Agenda Item 4

SOUTH EAST ENGLAND COUNCILS
ALL-MEMBER MEETING

Date: 27 January 2017

Subject: **Funding proposals to bridge the South East Infrastructure gap: next steps**

Report of: Heather Bolton, SEEC Director

Recommendations:
Members are asked to:
i) Note the work to date on options to help bridge an estimated £15.4bn funding gap for South East infrastructure
ii) Discuss and agree next steps to take the work forward

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1. Work to date

1.1 In 2016, 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 November's Autumn Statement.

1.3 LGF therefore set out the pros and cons of nine financial options to help bridge the gap:
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** for infrastructure
viii) Allowing access to the **central share of business rates**
ix) Allowing access to **stamp duty.**

1.4 LGF also suggested potential for a blended approach, for example:
- Asking Government to protect a percentage of South East council tax base growth for local infrastructure
- Reserving a proportion of total South East business rate income for infrastructure
- Ring-fencing growth in council tax & business rates for infrastructure in high growth areas.

1.5 Following debate at December's Executive, SEEC's Chairman has written to Housing Minister Gavin Barwell – in advance of the expected housing white paper – with a proposal that builds on the member discussion about LGF options. The letter sets out five proposals that would deliver more South East infrastructure investment to support new homes:
a) **Create one or more South East infrastructure funds:** Funded by a proportion of total South East business rate income before tariffs and top-ups are applied. There is potential to make up to £3.9bn available over 15 years.
b) **Review proposed changes to New Homes Bonus:** Keep funding at 2019-20 levels to maintain incentives for councils and ensure there is income to support the infrastructure/services needed for new homes. This would give £2.1bn over 15 years.
c) **Allocate first-time stamp duty on new South East homes for infrastructure investment:** Allow councils to receive stamp duty the first time a local property is sold to help fund the infrastructure improvements required. In 2014-15 this would have raised £278m.

d) **Give councils greater accountability over local income streams:** Local flexibility to set council tax levels, business rate multipliers, S106 and CIL contributions. Also discretionary powers to charge developers for unused planning permissions – eg by charging council tax on unbuilt homes or charging fees for slow delivery. Funding raised would depend on local taxation decisions but this would allow elected councillors to tailor funding to local circumstances and voter views.

e) **Give councils greater confidence to borrow for infrastructure investment:** The four funding proposals outlined above would give councils more certainty over future revenue and allow greater confidence on long term borrowing for infrastructure. This would give councils greater capacity to contribute to funding solutions rather than simply relying on central Government grants. If the South East borrowed at the national average, this could raise £4.3bn over 15 years.

1.6 Key points from these proposals are also included in the SEEC report on housing barriers published this month.

2. Next steps

2.1 Member views are invited on next steps in the work to raise awareness and gain support for these proposals for generating additional South East infrastructure investment. Ideas to consider include:

- A follow up letter to Treasury Minister David Gauke, putting the proposals in a wider UK economic context. Subject to member agreement this could be jointly sent with SESL.
- A briefing for South East MPs covering the area's housing and infrastructure opportunities and challenges.
- Material that would help individual council leaders raise infrastructure concerns and proposals with their local MPs.

Additional or alternative options for raising the profile of the work with stakeholders are welcome.