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The Rt. Hon. Vince Cable, MP
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Business, Innovation & Skills
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30th July 2010

Dear

**SOUTH EAST ENGLAND COUNCILS' INPUT TO SPENDING REVIEW
2010**

I. Introduction

- 1.1 South East England Councils (SEEC) was established in 2009 to promote the views and interests of all tiers of local government across the South East's 74 councils and 8 million residents. SEEC is a voluntary body funded entirely by subscriptions from member councils and, therefore, carries a strong mandate as the single democratic voice of the South East representing all tiers of local government.
- 1.2 SEEC recognises the extreme financial pressures facing the Coalition Government. We support the priority given to reducing the national deficit and backing economic recovery. SEEC warmly welcomes the drive to devolve greater responsibility to councils and cut red tape, freeing us to deliver what's essential for our residents, and to build direct relationships with central government without the haze of regional bureaucracy that has hampered us in the past.

- 1.3 The South East has a key part to play in continuing to build recovery from recession. As our area drives UK economic growth and delivers substantial net tax income, the relationship between South East local authorities and Government is critical. Short term decisions that would starve the South East of adequate funding and infrastructure investment would have a negative impact on the whole of the UK economy at the point where we most need to sustain recovery from recession.
- 1.4 Disproportionate South East cuts risk killing the 'golden goose' that supports public spending across the country. Each year the South East contributes some £18 billion more to the Treasury than is spent on public services in our area. This £18bn is redistributed to support public spending and investment in other areas of the country.
- 1.5 However the value for money of such decisions needs to be tested. While the South East offers a proven good return on public investment, money spent elsewhere has not delivered desired results. The scale of fiscal redistribution away from the south increased over the life of the last Government (Economic Outlook - Regional Winners and Losers in Public Finances, Oxford Economics July 2008). However, as Government recognises this policy has failed to narrow the gap between the South East economy and other regional economies. SEEC is keen to see other economies improve their performance to our level but this must not be at the expense of declining investment and performance in the South East economy.
- 1.6 The SEEC AGM in July saw our member councils express serious concerns about the potential damage to the South East as the acknowledged 'engine room' of the UK economy. Members agreed the following key points as our input into the Spending Review.

2. Devolution and Local Government Finance

- 2.1 We overwhelmingly support removing regional structures such as the Leaders' Board, SEEDA and GOSE, which have now all been confirmed. Abolishing these three organisations alone will deliver millions in savings but will place increased pressure on all local authorities. The Spending Review should reallocate a small proportion of those savings to help support councils' joint work to take a South East-wide strategic oversight of key issues such as economy, infrastructure and housing. SEEDA assets should also be distributed to local authorities.
- 2.2 In addition to a small reallocation of savings, we are also keen to develop our direct relationship with Government and greater mutual understanding between central Government and local councils. We therefore propose SEEC should act as 'host' for a small number of centrally-funded civil servants from key departments such as Transport, CLG and BIS to help develop this important new relationship. We believe this would greatly assist in understanding and aligning our priorities and work streams.

- 2.3 While we strongly support removal of Government Offices and SEEDA, we would welcome dialogue on how the South East can retain the capacity to engage and bid for European funding opportunities after abolition of the regional tier. We attach considerable importance to securing European funding as part of ongoing efforts to strengthen the South East's economy.
- 2.4 Councils need to be able to deliver integrated, cost effective services for residents, reducing the need for costly bureaucracies such as Strategic Health Authorities and the Homes and Communities Agency. In part, this is being delivered through the individual transformation and cost reduction programmes, however councils still need the resources to properly deliver the extra responsibilities being placed upon them.
- 2.5 The planned local government finance review must end the imbalance that sees South East councils receive less grant funding per head than councils in other areas of the country. The future funding mechanism must be both rigorous and transparent, so the basis of funding allocations to councils is clear. We also request that business rates are returned to local control as part of the devolution agenda.

3. Economy and Skills

- 3.1 As outlined in section 1 above, the South East is the powerhouse of the UK economy and our performance is therefore critical to the UK's overall success. Our economy's inherent strength means that we have the potential to recover from the recent economic crisis faster and stronger than any other UK region. However this cannot be taken for granted and requires sustained investment if it is to be achieved. Public spending in the South East offers both a good return on investment and benefits for the wider UK. Indeed, as the UK's most profitable region, failure to invest in the South East could risk fragile economic recovery and damage tax flows into Government that would help reduce the deficit.
- 3.2 It also needs to be recognised that the South East has areas of deprivation that need support if they are to deliver the economic growth that will help raise quality of life for local residents. Almost 6% of the South East population lives in areas that rank within the 20% most deprived in the country (Index of Multiple Deprivation, ONS, 2007). Much deprivation is concentrated in coastal areas, such as Hastings, Thanet and parts of Portsmouth and Urban South Hampshire. There are also pockets of deprivation in more prosperous areas, such as urban Slough, Reading, Oxford, Milton Keynes, and in less-accessible rural areas.
- 3.3 SEEC members are extremely concerned about statements from Government that suggest investment and policy decisions will favour northern areas of England. We have serious questions about the fairness and value for money of such an approach (see sections 1.5 and 3.2). This is illustrated by two examples that highlight how some of the poorest areas of the South East will be further disadvantaged by decisions to favour other areas of the country:

- Excluding South East businesses from National Insurance discounts ignores the need to encourage new job creation in areas of the South East that desperately need incentives to support economically-led regeneration, such as Hastings, Margate and southern Hampshire.
- Some 15% of jobs in the South East are in the public sector. Many of our disadvantaged areas rely heavily on public sector jobs – in parts of coastal Kent, East Sussex and Hampshire around 20% of jobs are in central or local government (ONS Annual Population Survey 2009). These coastal areas have higher unemployment rates than inland parts of the South East (Jobcentre Plus claimant count figures, June, 2010), and have more subdued expectations of employment growth (Experian & Cambridge Econometrics forecasts, 2010). This combination of high potential exposure to public sector cuts, high unemployment and low forecasted private sector employment growth means that many areas in the South East that are set to be badly affected by public sector cuts are those that may be the least well-placed to cope with them. Disproportionate cuts to the South East public sector would therefore hit our disadvantaged areas hard. Not only would staff lose jobs and their economic spending power, there are no NI incentives for new business start-ups and public sector money re-invested in contracts with the local private sector would be lost.

3.4 The South East economy competes globally rather than nationally. Investment in our needs will encourage businesses to locate in the UK rather than Europe, the US or the far east. We do not compete with other areas of the UK and failure to invest will drive businesses overseas rather than to another part of the country. In addition to investment in the transport and housing needed to maintain our global competitiveness (see sections 4 and 5 below) key areas for investment include:

- Business Critical Infrastructure – for example bringing our high-speed broadband access to a level comparable with other leading countries. The 2009 Cisco Systems Broadband Leadership Matrix Study showed the United Kingdom ranked 25 in the world in the quality of its broadband connections, behind countries including Netherlands (ranked 6th), United States (15th) and South Korea (1st).
- Learning and Skills - identifying the skills needs of the South East in order to compete in a global economy where productivity, innovation and workforce development are essential.
- Business Support and Innovation - identifying elements of business support where there is added value in a sub-national approach, for example innovation and science based R&D.

4. Transport

4.1 The South East's transport system is a vital part of the infrastructure that supports our strong economic performance. It also provides access that is critical to other parts of the UK being able to realise their own economic ambitions – for example routes through the South East give other regions business and leisure access to our ports and airports.

Future investment in infrastructure must address both the challenges of economic growth and the need to reduce our ecological footprint. Investment choices for transport must be aligned with investment decisions made in economic development, housing, regeneration and skills.

- 4.2 Strategic transport priorities across the South East are clearly defined. Local authorities in the South East have an established track record of working together on a collective basis to agree investment priorities. We have a programme of strategic investment that has been developed and agreed by the local authorities. Prioritisation of investment is critical in a period of constrained public funding. We recognise the need to review our investment priorities for the medium/longer term and are ready to undertake that difficult task as part of the Spending Review 2010.
- 4.3 In the short term we urge Government to endorse investment in a number of key projects that are already under development. Our priorities focus on projects where a failure to progress in the short term would mean that the opportunity to deliver significant improvements could be lost or put at risk. Each of the following projects has an economic impact wider than the immediate local authority area and offers significant benefits to the wider UK economy:
- Gatwick Airport Station – improvements will benefit air passengers and commuters from the South East and further afield.
 - Oxford Station Improvements – increasing rail capacity to support economic growth potential in Oxford.
 - M27 Junction 5 improvements – supporting economic growth in South Hampshire.
 - Reading Station – improving public transport links to support work underway to increase rail and freight capacity linking London, the South East and cross country rail routes.
- 4.4 We also reaffirm our support for the delivery of the Bexhill to Hastings Link Road, which will help the economic regeneration of this disadvantaged area.
- 4.5 In addition, work led by SEEC member local authorities, has also considered further strategic investment priorities critical to maintaining the South East's position against its global economic competitors. Once again these projects offer significant benefits to the South east and wider UK economies. They include:
- Supporting the South East's global economic role by developing detailed proposals for improving access to Heathrow Airport by public transport, reducing pressure on the M25. Increased joint capacity for the unitary authorities in Berkshire to develop detailed proposals that support the nationally significant Thames Valley economy.
 - Enhancing the South East's nationally important gateway role to mainland Europe by developing a firm proposal for a lower Thames Crossing and supporting the more effective use of the existing road capacity between London and Dover/Channel Tunnel to improve access to the Port of Dover.

- Supporting the significant economic clusters and future growth opportunities in Oxfordshire and Buckinghamshire, including the working up of detailed proposals to improve access to the Science Vale business park, greater capacity at Oxford Station, implementing the western section of East-West Rail, and improvement of inter-urban coach links across the Milton Keynes/South Midlands area.
- Developing detailed implementation strategies to support the significant growth and regeneration potential of South Hampshire and the Brighton West Sussex coastal area.

5. Housing

- 5.1 Housing is a critical part of the infrastructure needed to support economic growth in the South East. The need for affordable housing is acute but we also need a mechanism to ensure local authorities are able to deliver all types of housing to support a sustainable economy. Local authorities are keen to take on devolved powers and believe we can help deliver savings in Government departments by reducing the overall level of central bureaucracy. However there will be a need to provide some additional resources within local authorities to achieve this.
- 5.2 While the South East clearly has a need for more homes, some SEEC members have reservations about whether incentives to district and unitary councils to provide additional homes will be sufficient to help the South East to meet its housing needs. We would like further discussions on how to make the new system deliver, as we are concerned that six years' revenue from council tax and business rates may be insufficient incentive to ensure development. For example, calculations by the Planning Officers' Society suggest that an authority increasing house building by 50% could generate only an additional £3.46 per household. We would also like further discussions to understand how the incentives would work for services and infrastructure provided by county councils.
- 5.3 There is also a need for infrastructure investment to support housing growth. In 2008 the funding gap for infrastructure needed to support planned South East housing growth was £750million a year.
- 5.4 Investment in housing provides substantial economic value in the South East. Figures from the Department for Business, Innovation and Skills indicate that in 2008 there were 167,000 businesses in the construction sector in the South East, accounting for 22% of all businesses. While many of these are 1-person operations, the sector collectively employed 345,000 people in 2008, over 10% of the South East workforce. Turnover for the construction sector in the South East in 2008 was over £40bn. Recent research by Shelter shows that for each £1 cut from housing investment, the wider economy takes a hit of at least £3.50.
- 5.5 As a high cost area, investment in affordable housing in the South East is essential to meet Government priorities. According to Home Truths 2009 produced by the National Housing Federation (NHF):

- Housing waiting lists have risen by 40% in recent years to over 200,000, while supply has been running at 67% of planned levels.
 - The cheapest home in the South East is seven times average incomes.
- 5.6 Government support for affordable housing is needed to address a market failure. Without an adequate supply of housing, and particularly affordable housing, it is difficult to achieve the balance of homes, skills and jobs needed for sustainable economic growth. The problem is of such a scale, and is of such significance to the UK economy, that it requires Government funding, channelled through local authorities.
- 5.7 Experience across the South East shows that delivery of affordable housing without grant is extremely difficult to achieve even when the land is provided by the local authority. Public sector support therefore remains fundamental to securing an adequate supply of affordable housing and should be targeted to those in most need, with a particular focus on high cost housing areas such as the South East. Local authorities have a robust evidence base that should form the basis of the allocation of funds for investment.
- 5.8 Within this need, however, there is potential to improve the value for money of public sector investment in affordable housing. In particular we need to review the regulatory framework and standards for public sector investment in affordable housing. For example:
- The amount of space required to meet the 'needs' of a family is greater for homes funded by the public sector compared to homes funded by the private sector.
 - There is a need to review whether the additional cost required to meet 'zero-carbon' standards for new homes offers value for money in the short/medium term. New homes represent a small percentage of total housing and greater carbon reduction could be achieved by comprehensive programmes to retro-fit existing homes but we must ensure short term savings do not incur greater costs in the longer term.
- 5.9 In the absence of centrally driven housing targets the Homes and Communities Agency (HCA) can be significantly scaled back and resulting cost savings invested in new homes. HCA's remit should be narrowed to become the Government's regeneration agency, providing the long term public sector commitment needed to deliver major regeneration projects and successfully engage the private sector.
- 5.10 Funding previously controlled through the National Affordable Housing Programme should in future be channelled through local authorities giving them the opportunity to use their arrangements with 'preferred partners' to maximise the investment in social and community infrastructure that is delivered alongside affordable housing.
- 5.11 Funding for the Private Sector Renewal Programme in the South East should continue. South East local authorities have successfully designed programmes and formed partnerships to deliver much needed improvements to poor quality homes in the private sector.

The scheme is hugely valued as individual authorities are unlikely to have the capacity for such work on their own and benefit from the larger partnership procurement base. The renewal programme funding has delivered real benefits:

- In 2009-10 local authorities in the South East improved 10,265 homes. 51% (£13.4m) of this expenditure was in the form of repayable grants and loans.
- Around 10% of funding has been used to bring empty homes back into use.
- For every £1 spent on improving insulation and heating for vulnerable people in fuel poverty can save £4.30 on NHS budgets further down the line and reduce excess winter deaths.

Yours sincerely,

Paul Carter
Chairman, South East England Councils

Cc: Helen Bailey, Director of Public Services, HM Treasury, 1 Horseguards Road,
London, SW1A 2HQ
The Rt Hon George Osborne MP – Chancellor of the Exchequer
The Rt Hon Danny Alexander MP – Chief Secretary to the Treasury
The Rt Hon Greg Clark, MP – Minister for Decentralisation
The Rt Hon Grant Shapps, MP – Minister for Housing and Local Government
Andrew Stunnell OBE, MP – Parliamentary Under Secretary of State
Bob Neil, MP – Parliamentary Under Secretary of State
Baroness Hanham CBE - Parliamentary Under Secretary of State.