AUTUMN STATEMENT 2016: SOUTH EAST ENGLAND COUNCILS’ INPUT

1. Executive summary
1.1 South East England Councils (SEEC) is the cross-tier voice of local authorities in the South East of England. We are a voluntary membership body, bringing together county, unitary and district councils. Together we promote the views and interests of all tiers of local government across the South East, representing 9 million residents – the largest population in the UK.

1.2 The South East has a highly successful economy that generates the greatest net profit for HM Treasury once tax revenues are set against public spending in the area. Our most recent figures show this profit as £80bn over a 10 year period. This profitability plays a key role in Government's ability to invest in infrastructure and economic growth projects elsewhere in the UK.

1.3 SEEC members fully support the importance of raising economic performance in other parts of the country but believe this must happen alongside continued investment in South East success. The South East’s success, its excellent return on investment and its ability to underpin public spending nationwide – now and post Brexit – will suffer if its economy is starved of investment.

1.4 Without investment, South East success cannot be taken for granted and this will be particularly important as we prepare to exit the EU when all areas’ economies – including the South East’s – will need to maximise their potential.

1.5 We want Ministers to commit to a balanced portfolio of national infrastructure investment that balances high-return-on-investment projects in the South East with lower-return regeneration projects in other parts of the country. This is important both to maximise the cost benefits of public investment and to help ensure South East residents and businesses see tangible benefits accruing from growth in their areas.

1.6 While welcome, the South East’s economic success has created problems and pressures that need to be addressed. These include deficits in local and strategic infrastructure – particularly in housing and transport – and growing social care pressures due to our large ageing population. In a country that works for everyone, South East residents will want to see positive action to tackle the problems they face every day such as transport congestion and unaffordable housing.

1.7 Our response covers three areas below in more detail and then gives an overview of key South East facts & figures:
- Economy, infrastructure and funding
- Housing delivery deficit
- Service pressures, including social care and health
2. **Economy, infrastructure and funding**

2.1 The South East has a proven track record as the UK’s most profitable economy. Over the period 2002-12 the South East generated the greatest net profit for HM Treasury once tax revenues are set against public spending in the area. Our most recent figures show this profit as £80bn over the 10 years, compared to £74bn profit from London over the same period. This profitability plays a key role in Government’s ability to invest in infrastructure and economic growth projects elsewhere in the UK.

2.2 SEEC members fully support the importance of raising economic performance in other parts of the country but believe this must happen alongside continued investment in South East success. The South East’s success, its excellent return on investment and its ability to underpin public spending nationwide will suffer if its economy is starved of investment.

2.3 Without investment, South East success cannot be taken for granted and this will be particularly important as we prepare to exit the EU when all areas’ economies – including the South East’s – will need to maximise their potential.

2.4 South East overall GVA (£240bn in 2014) and growth (16.6% from 2010-14) is very strong and second only to London. There is untapped potential to increase South East GVA per head through greater investment to reduce costly transport congestion, improve broadband access and raise skills levels, as these all act as barriers to achieving better productivity and higher GVA per head. South East GVA per head increased by less than the UK average from 2013-14, rising 2.8% compared to a UK average increase of 3.6%.

2.5 Addressing infrastructure, congestion and skills challenges will allow the South East to extend its overall GVA performance to achieve better GVA per head. Current challenges include:

- More than 60,000 unemployed in the South East and 343,000 people of working age with no qualifications. Counter to many perceptions, figures show the South East has more unskilled and unemployed people than the North East, South West or East Midlands.
- Broadband access remains a problem in rural areas of the South East. For example, when current broadband upgrade programmes targeting 95% coverage finish next year, Hampshire still expects to have 25,000 homes with poor or no broadband access.
- Emerging research by SEEC shows a £15bn South East infrastructure funding gap over the next 15 years. As Brexit increases uncertainty for businesses, this infrastructure gap needs to be addressed to encourage businesses to stay in the South East rather than relocate to EU member states. First class businesses won’t stay put for third class infrastructure.

2.6 Freeing up local and national investment is important to deliver further dividends for the Treasury by building further on the South East’s proven economic potential. Actions by Treasury can help fill infrastructure gaps at both local and national, strategic levels.

**Treasury action to help at local level**

2.7 South East local authorities are willing to contribute to local infrastructure investment that will support housing and economic growth but they need greater funding freedoms to be able to do so. For example, allowing councils to keep a greater share of locally-generated taxes would help them invest to help support growth. While this approach would reduce funds for national redistribution on day one, the high potential returns in income tax and corporation tax from new jobs would quickly provide alternative income streams to underpin Government’s wider public spending.

2.8 Allowing councils to access a guaranteed share of the following would help release funds to help SEEC members contribute to essential infrastructure that will open up new housing sites and reduce the costs of congestion for businesses:

- **Business rates:** The South East generates the second highest level of business rates in the UK but local authorities see only a small proportion of the income. The current tariff and top up system means that many South East authorities keep much less than 50% of the growth they generate. For example, one South East district reports only 10% of local growth is retained. One South East county keeps 9% at most. For each tier of council this income fails to match the cost of statutory duties, leaving councillors lacking the ability to invest in growth. In the new system being developed, SEEC members want to see a clear financial reward for areas that deliver growth. This will allow them to invest directly or borrow against future income to invest, for example in projects that will reduce local road congestion. However,
SEEC members are very keen to avoid the situation where significant upheaval in the business rate system delivers little change in the funding received by councils. Members are also concerned about businesses’ expectations that councils will be allowed to spend 100% of local receipts locally, which is not the case.

- **Stamp duty**: Local authority access to a share of stamp duty would allow councils to play a greater role in funding essential local infrastructure that supports housing growth and the needs of existing residents.
- **Council tax**: The ability for councils to keep a guaranteed percentage of council tax growth would give certainty over future investments in the essential infrastructure and services needed to support a growing number of homes and their residents.

2.9 Tangible benefits of freeing up local capacity to fund infrastructure include:

- Using councils’ local knowledge to identify investment needs and target funding to projects that support local economic growth and productivity.
- Improving local transport to reduce congestion that creates delays & costs for businesses. Freight companies argue congested roads cost business £1 per 1 minute delay. Unreliable, overcrowded commuter routes in the South East also damage productivity.
- Investing in new local transport links to open up new housing and employment sites for development.
- Improving local accountability by creating clearer links between local taxes and local spending.

2.10 SEEC members would also like to see two further commitments on freeing up local funding to help them support the cost of services and infrastructure for a growing population:

- A long term future for New Homes Bonus as this offers a clear financial reward for areas that support housing growth.
- Greater freedom for councils to set local fees and charges, for example in areas such as managing access to waste sites and handling planning applications. Local ability to set and levy charges would allow councils to continue to provide quality services without the need to subsidise costs from other budget streams.

**Treasury action to help at national level**

2.11 SEEC members want to see the new Treasury team commit to a portfolio of national infrastructure investment that balances high-return-on-investment projects in the South East with lower-return regeneration projects in other parts of the country. This is important both to maximise the cost benefits of public investment and to help ensure South East residents and businesses see tangible benefits accruing from growth in their areas.

2.12 We strongly encourage Ministers to follow private sector principles and ensure adequate investment in proven successful areas to maintain their profitability. This will not preclude investment in regenerating areas but will ensure economic returns to re-invest UK-wide from already-successful areas such as the South East do not decline. The aim must be to maximise growth in all areas so they can all contribute to the Treasury, not to allow some areas to grow at the expense of constraining other areas.

2.13 SEEC members also believe the same principle of targeting high returns should be applied to Government decisions on future funding of projects that currently receive EU grants. Post Brexit, Ministers should actively allocate funds to projects – in the South East and elsewhere – that offer excellent financial returns that can be reinvested in further growth initiatives.

2.14 Ministers nationally have recognised there have been decades of under investment in infrastructure and identified the need to invest in high value infrastructure.

2.15 SEEC welcomes the commitment to test the value for money credentials of projects through the National Infrastructure Commission. Investment in the South East has proven economic potential and so is able to deliver direct benefits in the short term to balance longer term gains elsewhere. Short term benefits from South East investment will include reducing the cost of congestion to businesses, opening up housing sites and supporting new jobs.

2.16 In particular, the South East needs a number of major strategic cross-boundary transport investments that can unlock national economic potential and sustain the world class infrastructure needed for global competitiveness. SEEC work has identified 5 key projects that
would benefit freight, business and leisure travellers UK-wide, improving access to international markets, supporting UK exports, supply chains and the leisure travel sector. They are:

- **Port access, Solent**: Upgrading the A34/M3 and rail links from the West Midlands through Oxfordshire to Hampshire and the ports at Southampton and Portsmouth. These would support a planned 200% increase in container growth and 170% increase in cruise passengers by 2030.
- **Port access, Kent**: Improving the M2/A2 links from London and beyond, through Kent to the Channel Tunnel and Dover. This would reduce congestion on a key corridor supporting £150bn of UK/European trade each year.
- **Dover-Southampton**: A whole-route upgrade to the A27, linking major south coast ports, university towns and their growing economies. An upgraded south coast route would offer a viable alternative to the M25, relieving congestion on the M25 and creating some 9,300 jobs.
- **Oxford-Cambridge**: A new road linking the hi-tech science centres of Oxford and Cambridge, including improvements to A34 and M40. This will complement the planned East-West rail route and help support at least 120,000 jobs and a similar number of homes.
- **North Downs Line**: Improvements to the rail link between Oxford, Reading, Gatwick & Kent. This would deliver direct links between significant South East economic and residential centres, reducing car commuting, improving public transport access to Gatwick and relieving pressure on roads, including the M25. It is also expected to create some 8,000 jobs.

2.17 As nationally significant routes, these projects need Government funding support. Even with greater funding devolution to address local problems, these national schemes would be beyond the means of individual local authorities, LEPs or groups of partners.

**Additional runway in the South East**

2.18 The South East provides major access routes to both Heathrow and Gatwick airports. Once a decision is made on the location of a new runway, there will be a need for significant additional national investment in the South East to manage the impacts of aviation growth, particularly increased surface transport needs. SEEC members felt the Airport Commission’s transport recommendations lacked ambition and were insufficient to respond to the increased road and rail demand that will be generated by an additional runway.

**Devolution**

2.19 Many in the South East feel approaches to devolution to date have been tailored for well-defined city areas rather than the two-tier South East with its large network of towns and cities. In allocations of national infrastructure funding, SEEC members are keen to ensure that the South East is not disadvantaged or left behind in the investment stakes because it currently has no devolution deals.

3. **Housing delivery deficit**

3.1 The South East has an excellent track record in housing. In 2014-15 the South East saw England’s highest number of additions to its housing stock at 28,360. London was second with an increase of 26,860 homes.

3.2 However, South East local authorities are currently unable to unlock a further 66,751 homes that had been granted planning permission by 2014-15, but not built by developers. The number of unused planning permissions is growing and, in the South East, the number has risen by 12,000 since 2009-10.

3.3 SEEC members would welcome action by Ministers to allow councils discretionary powers to turn those unused planning permissions into homes. For example, the ability to charge fees or financial penalties on stalled developments would allow councils to incentivise quicker delivery of finished homes. Examples could be the ability to charge council tax or CIL on undeveloped homes.

3.4 The current lack of powers to incentivise delivery is creating a housing deficit in the South East. It is also affecting councils’ income and their ability to invest in local services and infrastructure. For example, if all 66,751 unimplemented homes were charged at the average South East band D council tax of £1,475 a year, South East councils would have generated around £98.5m extra income in 2014-15.
3.5 Affordable homes also remain a challenge for the South East with 4,850 completed in 2014-15. This is disappointing as South East house prices are some of the highest in the country at approximately 11 times the average South East salary.

3.6 Section 106 and CIL contributions from developers make an important contribution to the costs of providing affordable housing. These contributions also help fund wider infrastructure that is needed to make new homes sustainable and more acceptable to existing local residents. However, recent planning changes mean several types of development – such as small sites and starter homes – no longer contribute to these costs.

3.7 SEEC members strongly encourage action from Ministers to revisit rules on exempted sites and to allow councils to determine locally-appropriate developer contributions from all sites. This will help ensure all new developments contribute to affordable housing and infrastructure, helping South East authorities respond to local demands.

3.8 We also urge Ministers to ensure a period of stability in the planning system. Regular changes over a number of years have created uncertainty for developers and this has slowed delivery of new homes. With constant changes, many developers are delaying development in the hope of further changes in the system that will favour the construction industry.

4. Service pressures, including social care and health

4.1 The South East has the UK’s largest population, with 9m residents in 2016. This scale of population places high demands on local public services.

4.2 A particular concern is around social care costs facing the South East due to the very high number of older residents. The South East currently has 790,000 residents aged 75+ and this number is expected to increase by more than 90% to over 1.5m by 2039.

4.3 Given the significant increase in older residents and rising demand for social care, many South East authorities do not believe that contributions from local taxes (eg council tax and business rates) will be sufficient to fund their statutory responsibilities. Members have also raised similar concerns about the cost of increased service demands in other key areas, including:
   • Growing numbers of young adults with complex needs
   • Rising numbers of children in care
   • Increasing homelessness.

4.4 Members would welcome a review of care funding pressures and what sources of national funding may be available to support these statutory services.

4.5 SEEC members believe the current NHS-led Sustainability and Transformation Plan process has potential to deliver greater integration between health and social care. However, they also believe that councils should play a greater role in shaping STPs, building on local authorities’ proven success in delivering cost effective services. We would like Ministers to support the following key steps to deliver more successful STPs:
   • Council co-chairing of Sustainability and Transformation Plans and other initiatives.
   • Recognition of local authorities as equal partners with NHS in redesigning services.
   • Agreeing a definition of integration that sets measurable goals for all organisations.
   • Ensuring that Government programmes, incentives and guidance align with these goals.
   • Re-designing jobs and qualifications to bridge organisational differences.
   • Shared use of data to help eliminate duplication, identify efficiencies and quantify savings.
   • Acknowledgement of the role that housing plays in preventing ill-health.
   • Light touch guidance on essential requirements for integration.

4.6 The South East was one of the first areas to sign up for the Government’s new National Transfer Scheme for Unaccompanied Asylum Seeking Children (UASC). A successful national scheme is vital to reduce exceptional pressure on Kent County Council, which received almost a third of last year’s 3,000 UASC arrivals. However a number of SEEC member authorities have raised concerns about their ability to support the scheme long term and would value support from Ministers in a number of areas.
   • Extension of UASC funding to cover the cost of supporting them once they become care leavers. Current UASC funding does not cover this and the extra costs will significantly increase pressure on council services.
• Removing duplication and inconsistency in asylum eligibility assessments when UASC reach 18. This is important to avoid the situation where councils continue to support failed asylum seekers without government funding.
• Greater clarity on how Government will ensure failed asylum seekers who are Appeal Rights Exhausted leave the country swiftly.
• Councils need funding to recruit and train more foster carers. At present demand exceeds availability. This is pushing the costs of external agency foster carers out of councils’ reach.
• National-level action is needed to ensure supported accommodation for older UASC is available. At present accommodation is only provided in a few locations, forcing some councils to place UASC outside their boundaries.
• Some South East councils could face significant increases in their numbers of children in care if they sign up to the UASC transfer scheme. In some cases, councils could see a 50% increase. These authorities need additional funding to help them expand and restructure their staffing to respond to such a significant increase.

5. Background data: The South East in facts & figures
5.1 Primarily an area of two-tier local government, the South East has 74 local authorities – 55 district councils, 12 unitary councils and 7 county councils. Our geography is based around multiple small-to-medium sized towns and cities. There is no single dominant city in the South East itself. While proximity to London is a major factor for some parts of the South East – resulting in increased pressure on housing, transport and other infrastructure – the South East has its own vibrant economy and high levels of ambition to grow the economy further.

5.2 The South East has major significance as the UK’s most profitable economy and needs to be recognised as far more than a commuter zone for London. The South East is home to the UK’s largest population and has untapped potential for improving productivity by raising skill levels and reducing congestion:
• At 9 million residents in 2016, the South East has the UK’s highest population. London has 8.8m. The South East also has England’s highest numbers of older people. In 2016 there are 790,000 over 75s, a figure that is due to increase by over 90% to 1.5m over 75s by 2039.
• With a GVA of £240bn, the South East’s economic strength exceeds the combined £162bn GVA generated by all eight core English cities (2014 figures).
• From 2002-12 the South East contributed £80bn more to the Treasury in taxes than the area received in public spending. London was second with a net contribution of £74bn over the same period.
• The South East saw the most homes added to its stock in 2014-15 at 28,360. London was second with 26,860. Affordable homes remain a challenge for the South East with 4,850 completed in 2014-15. South East house prices are some of the highest in the country and are approximately 11 times the average South East salary.
• In March 2016 the South East had 60,830 unemployed, a higher number than the North East, East Midlands, East of England or South West.
• Latest figures also show the South East has 343,000 working age people with no qualifications, a higher number than the North East, East Midlands, East of England or South West (2016 data).
• Estimated local authority revenue spending power for 2015-16 shows the South East receives England’s lowest per capita central settlement at £279. London receives £608 per head.
• There is significant deprivation in the South East, with 909,000 people living in income deprivation. This includes 233,000 children and 238,000 residents aged over 60. This is more than the number of people affected in the North East, South West or East Midlands.
• The South East is home to numerous major ports and airports, making the area an important international trade and tourism gateway for the UK as a whole. For example, routes through Kent to the Channel support £150bn of UK/European trade each year and over 400 cruise ship visits to Southampton generate £1bn for the economy annually. However, the South East’s overcrowded rail and road networks – for example the M25 southern quadrant is approaching 125% capacity – risk damaging these gains, as well as increasing delays and costs for travellers and businesses from all parts of the UK.