants per pupil than SE authorities.
- At an individual local authority level, the highest overall funding per pupil is in Inner London (£1,260 for Tower Hamlets). The lowest funding per pupil is in the SE (£491 for Surrey), with SE authorities ranging from £491 to £748 per pupil.

7. Health Funding

7.1. The Department of Health currently makes recurrent revenue allocations directly to Primary Care Trusts (PCTs) on the basis of the relative needs of their populations and in line with pace of change policy (the rate at which PCTs move towards their target level of funding). For 2011/12, total recurrent funding for PCTs stands at £85bn.

7.2. Allocations for 2011/12, by Strategic Health Authority (SHA), were examined in order to compare health funding levels per head of population, with the two SHAs that cover SEEC member authorities being South East Coast and South Central. This identified that:

- The England average level of funding per head is £1,615.
- South Central SHA is the lowest funded at £1,401 per head, which is 13% below the England average.
- South East Coast SHA, at £1,551 per head, is funded 4% below the England average and is the 5th lowest funded overall (of the 10 SHAs nationally).
- North East SHA is the highest funded, with an allocation per head of £1,813, which is 29% higher than South Central SHA, on average.

7.3. At PCT level, there are 151 PCT's nationally that receive funding. The 2011/12 allocations were analysed on a per head basis for each PCT quartile and it was identified that:

- There is only PCT in both the South East Coast and South Central SHAs, Hastings & Rother PCT, which is in the upper quartile of funding (over £1,804 per head).
- South Central SHA has only one (Isle of Wight) and South East Coast only two (Brighton & Hove and Eastern and Coastal Kent) PCTs in the second quartile of funding (above £1,617 per capita).
- Taken together, the South East Coast and South Central SHA's have 58% of their PCTs funded in the lower quartile, which is the largest proportion nationally.
- The spread of funding per head nationally is significant. The highest funded authority nationally is Islington PCT at £2,268 per head. The lowest is South Gloucestershire PCT at £1,298 per head. The second lowest funded per head is Berkshire West PCT in the South Central SHA at £1,300 per head, 75% below Islington.

- 7.3 The most recent financial position for each of the 10 SHAs (2010/11 forecast) has also been considered, to determine the level of financial surplus/deficit. This analysis identified that:
- There is a forecast national surplus in 2010/11 of £1.3bn and, on average, SHAs are projecting a surplus equating to 1.3% of the resource limit.
 - Both the South East Coast and South Central SHAs are projecting surpluses considerably below this share for 2010/11, with South East Coast having the 2nd lowest surplus as a percentage of resource limit and South Central the joint 3rd lowest surplus.
 - The average annual surplus generated over the period since 2007/08 is 1.6% of resource limit. South East SHAs have generated the lowest average surplus over the period 2007/08 to 2010/11, at 0.9% for each SHA. The largest average surplus, 3%, has been generated by London SHA, followed by Yorkshire and the Humber SHA, at 2.3%.
- 7.4 Further statistical analysis identified that there is a correlation between the level of per head allocations for PCTs and the ability of PCTs to generate surpluses, not only in cash terms, but as percentages of their resource limit. For example, the ten highest funded PCT's are forecasting an average surplus of 1.2% of resource limit. All are forecasting surpluses, with the highest being Brent Teaching PCT at 3.1% and the lowest City and Hackney Teaching PCT at 0.3%.
- 7.5 In contrast, the average forecast surplus for the ten lowest funded PCTs is 0.3%. The highest are being forecast by South Gloucestershire and Mid Essex PCTs at 0.4%. Three PCT's are forecasting no surplus and, of the ten lowest funded authorities, five are in the South Central SHA area and include the three PCTs forecasting zero surpluses.

8. Local Authority Capital Funding

- 8.1. Local authorities fund capital expenditure through a number of financing sources, including: borrowing (both funded through Formula Grant and unsupported borrowing i.e. where the authority bears the full capital financing costs); capital receipts; government grants; developer contributions; other grants (e.g. lottery funding); and revenue contributions. The method of financing used by an authority will depend on a number of factors, including the availability of resources and local policies; for example, some authorities have a debt-free policy.
- 8.2. The level of local authority capital funding for SE authorities in comparison to other regions and England as a whole was examined for the five-year period 2005/06 to 2009/10 (the latest year for which national data is available), with it being identified that:
- At £257 per head, the SE had the lowest level of capital funding in 2009/10. This compared with the England average of £412 per head (excluding the Greater London Authority).

- Funding in the SE in 2009/10 was therefore 62% of the national average, 50% of the North East average, which was the highest funded region, at £518 per head, and 87% of the South West average, which was the next lowest funded area, at £297 per head.
- The SE has also consistently had the lowest level of capital funding per head of population of all regions over the period 2005/06 to 2009/10.

8.3. The main funding sources for capital expenditure were then examined in turn to determine the main reasons for this lower than average funding for the South East region. For the five-year period 2005/06 to 2009/10, this showed that:

- The SE has received the lowest amount in capital grant per head of population over the past five years, which is significant, given that the largest proportion of funding nationally comes from central government capital grants (accounting for 29% of total funding over the period). The average for the SE over the past five years is £69 per head per annum, compared to the England average at £104 per head.
- The SE has also been the region with the lowest level of funding received through the Single Capital Pot (non-ring-fenced grants), at £35 per head, compared to the England average of £47 per head.
- The SE receives the 2nd highest proportion of its funding from capital receipts (after the East of England). This could imply that the SE has needed to utilise more internal funding mechanisms for financing capital expenditure or has a higher asset base from which to draw upon.
- The SE has had the 2nd lowest level of unsupported borrowing, at a level of half the national average. Given the low level of government allocations, it might have been assumed that the level of unsupported borrowing would be higher than average in the SE, given the need to find capital resources from other sources. It is not possible to definitively identify the reasons for this, as it could include a range of factors, such as a lack of flexibility within revenue budgets to incur larger levels of unsupported borrowing or assets potentially being in better condition.
- It should also be recognised that the funding floor can have significant implications for the actual funding of 'supported borrowing' capital schemes. The direct link between supported borrowing and grant allocations has become weaker, particularly for floor authorities, who do not necessarily receive any increase in grant to fund such schemes. Similarly, those authorities contributing to the cost of national damping are also affected, since they do not receive funding for all of their assessed relative need. The consequence is that any difference in capital financing costs will be borne by council taxpayers.

8.4. There will clearly be a strong link between the level of available capital funding and expenditure levels. In terms of capital expenditure trends between 2005/06 and 2009/10, analysis identified that:

- In the five-year period, capital expenditure nationally (excluding the GLA), has risen by 19%.

- The largest regional increase has been in the London Boroughs, with an increase of 29%.
- The increase in the SE region's spending has been the 3rd lowest nationally, at 15%, with only the North West and Yorkshire and Humber having lower increases.

8.5. At an individual service level, between 2005/06 and 2009/10:

- **Education** - Capital expenditure on Education in the SE has, on average, been marginally below the England average, although it has fallen over the period, from being 5% above the average in 2005/06 to 7% below the average in 2009/10.
- **Highways and Transport** - Capital expenditure on Highways and Transport has consistently been the lowest per head of all the regions, with an average of £43 per head, compared to the England average of £55, excluding the GLA.
- **Housing** - Capital expenditure for Housing in the SE has consistently been the lowest of the regions and has averaged just 43% of the England level, at £38 per head compared to £89 per head nationally. Although the SE has the lowest proportion of social renters at 13%, which is below the national average of 18%, capital investment is less than half the national average and, for example, the North East has the highest proportion of social renters (23%), but expenditure has still been 64% above the national average.
- **Environmental Services** – The SE region has the lowest expenditure per head, averaging £33 over the last five years, in comparison to the national average of £50 (or £45 if the GLA is excluded).
- **Central Services** – The SE has the 3rd lowest expenditure over the period, averaging £17 per head, compared to the England average of £22. There has also been an average England increase in spending over the period of 24%, whereas in the SE, there has been a reduction of 19%. The SE is the only region to have seen a reduction in capital investment in this area over the period.

9. Deprivation

9.1. In order to consider deprivation within the South East, the Indices of Deprivation 2010 were compared to the previous Indices of Deprivation 2007. In summary, this identified that:

- The SE has the lowest average score (i.e. is identified as being the least deprived region) for each of the years, with scores of 13.9 and 14.8 for 2007 and 2010 respectively, compared to the England score (for both years) of 21.7.
- However, the SE has seen the largest increase in score between 2007 and 2010 (i.e. it has seen the largest increase in relative deprivation), with an increase of 6.8%. The second highest increase was for the East of England, at 2.6%.

- 9.2. The number of people living within each region and in deprived areas was also calculated, in order to consider the absolute numbers of the population affected. This showed that:
- In terms of the total population considered within the Indices of Deprivation, the SE region had the largest population, at 8 million (accounting for 16% of the total England population and being larger than the combined populations of the two smallest regions).
 - Within the SE, 565,000 people are living in what are considered to be the 20% most deprived areas in England, larger than the absolute numbers in both the South West (436,500 people) and East of England (400,500 people).
 - The SE has had more people move into the 20% most deprived areas in England of any region between 2007 and 2010. Between 2007 and 2010, an additional 88,500 people moved into the two most deprived deciles from the SE, compared to a reduction of 151,000 for the London region.
 - The SE has also seen the highest number of people move into the five most deprived deciles, with an increase of 186,000 people, by far the most significant movement.

10. Adult Social Care

- 10.1. The spending pressures facing local authorities in delivering adult social care have been well documented over recent years and adult social care budgets will be responsible for some of the most acute financial pressures facing local authorities in future. The projected financial impact of adult social care, based upon population projections to 2020 and current (2009/10) expenditure levels, were therefore considered by client group.
- 10.2. For older people (65+):
- In terms of historic spending trends, between 2005/06 and 2009/10, the increase in over 65s spending for England as a whole has been 10%. The SE region's increase in spending has, however, been 16% over this period, the largest of any region in England, with the next largest increase by any region being 13%.
 - Although spending in the SE has increased by 16% over this five-year period, this can be compared with a population increase of only 8% during the same period; spending is therefore increasing at twice the rate of the change in population.
 - This differential compares to a spending increase of 10% for England compared to a national population increase of 6%. The London differential is even more marked than the SE, with a spending increase of 10%, compared to a 0% population change.
 - In 2010, the highest proportion of the over 65 population in England is resident in the SE (1.5 million people), with this proportion being expected to remain at a similar level in 2020.

- Combining population and expenditure projections, looking ahead, spending on older people's social care is projected to rise faster in the SE than any other region. This represents an increase in spend of 70%, from £1.2bn in 2009/10 to £2.0bn in 2020/21. The equivalent England increase is 54%, and the next highest regional increase in spending is 56%.

10.3 For younger adults (aged 18-64):

- In terms of historic spending trends, between 2005/06 and 2009/10, the percentage increase in spend on adults with a physical disability (PD), learning disability (LD) and mental health needs (MH) for England as a whole has been 21%, 31% and 16% respectively. The SE region's increase in spending has, though, been below the average England level, at 13%, 27% and 14% over this period.
- In terms of total younger adult client numbers, the SE is, however, the only region to have experienced a decrease in total client numbers between 2005/06 and 2009/10 (of around 8%). This compares to an increase for England as a whole of around 3%.
- This could potentially indicate that SE authorities are undertaking more rigorous assessments and/or implementing stricter eligibility criteria, and the SE is still accepting more referrals than the average, although this proportion has been reducing. It is not possible to give a definitive explanation as to the reasons for this, although cost pressures may be an issue.
- Combining population and expenditure projections, looking ahead, spending on younger adult client groups in total is expected to increase by 39% compared to the England average of 32%. This is less spend in this area than for older people, however, with total spend for the SE for all these client groups estimated to be around £1.3bn by 2020.

11. Population Pressures and Potential Under-enumeration

- 11.1. Population data is the main driver of central government funding allocations to local authorities. As such, lower population movements relative to the national average will have an adverse impact on an individual local authority's level of funding and it is therefore crucial that the Office of National Statistics (ONS) population estimates and projections used in the finance settlement are robust. The impact of the ONS population figures for the SE region on the area's overall funding allocation through the local government finance settlement was therefore considered.
- 11.2. In moving to multi-year settlements, from 2006/07, central government took the decision to use Sub-national Population Projections (SNPP), as opposed to the previous use of Mid-year Population Estimates (MYE), to inform local authority funding allocations. The government argued that the use of SNPP would ensure that the population data was 'up-to-date'. MYE are generally deemed to be a more accurate representation of a local authority's actual resident population - the ONS's methodology seeks to take into account recorded birth and death rates within a local authority area, and also makes assumptions for UK-wide migration flows; whereas the SNPP are simply mathematical calculations, based on previous population trends within a local authority area.
- 11.3. Analysis identified that, when comparing the difference between the published 2009 MYE and the 2011 sub-national population projections (SNPP), the SE benefitted from the decision to use SNPP. The use of the 2011 population projections increased the SE region's resident population by 1.5% more than the 2009 MYE's would have suggested, had they been used.
- 11.4. The difference between the most recently published MYE for 2009 were also compared against the equivalent SNPP 2009 – to assess the 'accuracy' of the population data used to determine Formula Grant. This analysis identified that, for the SE, the 2009 SNPP appeared to 'underestimate' the region's resident population by 5,100 people (0.06%). This compares to an England 'overestimate' of 7,400 (0.01%). London experienced the largest adverse variance (at -0.31%), whilst the South West had the highest gain at +0.41%. Although, overall, the SE region is slightly disadvantaged by the ONS methodology for calculating SNPP, there will be individual winners and losers amongst SE authorities.
- 11.5. The key issue, however, is whether ONS's published figures actually accurately measure their resident population, given that a number of SE authorities believe that under-enumeration occurs. Within the ONS methodology for calculating population estimates, it is their assumptions relating to Net International Migration which result in the largest discrepancies between the official recorded population figures for individual local authorities and the overall perceptions of authorities themselves. ONS have previously stated that, "there is now a broad recognition that available estimates of migrant numbers are inadequate for managing the economy, policies and services".
- 11.6. The South East of England is a gateway to the rest of the UK, given its significant coastline, number of seaports and airports and relative proximity to the rest of Europe. If under-enumeration has occurred, there will be a consequent funding 'loss' for individual local authorities through the annual local government finance settlement. As a broad estimate, one additional person represents around £466 in funding terms through the finance settlement. It is therefore key that authorities continue to compare ONS population

estimates to their own awareness of the position on the ground, based upon service delivery levels and encourage enumeration amongst residents.

12. Regional Cost Pressures

12.1. The current Area Cost Adjustment (ACA) within the local government funding system is intended to represent regional cost pressures. Currently, the SE region as a whole receives an uplift from ACA of 4.4% in its needs assessment. This is the highest uplift from the ACA outside London (which receives 14.1%). The average for England as a whole, including London and the South East, is 3.6%.

12.2. The key findings in relation to the ACA were:

- The Labour Cost Adjustment is the principal element of the ACA (the other being the Rates Cost to reflect business rates). Previous research by NERA for West Sussex CC has identified that using the Labour Force Survey (LFS) instead of the Annual Survey of Hours and Earnings (ASHE) would identify wage pressures as being around 5% higher. Using only private sector data would also benefit the SE, and analysis by NERA report showed that average wages are 3.8% higher in the SE when public sector wages are excluded, than when they are included.
- Individual parts of the SE are affected differently by the ACA, for example:
 - Surrey CC and the unitaries in the east of Berkshire have ACA uplifts that are only marginally lower than west London boroughs
 - Unitaries towards the west of Berkshire (Reading, Wokingham and West Berkshire) have the next highest group of ACA uplifts. This demonstrates that proximity to the west of London has the greatest impact on cost pressures, as measured by the ACA.
 - Kent and West Sussex have relatively low ACA uplifts. Both these two counties have fringe (where teachers are eligible for fringe payments) and non-fringe areas, which reduce their average ACAs considerably. For instance, parts of West Sussex are in the fringe group with Surrey and Berkshire and therefore receive the highest ACA uplifts outside London. The remaining parts of these counties have either very small ACA uplifts or no uplift at all.
 - East Sussex as a whole has no ACA uplift and this includes Brighton & Hove. Portsmouth and Southampton have ACA uplifts in line with Hampshire as a whole.
- There have been reductions in the value of the ACA, partly from changes in the underlying data and partly from changes in methodology. These changes disadvantage much of the SE relative to the rest of the country.
- There is no ACA uplift for non-pay costs, other than business rates. Therefore, between 20% and 60% of local authority non-pay expenditure (depending upon the specific service in question) has no ACA uplift. Potential explanations for excluding

non-pay costs from the ACA could be that there are no material differences in non-pay costs between different parts of the country, or there is no data available to show whether there are material variances and, if there are, what the ACA uplift should be. Although ONS produces an index of regional price levels, this may not necessarily be directly relevant to the non-pay costs incurred by local authorities. This index identified a differential of 1.6% for the SE compared to nationally, once housing costs were excluded.

12.3. Investigation also took place into whether there may be other evidence in relation to the difference in costs between the SE and other regions, specifically, in terms of the costs of commissioning services. To undertake this analysis, two services with unit cost information available were considered; older people and children's social care.

12.4. In summary, the analysis identified that:

- For Nursing and Residential Care, the England average unit cost in 2009/10 was £517 per week, compared to £579 for the SE (12% above the national average).
- For Home Care visits, the average unit cost in England in 2008/09 was £145, compared to £155 for the SE (7% above the national average).
- For children's Residential Care placements, in 2009/10, the average annual cost of a placement in the SE was £149,000, which is 12% above the England average.
- For children's Foster Care, the average annual cost of a child in foster care in 2009/10 for the SE was £28,000, which was 5% above the England average.

12.5 Although clearly, there may be a number of reasons why differences in unit costs occur, such as variations in policy, quality or economies of scale, there appears to be some evidence that the costs of commissioning social care services in the SE may potentially be at a level greater than the allowances in the Relative Needs Formula for the Area Cost Adjustment.

13 Summary

- 13.1 The research by LG Futures has identified that, as a perceived 'lower need' region, the SE receives significantly less funding than other regions of the country. This is the case for Formula Grant, health funding and, to a lesser extent, for schools. The region has also experienced increases in Council Tax over time, moving from below the England average to being above the England average from 2004/05, with this differential increasing.
- 13.2 Local authority capital funding is also lowest for the SE region and this has been the case over the past five years, leading to the lowest levels of per head expenditure on Housing, Highways and Transport and Environmental Services.
- 13.3 In addition, potential under-enumeration in relation to migration, given that the SE is the gateway to the rest of the UK, would have a further significant impact upon the SE region's funding levels, if population estimates are not sufficiently robust.
- 13.3 The SE has seen significant increases in deprivation, as measured by the Indices of Deprivation 2010 and 2007, with more people in the SE moving into the 20% most deprived areas in England of any region between 2007 and 2010.
- 13.4 These low levels of funding need to be considered in the context of increasing cost pressures, particularly in relation to older people's social care, where spending care is projected to rise faster in the SE than any other region. The SE may also face regional cost pressures which exceed the current Area Cost Adjustment allowance, in older people's and children's social care.
- 13.5 Given this context, Stage 2 of LG Futures' research will now focus upon potential proposals for change to the funding system, considering the financial implications for the SE and other regions.