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AUTUMN BUDGET 2018: SOUTH EAST ENGLAND COUNCILS' SUBMISSION

1. Key South East issues

1.1 South East England Councils (SEEC) is the cross-tier voice of local authorities in the South East of England. We are a voluntary membership body, bringing together county, unitary and district councils. Together we promote the views and interests of all tiers of local government across the South East, representing 9.2 million residents – the largest population in the UK.

1.2 Latest ONS figures show the South East has a highly successful economy that contributed £19.4bn more to the Treasury in 2016-17 than the area received in public spending. The South East also has the UK's highest population, including the largest and fastest growing number of residents aged 75+.

1.3 However, the South East faces challenges in its ambitions to deliver the continued economic growth that will ensure net contributions to Treasury are maintained to help fund public spending in the South East and UK-wide. One of the key challenges is the need for greater infrastructure investment to drive South East business growth and job creation while also ensuring that new housing developments are supported by the full range of facilities that residents need. These facilities include infrastructure such as transport, utilities, health services and schools, as well as essential local authority services ranging from social care to refuse collection.

1.4 Given the importance of the South East to the national fiscal balance, SEEC members are keen to see the Autumn 2018 Budget make financial decisions that support South East growth ambitions in three particular areas:

- Infrastructure investment
- Housing delivery
- Sustainable local service delivery.

2. Infrastructure investment

2.1 SEEC members believe the South East needs increased infrastructure investment to be able to deliver its full potential for UK plc. At £259bn the South East had the second highest GVA in 2016 (after London) but the third lowest year on year GVA increase at 2.8% between 2015 and 2016. London GVA grew 5.1% in the same year.

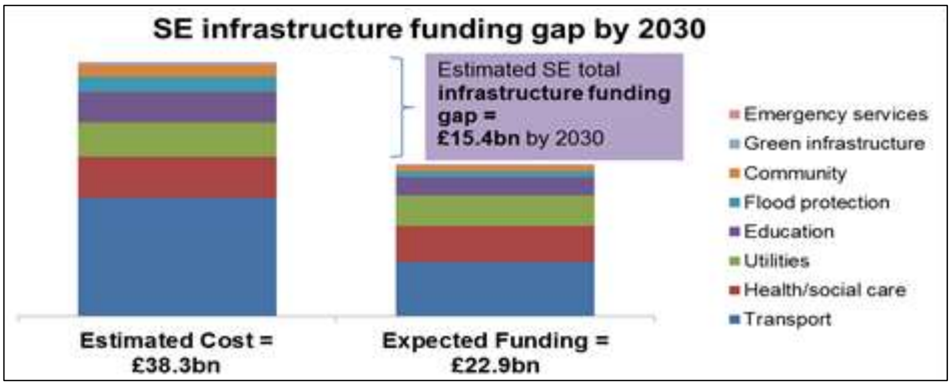
2.2 SEEC members believe this level of growth does not reflect South East potential and that slowing growth is due to low levels of investment in the South East. Capital spend by both central and local government in 2016-17 shows that investment per capita in the South East was £825 per person, compared to £1,349 per person in London. Capital spend in London was over 60% higher than in the South East. At the same time, research for SEEC estimates the South East faces a £15.4bn infrastructure funding gap by 2030.

2.3 Better infrastructure is required for South East business and productivity growth – for example to reduce congestion delays and improve businesses' links to their key markets. Infrastructure is also essential to housing delivery – ensuring that new homes have access to the full range of support services that residents need.

2.4 Local authorities are well-placed to help determine infrastructure investment needs thanks to their detailed knowledge of each local area's pressures and needs. Treasury should work closely with local authorities to target funding to projects that will support local economic growth, productivity and housing delivery.

2.5 Chart 1 below illustrates the infrastructure funding gap calculated for SEEC by local government finance experts LG Futures. It shows transport infrastructure has the largest funding shortfall but gaps are also evident in areas including health/ social care, utilities, education and flood protection. These funding gaps need to be bridged to ensure that the South East is able to continue to play its part in providing income that Treasury can use to support public spending UK-wide.

Chart 1: South East Infrastructure Funding Gap by 2030 (LG Futures for SEEC)



2.6 In designing Budget 2018, we urge you to consider two aspects of how greater infrastructure investment could be achieved:

a) **Set clear and transparent parameters for a national Government investment portfolio that balances high and low return investments**. This will help ensure that successful, high return areas, such as the South East, do not lose competitiveness and reduce their financial contributions to Treasury. Investing in up-and-coming parts of the country is important but, as these areas offer lower financial returns on investment, Treasury should clarify its plans to balance risk by ensuring a mix of high and low return projects. Too great a bias towards investment in up-and-coming areas risks undermining the profits – and public spending capacity – that Treasury earns from areas such as the South East.

b) **Explore ways to allow South East local authorities to access alternative sources of infrastructure funding**. One option is to introduce a form of land value capture in areas where there are high gains to be made from developing land for new housing, as in the South East. Another option is to allow South East local authorities to receive a share of Stamp Duty Land Tax (SDLT) the first time a property is sold. The link to first time SDLT would create an important connection between new homes and the infrastructure they require.

2.7 Both the options in para 2.6 would enable local authorities to access funding to help them deliver the infrastructure required to support growth that will maintain and increase South East net contributions to Treasury. In the short term this would reduce the national share of SDLT but the resulting infrastructure investments would support new jobs to generate compensating increases in income tax and corporation tax.

3. Housing delivery

3.1 South East authorities recognise the importance of housing delivery, including affordable homes, as part of achieving a sustainable economy. The South East has an excellent track record in housing, enabling England's highest delivery in the 3 years to 2016-17 at 99,700 homes. However, South East authorities still have over 60,000 further homes that have been granted planning permission but not built by developers.

3.2 SEEC members have welcomed recent initiatives to help local authorities improve housing delivery. For example:

- HIF allocations to South East authorities (£224m allocated to the South East in Spring 2018). This funding is helping to provide infrastructure to unlock housing locations, although HIF alone cannot bridge the £15.4bn infrastructure funding gap that the South East will face by 2030 (see chart 1 above).
- The newly announced Small Sites Fund to support infrastructure needs for housing. While very welcome, the £630m available will cover only a small proportion of the South East's £15.4bn infrastructure funding gap.
- Consultation on use of receipts from Right to Buy housing sales. More flexibility in using receipts is positive but SEEC members want to see these flexibilities extended further.
- Some modest additional tools to help local authorities encourage developers to turn planning permissions into new homes. However, many SEEC members believe the tools are not sufficient to allow them to incentivise delivery actively and meet the new NPPF housing delivery test.

3.3 SEEC members support a package of additional measures to give councils greater flexibility to support successful housing delivery. In designing Budget 2018, we urge you to introduce steps that will:

a) **Maintain New Homes Bonus (NHB) at current levels/ thresholds** to ensure a continued flow of funding for local improvements that can help overcome community opposition to development. NHB has been important in helping gain local support for new housing, enabling residents to see a tangible link between new development and funding for local projects. The plans to raise the threshold before NHB is payable risks breaking this link and undermining infrastructure investment, which could lead to greater opposition to new development. SEEC members are also keen to stress that <u>all</u> new housing development requires infrastructure so it should follow that all homes attract NHB.

b) **Allow local authorities discretionary powers to incentivise stalled housing developments.** One example would be to allow councils to charge fees or levy financial penalties on stalled housing developments. Such powers would enable councils to incentivise quicker delivery of finished homes where measures included in the NPPF do not have the desired effect and risk a council failing the new housing delivery test. Options could be to allow the ability to charge council tax or CIL on undeveloped homes.

c) **Ensure all housing development sites contribute to infrastructure costs.** SEEC members are keen to see Treasury revisit current rules that exempt certain housing developments from paying CIL or Section 106 contributions towards new infrastructure and affordable housing. At present small sites and office-to-residential conversions do not pay CIL or S106, despite the new properties adding to pressure on local services. SEEC would like to see all developments contributing towards infrastructure costs, alongside powers for councils to determine locally-appropriate developer contributions. This would ensure all developments contribute to affordable housing and infrastructure, helping South East authorities respond to local demands.

d) **Increase flexibility in use of Right to Buy (RtB) receipts to ensure councils can fund 1-for-1 replacements** of affordable rented homes. A strong supply of affordable homes for rent is important to the South East as a high cost area, where many residents cannot afford to buy. SEEC members would like to see the following:
   - Local authority powers to set RtB discounts. While supporting RtB, SEEC members say that discounts kick in too soon and are so high that councils' retained receipts often do not cover the cost of replacing the home sold.
   - The ability for councils to keep 100% of receipts so they can replace RtB sales with an equivalent number of properties. There should also be a more flexible 5-year, rather than current 3-year, time limit for spending all current or future receipts.
   - Freedom for councils to use RtB receipts to replace sold homes in any way. For example, councils should have the option to be able to purchase or convert property for social rent as well as building new.

4. Sustainable local service delivery

4.1 With 9.2 million residents, the South East has the UK's largest population. The South East population is larger than London's and includes the UK's largest and fastest growing elderly population. Figures for 2018 show the South East has 820,000 residents aged 75+ and this will almost double to 1.5m by 2041. The South East also has the UK's highest number of residents aged 85+, currently 254,000 and rising to 524,000 by 2041.

4.2 The scale of the South East population places significant funding pressures on all local authority services. Given the scale of the South East's elderly population, social care funding is a particular concern.

4.3 Children's social care is also a concern due to high and rising numbers of children in the South East. ONS analysis of 2018-19 local authority budgets shows this area of spending rising nationally by £542m, one of the highest expenditure increases. This is a 6.8% increase from last year, taking total spend nationally to £8.6bn. Compared to 2017-18, the largest increases are for looked after children (up 9.1% to £4.2bn) and safeguarding (up 6.7% to £2bn). With 1.96 million under 18s, the South East has the UK's second highest child population (London has 2 million) and so feels the pressures on children's social care acutely.

4.4 On future local government funding, SEEC members welcome the work underway to design a new, fairer approach to take effect from 2020-21. They also strongly support the proposals to eliminate negative RSG from the 2019-20 local government finance settlement. Negative RSG is a major concern for the South East, where 75% of authorities would face significant added financial pressures if negative RSG was allowed to go ahead.

4.5 Urgent decisions are needed on both negative RSG and a new funding system to allow councils to plan effective budgets for future years.

4.6 In designing Budget 2018 and preparing for a Spending Review in 2019, SEEC members urge the Treasury to:

a) **Increase the transparency and equity underpinning central funding decisions**, particularly how these impact on a local authority's income. South East authorities are particularly keen to find resolution to two issues:
   - Greater clarity about the application of any central tariffs and top ups to local business rate retention. For many South East authorities, the current application of tariffs on retained business rates undermines the incentive for economic growth. While the business perception is that councils keep all the business rates they collect, some SEEC members report that tariffs mean they only retain approximately 10% of what they collect.
   - Greater clarity on how central funding affects the share of local costs funded by council tax payers. In the South East, council tax payers fund 70% of council spending, compared to just 45% in London. SEEC members would like to see measures introduced in a new funding system to deliver a more equitable balance for the South East's council tax payers.

b) **Allow greater local accountability on setting council tax levels**. Councillors are directly elected and should be accountable for local spending and council tax decisions via the local ballot box, without the need for a referendum. However, this greater freedom over council tax levels should not be seen as a substitute for providing sufficient levels of Government grant to support children's social care and fix the urgent adult social care funding problem.

c) **Allow greater local freedom on setting local fees and charges.** Councillors should have the ability to set their own local charges for services, for example charges at waste sites and fees for planning applications that cover the full costs of providing these services. Local ability to set and levy charges would allow councils to continue to provide quality services without the need to subsidise costs from other budget streams or from central government funding.

d) **Establish a Royal Commission on social care funding** bringing national and local government together to find a solution to the growing gap in funding. LGA estimates the national adult social care funding shortfall will be £3.56bn by 2025. Pressures are particularly high in the South East due to our exceptionally high population of older people, with 820,000 aged 75+. The South East also has the UK's largest overall population, resulting in high and growing social care demands from younger adults living with complex needs. Many South East authorities believe it is unsustainable and inappropriate that adult social care should continue to be funded by local taxes. SEEC members therefore support a public discussion on options for funding social care through nationally-raised taxes or charges.

e) **Ensure full cost recovery for local authorities assisting with national resettlement programmes.** The National Transfer Scheme for Unaccompanied Asylum Seeking Children (UASC) is an ongoing concern for South East local authorities, as costs significantly exceed funding provided by central Government. This creates an additional burden on top of existing children's care costs. On NTS placements, estimates show that South East local authorities face a funding gap in the region of £20,000 a year for each UASC placement they accept. Given other service and funding pressures on local authorities, this shortfall in funding makes it very difficult for South East authorities to continue offering UASC places.

Yours sincerely

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