

Housing, Communities & Local Government Select Committee Local Government Finance & 2019 Spending Review Inquiry

Written evidence from South East England Councils

South East England Councils (SEEC) is the cross-tier voice of local authorities in the South East, representing 9.2 million residents. We are a voluntary membership body, bringing together county, unitary and district councils to promote the views and interests of all tiers of local government across the South East, an area comprising 74 local authorities.

Executive Summary & Recommendations

- i) There is a need for greater resources to be allocated for local government funding in Spending Review 2019 (SR19).
- ii) SEEC members have longstanding concerns about complexity, lack of transparency and unfairness in local government funding.
- iii) The current system is opaque and very difficult to understand. This undermines its credibility. In areas such as the South East, system flaws have placed an unfair burden on council tax payers to pay a more towards council costs than is the case in other areas.
- iv) A fundamental review of local government funding is required to create a credible, fair system. This is essential to enhance local democracy.
- v) Population should be the primary factor driving new funding allocations. Small proportions of funding allocated for issues such as deprivation or rurality could be included but must be completely transparent.
- vi) A flat-rate settlement for local government in SR19 coupled with a new system will cause conflict by creating winners and losers. Government should make more funding available.
- vii) Service pressures are particularly acute for social care in the South East given the very high and fast-growing number of older residents. Council tax is unsustainable as a way of funding social care. The government should consider other nationally-funded alternatives.
- viii) Adequate funding for services is vital but South East authorities also need greater freedom to raise funds to help address a £15.4bn infrastructure funding gap.
- ix) Councils need more freedom to raise funds for services – eg via council tax and local fees, without caps imposed by central government. For infrastructure, councils should have access to a share of taxes such as stamp duty and powers to raise income – eg capturing land value or levying charges on unused planning permissions.
- x) There is evidence of growing centralisation of UK tax revenues, increasing pressure on local government spending. This should be reversed. The UK is one of only 3 OECD countries that has seen a shift of tax revenue away from local government to the centre of more than 5 percentage points between 1975-2016. Government should learn from countries such as Italy, Portugal and Sweden, which have seen tax revenues shift in the opposite direction.

1. What lessons can be learned from past changes to local government funding and how this has affected their ability to deliver services.

- 1.1 SEEC members have longstanding concerns about the complexity, lack of transparency and unfairness evident in local government funding allocations over many years.
- 1.2 There are also concerns as evidence shows growing centralisation of UK tax revenues, putting added pressure on local government spending. The UK is one of only 3 OECD countries that has seen a shift of tax revenue away from local government to the centre of more than 5 percentage points between 1975-2016.

Past changes

- 1.3 In 2012 SEEC's report '[Fixing a Broken system](#)' identified flaws in the then funding system. The complex 4-block system made funding allocations opaque to both voters and many within local government, undermining the principles of local democracy. The lack of transparency in allocating funding created a culture of hidden decisions and low awareness about why each authority received its allocation.
- 1.4 SEEC's 2012 report illustrated that two-tier and unitary areas, including the South East, have consistently received significantly less grant per head than London and metropolitan

authorities. This means South East councils need to raise a greater share of spending from council tax payers – but many still have lower per capita spending power. Analysis by finance specialists LG Futures showed council tax rises averaging 129% in the South East from 1997-98 to 2011-12. In central London boroughs, average rises were just 73% over the same period. Such unfair allocation of central funding puts undue burdens on South East council tax payers compared to residents in other areas.

- 1.5 Although welcome in principle, greater local retention of business rates from 2013-14 has not delivered significant uplift in spending. In practice tariffs and top ups mean that many SEEC authorities keep only a small proportion of locally collected business rates. This has led to frustration as many South East businesses, residents and MPs had interpreted retention at face value and expected increased spending power locally.
- 1.6 South East problems were exacerbated by changes to the settlement methodology in 2016-17, which targeted the highest cuts on the areas already receiving the least funding. Negative RSG was also a major concern in the South East as this would have had a detrimental effect on spending capacity in 75% of South East authorities.
- 1.7 Over several years, central restrictions on local fundraising have limited councils' ability to increase council tax and set local fees, leaving local authorities very little capacity to raise funding to support service delivery and other needs.

Services

- 1.8 Flaws in the funding system have been exacerbated by reductions in central funding for local authorities. South East authorities have had to face difficult decisions about scaling back or closing non-statutory services to continue meeting legal requirements, such as children's and adult social care. Individual local authorities are better placed to feed in detailed examples of how spending allocations have impacted on local service delivery.
- 1.9 Many council services are under pressure, including libraries, leisure, planning, waste and social care. In the South East, social care is one of the most pressing challenges, with authorities facing dramatic increases in demand from the UK's highest and fastest rising population of older residents. The South East has more residents aged 75+ than any other area of the UK – 846,800 in 2019. This cohort is growing more quickly than elsewhere, expected to nearly double to 1.5 million by 2041. The number aged 85+ is expected to rise from 258,000 in 2019 to 524,000 by 2041.
- 1.10 SEEC members believe that funding social care via council tax in the South East is unsustainable as an authority's local tax base bears no relation to demand for adult care. In addition, the long-standing disparity between levels of central support for different types of councils means South East authorities are facing severe social care funding pressures. SEEC urges ministers to use the forthcoming social care green paper as an opportunity to look at all possible options to bridge the gap.
- 1.11 Service funding pressures are significant for South East authorities but they are only part of the picture. SEEC members also need substantial infrastructure investment to support continued housing and economic growth. While initiatives such as the Housing Infrastructure Fund are welcome, they will not address the scale of the South East infrastructure funding gap, estimated at £15.4bn by 2030.

Lessons

- 1.12 Building on the points above, SEEC recommendations on lessons for the funding review and SR19 include:
 - A fundamental review of local government funding is required to minimise complexity and maximise transparency. This is vital for local democracy and accountability.
 - Fairness and equity in allocations country-wide is important for the credibility of a new system.
 - A flat rate financial settlement in SR19 will not address local government funding pressures.
 - Local authorities currently have very limited control over their income, so lack the flexibility to raise funds locally to help deliver services.
 - Service funding is vital but it is not the only concern. Councils also need to be able to access funding for infrastructure improvements that will support local economic and housing growth.

- UK tax revenues are becoming more centralised and this undermines local democracy. Lessons should be learned from overseas to redress some of the balance back towards local government.

2. Efficiency, fitness for purpose and sustainability of the current system for funding local government; how it could be improved; options for widening sources of funding; lessons from other jurisdictions.

- 2.1 Our response to question 1 illustrates some of the reasons why the current system is unsustainable. SEEC members believe fundamental changes are needed to increase the transparency and equity underpinning central funding decisions, particularly how these impact on a local authority's income and ability to raise additional funds. To ensure a new system is fit for purpose, SEEC members want greater clarity on:
- How central funding is allocated, so local authorities and their residents can understand the impact of central decisions on local spending.
 - 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 45% in London.
 - How central tariffs and top ups affect local business rate retention. For many South East authorities, tariffs undermine the incentive for economic growth. While the business perception is that councils keep all the rates they collect, some SEEC members report that tariffs mean they only retain approximately 10%.
 - How greater flexibility for councils to raise funds locally can be provided.
 - Long term settlements that allow local authorities to plan ahead and maximise the effectiveness of resource allocation to deliver services.
- 2.2 Building on the lessons in para 1.12, SEEC's proposals for improving a new system and widening sources of funding are below. We have included infrastructure funding proposals because this is such an important issue for South East authorities who face a £15.4bn infrastructure funding gap by 2030.

Services

- 2.3 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 ballot box, without the need for a referendum. This could increase local income but should not be seen as a substitute for providing sufficient levels of Government grant to support statutory services and fix the urgent adult social care funding problem.
- 2.4 Allow greater local freedom on setting fees and charges to help fund service delivery. Councillors should have the ability to set these locally, for example charges at waste sites and full cost recovery fees for planning applications. Local ability to set and levy charges would allow councils to continue to provide some services without the need to subsidise costs from other budget streams or from central government funding.
- 2.5 Ensure full cost recovery for local authorities assisting with national resettlement programmes, such as the National Transfer Scheme for Unaccompanied Asylum-Seeking Children (UASC). This is an ongoing concern for South East authorities, as costs of supporting UASC significantly exceed funding provided by central Government. Depending on area, the gap can be circa £20,000 per year per child, creating a financial burden.
- 2.6 Ensure adequate new burdens funding is in place for additional responsibilities that Government passes to local authorities.
- 2.7 Given the unsuitability of council tax to fund social care costs, a national approach to care funding should be considered. Options for debate include an approach similar to auto enrolment for pensions, additional national insurance contributions, personal insurance products or models developed in countries such as France, Germany, Japan, Australia and the Netherlands. Government's promised green paper on social care is an opportunity to involve all political parties from local and central government, care sector experts and local authority directors of adult care in identifying funding solutions.

- 2.8 Within the new system it is vital to achieve more equitable funding allocations across the country. However, Ministers should also be urged to use SR19 to increase the total amount available to local authorities.

Infrastructure

- 2.9 Allow South East local authorities to raise funds for infrastructure where land values rise dramatically when housing is approved. This could take the form of Strategic Infrastructure Tariffs. Changes to Compulsory Purchase Orders could also be considered, allowing councils to buy land at pre-housing values and then realise some of the uplift to fund local infrastructure.
- 2.10 Allow local authorities to receive a share of Stamp Duty Land Tax the first time a property is sold. This would help fund the local infrastructure required for new homes.
- 2.11 Allow councils the ability to charge fees or council tax on unimplemented or stalled planning permissions. This would incentivise swifter housing delivery and funding raised could contribute to local infrastructure improvements.
- 2.12 Re-establish New Homes Bonus (NHB) contributions for all homes delivered. The original approach to NHB ensured all housing growth brought a financial contribution and helped overcome community opposition to development by enabling residents to see a tangible link between new development and funding for local projects.
- 2.13 Ensure all housing developments contribute to infrastructure costs by removing Section 106/ CIL exemptions for small sites and permitted development rights (eg office-to-residential conversions).
- 2.14 Increase flexibility in using Right to Buy, allowing 100% council retention of receipts to ensure 1-1 replacements of affordable homes and local authority discretion on discounts.

Overseas

- 2.15 OECD publishes data on the share of tax revenues received by each tier of government in 36 countries. Latest data (2016) shows that UK local government only receives 4.7% of tax. This compares to 27% in Denmark and 35.4% in Sweden.
- 2.16 OECD identifies the UK as one of only 3 countries where the split of taxes has shifted further towards central Government by 5 percentage points or more over 40 years (1975-2016). The others are Ireland and Norway.
- 2.17 Five countries have seen significant shifts in the other direction with taxes moving from central to local over the same period, including Italy (to 15%), Portugal (to 7.3%) and Sweden (to 35.4%). SEEC urges the select committee to examine how local government funding systems in such countries could be adapted to give English local authorities greater fundraising and spending capacity.

3. How funding local government needs are assessed. Current and forecast funding needs and how these needs can be better understood at national and local level. Per capita primary need, elements for deprivation or rurality.

- 3.1 SEEC's key requirement is to achieve fair, open, understandable & accountable funding allocations for all local authorities. We must move away from opaque systems where very few people understand the basis of allocations. It is vital for the new system's credibility to achieve a common standard for comparing allocations across the country.
- 3.2 This will avoid misconceptions about relative cuts and levels of funding in the current system. Media coverage regularly focuses on percentage cuts in urban areas rather than comparing spend per capita or per household. In February 2019 misleading headlines suggested local government spending cuts had fallen disproportionately on metropolitan councils. SEEC members believe this presents a skewed picture. The reality is that, regardless of cuts, many city areas still receive and spend more than neighbouring councils in more rural areas. The highest cuts do not equal the lowest spending. All councils have faced significant cuts, but metropolitan areas are still ahead in the funding race, with considerably greater spending power per person than many South East authorities. For example, in Hampshire, combined county and district spending power in 2018-19 ranged from £1,522 per household in Basingstoke to £1,620 in Hart. In contrast, Liverpool's £2,010

per household and Blackburn's £1,994 are more than 20% higher. The new system needs to concentrate on funding comparisons per capita or per household, not the scale of cuts.

- 3.3 The South East's dramatic service pressures – eg from our very large ageing population – and history of consistently low funding combine to make further savings hard to achieve.
 - 3.4 The focus should be on central support for comparable services in different parts of the country to even out past discrepancies. The Institute for Fiscal Studies showed that in 2009-10, South East local authority spending power averaged £774 per person, the lowest in the country. In London, the average was more than double at £1,421. By 2016-17 average spending per person in the South East had fallen 19% to £628. By 2016-17 London's average spending per head was £861 – even after a 39% cut, the average spend was still £233 more than in the South East. The result is that South East residents pay 70% of local costs through their council tax, compared to just 45% for London residents. These basic inequalities must be addressed by an updated local government finance system.
 - 3.5 SEEC members believe the fairest approach is to allocate local authority funding in a more open and transparent way that bases the majority of decisions on scale of population. There is some scope for including modest adjustments for factors such as deprivation or rurality but these must be fully accountable and evidence based to avoid opaque decision making and ensure extra amounts allocated are clear to all. Lack of accountability would open the door for lobbying by previously high spending authorities who simply want to protect past allocations rather than strive for a system that treats all areas more equally.
- 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 potential merits of new or alternative approaches to funding within the review.**
- 4.1 SEEC members support a fundamental review of local government funding to achieve greater openness and demonstrate equal treatment for all local authorities. Achieving this will require allocations to focus on a relatively small number of factors – of which population should be a main driver. There is support for including a small number of mitigating factors for a small proportion of allocations – eg deprivation, rurality – on condition that the impact of these factors is fully open and accountable.
 - 4.2 Finances are challenging throughout local government and all local authorities would welcome additional funds. SEEC members are keen to see a fair, accountable approach to a new funding system that can secure the resources that all areas need. Achieving this without creating politically unpopular winners and losers is likely to need allocation of additional funding for local government through SR19.