Agenda Item 3

SOUTH EAST ENGLAND COUNCILS
ALL-MEMBER MEETING

Date: 5 February 2015

Subject: **Financial devolution: Implications for the South East**

Report of: Heather Bolton, SEEC Director

Recommendations:

i) Note new research on South East implications of devolving property tax to councils
ii) Consider how the findings influence options on devolution and financial reform as set out by today's two guest speakers

---

1. South East financial devolution headlines

1.1 Financial reform is a key element of greater devolution to local government. Following member discussion on London Finance Commission (LFC) proposals to devolve property taxes to councils, bespoke research has been commissioned from Local Government Futures to assess how such a change would impact on the South East.

1.2 Key headlines from Local Government Futures' work show:

- The South East generates more in property taxes than it receives in government grants, so there is potential for a more self-sufficient funding system.
- Property taxes make up just 11% of total South East taxation.
- Together South East councils raised **£9bn** in council tax, business rates, Stamp Duty Land Tax (SDLT) and Annual Tax on Enveloped Dwellings (ATED) in 2013-14. *NB: based on the previous Government Office definition of the South East. Figures are also available including Swindon, Wiltshire and Central Bedfordshire.*
- For 2015-16 if South East councils kept 100% of business rates, SDLT and ATED they would generate income of **£5.8bn**. This is **£3.1bn** higher than the amount received in non-ring-fenced grants from central government.
- In the South East's two-tier structure there would be wide variations in annual surpluses/ deficits for individual councils based on the current expenditure split of counties 87.5%, districts 9.7% and fire & rescue 2.8%.
- At county/ unitary level 18 out of 19 councils would have a surplus. At either end of the scale are Surrey (surplus £699m) and Isle of Wight (deficit £9m).
- Among districts 60% would generate a surplus and 40% would have a deficit. At either end of the scale are Elmbridge (surplus £11.9m) and Thanet (deficit £7.4m).

1.3 The LFC promised its proposals would be fiscally neutral for central government. To achieve this in the South East, Local Government Futures suggest councils would need to consider options including:

- Assuming responsibility for funding a wider range of services (eg police)
- Returning a share of property taxes to central government
- Accepting devolution of a limited set of property taxes (eg business rates only).

1.4 Local Government Futures also raise the question of equalisation between South East authorities to balance out gainers and losers. Councils would have to consider how to achieve this, for example would tariffs and top-ups similar to the current business rate system work? How would this adapt to changing levels of need in future?

2. SEEC review of implications

2.1 Initial officer analysis of the headline findings highlights topics that could inform devolution discussions with today's guest speakers. A key question is whether two tier areas need a funding solution that is different to the LFC proposals.

2.2 **Fiscal neutrality:** Fiscal neutrality would clearly make funding changes more acceptable to central government but would not give South East councils access to extra funds for services or infrastructure at the start. Is there enough potential to grow income via business rate increases (eg economic growth, inflation, revaluations)?

2.3 **Moving away from fiscal neutrality:** If the aim is to move to a situation where South East councils have access to an increased share of the area's tax revenues:

- What could persuade ministers to accept a system that reduced central government's share of taxes to 50% as proposed by Bob Neill MP?
- Would less central government control affect deficit reduction?
- How could a greater share of income for councils be phased in?
- Would greater local control of property taxes lead to tax rises or tax cuts?
- Do councils need control of other funding streams as well? What are these?
- How much of the South East surplus should be spent on infrastructure?
- Would central government infrastructure investment in the South East still be needed? How would this be negotiated?
- Are there issues such as the ageing population that should still receive central government funding?
- What role could incentives funded by central government play in a new, more local system?
- Are there additional services that South East councils should offer to finance in return for a greater share of tax revenue?

2.4 **Equalising funding between areas**: With devolved property taxes instead of non-ring-fenced grants the South East could increase its overall income by £3.1bn but without equalisation there would be winners and losers:

- How could this be rebalanced in a fair and transparent way?
- Should rebalancing be managed within the South East instead of nationally, as suggested in SEEC/SESL's response to the Finance Commission?
- Could some councils opt out of self sufficiency? How would this work in a two-tier area?