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Rt Hon Greg Clark MP
Secretary of State for Business, Energy and Industrial Strategy
Department for Business, Energy and Industrial Strategy
1 Victoria Street, London, SW1H 0ET

Sent via email: industrial.strategy@beis.gov.uk

13 April 2017

Dear Minister

South East England Councils' response to Government's Industrial Strategy Green Paper

1. Introduction and summary

- 1.1 We respond on behalf of South East England Councils (SEEC). SEEC is the cross-tier voice of local authorities in the South East of England, representing some 9.1 million residents. We are a voluntary membership body, bringing together county, unitary and district councils to promote the views and interests of all tiers of local government across the South East.
- 1.2 We welcome this opportunity to shape the Government's Industrial Strategy and proposals to deliver its aims of improving living standards and economic growth, increasing productivity and driving growth across the whole country. **The South East's economic track record demonstrates our ability to support the Industrial Strategy's aims nationwide, but only with the right investment and policy - now and post-Brexit.** The South East is the **engine room of the UK economy, generating £249bn GVA in 2015** (larger than the 8 Core Cities' combined £169bn, and Scotland and Wales' total £183bn). The South East offers the highest return on public investment in England, contributing a **net profit of £80bn to the Treasury between 2002-12**, some £6bn more than 2nd place London. It is important that Government invests in the South East to maintain this profitability which will be needed to help fund delivery of the Industrial Strategy across the whole country. The South East is also a **global transport gateway for businesses and travellers UK-wide**, by air, sea and rail. **However the South East's economic success, role as a major funder of public spending nationwide and global gateway for UK plc must not be taken for granted – as all are at risk from South East skills gaps and under-investment in transport and infrastructure that is essential for local and national economic growth.**
- 1.3 The Green Paper highlights the need to tackle three key challenges for the UK. **Our response to a range of consultation questions, below, highlights how Government can maximise the South East's potential to help tackle these challenges. In summary:**
 - **Green Paper Challenge: Build on UK strengths and extend excellence into the future. The South East's ongoing economic success must be supported for the whole country's benefit. We would welcome greater clarity about how the Government plans to extend the South East's strengths, and build on existing sectoral excellence. For example our response, below, recommends reversing under-investment in strategic infrastructure which holds back the South East's economic potential.**
 - **Green Paper Challenge: Ensure every place meets its potential by closing the gap between the best performing companies, industries, places and people and those which are less productive. We support this aim, but it should focus on all parts of the country performing well. Whilst we welcome the future success of other areas, it must not be achieved by holding back potential in already high-performing areas such as the South East, as this would ultimately harm the success of the whole nation. For**

example our response, below, recommends a more locally-responsive education and skills system which would help address productivity challenges in the South East and elsewhere.

- Green Paper Challenge: Make the UK one of the most competitive places in the world to start or grow a business. We support this aim. Whilst the South East performs well on many economic measures, a range of factors currently hold back our full productivity potential and we seek Government action to help address these. For example our response, below, recommends greater investment and powers for councils to help deliver the necessary infrastructure, affordable homes and skills.
- 1.4 Further details on how the Government can help us maximise the South East's potential to deliver its Industrial Strategy aims are set out below, focused on relevant groups of consultation questions. Individual member councils are also likely to respond reflecting local views.
2. **Consultation question 1: Does the Green Paper identify the right areas of focus ie. extending strengths; closing gaps; and making the UK one of the most competitive places to start or grow a business? & questions 34-35: Driving growth across the whole country.**
- 2.1 The Government's first aim to 'extend strengths' is a key part of ensuring a strong economic future for the whole UK. **The South East has a strong economic track record, including making a net contribution of £80bn to the Treasury between 2002-12, the highest in England, and £6bn more than 2nd place London. This profit can be re-invested by Government across the country, helping deliver the Industrial Strategy's aims nation-wide.**
- 2.2 **The South East's ongoing economic success must be supported for the whole country's benefit. We ask for clarity about how the Government plans to extend the South East's strengths, and build on existing sectoral excellence in parts of the SEEC area such as life sciences, engineering & electronics, marine, motorsports, aerospace & defence, telecoms and computing. Recommendations for action, set out in our response below, include provision of a more locally responsive education and skills system, and reversing under-investment in strategic infrastructure which holds back the South East's economic potential.**
- 2.3 Government should also take specific steps to meet the needs of the South East's most productive sectors whose growth is currently constrained. An example would be to help the south coast's marine & maritime sector meet its unmet demand for waterfront sites, by intervening and releasing waterfront land owned by the Ministry of Defence, or Homes and Communities Agency land, for the sector's use.
- 2.4 **The Government's second aim to 'close gaps' in economic performance should focus on all parts of the country performing well – it must not be achieved by holding back better-performing areas such as the South East as this would ultimately harm the success of the whole nation.**
- 2.5 To help achieve this, actions are needed to strengthen the South East's economic performance, which will also support the Government's third aim of ensuring all parts of UK are among the 'most competitive places' globally. **Whilst the South East performs well on many economic measures, a range of factors relating to the Industrial Strategy's 'pillars' currently hold back our full productivity potential. Despite our strong overall economic performance, the South East has a significant productivity gap compared to London eg. South East £27,847 GVA per person in 2016, some 36% less than London's £43,629, but slightly higher than England's average £26,159. We seek Government action to help us address this eg.**
- **'Developing skills' pillar:**
 - The South East suffers from an **existing skills and labour gap**, with a mismatch between provision and the skills businesses need.
 - Tackling this (see 4 below) could improve productivity, as well as offering opportunities for our **large number of unemployed people**. The South East had 59,785 people

claiming unemployment benefits in November 2016, which is higher than North East, East, East Midlands & South West.

- It could also help tackle our **large number of deprived people** - 909,000 people living in income deprivation in the South East in 2015, the 4th highest in England.
- SEEC member councils are also keen to develop skills as a way of mitigating the impact of losing any EU workers following Brexit.
- **‘Upgrading infrastructure’ pillar:**
 - The South East has **overstretched infrastructure (including global trade gateways needed by the whole UK) and a growing infrastructure funding gap** – estimated at £15.4bn over the next 15 years, holding back South East and national business success.
 - Addressing this (see 5 below) could improve productivity through improved journey times and reliability. Improved infrastructure would also help unlock much-needed housing for the South East workforce. Better infrastructure will play a part in **tackling a growing number of South East homes granted planning permission by councils but not built-out by the industry** – at least 66,750 by 2015, which holds back local economic and growth plans (see 3 below).
 - It will also be important that Government helps councils **tackle housing affordability**. Despite achieving the biggest growth in homes in England (South East 34,900 net additional homes in 2015-16, some 4,500 more than 2nd place London), housing affordability remains a key issue in the South East with average prices around 12 times average earnings. Funding to support an appropriate mix of affordable housing to both buy *and* rent is needed to house the workers businesses need.
 - Effective provision of the **high-speed broadband** that businesses need will also be important to increase business productivity across all sectors in the South East.

3. **Consultation question 2: Are the 10 pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?**

3.1 To help ensure greater alignment between different Government departments that impact on areas’ economic success, **an additional pillar should also be added, addressing ‘delivery of homes’**. Economic success is constrained if workers are unable to find homes where needed by businesses, and more congestion can result from longer commutes. The South East had unimplemented permissions for at least 66,750 homes by 2015. Once councils have granted permission, they have little power to ensure timely delivery by developers. **SEEC’s recent ‘Unlock the housing blockers’ report sets out ways this could be addressed, including the need for:**

- **Powers for councils to incentivise delivery where building granted permissions is too slow eg. charging council tax on unnecessarily delayed development or capturing the uplift in land values once planning permission is granted.**
- **Ensure access to finance for smaller builders to increase competition in the industry.**
- **Improve construction skills by allowing councils to target funding at training gaps.**
- **Raise funds for affordable homes by allowing councils to borrow and set how much developers pay, including reform of current CIL and s106 arrangements.**
- **Increase infrastructure funding by allowing councils to keep more local taxes, such as business rates and stamp duty.**

We will also be pressing Government on these issues in response to its housing White Paper consultation.

3.2 The other 10 ‘pillars’ identified for action in the Green Paper are also important (ie. Investing in science, research & innovation; Developing skills; Upgrading infrastructure; Supporting businesses to start & grow; Improving procurement; Encouraging trade & inward investment; Delivering affordable energy & clean growth; Cultivating world-leading sectors; Driving growth across the whole country; Creating the right institutions to bring together sectors & places). **We focus below on how Government action can support skills and infrastructure. Along with housing, many SEEC members see these as the top priorities to support South East economic success.**

4. **Consultation questions 10-14: Skills**

4.1 **The South East suffers from an existing skills and labour deficit, with a mismatch between provision and the skills businesses need.** Members have raised concerns about filling current and future vacancies in a number of sectors that currently rely heavily on the skills and labour of EU nationals including: agriculture, engineering, tourism, creative & digital

industry, technology & science, health & social care. Any reduction in skilled-EU workers post-Brexit has the potential to exacerbate this further, and action is needed now eg. transition arrangements until the indigenous population is up-/re-skilled, and/or agreeing rights for EU workers with jobs to stay.

- 4.2 Wider [research](#) for SEEC highlighted South East skills deficiencies in a number of industries including construction and the service sector. The SE LEP identified more than one in five businesses in its area suffered a skills gap in 2013; and SEEC contributed to a 2014 London Chamber of Commerce and Industry report '[Skills to Build](#)' that identified a need for 20% more construction workers across London and the South East.
- 4.3 **The existing skills challenge in the South East needs to be tackled to avoid undermining the South East's economic success for the whole of UK plc. The new 'Education and Skills Funding Agency', whilst providing a national framework for standards, must avoid a one size fits all approach. Action is needed to increase the responsiveness of the skills system to each area's economic/business needs; this should include more input from local authorities and employers to better target funding to the training needed, particularly in hi-growth/ hi-tech sectors.**
- 4.4 **In addition, education/training routes for technical *and* academic excellence are important and young people should have the option to switch academic or vocational choices at a range of points in their learning. There is also a need to ensure more high quality school places in all sectors of education.**
- 4.5 **Similarly, an all-age locally commissioned careers service would be most effective to better align careers and enterprise initiatives that are currently separate. This would ensure all local residents can access best practice careers information, advice and guidance relevant to local skills demands and to support inclusive economic growth.**
5. **Consultation questions 15-17: [Infrastructure](#)**
 - 5.1 **The South East's economic success and role as a major funder of public spending nationwide are at risk from under-investment in transport and wider infrastructure that is essential for local and national economic growth. Essential parts of this wider infrastructure include homes for workers, IT/broadband, utilities, health and education.**
 - 5.2 Recent announcements on the National Productivity Investment Fund (£23bn nationally) and Housing Infrastructure Fund (£2.3bn nationally), plus the proposed lower borrowing rate for councils, are welcome. However these will not go far enough to address vital South East infrastructure needs, which include global gateways that businesses nationwide depend on.
 - 5.3 **Research for SEEC by local government finance experts LG Futures estimates there is an infrastructure funding gap of £15.4bn in the South East *alone* between now and 2030. The total cost of providing transport, education, health, community and green infrastructure for South East residents, plus flood protection, utilities and emergency services is calculated at £38.3bn. Expected funding streams should cover £22.9bn of these costs – but this leaves the South East with a funding gap of £15.4bn. **This will restrict economic growth, harm the UK's global competitiveness, impact on the viability of new home-building and risks harming public services if not addressed.****
 - 5.4 We recognise there is no *new* money on offer from Government, but **reallocating existing funding and providing councils with more financial freedoms and flexibilities could help address this growing infrastructure gap. South East schemes with a national economic impact (eg. those set out in our [Missing Links](#) report, including global gateways in the South East) need allocation of national funding, but other changes could enable more investment from councils for local priorities.** SEEC has identified ways in which Government changes could help councils fill the gap and deliver the essential infrastructure needed for new housing. **We would like to work with Ministers to explore how policy changes could best support growth in the South East, and how similar policy changes could help unleash the growth potential in those many areas without city deals/ combined authorities. For example:**
 - **Creating more infrastructure funds.**

- Reviewing proposed changes to the New Homes Bonus.
- Retaining first-time sale stamp duty for infrastructure funding.
- Greater local decision-making over income streams such as business rates.
- These changes would also give councils greater certainty to support borrowing for infrastructure investment.

5.5 **In addition, national criteria for investment should be updated to take better account of the GVA uplift that infrastructure schemes will deliver.** A transparent, accountable approach to investing an agreed proportion of national funds in schemes that deliver this uplift – in the South East and elsewhere – will ensure that both the economy grows and that the Government achieves the best returns on public funding.

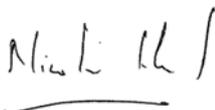
6. **Consultation question 3 and questions 36-38: Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed?**

6.1 **Councils have a vital democratic mandate and role in identifying investment and policy needed to support local economic success, and must be central to shaping Government's future plans. To help us play our full part in helping deliver the Industrial Strategy, we ask Government to recognise and support councils' role and mandate; and our vital contribution to driving forward a strong economic future for our areas at local and strategic levels.** Councils also play a key role in Local Enterprise Partnerships and other partnerships for economic growth.

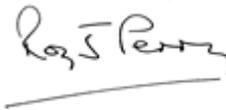
6.2 Central government must also ensure it operates in a more joined-up way eg. via cross-departmental commitments to infrastructure that supports local economic/growth plans.

6.3 **We would welcome discussions with you and Treasury colleagues about how we can take action on the issues set out in our response, to maximise the South East's economic potential for the benefit of the whole UK.**

Yours sincerely



Cllr Nicolas Heslop
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Leader, Tonbridge & Malling Borough Council



Cllr Roy Perry
Deputy Chairman, South East England Councils
Leader, Hampshire County Council