SOUTH EAST ENGLAND COUNCILS &
SOUTH EAST STRATEGIC LEADERS
JOINT MEETING

Date: 6 February 2014

Subject: **Future funding for local government**

Report by: Heather Bolton, SEEC Director

Recommendations:
Members are asked to:
i) Welcome Tony Travers who will outline proposals for reforming local government funding
ii) Consider how these or similar funding changes could help South East authorities deliver growth.

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1. Introduction

1.1 We are pleased to welcome renowned local government finance expert Professor Tony Travers to discuss the future of funding for local authorities.

1.2 Tony Travers is Visiting Professor at the London School of Economics' Department of Government and Director of the LSE London research centre. He acts as adviser to two select committees (Communities & Local Government and Children, Schools & Families) as well as being a regular contributor to national media. He is a long-standing advocate of greater devolution and financial accountability for local government. In 2013 he chaired the London Finance Commission, set up by Boris Johnson to identify how the tax and public spending arrangements for London could be improved to promote jobs and growth.

1.3 Before taking questions, Professor Travers will outline his views on how local government funding should change and consider how London Finance Commission proposals could be applied to the South East and other areas.

2. London Finance Commission (LFC)

2.1 The LFC reported in May 2013, recognising London "along with its surrounding counties, as one of the largest regional economies in the world". The Commission believes there would be more jobs and growth if the government of London had greater financial autonomy.

2.2 Greater financial devolution would allow more infrastructure investment (such as in transport, schools, housing, energy supply and technology), which is key to continued economic success and a decent quality of life for London's growing population. New jobs created would in turn generate more tax yield to invest in further infrastructure, creating a virtuous circle.

2.3 The report points to the high level of centralisation in English local government funding compared to Wales and Scotland, which now enjoy substantial devolved powers, and other international cities. London's Mayor retains only 7% of taxes paid by London residents and businesses compared to over 50% in New York. Recommendations aim to give London government greater freedom to invest in infrastructure for growth by:

- Relaxing restrictions on borrowing for capital investment
- Widening use of Tax Increment Financing, particularly for projects that will deliver a net gain to public finances
- Devolving all property taxes and the power to set the tax rates, including:

    - Full control of council tax, including tax levels, bandings and revaluations
    - 100% business rate retention with control over setting the multiplier, revaluations, discounts and the ability to offer tax breaks
    - The ability to introduce smaller new taxes and set the rates for all local fees and charges (e.g. for planning applications, licensing etc.)
    - Over time, consider assigning London's income tax to the capital.
- To make the proposals cost neutral for the Treasury, income from newly devolved taxes would be offset by reductions in central grant.

3. A South East perspective

3.1 A key question is how similar devolved funding could be extended to local authorities in the South East to maintain and grow their significant contribution to national economic success?

3.2 The South East has a dual economic role. The South East maintains a vibrant economy that makes the UK's biggest net contribution to the Treasury. However, many areas also play a role in supporting London's success by providing skilled workers, a business supply chain and essential infrastructure links to South East ports and airports.

3.3 Greater financial freedom would be welcome as South East authorities face similar problems to London – with a growing population, strained infrastructure, restricted borrowing and limited access to funding to invest in projects that will deliver further economic growth.

3.4 As with London, many areas of the South East have not benefited from the Government's City Deals initiative, which deliberately prioritised major cities outside the capital. The introduction of Single Local Growth Deals in 2015 offers an opportunity to bid for funding in turn for local commitments on growth; however, this system remains centrally controlled and there are also questions about whether Growth Deals will offer a level playing field for non-city areas.

3.5 Members may wish to explore how LFC proposals could work in an area such as the South East, for example:

- What progress is being made in persuading Government to adopt LFC recommendations?
- How could the proposals be applied to areas with no 'core' city?
- How would the proposals work in a two tier areas?
- Would these proposals form part of or replace City Deals and Growth Deals?
- What mechanism would be needed to agree investment in better cross boundary London / South East infrastructure – for example commuter links and access to nationally significant ports/ airports?
- Given the South East's contribution to London's skilled labour force, how can the South East and London work together to make the case for greater for greater control over skills provision and funding?
- The South East currently has England's lowest level of capital funding. We would like to access a greater share of our net contribution to Treasury in order to invest in high return projects. How could this be achieved in the context of central Government's desire to maintain control of deficit reduction?
- How would devolution of national taxes to successful areas – such as the South East and London – affect funding for other areas with less economic potential?