**SOUTH EAST ENGLAND COUNCILS**
**EXECUTIVE MEETING**

Date: 1 December 2016

Subject: **Infrastructure: possible options for bridging the South East funding gap**

Report of: Heather Bolton, SEEC Director

**Recommendations:**
Members are asked to:
i) Consider options set out by consultants for bridging an estimated £15.4bn funding gap for South East infrastructure
ii) Discuss and agree which options could form part of a proposal to Ministers from SEEC and SESL and how this should be taken forward.

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## 1. Background

1.1 Earlier this year SEEC and SESL commissioned consultants LGFutures (LGF) to report on South East infrastructure needs and how these could be funded.

1.2 The report estimates a South East infrastructure funding gap of £15.4bn by 2030. Taking account of expected population, housing and economic growth, estimates show a total infrastructure cost of £38.3bn. Current funding streams are expected to cover around 60% of this, leaving a gap of £15.4bn. It is very unlikely Government will fund this directly, given that the South East gap alone is some two thirds of the £23bn National Productivity Investment Fund announced in this month's Autumn Statement.

1.3 LGF therefore set out a range of financial options to help bridge the gap. Member views are invited on the options below, and whether SEEC-SESL should prepare a proposal to Ministers on how greater freedoms for South East authorities over some of these funding streams could help provide essential infrastructure for economic growth. LGF suggest there is an opportunity to allow councils to tap into rising tax revenues (from a growing population and economy) to help fill the funding gap.

1.4 LGF recommend three next steps for South East authorities:
- Check the infrastructure requirements against expected growth
- Review if councils have done everything they can to raise funding within current powers
- Consider what rules Government needs to change to allow the South East to help itself.

## 2. Options for funding the gap

2.1 LGF have considered nine ways for councils to generate more funding for infrastructure, recognising pros and cons of each option. Some options are already available to areas with devolution deals/ elected mayors. Some options – for example local council tax or business rate rises – may prove politically unacceptable locally. Some options that reduce Treasury income – for example local access to stamp duty – may prove unacceptable to Ministers.

2.2 Member views are invited on the nine LGF options, which ones could be acceptable or whether a mix and match package of proposals to put to Ministers could be supported. LGF estimates on the maximum income potential from each option are set out in the table below.

i) Allowing **business rate supplements** (already proposed for elected mayors)
ii) Establishing an **infrastructure fund** (already available in several devolution deals)
iii) Maintaining **New Homes Bonus** at 2019-20 levels
iv) Additional **developer contributions** via S.106 and CIL (likely to be very small amounts)
v) Allowing South East councils to keep **full 50% business rates growth** without resets
vi) Increasing councils' **prudential borrowing** (South East councils borrow less than the national average – possibly because limited revenue does not support borrowing costs)
vii) Allowing **1% council tax precepts**
viii) Allowing access to the **central share of business rates**
ix) Allowing access to **stamp duty.**

| **Infrastructure funding options** | **1 year** | **15 years** |
|---|---|---|
| | **£m** | **£bn*** |
| Infrastructure funding gap | | 15.4 |
| | | |
| **(1) External sources of funding:** | **292.0** | **8.3** |
| Business Rates Supplement | 150.0 | 2.2 |
| Infrastructure Fund (devolution deal – *NB: based on per head amounts for existing deals*) | N/A | 3.9 |
| New Homes Bonus | 142.0 | 2.1 |
| Additional developer contributions (CIL, S.106) | N/A | N/A |
| Percentage of funding gap | | 54% |
| | | |
| **(2) Impact sources of funding** | **576.9** | **7.0** |
| Business rates growth | 131.6 | 2.0 |
| Prudential borrowing (*NB: 15 year amount capped at English average)* | 399.0 | 4.3 |
| Council Tax 1% precept | 46.3 | 0.8 |
| Percentage of funding gap | | 45% |
| | | |
| **(3) Major fiscal impact** | **3,791.5** | **19.8** |
| Business rates central share (*NB: indicative figure only as very unlikely Government would allow full retention*) | 1,318.5 | 19.8 |
| Stamp Duty Land Tax *(NB: very volatile so 15 year estimate unreliable)* | 2,473.0 | N/A |
| Percentage of funding gap | | 129% |

** totals may not sum due to rounding*

2.3 LGF expect that Government would want to impose conditions on councils or groups of councils if they were to allow local government access to some of these funding streams. These conditions would need to be negotiated with Ministers, for example around target outcomes.

2.4 LGF suggest there is also potential for a blended approach, for example, asking Government:

- To protect 25% of South East council taxbase growth for local infrastructure, or protect growth in taxbase above a certain benchmark (say 1.5%)
- To reserve 10% of total South East business rate income for investment in infrastructure
- To ringfence growth in council tax and business rates in certain areas to invest in infrastructure, for example in areas with high levels of population growth.