Future Funding for Local Government

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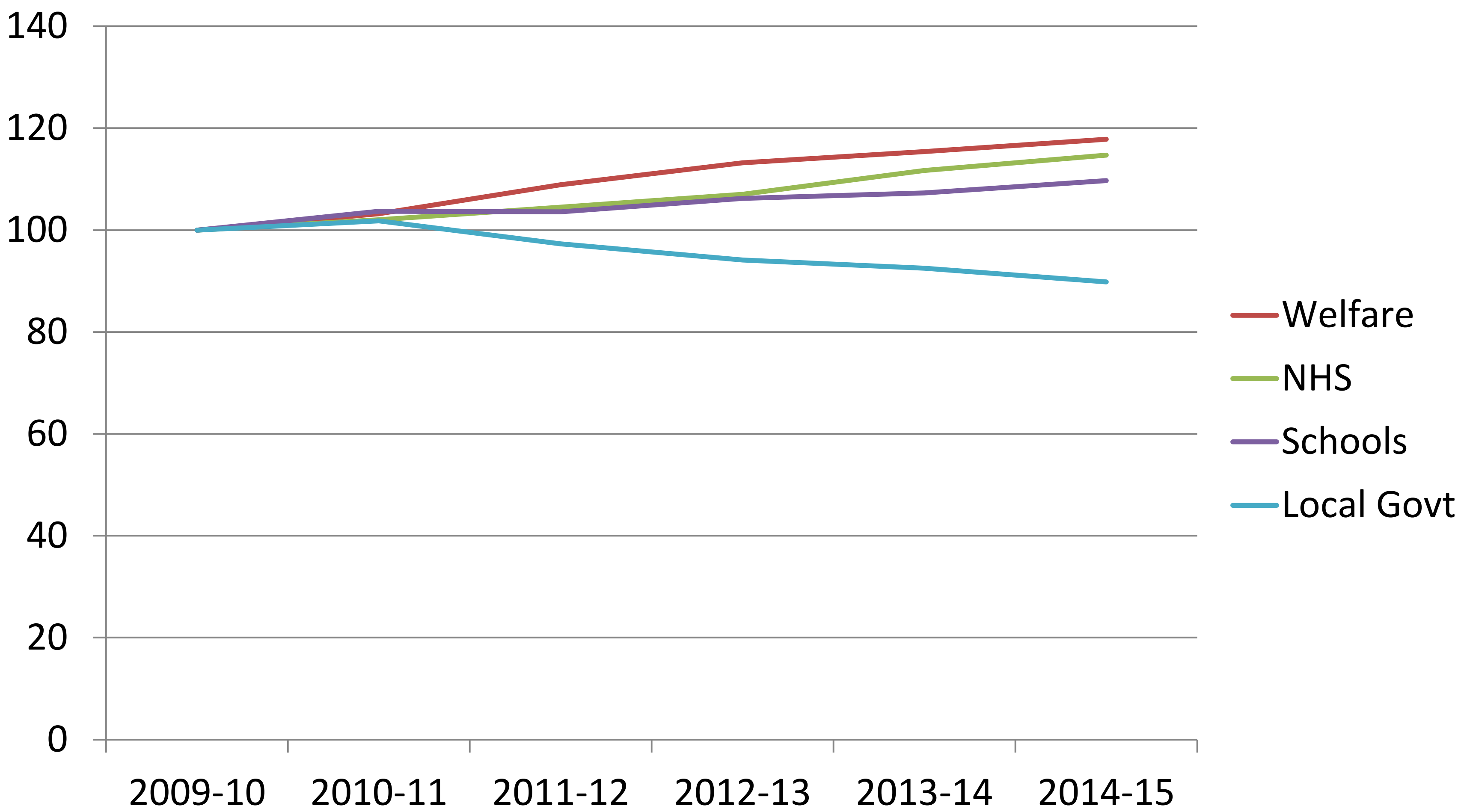
The government’s key policy

- **Deficit reduction**
- Thus, a reduction in real terms public expenditure
- Within that, protection for the NHS, schools, welfare and international development
- And, latterly, capital spending
- All other parts of public expenditure have been broadly ‘unprotected’
    - Local government particularly affected

Local government's challenge: current spending, by service group



Why can't the South East use its growth to finance its need for services?

- The South East has a GDP of £210bn pa
- c£80-£85bn is raised in taxation
- The economy has, in recent years, grown faster than the UK average
- So, why doesn't it raise the money to pay for its own services or infrastructure?
- **Because the UK is a uniquely centralised country where national government controls virtually all taxation and public expenditure**

Sub-national taxation as a % of GDP

	Local government	State/regional government	Local + state/ regional	Central government	Social security	Total
Canada	3.1	12.2	15.3	12.8	2.8	31.0
France	4.6	0	4.6	14.9	23.2	42.8
Germany	2.8	7.6	10.4	11.3	14.0	36.0
Italy	6.5	0	6.5	22.7	13.4	42.9
Spain	3.0	5.8	8.8	11.2	11.9	32.2
Sweden	16.1	0	16.1	23.7	5.5	45.5
United Kingdom	1.7	0	1.7	26.2	6.6	34.8
United States	3.9	5.0	9.1	9.2	6.3	24.8
OECD total (2010)	3.8	5.0	8.8	20.1	8.2	33.7

Source: OECD Stats Index

The London Finance Commission

- Appointed by the Mayor of London
- Commissioned research
    - Past reviews; Academic evidence about devolution; Scotland & Wales; International evidence, City Deal-type policies within England; London within the UK
- Written and Oral evidence
- Deliberation
    - Principles to guide proposals
- Report: May 2013
- Follow-up consultations
    - Ministers, shadow ministers, civil servants, manifesto-writers, LCCI, London First etc

LFC Proposals

- Modest proposals, but radical by UK standards
- Devolution of all property taxes to London government
  - Council tax; NDR; Stamp Duty Land Tax; Capital Gains tax
  - Also, ‘draw-down’ list of minor revenues, local determination of charges/fees
- Operation and tax-setting also to be devolved
- Off-setting grant reductions on Day 1
  - property taxes only….smaller taxes and charges would be additional
- London would then keep 12% of all tax revenues as opposed to 4% at present
  - The South East would be very similar

What this would do – if implemented in the South East

- Under the LFC proposals, the local tax-base would increase to three times its current size
    - This would give a powerful incentive for an area to grow its economy
    - If an area grew faster, the Exchequer would also gain
        - if it grew more slowly, the Exchequer would be protected
- NB: the remaining 88% of taxation would remain within the Exchequer’s control
- An area would then be able to fund a larger amount of local investment
    - This would grow in line with population growth

Something must be done

- UK is remarkably centralised
- Scotland and Wales to be given wide tax-raising powers – England nothing
- Centralised public finance has not led to regional or territorial equality
- Core Cities support LFC report
    - LFC proposals to be extended to other city regions
    - Issue of other regions, counties and district
    - Need to avoid ‘frightening’ the Treasury….
- The current arrangements undermine effective decisions about local priorities and investment

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