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SPENDING REVIEW 2015: 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 8.9 million residents – the largest population in the UK.
- 1.2 This contribution to Spending Review 2015 (SR15) highlights how **radical devolution of powers to South East authorities can deliver HMT aims of economic growth, better productivity and more efficient, value-for-money public services.**
- 1.3 We welcome the ambition that all Secretaries of State should devolve as much as possible. Here we set out changes that will open up the benefits of devolution to the UK's largest population, releasing significant South East economic potential, streamlining local services, making local authorities more self sufficient and revitalising local democracy.
- 1.4 South East local authorities are keen to access meaningful and widespread devolution deals similar to those being agreed in other parts of the country, such as Manchester. Councillors welcome plans to devolve powers but many remain concerned that the policy appears targeted primarily at cities.
- 1.5 Our members want to see devolution significantly extended outside the cities to encompass the South East – and other similar two-tier areas – which can deliver major national economic benefits. Devolution as a spur to economic growth must not target cities at the expense of releasing potential in the highly profitable South East, which makes the UK's largest net tax contribution to the Treasury.
- 1.6 The size and complexity of the South East make it difficult to apply existing devolution initiatives here, particularly in the short timescales requested. Below we set out four key requests that would enable devolution to be applied more readily to the South East:
 - **Significant devolution with alternatives to elected mayors.**
 - **Devolve funding to invest in local infrastructure for growth.**
 - Radical devolution including local retention of business rates and stamp duty alongside greater local control of transport and skills funding.
 - **Empower councillors to lead delivery of value for money services.**
 - Enable democratically-led integration of health, care and other public services to deliver more streamlined, cost effective services for residents.
 - **Local determination of planning**, including power to incentivise house-building.

- 1.7 These four changes will release significant additional economic potential in the South East and deliver better outcomes for residents by giving councils the ability to integrate services, removing duplication and maximising cost effectiveness. They will also revitalise local democracy – indeed significant devolution in the South East will bring local accountability closer to more voters than in any other area of the country.
- 1.8 Finally, we also draw attention to two key areas where national level investment by central Government departments is needed to help South East authorities meet Ministers’ priorities. In particular, spending by the Department for Transport and Department of Health is important to support South East councils in meeting national challenges.

2. The South East in Facts & Figures

- 2.1 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.
- 2.2 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:
- At **8.9 million residents** in 2015, the South East has the UK’s highest population. London has 8.6m. The South East also has England’s highest numbers of older people. In 2015 there are 1.5m over 65s, due to rise 60% to 2.7m by 2037. We also expect a 90% rise in over 75s, increasing from today’s 790,000 to 1.5m in 2037.
 - With a **GVA of £227bn**, the South East’s economic strength exceeds the combined £161bn GVA generated by all eight core English cities (2013 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 built in 2014-15 at 21,900**. London was second with 18,300. Affordable homes remain a challenge for the South East with 4,850 completed in 2014-15.
 - In March 2015 the South East had **67,000 unemployed**, a higher number than the North East, East Midlands, East of England or South West.
 - Latest figures also show the South East has **306,000 working age people with no qualifications**, a higher number than the North East, East Midlands, East of England or South West (2014 data).
 - Estimated local authority revenue spending power for 2015-16 shows the South East receives England’s **lowest per capita central settlement** at £382. The North East receives £652 per head.
 - 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.

3. South East Devolution: Benefits & Challenges

- 3.1 Devolution in the South East will bring decisions and **accountability closer to more voters** than current proposals in any other part of the country. The South East has the UK's largest population with 8.9m residents. This is more than the population of London and more than three times the population of Greater Manchester.
- 3.2 South East local authorities are keen to access meaningful and widespread devolution deals similar to those being agreed in other areas, such as Manchester. Our members want to see devolution significantly extended outside cities to encompass two-tier areas such as the South East, which can deliver major economic benefits, improved productivity and more cost effective services. Policy changes delivered through the Spending Review can help achieve these aims.
- 3.3 Devolution will allow South East councils the powers and greater control over income that will enable them to deliver benefits for our very large population in two key areas:
 - **Economic growth** – releasing additional economic potential and improved productivity through the ability to fund and target investment into local infrastructure needed for growth.
 - **Local services** – more streamlined and cost effective public services achieved by integrating back offices, reducing duplication and applying local government's proven expertise in managing costs.
- 3.4 With real strengths in Government's target growth sectors, such as professional, scientific & technical (PST), the South East has potential to build on existing success to deliver world class clusters that will boost UK plc, delivering significant returns on public investment. In 2014 the South East had 20.8% (146,500) of PST businesses in England, a growth of 2.3% since 2010.
- 3.5 In the 10 years to 2012 the South East contributed £80bn more to Treasury than it received in public spending. In 2013 the South East recorded £227bn GVA, compared to a combined £161bn GVA from England's 8 core cities.
- 3.6 Freeing up local investment through devolution of funding and powers will deliver further dividends for the Treasury by releasing additional South East economic potential. Examples include the ability for councils to direct skills investment into the qualifications that local employers need. This will not only boost economic growth and productivity it will also help move some of the South East's 67,000 unemployed residents from benefits into work.
- 3.7 Potential gains from South East devolution are significant but the size, scale and variety of local authorities across the South East do add to the time taken to agree far-reaching devolution proposals. Agreeing common plans to deliver and streamline cross-tier functions for groups of the South East's county, unitary and district councils is more challenging than negotiating a deal among a smaller group of councils with equal responsibilities.
- 3.8 For example, Hampshire is working on a devolution proposal covering some 2 million residents that involves 15 councils – 1 county, 3 unitaries and 11 districts. Compared to the Manchester deal involving 10 councils of equal status, Hampshire's task is more complex involving 50% more councils and covering three different tiers of responsibilities. Kent has 1 county, 1 unitary and 12 districts, before even considering partnerships with neighbouring areas.
- 3.9 Given the number of partners involved in devolution negotiations, South East authorities would welcome clarity from Ministers on the following:
 - **Commitment on future phases of devolution deals.** The initial 4 September deadline for devolution proposals will be challenging for the South East given the number of partners involved in emerging proposals. Our members are keen to understand what opportunities will remain open after 4 September 2015.
 - **Ground rules on what is in scope for devolution:** Significant time and resources are being devoted to preparing cross-council proposals, so it would be helpful to know if there are any functions that are outside the scope of Ministers' devolution ambitions.

4. How SR15 Can Help The South East Deliver HMT Priorities

- 4.1 South East local authorities are keen to access funding, freedoms and powers that will enable them to deliver HMT priorities, including delivering more streamlined, cost effective services for local residents and ensuring that local infrastructure investment is directed in the most beneficial way to support economic growth and better productivity.
- 4.2 Visible local control of major funding, investment and service decisions will revitalise interest in local democracy. Devolution in the South East would open up a new level of engagement and participation to the UK's highest population.
- 4.3 Four key Government actions in SR15 can achieve these aims.

4.4 DEVOLVE FUNDING TO INVEST IN LOCAL INFRASTRUCTURE FOR GROWTH

- 4.4.1 SEEC welcomes Government's commitment to review local government finances to achieve more sustainable funding for councils. Any new approach must be rigorous, transparent and give councils the certainty and control they need to be able to plan effectively for infrastructure and cost efficient service delivery.
- 4.4.2 [SEEC-commissioned research](#) shows that allowing councils to retain all business rate income (not just growth) will give South East local authorities the funding certainty they need. Local retention of all business rate income could replace the non-ring-fenced grants that South East authorities currently receive from Government. We recognise that income variations across councils would require some local redistribution of funding within the South East to avoid cuts for those local authorities with low property tax revenues.
- 4.4.3 Adding local retention of stamp duty would allow councils greater ability to invest in local priorities – such as transport, broadband and skills for growth or streamlining services.
- 4.4.4 The ability for councils to borrow against future business rate and stamp duty income would further support investment in infrastructure for growth. Greater local control of transport and skills funding would also pay dividends for economic growth and productivity.

In the Spending Review we want Government action to:

- i. **Set a timetable to phase in giving South East councils 100% of all business rate income by 2020, including the ability to set charges locally.** Wales gained full control of business rates in 2015. We want to see the same powers available in the South East.
- ii. **Give South East councils access to local stamp duty and Annual Tax on Enveloped Dwellings (ATED).** Alongside business rates & council tax this would give councils 11% of South East taxes, retaining 89% under central Government control for national spending or redistribution around the UK.
- iii. **Allow council borrowing against property tax receipts.** Prudential borrowing will support investment in capital projects.
- iv. **Permit South East councils to control and target skills budgets.** Devolve Skills Funding Agency budgets and Work Programme management to local authorities.
- v. **Give greater local control over transport funding.** Long-term funding commitments (as in Manchester) will allow councils to plan effectively to tackle local congestion hot spots.

Benefits of these changes include:

- **Making South East councils more self-sufficient and making some central grants unnecessary.**
 - 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.
 - In 2014, keeping 100% business rate income, stamp duty & 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 & better services.

- **Supporting more local investment in jobs growth, productivity and housing.**
 - Use councils' local knowledge to identify investment needs and target funding to projects that support economic growth and productivity.
 - Improve 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.
 - Better local transport links will open up new housing and employment sites for development.
 - Council responsibility for commissioning training will 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 help reduce the South East's 67,000 unemployment count and improve prospects for 306,000 South East residents who have no qualifications.
- **Investing in the South East's high economic potential.**
 - Further increase the South East's 'profit' for the Treasury to fund public spending UK-wide. In 10 years to 2012 South East taxes exceeded public spending by £80bn. This is £6bn more than London. Without investment the South East tax 'profits' are at risk as jobs will be lost to international competitors.
- **Maximising potential to build on existing business success.**
 - South East GVA at £227bn a year (2013) is bigger than the GVA from all 8 English core cities combined. South East GVA is £110bn higher than Scotland and £175bn more than Wales. The South East has a proven track record in growth and more potential, but this depends on continued investment, particularly in infrastructure. Growth in other areas is important but must not come at the expense of maintaining the UK's economic engine room.
- **Improving local accountability.**
 - Clearer links between local taxes and local spending will enhance involvement in local democracy and improve voter turnout.
- **Allowing business rate incentives to attract new jobs.**
 - Freedom to set business rate levels locally will enable councils to encourage business growth, job creation and encourage clusters (eg. through lower rates in some areas).

4.5 EMPOWER COUNCILLORS TO LEAD DELIVERY OF VALUE FOR MONEY SERVICES

4.5.1 SEEC supports the Government's aim of maximising the efficiency and cost effectiveness of local services. South East local authorities have an excellent track record in delivering value for money services and are keen to use this experience to apply the same principles to wider public services.

4.5.2 Integration of health and care is a particular priority for South East authorities, not least because our area faces the UK's biggest increase in older people. 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 allow us to deliver a seamless service to residents, stripping out duplication to provide more cost effective solutions.

4.5.3 South East councils are also keen to lead integration of wider public services – such as fire and ambulance – and to take over local control of other functions currently delivered by bodies such as the Environment Agency, Highways England or the police.

In the Spending Review we want Government action to:

- vi. **Allow South East councils to lead work to break down barriers between health and social care.** Introduce South East integrated health and care budgets, as developed in Manchester. This will help ensure an effective response to the South East's expected 90% rise in residents over 75 in the next 22 years.

- vii. **Incentivise integration of services with councils in the driving seat.** Maximise the value of South East councils' efficiency to improve front line and back office delivery.
- viii. **Give councils the ability to align public service boundaries.** Standardise operations for organisations such as NHS, police & Local Enterprise Partnerships to match existing council boundaries to simplify and encourage integration of services under democratic leadership.
- ix. **Permit councils to take over other local services or powers.** In many cases councils could deliver more cost effective services than national agencies (eg. trunk roads, bus services or road weight limit enforcement).

Benefits of these changes include:

- **Delivering value for money services that meet local needs.**
 - Combine councils' local knowledge, accountability and the South East's track record for efficiency to deliver targeted services offering excellent value for money. Greater funding freedom will allow councils to invest in services while reducing the need for central grants.
 - In some areas councils are keen to take over police powers such as enforcing weight limits on local roads. This would allow councils to lead the response to local priorities and free up police resources for other duties.
 - Some councils believe they can deliver more cost effective, co-ordinated services through local control of bus services, environment agency local offices, or trunk road network management and improvement projects.
- **Ensure better integration of health and care services.**
 - Council-led joined up budgets and training can deliver genuine multi-agency working, giving the South East's 8.9m residents a seamless experience of health and social care.
 - Greater devolution of health budgets will allow 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.
- **Reduce waste and duplication in services.**
 - Use South East councils' experience in delivering savings and refocusing services to redesign more efficient delivery that meets local people's needs. Allow councils to lead integration with NHS and emergency services, streamlining data, budgets & back offices to deliver more front line workers.

4.6 SUPPORT DEVOLUTION WITH ALTERNATIVES TO ELECTED MAYORS

4.6.1 South East local authorities are keen to access meaningful and widespread devolution deals similar to those being agreed in other parts of the country, such as Manchester. We recognise that accountability is critical to devolution but the scale, geography and mix of unitary and two-tier councils in the South East mean there is little support for elected mayors.

4.6.2 In one area, for example, 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, particularly as many partnerships will include urban, rural and semi rural areas within the same combined authority.

4.6.3 SEEC members want the ability to develop alternative governance structures for devolution, without being forced to accept an unpopular elected mayor.

In the Spending Review we want Government action to:

- x. **Allow significant devolution of powers without an elected mayor.** We want to explore options for alternative governance arrangements more suited to the needs of the South East.

Benefits of these changes include:

- **Opening up devolution more easily to two-tier areas.**
- **Making devolution partnerships more acceptable to local voters.**

- For example, exploring creation of a small cabinet of elected representatives for a combined authority will ensure views from different areas of interest are taken into account. We 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.

4.7 LOCAL DETERMINATION OF PLANNING

- 4.7.1 The South East has had the highest housebuilding rates in the country for at least the past three years. In 2014-15 the South East built 21,900 new homes. This compares to 18,300 in London.
- 4.7.2 With a proven willingness to help address housing shortages, our councils want to take full local responsibility for planning to be able to continue delivery without the need for costly and bureaucratic intervention from the Planning Inspectorate.
- 4.7.3 Increased powers to encourage development and to ensure contributions to affordable housing will also help the South East continue to deliver the homes needed to meet local demand. Affordable housing remains a challenge for the South East as one of the UK's most expensive housing areas. We have concerns about the financial impact of plans to exempt starter homes from S106 or CIL payments. Nationally in the next 5 years, the LGA estimates this proposal will reduce contributions to affordable housing and other local infrastructure by £3bn.

In the Spending Review we want Government action to:

- xi. Allow full local determination of planning.** Avoid the significant delays and costs incurred through lengthy and bureaucratic intervention by the Planning Inspectorate.
- xii. Give councils powers to encourage development and support affordable housing.** Allow 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.

Benefits of these changes include:

- **Streamlining planning delivery.**
 - Simplifying and speeding up the preparation and adoption of local plans. Reducing current bureaucracy will allow councils to reduce costs and delays in developing local plans.
- **Supporting delivery of affordable homes.**
 - Ensure councils are able to collect developer contributions via Section 106 or CIL (where locally appropriate) to help fund affordable homes in some of the highest cost housing areas in the country.
- **Quicker delivery of homes.**
 - Council discretion to charge developers for unused planning permissions through 'use it, lose it or pay for it' powers (similar to those considered in Ireland) will incentivise developers to build homes swiftly once they have planning permission.

5. Strategic Issues of National Importance

- 5.1 The devolution of funding and powers outlined in section 4 above will help unlock local economic growth and more effective local services. However there are two key areas where the South East's national significance needs support and investment from central government departments. The Department for Transport and Department for Health have important roles to play in helping the South East deliver against national priorities.

Help needed from the Department for Transport budgets:

- xiii. To supplement locally devolved transport funding, Government should also invest a fair share of national infrastructure funding in high return, strategic-level projects in the South East.**

- 5.2 A balanced risk portfolio should share strategic transport investment between high economic returns in the South East and lower return regeneration projects UK-wide.
- 5.3 The DfT should follow private sector principles and ensure adequate investment in proven successful areas to maintain profitability. This will not preclude investment in regenerating areas but will ensure economic returns for already-successful areas such as the South East do not decline. The aim must be to maximise growth in all areas, not to allow some areas to grow at the expense of others.
- 5.4 The South East needs a number of major strategic cross-boundary transport investments that will have national economic significance and sustain the world class infrastructure needed for global competitiveness. These include a small number of key South East orbital and radial routes that are used by business and leisure travellers UK-wide, giving access to international markets, supporting UK exports, supply chains and the leisure travel sector. They include:
- Road & rail links from the West Midlands through Oxfordshire to Hampshire and its major ports
 - Road links from London and beyond through Kent to the Channel Tunnel and Dover
 - Road links between major south coast ports & university towns offering an alternative to the M25
 - Road links between the hi-tech science centres of Oxford and Cambridge
 - Rail links between Oxford, Reading, Gatwick & Kent to relieve pressure on roads including M25.
- 5.5 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.
- 5.6 The South East also needs Government commitment to significant investment in transport infrastructure to support aviation expansion once a decision is made on the Airports Commission recommendations. SEEC members feel the Commission's transport recommendations lack ambition and are not sufficient to respond to the increased road and rail demand that will be generated by an additional runway.

Help needed from the Department for Health budgets:

- xiv. **Government needs to ensure adequate funding is available to meet the South East's significant and growing social care needs.**
- xv. **A faster pace of change is needed for public health allocations to allow the South East to invest fully in prevention work that will delay and reduce health & care demands.**
- 5.7 The South East has the UK's highest elderly population. In 2015 there are 1.5m over 65s, due to rise 60% to 2.7m by 2037. We also expect a 90% rise in over 75s, increasing from today's 790,000 to 1.5m in 2037.
- 5.8 South East local authorities are facing significant rises in demand for social care, so adequate funding is needed to support councils in meeting the needs of their growing elderly populations. We want to see greater central Government support for councils to meet the growing gap between care home fees paid by local authorities and by self-funders. The County Councils Network estimates this gap is £630m and the LGA projects that, England-wide, the gap could be £1.2bn.
- 5.9 We also want to see much a faster pace of change on public health funding. Many SEEC member councils currently receive much less than their target allocations. For example Windsor & Maidenhead currently receives 38% less than the DH's agreed target allocation, Surrey receives 28% less and Reading receives 22% less.
- 5.10 With growing ageing populations, it is vital that South East authorities are able to move swiftly to their full target allocations. Public health spending is a key factor in reducing demand on the NHS and – by keeping older people healthy longer – delaying their social care needs.