

CLG Select Committee: Inquiry into the Cities & Local Government Devolution Bill



Written evidence from South East England Councils: 1 September 2015

1. Executive summary and key recommendations

- 1.1 This evidence from South East England Councils (SEEC) argues that devolution of powers to South East authorities will deliver Government aims of economic growth, better productivity and more efficient, value-for-money public services.
- 1.2 South East local authorities strongly support devolution. They are keen to access meaningful and widespread devolution deals similar to those being agreed in other parts of England, such as Manchester, and devolved administrations, such as Wales. However, many South East councillors remain concerned that devolution appears targeted primarily at cities. Our evidence includes the following key recommendations:
- **Devolution to be significantly extended outside city areas.** It must 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.
 - **Genuine devolution for high population two-tier areas,** such as the South East. This will revitalise democracy by bringing local accountability closer to more voters than in any other area of the country.
 - **Commitment on future phases of devolution deals.** With 74 local authorities (55 districts, 12 unitaries and 7 counties), the size and complexity of the South East make it challenging to meet the Treasury's deadline for devolution bids. Clarity is needed on opportunities that will remain open after 4 September 2015.
 - **Clarity on the scope for devolution and assessment criteria.** Clarity is needed on the powers available to be devolved, and the criteria that will be used to assess bids. It is important to give all councils equal opportunities.
 - **Significant devolution with alternatives to elected mayors.** Elected mayors are not suited to the South East, so we need freedom to explore alternatives.
 - **Devolution of health spending to councils across England.** This should be open to all areas of the UK. It is particularly important in the South East to help meet the needs of our very large and ageing population.
 - **The principle of council-led wider public services.** Local councils should have the option to take over other public services to improve efficiency. They should also have powers to align public service delivery areas to council boundaries.
 - **Major devolution of taxes & funding to invest in growth.** This should include full local retention of business rates and stamp duty alongside greater local control of transport and skills funding.
 - **Greater powers to incentivise house-building.** This should include 'use it, lose it or pay for it' powers to encourage building once planning permission has been granted and local discretion on developer contributions towards affordable housing.

2. Introduction: The South East and devolution potential

- 2.1 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.
- 2.2 SEEC members strongly support devolution. South East local authorities are keen to access meaningful and widespread devolution deals similar to those being agreed in other parts of

England, such as Manchester, and devolved administrations, such as Wales. Councillors welcome plans to devolve powers but many remain concerned that in England the policy appears targeted primarily at cities.

- 2.3 An area of largely 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 so the Government's current approach, heavily focused on cities, does not easily fit the SEEC area as there is no single dominant city in the South East.
- 2.4 Although for some SEEC members London is an economic driver, the South East is far more than a commuter zone. The South East has its own vibrant, successful economies and high levels of ambition to grow these further through devolved funding and powers, but the size and complexity of the South East make it difficult to apply existing devolution initiatives here. The challenge is exacerbated by the short timescales requested by Treasury, which has asked for proposals by 4 September 2015.

Devolution will release economic potential

- 2.5 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. 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.
- 2.6 Devolution will release additional South East economic potential and improved productivity through the ability to fund and target investment to build on existing success and tackle barriers to further growth such as infrastructure and skills deficits:
- 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 made a net 'profit' of £80bn for the Treasury. In the same period London contributed £74bn.
 - The South East GVA in 2013 was £227bn, over 40% higher than the £161bn combined GVA from all eight English core cities.
 - The South East is strong in the Government's target growth sectors such as professional, scientific & technical (PST). In 2014 the South East had 20.8% (146,500) of all PST businesses in England, a growth of 2.3% since 2010.
 - In March 2015 the South East had 67,000 unemployed. There are also 306,000 working age people with no qualifications (2014 data). Both are higher than the North East, East Midlands, East of England or South West.
 - The South East is an important international trade and tourism gateway for the whole UK. 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 annually. However, overcrowded rail and road networks – 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.

Devolution will help deliver more cost effective services

- 2.7 Devolution will allow South East councils powers and greater control over income to enable them to improve local services for our very large population. Empowering local councillors to lead integrated service delivery will deliver more streamlined and cost effective public services. This can be achieved by integrating back offices, reducing duplication and applying local government's proven expertise in managing costs.

2.8 Greater funding devolution and powers to integrate and streamline services are particularly important in the South East where our councils currently have the lowest levels of local authority revenue spending power. Figures for 2015-16 shows 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.

Devolution will revitalise democracy

2.9 Extending genuine devolution to the South East will bring local accountability closer to more voters than in any other area of the country. The South East is currently home to the UK's highest population at 8.9 million people. This is more than the 8.6m population of London and three times the population of greater Manchester.

3. Call for evidence: South East perspective

How far the Manchester devolution deal provides a model and the extent to which this is applicable to other areas?

- 3.1 The Manchester deal is important in establishing the principle of devolving powers to democratically elected councils in England. However the model has limited applicability to non city, mainly two-tier areas, such as the South East.
- 3.2 The 10 Manchester authorities have equal status and powers as metropolitan districts, cover a relatively small area and have one 'core city' as their major economic driver. In contrast, South East devolution bids will include county, unitary and district councils, cover multiple small-to-medium sized towns & cities and have multiple economic drivers.
- 3.3 The economic focus of central Manchester provides logic for an elected mayor that does not exist in the South East. In one area of the South East, many residents see an elected mayor as tantamount to a single large unitary council and fear the distinctive voice and needs of individual areas will be lost, particularly as devolution partnerships include urban, rural and semi rural areas within the same combined authority. The South East therefore needs a more flexible approach to governance that allows alternatives to an elected mayor.
- 3.4 Potential gains from South East devolution are significant but the size, scale and variety of local authorities across the South East add to the time taken to agree far-reaching devolution proposals. This makes the Treasury's deadline of 4 September 2015 very challenging for many South East authorities. 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.
- 3.5 SEEC members have been interested to see financial agreements in Manchester, including a tax 'earnback' and long term transport funding settlements. We would like to see these options – or equivalent devolved finances – made available to all areas of England. It is important to ensure all councils have equal access to opportunities and that devolution does not target city economic growth at the expense of areas such as the South East, which made the UK's largest net tax contribution to the Treasury at £80bn from 2002-12.
- 3.6 South East authorities would welcome commitment from Ministers on:
- **Continuing opportunities to access devolution deals:** The initial 4 September deadline for devolution proposals is challenging for the South East. Our members are keen to ensure further opportunities will remain open after 4 September 2015.
 - **Clarity on the scope for devolution and assessment criteria:** South East councils are devoting significant time and resources to preparing devolution proposals. Clarity on which powers/ income streams are available for devolution, or any that are excluded, will enable all

councils to compete on a level playing field. The criteria used to assess devolution bids should also be made available to ensure openness and accountability.

- **Greater flexibility on elected mayors:** There is little support for elected mayors in the South East, so viable alternatives for non-city, two-tier areas should be available.

The devolution of health spending to Greater Manchester and how it will affect delivery of health services locally – and the merits of extending this model to other cities & counties

- 3.7 With devolution at an early stage and Parliamentary debates on the extent of local health decision-making not yet concluded, SEEC is currently unable to assess detailed impacts of the Manchester deal. Much of the potential impact will hinge on the level of discretion and flexibility local leaders are allowed. An appropriate balance between genuine devolution and retained central power needs to be achieved to ensure councillors are able to maximise the benefits of local integration and improvement potential.
- 3.8 **SEEC supports the Government's aim of maximising the efficiency and cost effectiveness of health services through local democratic leadership in all parts of the country.** South East local 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.
- 3.9 Integration of health and care is a particular priority for South East authorities as our area has the UK's most older people. The South East has 1.5m residents over 65 and expects a 90% rise in residents over 75 in the next 22 years.
- 3.10 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.
- 3.11 **Health integration should also include powers for councils to align public service boundaries to improve efficiency.** The ability to standardise operations for organisations such as NHS, police and LEPs to match existing council boundaries would simplify and encourage integration of services under democratic leadership.
- 3.12 **The principle of devolved, council-led public services should be extended beyond health,** for example permitting councils to take over other services where they could deliver more cost effectively than national agencies, for example:
- In parts of the South East 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 argue 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.

How the Bill will build on existing local accountability structures and ensure appropriate governance mechanisms are put in place for devolved functions?

- 3.13 There is significant support for devolution across SEEC member councils but little clarity about how Ministers are willing to adapt governance structures to suit multi-tier devolution bids from the South East – specifically alternatives to elected mayors.
- 3.14 We recognise that accountability is critical to devolution but the scale, geography, mix of unitary and two-tier councils and variation between urban and rural areas in the South East mean there is little support for elected mayors.

- 3.15 SEEC members want access to significant devolution deals but need governance arrangements suited to local needs that do not force areas to accept unpopular elected mayors. One alternative is creation of a small cabinet of elected representatives for a combined authority to ensure views from different areas of interest are taken into account. This is likely to 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.
- 3.16 **Alternatives to elected mayors are vital to open up meaningful devolution to two-tier areas and make devolution partnerships acceptable to local voters.**

How the range of models available in the UK and abroad may suit the needs of different authorities, including all areas which have or intend to have a combined authority?

- 3.17 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. As a globally competitive economy in its own right, the South East wants greater local control over income to be able to invest in the local services and infrastructure needed to ensure its continued economic success. Clearer links between local taxes and local spending will also enhance involvement in local democracy.
- 3.18 Measures such as full local control of business rates are already available in Wales. We want to see the same options opened up to South East local authorities. [SEEC-commissioned research](#)¹ shows that allowing councils to retain all business rate income (not just growth) will 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.
- 3.19 Adding local retention of stamp duty and other income streams would allow South East councils greater ability to invest in local priorities for growth – such as transport, broadband and skills. Key financial elements available to devolution partnerships should include:
- **A timetable to phase in devolving 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. 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.** Alongside business rates and council tax this would give SEEC councils 11% of South East taxes, retaining 89% under central Government control for national spending or redistribution UK-wide. In 2014, 100% business rate income, stamp duty & council tax for South East councils would have raised £9bn. Allowed to keep this, 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.

¹ South East Property Tax Devolution, January 2015. Commissioned by SEEC from Local Government Futures.

- **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 to underpin economic growth.
- **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 & costs for businesses. Freight companies argue congested roads cost business £1 for every 1 minute delay while unreliable, overcrowded commuter routes in the South East damage productivity. Better local transport links will open up new housing and employment sites for development.

3.20 International comparisons show that 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 February 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.’

The appropriateness of current devolution plans for London and how these relate to the legislation?

- 3.21 Plans for London should not be considered in isolation from the South East. While the two areas are significantly different in geography and governance, their economic inter-reliance means that they need to work together to address common problems, particularly infrastructure needs.
- 3.22 Greater devolution of funding and powers to London should be matched by similar powers for the South East, although recognising that governance structures will need to be different in each area. We would particularly welcome powers for London and the South East to encourage housing delivery, for example:
- **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). This will incentivise developers to build homes swiftly once they have planning permission.
 - **Local determination of developer contributions towards affordable housing.** Ensure councils are able to collect developer contributions via Section 106 or CIL, where appropriate, to help fund affordable homes in some of the highest cost housing areas in the country.

What lessons can be learned from the city deals process.

- 3.23 Many in the South East viewed the City Deals process and the extent of devolved powers as disappointing, particularly for those involved in the later phases of deals. Lessons that could improve the experience for devolution deals include:
- Greater clarity and openness on the objectives and criteria for assessing bids.
 - Equal treatment and options for all local authorities regardless of the timing of their bids. This will avoid the impression that later bidders have more limited options.
 - Equal applicability of devolution offers for cities and non-city areas.

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