Response to LGA/CIPFA Independent Commission on Local Government Finance
August 2014

1. Introduction

1.1 We write on behalf of South East England Councils (SEEC) and South East Strategic Leaders (SESL). Together we promote the views and interests of all tiers of local government across the South East, representing over 8.8 million residents.

1.2 SEEC and SESL members see reform of local government finance as an important issue so we warmly welcome the commission's work. Our submission provides a high level response setting out how greater powers, freedoms and financial resources would help local authorities deliver more economic growth and better services. Individual member local authorities may also respond with more detailed views based on local experience and expertise, including how current accounting treatment and rules affect their operations.

1.3 South East councils are ambitious to drive forward greater local economic growth and prosperity for the benefit of our communities and the country as a whole. As the UK's economic powerhouse, the South East is already very successful, generating the greatest profit to the Treasury in the last 10 years. Building on our track record to date, we have the ambition to deliver more economic growth and greater prosperity if given the right funding and freedoms. We continue to call on the Government to unlock even more of the South East's economic potential by giving genuine devolution of finance and powers to South East councils. This would build on powers already granted to Wales and Scotland, with their smaller populations and less powerful economics, and some of England's cities. Genuine devolution will allow South East councils to further boost investment in economic growth and lead public service improvements.

1.4 Reform is needed to move the UK away from being one of the most centralised local government funding systems in the world and to make delivery of essential services and infrastructure sustainable for the future. Only taxes worth a tiny 1.7% of GDP are not directly set by central government in England and caps on council tax rises are eroding even this. The UK is an extreme outlier in international comparisons. Local government in Sweden raises 16.1% of GDP, in Italy 6.5% and in France 4.6%.

1.5 On infrastructure, local authorities need greater access to funding to enable them to play a part in bringing forward projects that will support economic growth.

1.6 Turning to services, since 2010 South East county and unitary authorities have reduced their budgets by some £1.3bn and have plans for a further £1.4bn by 2017-18. Our 55 districts too continue to deliver significant savings. Budget cuts of 30%-40% have been common. Councils have done this while protecting many front line services and retaining voter confidence. However, they are coming towards the end of efficiencies that can be achieved by sharing services and back office functions and now need to be confident they will have funding to meet growing demand in areas such as adult social care and to support even more radical transformation of services.

2. Strengths & weaknesses of current local government finance system. What problems or opportunities do these create for local authorities?

2.1 Genuine devolution of finance and powers to South East councils will be critical to allow councils to further boost investment in economic growth and lead public service improvements. Whilst we continue to press for this important change, some recent changes to the existing system are welcome as they have brought a greater element of transparency and clarity to funding, for example:

i) The move in recent years towards incentives – clear payment for clear deliverables, for example New Homes Bonus (NHB) and its link to number of homes built. Although there are mixed views on the extent to which NHB is adequately funding local infrastructure needs that come with building new homes, members support the principle of a clear link between delivery and funding. There is however a particular problem for districts in rural areas containing a large proportion of Green Belt, where the lack of substantial building land available penalises areas through no fault of their own in being unable to obtain more NHB.

ii) A move towards greater recognition of population size as a factor in some funding streams, such as the Growing Places Fund. This is particularly relevant in the South East where we have the UK's largest population at 8.8m. Our members support funding linked to absolute population numbers as this better reflects the scale of demand.

iii) The recently commissioned CLG/ Defra review into whether rural areas face extra service delivery costs compared to highly urbanised areas. SEEC and SESL members believe the South East's network of small towns and rural/semi-rural areas leads to increased costs for councils due to increased demand for transport and dispersed service delivery.

2.2 However there remain significant weaknesses in the funding system, for example:

i) Lack of transparency in some central funding decisions. The complexity of how Government allocates central grants does not support voter awareness of spending decisions.

ii) Late announcement of funding allocations too close to budget-setting deadlines prevents councils planning ahead for services as effectively as they would like. Lack of certainty over long term funding also hampers councils' ability to borrow to fund major capital projects.

iii) Dependency on centrally-controlled funding undermines local democracy. This was highlighted to SEEC and SESL members earlier this year by Tony Travers with international comparisons showing that English local government controls taxes worth just 1.7% of GDP, compared to 16.1% in Sweden. This concern has also been echoed by the Congress of Europe, which reported in 2014 that the UK's highly centralised approach to funding does not match the principles of the European Charter of Local Self Government.

iv) Lack of freedom for councils is further eroded by limits on council tax increases and restrictions on councils' ability to raise local fees/ charges when there is local support.

v) Lack of understanding in Whitehall about the pressures that growing service demand has on council budgets – for example number of school places required and rising need for adult social care.

3. Potential reforms that would make it easier for local government to tackle challenges. What practical solutions could be implemented from May 2015?

3.1 General principles

3.1.1 SEEC and SESL members believe there are a number of core principles that should be applied to future reform of local government funding, which will allow South East councils to further boost investment in economic growth and lead public service improvements. At their heart are the need for genuine devolution of finance and powers to South East councils, building on powers already granted to Wales, Scotland and some English cities. While these principles are important to South East local authorities, they would also offer benefits to councils across England:

i) The first priority is to give councils greater control over their income, allowing them to become more independent of central government and therefore more answerable to their local electorate for spending decisions. This could play a key role in revitalising interest in local democracy. As highlighted above, only taxes worth a tiny 1.7% of GDP are not directly set by central government in England and caps on council tax rises are eroding even this. The UK is an extreme outlier in international comparisons. Local government in Sweden raises 16.1% of GDP, in Italy 6.5% and in France 4.6%.

ii) Also important is agreement on longer term settlements for any remaining centrally-allocated funding. These should be agreed at least six months in advance of the start of the funding period and cover 5 years. This will allow councils adequate time to plan in a way which maximises cost-effective service delivery and will give greater certainty over income to support investment and borrowing for capital projects.

iii) Equal treatment in terms of funding and powers for all local authorities. At present cities and devolved administrations have additional funding streams and powers not available to other local authorities. One example is Manchester's deal to earn back a share of taxes generated in the area. All local authorities should have the same opportunities, tools and incentives to deliver economic growth.

iv) The need for a more transparent system of allocating funding. The current four-block funding formula has been heavily criticised for its complexity and its illogical measuring of needs. For example deprivation measures are commonly used in funding formulas without questioning whether they are always appropriate or proportionate. Also, funding tends to be allocated on past activity rather than current need, so the South East's rising numbers of older residents should have greater weighting for parts of adult social care funding than levels of deprivation. The funding system needs to be reset, giving the opportunity to re-measure the funding needs and resources of councils. As this is a lengthy process, we urge the next Government to start work on a review as soon as possible.

v) There will remain a need for distribution of central funding across English authorities. A new local government-led body should be established to lead this work, allowing the sector to agree a more transparent, accountable system for allocating funding. Moving control from central government to local government will give councils more confidence in the outcomes.

3.2 Economic growth and infrastructure

3.2.1 With the right funding South East local authorities have significant potential to deliver economic growth for the benefit of UK plc. Two factors illustrate the South East potential:

- In the 10 years from 2002-12, the South East made the biggest net contribution to the Treasury, paying in some £80bn more than we received in public spending. London contributed a net profit of £75bn over the same period. This profit is important as it supports public spending on regeneration UK-wide.
- South East GVA in 2012 at £203bn exceeded the combined GVA of £147bn for England's 8 core cities. This repeats the trend of the previous 5 years from 2007. The South East GVA is also larger than the combined GVA of Wales and Scotland.

3.2.2 South East authorities are keen to play a part in delivering this continuing economic growth but they find themselves hindered by lack of funding and lack of ability to borrow to support capital projects that will enhance economic growth. Changes to resolve this situation include:

- Greater council control of local property taxes to give authorities the funding to invest in capital projects that will support local economic growth or contribute a share towards strategic transport projects that will deliver wider economic benefits.
- South East authorities want to see the recommendations in the London Finance Commission applied to our area. This would give councils power to set and retain business rates and to retain stamp duty on South East property transactions. This, alongside the ability to set and collect small new local taxes – subject to local electoral support – would allow South East authorities to invest more in economic growth. At the same time, greater certainty over future income would allow borrowing for major, strategic projects. These changes would help redress the current imbalance that gives greater powers and funding freedoms to city areas and devolved administrations but not to successful two-tier areas such as the South East.
- South East councils recognise that such changes would need to be accompanied by a new way of redistributing remaining central funding across English local authorities to ensure less successful areas retain access to adequate funding.
- South East authorities want Government to take a balanced-risk approach to infrastructure investment. This would balance funding between high economic return projects in the South East – recognising that these will deliver significant benefits for the Treasury – and projects that bring slower economic returns but offer major social and regeneration benefits.
- South East authorities also want greater control over skills funding budgets and commissioning to ensure a better match between training and local employer needs.

- Greater access to Tax Increment Financing (TIF) for councils to fund projects. With the rates reset scheduled for 2020, currently the pay back period is too short to be of use to many councils. Allowing councils greater freedom to use TIF over the longer term would stimulate growth and provide an alternative source of capital for local government.
- Greater weight given to economic factors in central government grants. For example, grants for future flood defences currently allocate only 5p in each £1 for works that will reduce the economic loss from flooding – underfunding an important issue in the South East. However, disproportionate weighting towards deprivation factors sees 20p in each £1 for the South East, compared to 45p in each £1 in other areas. With economic growth such a national priority, we believe the formula should take greater account of the economic benefits of investment in a scheme, including protection of critical business infrastructure such as major road or rail links.

3.3 Housing supply

3.3.1 There are a number of financial improvements that would help councils deliver their housing ambitions. These would be particularly useful in the South East to help councils deliver affordable homes in one of the UK's highest cost housing areas. The South East delivered the highest number of new homes in England at 19,700 in 2012-13. However, with average house prices around 11 times average earnings in the South East, there remains a need for more affordable homes. SEEC and SESL members want to see:

- Removal of the HRA borrowing cap to maximise local council house building potential. This should sit alongside access to preferential borrowing rates – for example through the LGA's planned bond agency.
- 100% local retention of 'Right to Buy' receipts to reinvest in housing and freedom to set appropriate discounts locally.
- Review of Government rules around state aid on local authority-led housing projects as this is delaying development, including a number of mixed tenure sites where market-rate housing will effectively subsidise affordable homes to rent or buy.
- Discretionary local powers to tax undeveloped housing sites – for example the ability to charge 50% council tax after planning permissions remain unused after a period of time. This will help ensure agreed planning permissions turn into bricks and mortar homes.
- Simplification of the rules around Compulsory Purchase Order powers to help councils act swiftly to unlock stalled sites.

3.4 Local authority services

3.4.1 South East local authorities face significant demographic pressures in providing services for the UK's largest population of some 8.8m residents (2014 figures). Our area also has the UK's largest and fastest growing older population, which is increasing demand on care services. By 2024 there will be more than 1m people aged over 65 and more than 2m people aged 75+. Countering perceptions of the wealthy South East, we also have some 484,000 children and older people living in income deprivation – a fact that is obscured by central government's focus on percentages rather than absolute numbers when making funding allocations. Changes to help councils deliver services more effectively include:

- Allowing councils to set council tax rates without centrally-imposed limits. This will help councils respond to rising service needs and will increase local democratic accountability.
- Greater powers to set local fees and charges for services, including developing new income streams to help support revenue spending on services. This should also extend to local decision-making on council tax discount rates – such as single person discounts – as a way of helping to fund support for local council tax support schemes. Some councils would welcome powers to introduce extra council tax bands for the most valuable homes to help provide additional income to meet local needs.
- Central funding for service delivery needs to give greater weight to population size. This is particularly relevant in implementing the cap on care costs in the South East, where our large numbers of elderly residents and self-funding care patients (up to 80% in some areas) will have a significant cost impact when the public sector takes over funding care costs.
- Powers and incentives for local authorities to lead integration of health, care and blue light budgets and services. This would deliver locally accountable decision making based on in-

depth knowledge of local needs. It would allow informed decisions to be made on the balance between health prevention or cure spending and allow local authorities to apply their experience of cost-effective service delivery to the wider public sector.

- There needs to be a clear Ministerial commitment to fully fund new burdens imposed on local authorities by central Government. For example, new duties resulting from the Care Act will bring significant cost increases for South East authorities with our large and rising elderly population.
- Greater local authority input into Work Programme funding and activity is needed. More local involvement will allow councils to integrate a wide range of services for families to help support them as they move from welfare into work.

We would be pleased to discuss any of the issues in our submission with you.

Yours sincerely

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About South East England Councils and South East Strategic Leaders:

South East England Councils (SEEC) was established in 2009. It is a membership organisation representing all tiers of local authority. The SEEC area covers Berkshire, Buckinghamshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey. SEEC's objectives are:

- To strive for a **fair funding deal** for the South East
- To promote the South East's position as a **leading global economy**
- To act as **single democratic voice** for South East interests
- To **monitor the pulse** of the South East.

SEEC is chaired by Cllr Gordon Keymer CBE, Leader of Tandridge District Council.
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South East Strategic Leaders (SESL) is a partnership of upper tier authorities committed to nurturing the engine room of the UK economy and promoting public service excellence. SESL supports its members to create the conditions within which individuals, communities and businesses thrive. We aim to:

- **Influence** – speaking with a stronger, united voice for South East strategic councils.
- **Inform** – producing robust evidence relevant to practice.
- **Inspire** – connecting people, sharing ideas, sparking innovation.

SESL is chaired by Cllr David Burbage MBE, Leader of Royal Borough of Windsor and Maidenhead.
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