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AUTUMN BUDGET 2017: SOUTH EAST ENGLAND COUNCILS' (SEEC) REPRESENTATION

1. The South East – action needed now to maximise economic potential for UK plc

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 9.1 million residents – the largest population in the UK.

1.2 As we prepare for Brexit it is vital that we all work together to make sure the UK economy can reach its maximum potential. The South East has a highly successful economy and has been globally competitive, but new evidence shows this must not be taken for granted. The South East has traditionally generated the highest net profits for Treasury, but new data for SEEC reinforces our concerns that inadequate infrastructure funding is holding back our economic potential.

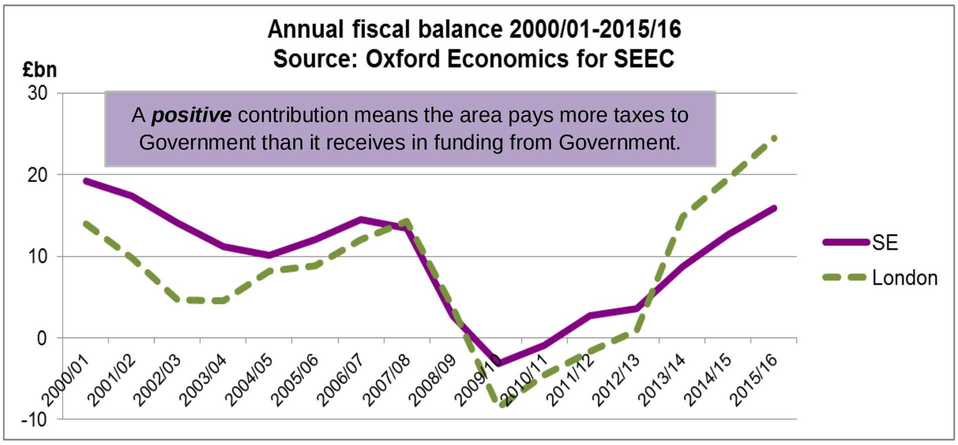
1.3 We believe the South East needs increased investment to deliver its full potential for UK plc and urge you to ensure the South East receives a fair and balanced share of infrastructure funding. This is vital to address problems and pressures arising from deficits in local and strategic infrastructure, for example transport, skills and broadband. Additional powers for South East local authorities to tackle housing backlogs and shortages of affordable homes are also key to achieving a sustainable economy.

1.4 The South East's growing population – including large numbers of elderly people and Unaccompanied Asylum Seeking Children – is also putting increasing funding pressures on services such as social care.

1.5 South East residents want to see positive action to tackle the problems they face every day such as transport congestion, unaffordable housing and pressurised services. Our response covers three areas below in more detail:

- **Economy, infrastructure and funding**
- **Housing delivery deficit**
- **Service pressures, including social care**

2. Economy, infrastructure and funding



2.1 The South East has a proven track record as the UK's most profitable economy which plays a key role in Government's ability to invest in infrastructure and economic growth projects elsewhere in the UK. However newly-commissioned research (see chart above) shows that while the South East contributed the highest net financial surplus to Treasury of £154.4bn from 2000/01 to 2015/16, our net returns were £21.6bn lower than London over the past 3 years. This means the South East economy is failing to deliver its full potential to help Treasury fund infrastructure and public services UK-wide. With the research showing that the South East economy is falling behind London, it also means the Treasury and the UK are becoming increasingly reliant on London's economy alone.

2.2 Our members believe the South East's changing fortunes are due to a growing gap in per-capita public spending, including on areas such as transport and enterprise investment. Between 2000/01 and 2015/16 overall per-capita public spending in London rose from £7,056 to £12,628, while the South East rose from £5,274 to £10,334. This deficit of more than £2,250 per person makes it difficult for the South East to meet its infrastructure and service demands.

2.3 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. Our members are clear that, without increased infrastructure investment, the South East economy will be disadvantaged and will fail to achieve its full potential. Further work for SEEC has shown that the South East is expected to have an infrastructure funding gap of £15.4bn by 2030. This is just 10% of the net profit the South East economy has contributed to the Treasury since 2000. The South East economy has a proud history of generating a surplus for UK plc but we urgently need to see a fairer share of our net profit re-invested in South East transport, skills and hi-tech infrastructure to help us return to maximum potential.

2.4 As we focus on securing the best possible future for Britain outside the European Union, it is critical to ensure the South East can compete internationally for foreign investment. Incoming businesses need to see better road, rail, air and sea links, and world-class broadband, that enhance our excellent strategic location, or they will choose to locate in competitor countries.

2.5 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 long-term 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, as outlined above. It will also stall progress on the Government's Industrial Strategy aims. 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.

2.6 The importance of investing to maximise the South East's economic potential is clear. South East total GVA (£249bn in 2015) and GVA growth (17.1% from 2011-15) are very strong and second only to London. However there is untapped potential to increase South East productivity and GVA per head. This requires greater investment to reduce transport congestion, improve broadband access in rural areas, and raise skills levels – the South East has more than 65,000 unemployed (April 2017) and 300,700 people of working age with no qualifications (2016). Counter to many perceptions, figures show the South East has more unskilled and unemployed people than the North East, South West, East or East Midlands.

2.7 Freeing up local and national investment is important to deliver further dividends for the Treasury by building on the South East's proven economic potential. Actions by Treasury can help fill infrastructure gaps at both local and national, strategic levels. The Government's £2.3bn Housing Infrastructure Fund (HIF) is welcome and we hope to see final awards reflect the needs of areas of high demand such as the South East. However even assuming this, we are concerned that HIF alone will be insufficient to meet needs identified at some £15.4bn for the South East alone. We want to work together with Government to find solutions, including innovative funding mechanisms that leverage investment.

Treasury action to help at local level

2.8 South East local authorities appreciate they have some responsibility for contributing towards local infrastructure investment that will support housing and economic growth, but they need greater funding freedoms to be able to do more. 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.

2.9 **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:** While there is interest in the 100% retention pilots, the current system means that many South East authorities would retain only a small proportion of what they collect. This is despite the South East generating the second highest level of business rates in the UK. We want to see progress on Government's commitment to reform this flawed system where tariffs and top ups mean that many South East authorities keep only a small percentage of the income they generate. For example, one South East district reported only 10% of local growth is retained, and one South East county reported keeping 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. SEEC members want to see a new system that gives clear financial rewards for areas that deliver growth, without adding new statutory spending duties. 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. SEEC members would like to receive stamp duty the first time a property is sold as this would create a clear link between new homes and the infrastructure and services they need.
- **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.

2.10 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. The LGA has estimated the economic cost of traffic congestion at £968 per driver, and 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.

2.11 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 the 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 to reflect the full costs of handling planning applications rather than current partial planning fee increases. 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

2.12 SEEC members want to see the Treasury 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.

2.13 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.

2.14 Ministers nationally have recognised there have been decades of under investment in infrastructure and identified the need to invest. With value for money a key priority for both Ministers and the National Infrastructure Commission, the South East must not be overlooked. 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.

2.15 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/M27 and A259, 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.

2.16 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

2.17 **Airport Expansion:** The South East also provides major access routes to both Heathrow and Gatwick airports and benefits from the economic uplift they create. It will be important that any airport expansion is supported by significant national investment in better infrastructure to make sure that increased traffic congestion and poor services do not undermine economic growth prospects. 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. Also importantly, the final decision on an extra runway should not be used as an excuse to delay investment in surface access improvements to Heathrow that are already developed and are needed immediately.

2.18 **Ports post Brexit:** Our local authorities are home to many port and airport entry routes into the UK and will be hardest hit by queues, congestion and additional inspection costs if effective, fully-tested border systems are not in place before we leave the EU in 2019. In order to avoid delays that will add burdens to local authorities and damage the UK's reputation as a place to visit or do business, actions are needed including:

- **Channel Tunnel & Port of Dover –** SEEC is keen to see a Government commitment on keeping border controls in Calais for vehicles and passengers inbound to the UK via Port of Dover and the Channel Tunnel. The alternative – repatriating the incoming borders to the

UK in less than two years' time – would require significant investment in the land and infrastructure required to carry out checks on UK soil, and has potential to increase the number of illegal migrants and asylum seekers arriving.

- **Freight –** careful advance preparation for any changes in free trade agreements with the EU to avoid significant new burdens on South East local authorities. For example there would be a substantial increase in port health responsibilities if the inspection of foods from the EU is required post-Brexit. We also want the Government to explore options for a freight checking and monitoring system to allow trusted freight companies to pre-register and then enter the UK without additional processing. This will reduce delays for trusted companies and ensure quick and efficient movement of validated freight across borders, which is critical to many UK companies' supply chains and to maintaining a productive economy.
- **Passengers –** SEEC wants Government to expedite an upgraded E-border system to be fully tested and operational before we leave the EU in Spring 2019. We recognise Government's commitment to developing a replacement system to replace the contract cancelled in 2010, however, the need to implement an alternative is now pressing.

2.19 **Brexit and Skills:** The South East's buoyant economy has long been a draw for workers from the European Economic Area (EEA). With Brexit on the horizon, many public and private sector organisations in the South East are fearful that impending skills shortages could damage productivity and harm the economy. Factors such as a weaker pound, uncertainty about future rights and strengthening EU economies are already discouraging some workers eg. a 96% drop in nurses from the EU registering to practise in the UK between July 2016 and April 2017.

2.20 SEEC members want to see Ministers committing to working with local authorities to avert a skills crisis. We believe urgent action is required in 3 key areas:

- Direct local authority input into which skilled workers from EEA and other countries should be given priority to enter the UK to work.
- A single funding pot for skills and employment investment – controlled by councils to tailor spending to meet the needs of local businesses.
- A central role for local authorities in careers advice.

2.21 **Devolution:** Many in the South East feel much of the devolution focus to date has 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 is outside mainstream devolution approaches.

3. Housing delivery deficit

3.1 **Unlocking housing barriers and the White Paper:** The South East has an excellent track record in housing. In 2015-16 the South East saw England's highest number of additions to its housing stock at 34,900. London was second with an increase of 30,390 homes. However, South East local authorities are currently unable to unlock thousands more homes that have been granted planning permission but not built by developers – at least a further 66,751 homes were unbuilt by 2014-15. The number of unused planning permissions is growing and, in the South East, the number had risen by 12,000 since 2009-10.

3.2 The current lack of powers for councils 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.

3.3 We are pleased that the Government recognised the problem of unimplemented planning permissions and build-out times in its Housing White Paper. We welcomed proposals for some modest tools to help councils tackle slow delivery via development schedules/review mechanisms, and increasing construction skills. However, further action is still needed to deliver the White Paper's aims of increasing housing supply – especially if the new 'delivery duty' on councils is to be introduced. Ministers have been clear that delivery of local plans is a priority, so transition and implications for plan making are also important.

3.4 **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.

3.5 **Affordable homes**: Affordable homes also remain a challenge for the South East with 5,130 completed in 2015-16. This is disappointing as South East house prices are some of the highest in the country at approximately 12 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 **We encourage the Government to progress findings from the national independent review of CIL, which could help address some of these concerns**. 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 The Housing White Paper acknowledged that there is little prospect of market forces alone delivering the number of homes required to build our way out of the affordability crisis. It recognised the role councils could play in increasing the supply of affordable housing and we urge Government not to miss the opportunity to put in place three simple steps to support this:

- **Relaxing the cap on borrowing under Housing Revenue Account (HRA)** rules would allow councils to build more affordable homes themselves.
- **Reviewing Right to Buy (RtB)** to enable local authorities to sustain stocks of affordable homes by ensuring 1 for 1 replacement. While supporting RtB, some SEEC members argue it kicks in too soon and that the discounts are too high to adequately fund replacements.
- **Active Government encouragement for councils building homes through new models** such as local housing companies and joint ventures to deliver affordable housing. We want an open dialogue with Government to inform how they can support and encourage these types of delivery vehicles.

3.9 **Tackling Homelessness**: Homelessness is a major concern in the South East, with a rapid rise in recent years. In Surrey for example, households accepted as homeless by councils rose four-fold between 2009-10 and 2016-17, from 154 to 622. Homelessness has multiple causes, but of particular concern in the South East is the impact of a freeze on Local Housing Allowance (LHA) rates in combination with high costs, rising rents and a shortage of affordable properties. We call for Government to **allow targeted LHA increases in high cost areas, such as the South East**. This would help keep rents affordable for those on the lowest incomes and reduce the number falling into homelessness. The additional costs of this would be offset by spending less on homelessness – LGA estimates nationally councils are spending £2m a day on temporary accommodation.

4. Service pressures, including social care

4.1 The South East has the UK's largest population, with 9.1m residents in 2017. This scale of population places high demands on local public services.

4.2 **Social care:** 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 805,000 residents aged 75+ and this number is expected to nearly double 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 **Unaccompanied Asylum Seeking Children:** 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). We recognise that a successful national scheme is vital to reduce exceptional pressure in a few areas. In the South East, for example, Kent County Council received almost a third of 2015's 3,000 UASC arrivals. However a number of SEEC member authorities have raised concerns about their ability to support the scheme due to inadequate funding. Initial assessment indicates councils in the South East face a gap in the region of £20,000 for each UASC placement. Members need support from Ministers in two specific areas:

- Ensuring funding for councils accepting UASC covers all the costs they incur by taking on this responsibility. In some cases – for example in some smaller unitary areas – councils would also need assistance to expand social care teams to allow them to accept UASC. There are significant pressures in the South East regards recruitment and retention of qualified social workers - these difficulties may be reflective of the recent rise in arrivals of UASC and the additional pressure this places on the workforce.
- Clear confirmation that cost recovery from Government is permitted to cover the cost to local authorities of supporting UASC once they become care leavers.

Yours sincerely

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