

# South East England Councils

## Input to APPG for Reform, Decentralisation & Devolution in the UK: Better Devolution for the Whole UK



### 1. Introduction and South East overview

- 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 8.9 million residents – the largest population in the UK.
- 1.2 SEEC members strongly support the principle of devolution within the UK and have a particular interest in achieving greater devolution for English local government – specifically the 55 district, 12 unitary and 7 county councils that make up the South East of England.
- 1.3 Our members are very keen to ensure South East local authorities have access to the same level of devolved funding and powers being made available to devolved administrations in other parts of the UK. Devolution in the South East will bring decisions and accountability closer to more voters than in any other part of the country. It will also deliver greater local influence over economic growth to help release further potential in the South East as the UK's economic powerhouse.
- 1.4 However, many members have reservations about the way English local government devolution is currently being managed and, too often, see these concerns as reasons not to pursue devolution deals too strenuously. These concerns apply equally to authorities who are yet to bid and those who have submitted devolution proposals but are pessimistic about the extent of powers they will genuinely see devolved. By 4 September 2015, four South East areas had submitted devolution proposals (Hampshire & Isle of Wight; Surrey, East & West Sussex; Greater Brighton; and Oxfordshire). Three further significant areas submitted no bids (Kent, Berkshire and Buckinghamshire).
- 1.5 **Regardless of whether bids have yet been submitted, South East council leaders want to contribute to a constructive dialogue that will help deliver a long term, sustainable solution for better devolution and effective sharing of responsibilities between central and local government.**

### 2. Executive summary

- 2.1 SEEC members have reservations about the current process for devolving powers to English local authorities. This paper, therefore, sets out five principles that should underpin future progress:
  - An open, accountable approach to negotiating devolution deals.
  - Clarity on the criteria used to judge successful and unsuccessful bids.
  - Consistent devolution offers across all parts of the UK.
  - Link powers with control of funding.
  - Long term sustainability.
- 2.2 SEEC also highlights three areas where significant powers should be available for devolution to all:
  - Giving councils greater local control of funding to support devolution. This should include full control of council tax, access to local property taxes and the ability to borrow, alongside greater control of skills and transport budgets.
  - Giving councils powers to encourage development and support affordable housing.
  - Giving local democratically elected council leaders powers to streamline health services.
- 2.3 There is little South East support for elected mayors, so SEEC calls for greater flexibility in governance arrangements to make devolution more easily accessible to two-tier areas. There is interest in a cabinet model of governance.
- 2.4 SEEC believes greater local control is essential to deliver sustainable funding for local government. A major step towards achieving sustainability would be to secure full local control of council tax, business rates and access to local property taxes.

### 3. Why South East devolution matters

3.1 SEEC members believe that greater devolution in the South East would pay substantial dividends for UK PLC. More freedom to fund and direct local infrastructure improvements and services will release potential for South East councils to deliver in two key areas:

- Further improve the profitability of the South East economy, which is already the major source of funding for Government's national public spending programme.
- Further improve the streamlining and cost effectiveness of public services to deliver better outcomes for the 8.9m people who live in the South East. This is the UK's highest population (greater than London's 8.6m residents).

3.2 **Economy** – the South East has a proven track record in growth, and more potential, but this depends on continued investment, particularly in infrastructure. SEEC strongly supports growth in other areas of the country but believes the UK as a whole will be poorer if this comes at the expense of the South East economy, which is the engine room of UK plc:

- The South East economic track record is second to none. The area has major significance as the UK's most profitable economy, returning more to the Treasury in taxes than it receives in public spending. Between 2002-12 the South East contributed a net 'profit' of £80bn to the Treasury. In the same period London contributed £74bn.
- South East GVA in 2013 was £227bn, over 40% higher than the £161bn combined GVA from all 8 English core cities. The South East competes globally rather than nationally and risks losing ground to international competitors if it cannot invest in infrastructure for growth.

Genuine devolution can release additional South East economic potential and improved productivity via the ability to fund and target investment, building on existing success and tackling barriers to further growth such as infrastructure and skill deficits.

3.3 **Services** – The South East's large population creates very high levels of demand for services. This is particularly noticeable in health and care, as the South East has the UK's highest (and fastest growing) population of residents over 65. Devolution would allow democratically elected council leaders to lead streamlining and integration of services to deliver better outcomes for residents more cost effectively.

4. **APPG evidence on Local Government** – Our evidence focuses on this area of your inquiry.

#### 4.1 Devolution of legislative and fiscal competence to local authorities within the UK, including in the Cities and Local Government Devolution Bill

4.1.1 SEEC strongly supports the principles of devolution and subsidiarity to bring political powers, decisions and responsibilities as close to local people as possible. However, at present, members feel that models of devolution available to the UK's devolved administrations are significantly more attractive to South East local authorities than anything currently on offer in England.

4.1.2 **Principles** – Introducing a number of key principles to underpin devolution would help overcome SEEC members' reservations about the current process. These are:

- a. Need for an open, accountable approach to negotiating devolution deals.** The negotiation of devolution deals needs to be open and publicly accountable to demonstrate how the process is working to deliver the best possible solutions for local tax payers. This will avoid unhelpful rumours and speculation about the pros and cons of preparing bids that have created a sense of uncertainty for some South East leaders.
- b. Clarity on the criteria used to judge successful and unsuccessful bids.** This would be highly beneficial to help authorities and their partners design effective devolution proposals, ensuring time and resources devoted to the bidding process are not wasted.
- c. Consistent devolution offers across all parts of the UK.** SEEC members feel devolution on offer to English local authorities is modest in comparison to other areas, such as Wales and Scotland. There should be equal offers to all, for example control of business rates and planning powers available in Wales should also be available to English local authorities. English councils do not want to bypass the opportunity for even modest devolution, so many are preparing bids despite doubts about the extent of powers on offer.
- d. Link powers with control of funding.** The full potential of devolution will not be realised unless councils have the means to control and set funding levels appropriate to deliver the

ambitions set out in their proposals. While funding remains mainly under central control – for example via short term grants – councils have no certainty that they will be able to maximise the gains from devolving powers to local level. SEEC members highlighted 124 pots of funding controlled by central government and called for these to be consistently delegated to local level. This would provide greater certainty on funding, greater long term commitments and reduce the resources required to bid into 124 different schemes. Section 4.1.3 below sets out key funding streams to be devolved.

- e. **Long term sustainability.** SEEC members have expressed concern about the sustainability of the current devolution agenda as they fear it risks a patchwork of unmanageable, bespoke deals. Members would welcome clarity on the Government's ultimate vision for devolution to English councils, for example how Ministers see the future balance between national and local government and any powers that need to be retained in central departments. Clarity on this strategy would create more certainty on the potential for devolution and give confidence that there is a long term plan for rebalancing responsibilities rather than simply responding to requests. It would also be helpful to consider a 'tipping point' for universal devolution of powers. For example when multiple devolution deals grant a particular power – say business rate retention – to large groups of councils, when does it become more economical to devolve this to all areas rather than maintain a mix of local and central involvement?

#### 4.1.3 Examples of specific powers that should be devolved – SEEC members have identified three principal areas where they want to see significant devolution to all South East councils:

- i. **Greater local control of funding is the key requirement to support devolution.** SEEC members want to see full local control of business rates opened up to South East local authorities, as already happens in Wales. SEEC members have been interested to see financial agreements in Manchester, including a tax 'earnback' and long term transport funding settlements. We would also like to see these options made available to all areas. It is important to ensure all councils have equal access to opportunities and that devolution does bypass areas of significant economic potential, such as the South East. Minimum financial elements available for devolution should include:
- **Full control of council tax**, with the ability to set tax levels, increases, bands & discounts.
  - **100% control of business rate income by 2020, including the ability to set charges locally.** Full local retention of South East business rates would raise £3.34bn in 2015-16. This could replace the £2.7bn of non-ring-fenced grants paid to South East councils this year. Freedom to set business rate levels locally will enable councils to encourage business growth and job creation.
  - **Access to local stamp duty and Annual Tax on Enveloped Dwellings.** Allowed to keep this, South East councils would receive £3.1bn more than current non-ring-fenced grants to invest in growth, infrastructure & better services.
  - **Council control of skills budgets.** Devolve Skills Funding Agency budgets and Work Programme management to local authorities. Council responsibility for commissioning training would ensure local colleges deliver the skills needed by local employers. Current skills gaps are holding back growth and productivity – including construction capacity – and damaging South East companies' competitiveness. Local control of skills will also help reduce the South East's 67,000 unemployment count and improve prospects for 306,000 South East residents with no qualifications.
  - **Allow council borrowing against property tax receipts.** The ability to borrow against future business rate and stamp duty income would support investment in capital projects.
  - **Greater local control over transport funding.** Long-term funding commitments to local authorities (as in Manchester) will allow councils to plan effectively to tackle congestion hot spots that damage economic growth and productivity by creating delays for businesses.
- ii. **Give councils powers to encourage development and support affordable housing.** Permit local discretion on 'use it, lose it or pay for it' powers (eg. council tax on undeveloped sites) and local determination of developer contributions towards affordable housing and infrastructure. The changes will ensure councils can collect developer contributions via Section 106 or CIL (where locally appropriate) to help fund affordable homes and supporting infrastructure in some

of the highest cost housing areas in the country. 'Use it or lose it' would achieve quicker delivery of homes by incentivising developers to build.

- iii. **Give local democratically elected council leaders powers to streamline health services.** South East authorities have an excellent track record in delivering value for money and are keen to use this experience to apply the same principles to the health sector. Integration of health and care is a particular priority for the South East as our area has the UK's most older people (1.5m residents over 65 and an expected 90% rise in residents over 75 in the next 22 years). South East councils want greater devolution of health budgets, allowing democratically elected councillors to take the lead in streamlining back offices to integrate IT, administration and health & care teams to co-ordinate the front line response to residents. Devolving the lead to councils will support delivery of a seamless service to residents, stripping out duplication to provide more cost effective solutions. Councils' local knowledge, accountability and track record for efficiency will deliver targeted services that offer excellent value for money.

## **4.2 Governance arrangements for decentralisation**

- 4.2.1 SEEC members want the ability to develop alternative governance structures for devolution, without being forced to accept an unpopular elected mayor.
- 4.2.2 Many SEEC members see the focus on elected mayors as a distraction from the savings and efficiencies that could be achieved by simply making better use of public funding through allowing councils to utilise local knowledge to streamline services and tailor them to local needs. For example, £8bn of public money currently spent in Kent could be more effectively used by involving councils in scoping, streamlining and commissioning in areas such as skills and benefits administration. Members argue there is no need for an elected mayor to lead work on removing duplication or bureaucracy and ensuring services reflect local demand.
- 4.2.3 Members recognise that accountability is critical to devolution but the scale, geography and mix of unitary and two-tier councils in the South East means there is little support for elected mayors. In one area, many residents see an elected mayor as tantamount to having a single large unitary council and fear the distinctive voice and needs of individual areas will be lost. Many areas see the requirement for a mayor as simply another layer of local government bureaucracy that will create significant potential for confusion with existing local mayors. Some areas also fear that long-standing, popular local traditions will be undermined. For example Winchester's mayoralty dates from the 12<sup>th</sup> century when the city was the national capital and many want this tradition preserved.
- 4.2.4 SEEC wants to see the devolution Bill amended to allow significant devolution of powers without an elected mayor. Members feel alternative governance arrangements would be more suited to the needs of the South East as they would open up devolution more easily to two-tier areas and make devolution partnerships more acceptable to local voters. One option to consider is creation of a small cabinet of elected representatives to ensure views from different areas of interest are taken into account. Members believe this would gain greater public support than a single mayor while still allowing high profile individuals to take full accountability for areas of policy – as the Government itself does through Secretaries of State.

## **4.3 Sustainable funding system for local government**

- 4.3.1 Section 4.1.3 above sets out SEEC's headlines for financial devolution. As well as supporting devolution these changes would also help achieve more sustainable funding for local government. Greater transparency and accountability is important in a new funding system, as is the need to give councils the certainty and control they need to be able to plan effectively for infrastructure and cost efficient service delivery.
- 4.3.2 SEEC members would welcome a clearer link between local services/investment and locally controlled funding. This would enhance local accountability and increase voter awareness of decisions, helping to revitalise local democracy.
- 4.3.3 International comparisons show that significant funding devolution is needed to bring English local authorities closer to their European counterparts in terms of powers and spending capacity. Analysis by Professor Tony Travers highlights that public expenditure in the UK is 'uniquely centralised' with authorities raising only [1.7% of GDP in local taxes compared to 16% in Sweden](#),

[6.5% in Italy and 4.6% in France](#). In addition, central government caps on council tax rises mean that an “incredibly tiny proportion of funding – near nought – is raised by anything other than central government”. [Speaking to SEEC members in 2014](#), Professor Travers argued that England’s highly centralised system undermines effective decisions about local priorities and investment saying: “The more decisions are made close to where taxpayers pay their money and where people understand what local politicians are doing, the more efficiently that money will be used.”

4.3.4 SEEC members support greater local control of funding by giving councils full control of council tax and access to local property taxes such as business rates and stamp duty. Allowing local authority control of council tax and property taxes would give councils 11% of South East taxes, retaining 89% under central Government control for national spending or redistribution around the UK. Key principles for a sustainable system should be:

- Council tax is the best recognised link to local democracy and changes to the system could help build local accountability by giving councils full powers to decide council tax levels and increases without central government restrictions, as well as the ability to set council tax bands and discounts locally in response to local circumstances.
- Local retention of property taxes – including stamp duty and Annual Tax on Enveloped Dwellings (ATED) would move local authorities towards greater certainty and control over their income and could generate funds to invest in local infrastructure for growth – building on local knowledge to direct investment to local priorities.
- Allow councils to borrow against future business rate and stamp duty income to further support investment in infrastructure for growth.

4.3.5 [SEEC-commissioned Research](#) shows that allowing councils to retain 100% business rate income would give South East authorities the funding certainty they need to deliver economic growth. Full local retention of business rates could replace the non-ring-fenced grants that South East authorities currently receive from Government. We recognise that income variations would require some redistribution of funding within the South East to avoid cuts for those local authorities with low property tax revenues. Adding local retention of stamp duty and other income streams would allow South East councils greater ability to invest in local priorities – such as transport, broadband, skills or streamlining services.

4.3.6 In 2014, keeping 100% business rate income, stamp duty, ATED & council tax would have given South East councils £9bn. Allowed to keep this, councils would receive £3.1bn more than current non-ring-fenced grants to invest in growth, infrastructure and better services.

4.3.7 Greater local control of funding is particularly important in the South East where our councils currently have the lowest levels of local authority revenue spending power. Figures for 2015-16 show the South East receives England’s lowest per capita central settlement at £382. The North East receives £652 per head. Greater local control of income would allow South East councils to make their own decisions on appropriate levels of funding for many local services.

4.3.8 Where there remains a need for central funding and grants – for example to deliver specific Government priorities – there must be greater transparency and fairness in any funding allocations. A new system must offer:

- Greater accountability to communities
- Greater fairness and a more transparent logic in funding allocations
- Support for local authorities to be ambitious and innovative
- Greater certainty to support long term financial planning.

4.3.9 SEEC members would support use of financial incentives in central grant giving, but these must be carefully designed to ensure they are linked to achievable outcomes. It is also important that they do not unnecessarily exclude some councils from achieving the desired results. This is currently the case with New Homes Bonus, as some South East authorities with large areas of protected land – such as green belt and environmental designations – have limited ability to build in large numbers and therefore generate payments.