

Clearing the Hurdles

Freeing localities to boost national growth

Daniel Crowe and Steven Howell

Edited by Alex Thomson

Foreword by Cllr Gordon Keymer CBE

About Localis

Who we are

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About South East England Councils

South East England Councils (SEEC) was established in April 2009 to represent and promote the views and interests of the 74 local authorities in the South East. With members representing all tiers of local authorities and working across political parties, SEEC carries a unique mandate as the single democratic voice of the South East. SEEC is a voluntary body funded by member council subscriptions.

SEEC has a wide remit, which includes effective representation of local authority interests on issues affecting South East councils. SEEC works to four principles:

- 1. Strive for a fair funding deal for the South East**
Making the case for fairer national funding settlements for South East local authorities and maximising councils' access to EU funding opportunities.
- 2. Promote the South East's position as a leading global economy**
Making the case for strategic infrastructure and investment needs to maintain the South East's international competitiveness, including joint working with business.
- 3. Act as single democratic voice for South East interests**
Representing all tier and cross-boundary views to Government, maintaining dialogue with neighbouring areas, and representing South East local government interests on external bodies.
- 4. Monitor the pulse of the South East**
Tracking data to illustrate South East successes and pressure points in delivering effective local services and supporting economic growth.

For more information see www.secouncils.gov.uk.

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Localis would like to acknowledge the support of South East England Councils in helping produce this report.

Foreword

The South East is the UK's economic engine room. Our success is critical to local and national economic recovery, offering the highest net returns to the Exchequer and providing global trade gateways for London and the UK. However despite the commitment of all tiers of local government to economic growth, barriers remain which hold back the South East's full potential.

South East England Councils (SEEC) sponsored Localis to identify ways that Government could better support local authorities' commitment to economic growth in the South East. Based on their research in spring-summer 2013, this report highlights positive action that's already taking place and barriers that Government should lift to maximise local government's opportunities to enable economic growth – both in its own right and as key partner, for example working with business partners through LEPs.

We welcome the principles of the Government's localism agenda, and the importance of partnerships between local and national, public and private, to take this forward. But the Government's recent city-centric focus means significant opportunities lying outside the cities in much of the South East, and other two-tier areas, are left untapped. In announcing plans for a new, albeit limited, single funding pot from 2015 the Government has taken the first tentative steps to wider local devolution of powers and resources. This is a welcome start but we need control over more funding more quickly to deliver growth now.

The South East's success is not uniform and cannot be taken for granted in the face of global competition, with large numbers of unemployed, an ageing population, significant deprivation, and heavily congested transport all putting pressure on the public purse and damaging future economic growth potential. The risk is not of the South East losing economic growth opportunities to other parts of the UK, but rather the UK losing growth potential to overseas competition if action is not taken.

Local government, as a key partner with LEPs, has a crucial role to play at the heart of the new localist approach. This report makes constructive recommendations to Government in nine key areas where further devolution, freedoms or action could help local opportunities and prospects. Although focused on the South East, action on these issues could help free up economic potential elsewhere in England too:

What local authorities need to support economic growth:

1. **Proportionate funding** that recognises the South East's potential for maximising national and local returns on Government, EU and local investment.
2. Ensuring **all parts of the South East have City Deal type devolution opportunities** and maximising the scope and impact of the 2015 Single Pot budget.
3. Setting councils free to fund growth by **maximising local opportunities for finance raising**, including through Council Tax, Business Rates control, and other means such as TIF.
4. **Maximising local democratic control over delivery of central government powers and services** to ensure needs and opportunities are addressed effectively and efficiently by local government itself, or in partnership e.g. with LEPs.

Creating the conditions for South East business growth:

5. Ensuring **bank lending is available to support SME** growth.
6. Ensuring **local planning systems deliver agreed development and housing** where and when needed across the South East.
7. Tackling the gap in the market for **strategic transport investment that offers national benefits**.
8. Increasing **local control over skills commissioning and budgets** to better meet South East business needs.
9. Lifting barriers to local **delivery of high speed broadband**.

I commend the findings of this report to Government as a basis for discussion and action, to help local government and partners realise the South East's full economic potential to support national growth.

Cllr Gordon Keymer CBE
Chairman, South East England Councils



1. Executive summary

With the country still deeply affected by the ongoing global economic crisis, stimulating economic growth and prosperity remain at the core of the nation's wellbeing. Public sector spending is projected to be falling until the end of the decade and the recovery remains nascent, so unleashing the economic growth potential of all parts of the country has never been more important for both national and local government.

This report, *Clearing the Hurdles – Freeing localities to boost national growth*, looks at some of the ways in which local authorities, working with partners, including Local Enterprise Partnerships (LEPs), could help to catalyse and promote economic development. In particular, it focuses on freedoms and flexibilities that, if granted by Government, could help enhance the growth potential of both local areas and the whole country. Such changes would enable local authorities to contribute to economic growth not only in their own rights, but also as key partners in LEPs.

In each policy area, we outline the opportunities available, describe the barriers that are preventing the widespread engagement with those opportunities, before making recommendations to Government as to how those barriers can be mitigated or removed. While our research focuses on councils in the South East – and the case studies chosen highlight innovations as well as barriers holding back councils in the area – most of the issues identified are encountered right across the country, so our recommendations have similarly widespread applicability.

The South East in profile

The South East consists of a mix of county, district and unitary authorities including a network of towns, villages and small cities, rather than the metropolitan urban conurbations that predominate in many parts of the North and Midlands. But despite its lack of major cities, the South East is very clearly an economic giant – globally competitive by many measures and, after London, by far the biggest contributor to the nation's finances. If ranked as a stand-alone entity alongside other nations, the South East would have the 31st largest economy in the world, larger than that of South Africa or Portugal. It is also a global transport gateway for London and the UK, as well as having a key inter-relationship that underpins London's economic success.

But for all its strengths in innovation, research and development, and a relatively high skills base, the South East features an already high (and rising) cost base, a housing shortage, growing pressures on other infrastructure such as transport, and significant pockets of deprivation. While possessing much strength, there are significant challenges ahead. This report argues that to unlock the full potential of the South East's commitment to economic growth various impediments to action will need to be diminished or dismissed before that latent promise can be fulfilled.

Barriers and recommendations

The report's key recommendations are:

Proportionate funding – despite the huge economic potential of the South East and its net contribution to the national Exchequer, the allocation of some Government growth-related funding streams and programmes has largely bypassed this part of the country. This is counterproductive, and we therefore encourage the Government to:

- **Adopt a balanced portfolio approach to all growth related grants, to ensure that a proportionate amount of funding goes to those areas offering significant growth potential and return on investment, alongside those areas with less strong economies.**
- **Promote aligned priorities for investment across its growth-related funding schemes, including European funding, to maximise outcomes where local investment is taking place.**
- **Consider greater use of non-cash support for local growth e.g. underwriting loans, which would allow local authorities to leverage in funding from capital markets and help maximise the impact of surplus public sector assets.**

Local growth architecture – the Government has made great strides in devolving a range of powers, in particular some of those relevant to economic development, to local government and LEPs. Unfortunately much of this devolution has, to date, focused exclusively on cities which by-passes large parts of the country including much of the South East. We argue that the Government should:

- **Give all areas equal access to the freedoms and flexibilities necessary to meet their growth potential.**
- **Ensure that non City Deal areas are not disadvantaged in the 2015 Single Local Growth Fund process.**
- **Significantly expand the Single Local Growth Fund from 2016 onwards.**
- **Make a significant proportion of the single pot not subject to competition, providing an essential element of certainty that is needed for investment in growth related activity.**

Financing the future – More financially autonomous councils can play a much bigger part in supporting local growth. Government could better support local authorities and their partners to finance growth, by:

- **Supporting local authority efforts to develop a collective bond issuing agency, such as that proposed by the LGA; opening up access to TIF schemes to more local areas; and creating a national infrastructure bank.**
- **Recognising the relentless logic of localism, by further increasing the local retention of growth in business rates.**
- **Establishing a major commission to investigate how local fiscal autonomy could be achieved, covering both greater control over existing taxation (e.g. council tax), and the introduction of new locally appropriate buoyant revenue streams such as hotel bedroom taxes.**

Public sector reform – despite the best efforts of dedicated public servants, the delivery of public services remains of a siloed nature in many areas. While the Community Budgets pilots made significant progress in those individual areas, and a second wave has been announced, the question is now how to expand this approach across the country. This report recommends that the government:

- Adopt a 'localism first' approach i.e. a presumption in favour of devolving control of local public services to local areas/partnerships unless there are very strong reasons not to do so.
- Continue to work with the Political and Constitutional Reform Committee and the LGA to redress the balance of power between central and local government.
- More specifically, senior Government figures should make clear that the collaborative approach inherent in the Community Budgets pilots is an essential component of future public service reform.

Business access to finance – with access to finance for both new and existing businesses vital to supporting growth, we ask the Government to:

- **Expand the scale and remit of its new business bank as soon as possible, and to continue to push for as much lending to SMEs as it can, using its influence over state-owned banks as appropriate.**

Planning and housing – effective planning and housing supply are perhaps two of the most significant determinants of economic growth, particularly in areas such as the South East and London where there is substantial need for development. While local authorities are robust in showing that they are doing the best within the national planning framework that has recently undergone radical transformation, we make a number of recommendations to help the new system deliver effectively and efficiently and so help local authorities to seize economic opportunities, and support delivery of the strategic vision at the heart of local plans. These include that:

- **The Government should undertake a broad review into the standing advice for statutory consultees, encouraging a greater focus on sustainable growth.**
- **To minimise undeveloped planning permissions and progress locally-important development, the Government should provide local authorities with powers to tackle land held back unnecessarily, for example, introducing 'use it or lose it' powers to revoke planning permissions; and/or permitting the levying of charges on stalled developments and/or undertaking a review of CPO powers.**
- We also argue that local authorities could play a much bigger part in directly delivering houses to meet the growing housing crisis in many parts of the country, and so call on **the Government to enable councils to borrow against their assets to fund construction of new affordable housing.**

Better transport infrastructure – the Government is increasing the amount of money that it is spending on infrastructure. As part of this, we recommend that the Government:

- **Help fill the gap in the market for funding strategic transport schemes that are smaller than national, but larger than local, which can demonstrate that they support national economic growth.**
- **Allow local authorities, or groups of local authorities/partners, to bid for control of sub-sections of the network from the Highways Agency.**
- **Consider alternative funding models (where locally supported), such as tolling and road charging to reduce the impact of future transport infrastructure projects on the public purse.**

Local control over skills provision – while the current Government has made several positive moves to simplify the enormously complex skills funding system,

South East local authorities and LEPs remain convinced that there is still a major mismatch between provision and the skills needs of local employers which holds back their economic growth potential. This report contends that the Government should:

- **Devolve strategic commissioning of skills provision to local authorities.**

Access to superfast broadband – lack of access to broadband can be a key obstacle to helping businesses develop. Although the Government is supporting investment in the nation’s superfast broadband network, the process of roll-out is far from over and we recommend that:

- **In developing proposals beyond the lifetime of the current superfast broadband programme, Government should encourage a technology-blind (i.e. whichever technology works best) approach to supporting rollout, which could help stimulate a growth in local infrastructure markets and provide revenue streams for local businesses and community organisations.**
- **In its late 2013 review, Ofcom should investigate whether the current regulatory framework is holding back local areas from developing their own superfast broadband solutions, and thus, local growth potential.**
- **Government publish details showing which areas will be covered by BT provision, in order to encourage alternative providers to fill in the gaps in provision (as recommended by the EFRA Committee).**



Local authorities need help to ensure that planning permissions turn into development

2. The South East economy

Strengths	Weaknesses
<ul style="list-style-type: none"> – Net contribution to national Exchequer – Strong economy: high level of GDP and a strong contributor to UK growth (second largest share of businesses at 15.7%) – Business resilience: once established, businesses are more resilient, with five of the top ten LEP areas for resilience in the South East¹ – Economic structure: high levels of innovation, knowledge and technology-based industries – Second highest R&D spend in UK, with largest manufacturing R&D spend – ‘Human capital’/high skills base: lowest proportion of population with no skills & second highest with Level 4 skills – Proximity to London and UK/global Gateway role High levels of foreign investment – FDI projects second only to London 	<ul style="list-style-type: none"> – Growing demand and pressure on transport infrastructure – Demographic change putting pressure on public services and increasing high cost-base: population growing (grew by 611,000 from 2001–2011, projected to grow by a further 930,000 from 2011–2021)² and ageing – Mismatch between qualifications and jobs in many areas – Housing supply shortage – High cost base – Higher number of unemployed individuals than the East, East Midlands, North East and South West – Significant pockets of deprivation: 0.5m residents living in the 20% most deprived parts of the country and 0.5m children and older people living in income deprivation – Low number of high growth business champions
Opportunities	Threats
<ul style="list-style-type: none"> – Potential for high return on investment – Potential to be a stronger competitor on the international stage – Local ambition to go for economic growth – Could build on already high ‘human capital’ – Growing/ageing population may increase workforce size and offer new markets for services and goods – Potential to expand superfast broadband – Government emphasis on private sector and export-led growth – Potential for weak £ to enhance export opportunities – Future EU/USA free trade agreements 	<ul style="list-style-type: none"> – Potential lack of investment that supports growth, e.g. in transport infrastructure – Lack of willingness of current and future governments to devolve powers – Focus on growth in cities largely bypasses the South East – Difficulty of access to finance for SMEs – Competition globally as well as London/rest of UK – Roads at risk of congestion across the South East – Wider threats: uncertain future performance of global economy and/or UK withdrawal from the EU (as largest trade partner)

1 Experian research in 2012 on business resilience: 1st Thames Valley Berkshire, 2nd Enterprise M3, 3rd Buckinghamshire Thames Valley, 5th Coast to Capital, 9th Oxfordshire LEP, 11th Solent and 18th SELEP.

2 www.ons.gov.uk/ons/dcp171778_279964.pdf

3. Realising growth potential for national benefits

3.1 Profiling the South East

By any economic measurement the South East is something of a giant, nestling comfortably in the global top tier. As an illustration, were the South East a separate country, its gross domestic product (GDP) of \$298 billion³ would put it in a theoretical 31st place in global national rankings, larger than that of South Africa or Portugal.⁴

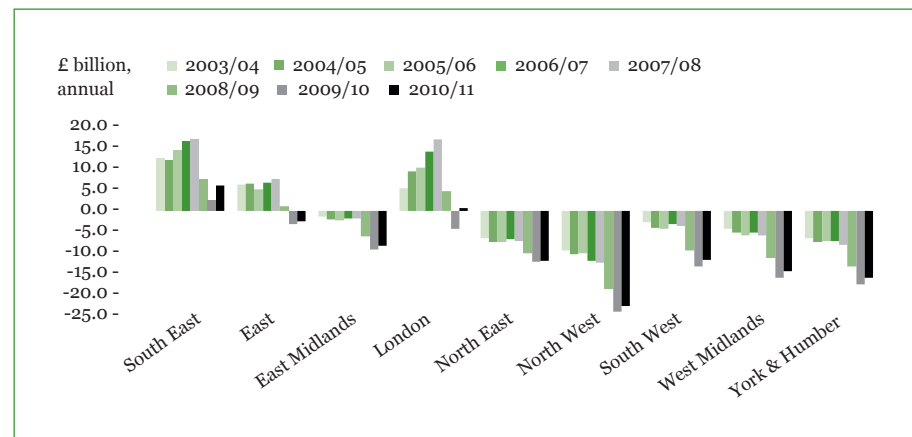
While London is significantly ahead of the rest of the country (its GDP of \$448 billion would put it 24th place globally), the South East is the clear 'best of the rest', making the second biggest contribution to the UK economy. In 2011 it was responsible for 14.3% of the UK's Gross Value Added (GVA),⁵ and was also the 'star performer' in terms of growth, showing year on year total GVA growth of 3.1%, the largest increase in GVA of any other part of the country. Indeed, between 1997 and 2011 the South East was one of only three parts of the UK to have increased its share of GVA.

Such is the South East's unique and vital contribution to the nation's economic competitiveness, it has been argued that the rest of the country is financially dependent on it. Looking at net contributions to the Exchequer the South East, together with London is projected to contribute more than a third of the UK's combined tax revenues in 2012–13. The South East is forecast to make up 15.7% of receipts, thanks in part to rising employment levels in financial services and revenue from property taxes.⁶

Over the period 2003/04–2010/11, at £91.1bn the South East made the highest net contribution to the UK Exchequer (residence-based), even recording a net contribution of £2.6bn during the recessionary years 2009/10 when all other areas recorded a net deficit. At £6.3bn (provisional), South East residents made over £5.5bn more net contribution to the Exchequer than London in 2010/11, while all other areas were in deficit (see Figure 1 below). It is therefore not unrealistic to talk of a 'South East premium,' with its economic success and international competitiveness generating a huge tax take that, combined with its lower than average per capita share of public spending,⁷ plays a substantial role in supporting the rest of the UK.

- 3 At €223 billion, converted into USD\$ using the US official average exchange rate. (http://europa.eu/rapid/press-release_STAT12-38_en.htm)
- 4 http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries?order=wbapi_data_value_2009+wbapi_data_value&sort=desc
- 5 GVA measures economic activity and its contribution to the UK economy.
- 6 www.thesundaytimes.co.uk/sto/news/uk_news/National/article1188897.ece
- 7 www3.hants.gov.uk/sesl_final_mar_2011.pdf

Figure 1: Net residence-based contributions to UK public finances



Source: Oxford Economics for South East England Councils 2013

A global gateway: the interrelationship between the South East, London and the UK

While the South East sits near the top of the economic league table nationally, that table is dominated by another economic powerhouse: London. However, unlike the South East, London receives markedly greater investment and devolved freedoms and powers from Government than the rest of the country.

This differential approach does not reflect the complex interdependence between the capital and the area that adjoins it, the South East. This relationship can be seen in particular when considering the links with the global economy. The South East is a key global and national gateway for London and the rest of the country – its road, rail, sea and air routes to the capital and rest of the UK, the continent and the rest of the world, are critical for access to domestic and overseas markets and supply chains. But maintaining this key role requires globally-competitive infrastructure, and whilst historically this has been a strong driver for growth, it is now a key asset that needs further investment. The critical symbiotic interrelationship with London, with workers and business trade flowing both ways, is a key criterion in Foreign Direct Investment and head office location decisions.

Indeed, as the Chair of one LEP and senior local authority Director said in interviews for this report, the South East is not so much competing with other parts of the UK, but rather with the likes of Frankfurt and Barcelona. At the heart of a developing “mega city-region” based on London’s “exceptionally strong global multi-sector service network connectivity”⁸ its hosting of strategically significant areas of economic activity means its continued success is a national priority.

Despite this core interrelationship, for the sake of clarity (and brevity), unless otherwise specified when we discuss the South East and comparatives in this report, we are talking about the eight English former Government Office regions not including London. It is reasonable to suggest that the nation’s capital has its own unique set of challenges and opportunities, which is not the subject of this report.

Gambling on success: continued economic success is not a certainty

However not everything in the garden is rosy. The very factors that have served the South East so well in helping to make it the economic success story it has been in recent years could now pose a risk to its ongoing prosperity. In particular, the rising price of assets such as land and housing, as well as restrictions on land supply, will inevitably serve to act as a constraint on growth.

8 See www.lboro.ac.uk/gawc/rb/rb353.html in B. Derudder, M. Hoyal, P.J. Taylor and F. Witlox (eds) (2012) *International Handbook of Globalization and World Cities* Cheltenham, UK

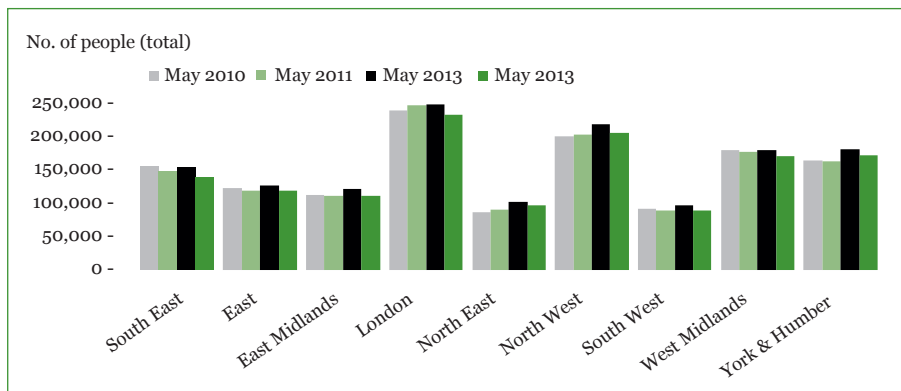
Mounting pressures on transport infrastructure, especially road and rail links, will have a similarly stifling effect. This is illustrated by research in a 2013 inward investment guide to England⁹ which found that the South East's high cost base meant that none of its local authority areas scored well for operating costs. They also had low levels of commercial floorspace and poor overall scores for environment and infrastructure.

Whilst businesses in the South East are well positioned to take advantage of the growth of sector-led growth opportunities and the knowledge economy, recent research¹⁰ has identified that the South East has a high absolute number (over 8,000) but low proportion of the number of businesses identified as high growth business champions. These are defined as those "young, small but rapidly growing firms with directors that show entrepreneurial skill, appetite for business risk and real international outlook". The report argues that these small and medium-sized enterprises (SMEs) are critical to economic recovery, ranking the South East eighth out of the nine former Government Office regions.

The headline high performance of its economy to date has also served to mask key variations, particularly when analysis focuses on percentages rather than absolute numbers. There are significant pockets of deprivation across the South East, with 565,000 residents in the 20% most deprived parts of the country and 484,000 children and older people living in income deprivation, the 4th highest total in England. And GVA varies considerably, with the most variation between highest and lowest levels of all parts of England (excluding London).

Indeed, there are a number of poorer areas such as Medway, Isle of Wight and East Sussex, which have low growth and considerable pockets of deprivation and disadvantage. While the South East's unemployment rate is amongst the lowest in Europe, the total number of claimants is still much higher than in the East of England, East Midlands, North East and South West (see Figure 2 below). Furthermore, over 370,000 people in the South East still have no qualifications – again, a far greater number than many other parts of the country – and a substantial reserve of untapped potential.

Figure 2: Unemployment – Total Claimant Count



Source: NOMISweb

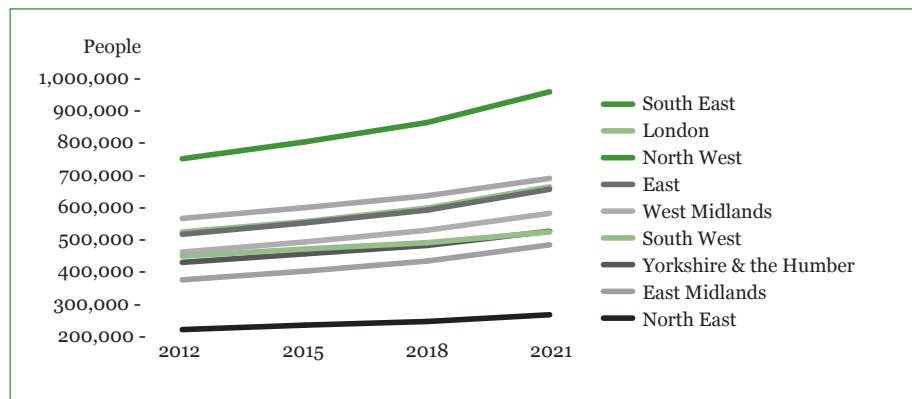
At the same time, changing demographics, such as an ageing and growing population (see Figure 3 below) with an over 75s population expected to grow by over 200,000 by 2021, will test the capacity of local public services. While it may create a larger workforce pool, and a potential new market for goods/services, it will also put significant additional pressure on the existing high cost-base. The LGA has calculated that with the spiralling cost of social care, attributable in large

9 Global change: local strategies. An inward investment guide to England, 2013. See www.localfutures.com

10 http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/15_03_12experian.pdf

part to an ageing population, by 2020 the funding gap for local authorities would reach £16.5bn.¹¹

Figure 3: Sub-national Population Projections – 75+ year olds



Source: Population Projections Unit, ONS

In summary, the South East is not a homogenous entity, and this diversity made it a particularly uncomfortable fit with previous Government policy towards top-down regional planning and a desire to equalize inequalities between parts of the country.

Case Study: Surrey tackles South East challenges through partnerships

Surrey has the largest economy in the South East, which grew by 7% between 2009 and 2011. However, Surrey has identified numerous challenges it needs to address if this growth rate is to be maintained, including high reliance on jobs in the public sector (24% of the workforce) and financial services (30%). Other barriers to growth include skills and housing shortages, limited access to finance, and congestion (which on its own is estimated to cost £550 million per annum).

Surrey is working to overcome these challenges, with the County Council having recently secured £2.8m of government funding to tackle congestion and boost economic growth in Redhill, alongside establishing Surrey Connects and the Surrey Future partnerships as well as working closely with LEPs, and plans to launch a major inward investment drive and establish a £1 billion Surrey Business Investment Fund to enable business to access finance. But as this report will highlight, the Government could free up further local action and opportunity for economic growth if specific barriers were lifted.

This report uses the example of the South East to show how a few Government policy changes could mitigate the barriers that local government and businesses face and so help create opportunities to realise the area's full economic potential. Crucially, the recommendations we suggest would also be of benefit to the rest of the country. Such changes would enable local authorities to contribute their most to support business and economic growth not only in their own rights, but also as key partners in LEPs.

¹¹ www.local.gov.uk/c/document_library/get_file?uuid=c98405b7-b4a6-4b25-aebf-a63b5bcfa5c1&groupId=10171

4. Making it happen

Part 1 – What local authorities need to support growth

4.1 Proportionate funding allocations for economic development

The opportunity

Areas with high growth potential, like the South East, are well placed to deliver maximum value for every pound of public money.

Investment in the South East has benefits locally, sub-nationally and nationally – indeed it is essential if the South East is to remain internationally competitive and a net contributor to the UK's finances.

Partnerships involving LEPs, local authorities and similar groups in the South East are helping stimulate economic recovery and growth but the results – and returns – could be far greater with access to a fairer share of funding.

In addition, the impact of Government investment could be enhanced through aligning its investment with that being made locally. The move towards infrastructure guarantees – underwriting loans taken out by local bodies to support economic development projects, as the Government has done to help minimise the costs of borrowing for the Northern Line extension in Wandsworth – is a good example of this, and help leverage the impact of Government spend.

Case Study: Kent shows how to leverage growth funding effectively

Kent demonstrates how local authorities in the South East can catalyse growth where they have the opportunity – not currently afforded to all areas – of accessing funding streams to maximise economic growth.

Kent County Council has made the most of the funding streams on offer, working with Government and partners in the private and public sectors to help tackle the barriers to local growth.

Through the £20 million TIGER (Thames Gateway Innovation, Growth and Enterprise) Fund, Kent County Council is pioneering new forms of development finance, using a Regional Growth Fund grant to offer direct, interest-free unsecured loans to businesses seeking development and expansion opportunities in north Kent.

Additionally, a Growing Places Fund (GPF) grant was instrumental in helping Kent County Council unlock development on the 269 acre Eastern Quarry site in Ebbesfleet. There is the potential for 22,600 homes and 1million m² of commercial development to be built over a 20 year period, creating up to 60,000 jobs in the process. With Land Securities and the HCA having already invested £100 million in developing the site, plans had been halted due to concerns over costs and an inability to reach a new deal on the Section 106 agreement.

Kent CC and Dartford and Gravesham Borough Councils worked closely with partners to put together a funding package for transport improvements, negotiating a Department for Transport contribution towards major road works, £4 million GPF, and contributions from the local authorities' New Homes Bonus. This enabled a s106 bringing in £25 million.

The problem

Some growth-related funding streams and programmes have largely bypassed the South East.

The £2.7 billion Regional Growth Fund (RGF) targets "areas and communities at risk of being particularly affected by public spending cuts".¹² Despite many more bids, only fifteen had been awarded to the South East under rounds 1–3 from 368 projects nationally – an indication of the failure of the RGF formula/criteria to adequately reflect the scale of South East's large numbers of public sector workers, the highest outside of London, and the fifth highest number of job losses (55,000 fewer public sector employees, or 13% of the workforce).¹³ However there are more promising signs with a further 14 projects approved under round 4 in July 2013.

At less than 1% of the national pot the South East received the lowest amount of European Regional Development Fund in 2007–13, at just Euro 23.7 million over six years. The Heseltine Review called for a streamlined bureaucracy and integrated approach to future EU funding, 'hiding the wiring' for delivery partners, aligning EU funds with single pot allocations.¹⁴ With over Euro 6bn available from ERDF and ESF funds nationally, the next round (2014–20) has significant potential to support growth, if it is operated through a balanced portfolio approach. Indicative allocations from the Department for Business, Innovation and Skills (DBIS) suggest that the South East will get a similar, or slightly higher, total amount of EU Structural Funding in the next round, albeit still a small proportion of the national pot.¹⁵

However the Government's £770 million Growing Places Fund (GPF),¹⁶ has been broadly welcomed by South East local authorities as better reflecting the impact of population size and the real levels of need/demand in the South East, with the area's LEPs receiving £138 million, or 18% of the pot on a per-capita formula basis.

12 www.dpm.cabinetoffice.gov.uk/news/topic/51

13 M. Heseltine, *No Stone Unturned in the Pursuit of Growth* (The Stationary Office [TSO], London, 2012), p.42

14 www.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-untuned-in-pursuit-of-growth.pdf p42

15 www.gov.uk/government/speeches/european-regional-development-fund-and-european-social-fund-allocations-2014-to-2020

16 www.parliament.uk/briefing-papers/SN05651

At a time when departmental budgets are under pressure as never before, it is essential that every penny is deployed to maximum effect, both locally and nationally.

The Government has welcomed Lord Heseltine's review, the core argument of which is that funding is aligned at the local level by devolving a wide range of budgets relating to economic growth to the control of local areas. The Single Local Growth Fund has been announced at £2bn pa from 2015, but it is essential – even for any budgets which do not make it into the single pot – that the Government accepts the spirit of the Heseltine report and ensures that the use of this money is aligned as far as possible with local spending and local priorities to maximise impact.

More specifically, there is a clear need for central Government and European funding in support of growth to be awarded on a basis that does not discriminate against areas of economic success, such as the South East.

This is not to argue for abandoning fiscal transfers and support for less successful areas. But it is to recommend that the Government pursues a more balanced approach to investment decisions, with a greater focus on those areas and projects which can generate maximum possible returns on capital employed.

Recommendations for the Government:

- **Adopt a balanced portfolio approach to all growth related grants, to ensure that a proportionate amount of funding goes to those areas offering significant growth potential and return on investment, alongside those areas with less strong economies.**
- **Promote aligned priorities for investment across its growth-related funding schemes to maximise outcomes where local investment is taking place – including additional funding sources which it has a role in allocating, e.g. EU structural funds.**
- **Consider greater use of non-cash support for local growth e.g. underwriting loans, which would allow local authorities to leverage in funding from capital markets and help maximise the impact of surplus public sector assets.**

4.2 Local growth architecture: the need for a level playing field

The opportunity

Those parts of the country without major cities make a very substantial contribution to current economic growth. Some 54% of the country's GVA (once London is excluded) comes from county areas, and, with access to the powers and freedoms offered to some cities, these areas can make a larger contribution still.

The Government recognises that as the barriers to growth and the methods and priorities to overcome them vary in different parts of the country, the emphasis is on improving the responsiveness of policy to local economic conditions.¹⁷ This acknowledges the argument that local government has been making for many years – that policy making directed from Whitehall cannot and will not reflect local priorities or meet sub-national economic needs; nor will it be able to

¹⁷ Department for Business, Innovation and Skills (DBIS), *Understanding Local Growth* (TSO, London, 2010)

harness the local knowledge and accountability needed to design and deliver the projects most likely to make the biggest economic impact and best return for the taxpayer.

Part of the Government's solution to this was the announcement of a first wave of eight 'City Deals' – agreements to grant new powers and freedoms to individual cities on a negotiated basis. This has been followed by a further twenty such deals under negotiation as part of the second wave.

The Government also commissioned Lord Heseltine to undertake a review of all Government policy relating to economic growth, with recommendations including the creation of a single pot of "growth related" funding delegated to the sub-national level, identifying approximately £49bn of funding which could be devolved. The Government's acceptance of 81 out of the review's 89 recommendations wholly or partially¹⁸ marked a significant moment in the devolution of growth and infrastructure levers to the local level.

The decision to funnel the single pot together with EU structural funds and Local Major Transport Funding through LEPs puts them centre stage and is important. Rather than accessing different levers, pots and funding sources on varying timescales, this move will bring a considerable amount of Government support together and could remove many previously attached strings. This potentially gives councils (through their LEPs at least) the flexibility to develop a holistic approach to support the local drivers of growth.

The problem

Five out of the twenty candidates in the Second Wave cohort of City Deals are in the South East¹⁹ and all are currently taking their negotiations with Government forward. However, final approval is not yet confirmed and the full extent of the devolutionary package on offer is not clear, which could leave all the County Councils and most districts and unitaries playing catch-up with the Government's emerging devolution arrangements.

Made up of a mixture of rural areas and towns/small cities, the South East lacks the big city region conurbations to be found elsewhere across England. However that does not mean that county, district and unitary areas, such as those that make up the South East, do not have enormous growth potential. As the County Councils Network argues, these areas "outperform cities across a raft of indicators, have potential for further growth and, as large administrative areas, possess the strong and decisive leadership demanded of City Deal areas without the need for new institutional arrangements."²⁰

As Localis has argued since the concept of City Deals was first proposed, all councils across England should have the right to come together in groupings, including county areas (by which we mean non-cities, e.g. counties and districts, groups of unitaries, or combinations thereof on shire boundaries) and negotiate their own 'Growth Deals' with the Government so that they can benefit from the range of freedoms and flexibilities on offer to the city regions, including over transport, housing, skills, regeneration and economic development.

18 DBIS/HM Treasury, *Government's response to the Heseltine review* (TSO, London, 2013)

19 Brighton and Hove, Milton Keynes, Oxford and Central Oxfordshire, Reading, Southampton and Portsmouth

20 County Councils Network, *Counties Driving Economic Growth* (London, 2013)

We welcome the fact that Government has made positive noises that all areas will get growth deals in its response to the Heseltine review, but we are concerned that: 1) this will not take effect until 2015 when the country needs growth now and will only be some £2bn pa nationally, a far cry from Lord Heseltine's recommendation; 2) there remains a lack of clarity on which powers and responsibilities will be devolved through local growth deals, and which

through City Deals, and 3) the two programmes operate at different spatial levels (LEPs for Heseltine, with smaller groupings of local authorities for some City Deals), creating the potential for conflicting governance arrangements which could endanger growth.

Another key issue is how funding is allocated. The use of competition – as advocated as part of the Heseltine review – is welcomed by some councils and LEPs, providing the assessment criteria are clear and robust. However, there is a danger that inserting what one interviewee referred to as “bidding noise” in the localisation of growth funding could erect additional barriers to growth. It is worth noting that the Government has shown its support for a balanced approach, for example as part of the £70 million Fire Capital Grant. This was originally subject to a competitive bidding process but was ultimately primarily allocated by formula, with only one third being allocated competitively.

The announcement in the 2013 Spending Review of a £2 billion Single Local Growth Fund pot was, in short, a missed opportunity. The majority of the funding within the pot was either already allocated to local authorities – such as New Homes Bonus – or was projected to be so in the future. However, despite this disappointment, there is still the opportunity to develop this approach further from 2016 onwards.

Recommendations for the Government:

- **Give all areas equal access to the freedoms and flexibilities necessary to meet their growth potential.**
- **Ensure that non City Deal areas are not disadvantaged in the 2015 Single Local Growth Fund process.**
- **Significantly expand the Single Local Growth Fund from 2016 onwards.**
- **Make a significant proportion of the single pot not subject to competition, so as to provide an essential element of certainty that is needed for investment in growth related activity.**

4.3 Financing the future – setting councils free to drive growth

The opportunity

More financially autonomous councils can play a much bigger part in supporting local growth.

Despite the limited incentives to promote economic growth for many years, local government has a long and proud tradition of playing a pivotal role in creating and supporting local economic development thanks to its bedrock of strong and accountable civic leadership.²¹

In recent times, there has been an acknowledgement that the pendulum had swung too far towards control from the centre. The local retention of up to 50% growth in business rates from April 2013 which Government estimates to have the potential to add £10 billion to the economy over the next seven years²² is welcomed as a step in the right direction in terms of greater localisation of council financing.

²¹ Local Government Association, *Local Leadership, Local Growth* (London, 2012)

²² www.gov.uk/government/uploads/system/uploads/attachment_data/file/78784/130206_Plain_English_Guide_-_Business_rates_retention_and_the_local_government_finance_settlement.pdf

However this remains only one step along the road towards greater financial autonomy for local government. In most other countries across the western world, local governments possess far greater control over their finances, in particular by being able to set their own locally appropriate taxes, and by using their balance sheets to borrow from capital markets. They are therefore much more motivated and empowered to ensure that their local economies are nurtured and championed as much as possible.

Case Study: Woking BC: The financing conundrum

A number of local authorities are exploring alternative ways to invest in development and infrastructure, but despite some successes, there are significant barriers to a truly self-funded, sustainable future for local government.

Woking BC for example has a strong appetite to take significant responsibility and risk on local economic development, such as through property acquisition, development and ongoing ownership of local assets, which has helped the council benefit from new revenue streams. The Council took sole ownership of Wolsey Place, in order to strengthen the town centre's economy and helped generate an annual £1.5 million profit after costs.

Despite this, the December 2012 credit downgrade by Standard and Poors has presented a barrier to the council's continued enterprising approach.²³ The change from AA- to A+ took into account the uncertainty facing the UK economy, but more significantly the credit reference agency felt the council had greater exposure, given its ownership of local retail assets and Housing Revenue Account borrowing.

While many local authorities want to explore alternative financing models, only a few have the particular circumstances necessary to gain long-term access to cheap and sustainable finance under the current system.

The problem

A limited number of hard incentives to promote growth, combined with an inability to access and control local revenue streams and funding for major infrastructure projects, has served as an obstacle to maximising the potential of councils to pursue effective pro-growth policies.

Local authorities are highly constrained in their ability to borrow, limited to raising capital investment from the Public Works Loan Board (PWLB) should they meet the Prudential Code for Capital Finance. Whilst a new concessionary loan rate for LEPs is another small step in the right direction, the total amount available for the whole of England is only £1.5 billion. This compares to a Government guarantee for TfL's extension of the Northern Line worth £1 billion. At £36 per head, the South East has the lowest level of borrowing, compared to £269 per head in London.

In order to tackle this in part, the LGA has suggested creating a collective bonds issuing agency, to reduce the cost of borrowing and to reduce the dependence on the PWLB – the rate of which can be varied on a whim by Treasury. Localis called for greater collective bond issuing back in 2011, highlighting the successes of the Swedish *Kommuninvest* model.

23 www.woking.gov.uk/council/financialmanagement/spcreditreport2012/fullanalysis2012.pdf

Kent County Council has been among those at the forefront in investigating the use of Tax Increment Financing (TIF) to help kickstart infrastructure provision, such as the second Thames crossing. This would involve the authority borrowing against a future uplift in business rates caused by the development. However, if TIF is to be a viable model in the short to medium term more work is needed on its applicability and the Treasury position of imposing a funding cap is an impediment to its development.²⁴

Kent County Council has undertaken significant work with financial and investment institutions. They know of blue chip North American companies who are hungry to invest in a new lower Thames crossing which, with toll income from the existing and new crossing as part of the financing package, can be delivered without recourse to public funding.

In order to boost the take up of new infrastructure projects, Localis has also called for the creation of a £30 billion National Investment Bank,²⁵ which would:

- Lend to private and public organisations to fund the construction of new infrastructure, e.g. bridges, broadband networks, and waste plants, at an attractive rate through utilising a large capital pool;
- Invest directly in infrastructure projects; and
- Guarantee other banks' loans to fund infrastructure.

In terms of local government finance itself, many local authorities in the South East found the business rates reforms to be 'tokenistic', would generate 'marginal' returns and have too long a fuse to generate any real enthusiasm. There was a belief that impact may be muted through the system of tariffs and top-ups, with many councils receiving less than 50%.

Businesses too can be sceptical about local government's role in promoting growth. Past research by Localis identified "widespread misconceptions among businesses about the role of councils in economic development",²⁶ a lack of understanding only exacerbated by the system of business rates. One interview suggested that allowing local authorities to retain 100% of business rates "at a stroke, would transform the [council's] relationship with local businesses." In interviews with council leaders Localis has found that many authorities in the South East believe that they could accomplish much more if some of the barriers imposed by Government were lifted.

Despite recent policy changes, England remains one of the most centralised countries in the western world. The LGA has said "the local tax system in this country is very centralised by international standards, and breaches the European Charter on Local Self-Government".²⁷ Localis published research by Professor Tony Travers nearly a decade ago making the case for a relaxation of the restrictions on local government borrowing and argued that a greater proportion of taxation be raised and retained locally.²⁸

More recently, the London Finance Commission (also led by Tony Travers) has made the case for devolution of a number of existing forms of taxation to the London (or London Borough) level. This should include the full suite of property taxes (for example, stamp duty and capital gains receipts), Housing Benefit, and 100% of business rates. The commission also calls for full local control over council tax, permitting London government to hold periodic revaluations, determine the number of bands (and ratios) and to set the tax rate.²⁹ While the Commission argues this from a London perspective, the centralised nature of the country's current taxation system is an issue beyond the capital.

²⁴ Kent County Council, *Bold Steps for Kent – Progress to date and next steps* (2012)

²⁵ R. Carr, *Credit Where Credit's Due* (Localis, London, 2012)

²⁶ T. Shakespeare et al, *The Rate Escape* (Localis, London, 2011)

²⁷ T. Travers et al, *Raising the capital – The report of the London Finance Commission* (London, 2013)

²⁸ T. Travers & L. Esposito, *Nothing to Lose But Your Chains* (Policy Exchange & Localis, 2004)

²⁹ *Raising the capital* (2013)

Not only has the London Finance Commission suggested devolving existing finance mechanisms, but it also makes the case for new forms of revenue, described as 'smaller' taxes, such as tourist and environmental taxation. As the Commission highlights, Scotland already has the power to create new taxes (when Westminster is in agreement).³⁰

We too believe that the time has come for a fundamental review of how local authorities are funded. At the same time, council leaders interviewed for this report also raised the possibility of allowing local authorities to set and levy new 'tourist taxes' i.e. hotel bedroom taxes.

Investment in large scale infrastructure, such as the A3 Hindhead Tunnel, helps national economic growth



³⁰ Ibid

Recommendations for the Government:

- **Support local authority efforts to develop a collective bond issuing agency, such as that proposed by the LGA.**
- **Consider widening access and support for TIF schemes so that all areas of the country can take advantage of this mechanism.**
- **Create and help capitalise a £30bn National Infrastructure Bank to help fund new local infrastructure projects that support growth.**
- **Be bold in the next review of business rate incentives, further increasing the local retention of growth in rates and encouraging a greater risk/reward culture.**
- **In the long term, while accepting that implementing this will take time, the Government should establish a major commission to investigate how local fiscal autonomy could be achieved. This could include investigating, for example, greater control over existing taxation (e.g. council tax), permitting the introduction of new locally appropriate buoyant revenue streams such as hotel bedroom taxes. It would also be important to consider how a transition from the status quo to a new autonomous local government finance system could be managed.**

4.4 Public sector reform

The opportunity

Local government is the most efficient and innovative part of the public sector, and given more input into the coordination and delivery of public services, could help deliver more for less at a time of reducing budgets.

Despite – or perhaps because of – local government bearing the brunt of the Government’s public sector spending squeeze,³¹ councils across the country have been innovating. New ways of working are ensuring that their services deliver value for money and improved outcomes for residents and the local community. See the Localis report *Catalyst Councils* for more details and examples, including shared services, commissioning, demand management, and mutualisation.³²

Councils in the South East are leading the way in even greater collaboration through the use of shared services to improve efficiency and effectiveness. This is illustrated through the South East Seven partnership of Brighton & Hove City Council, East Sussex County Council, Hampshire County Council, Kent County Council, Medway Council, Surrey County Council and West Sussex County Council. These councils have committed to working together to improve the quality of services and to achieve savings, through joint commissioning, shared services and collaborative working. This momentum to greater integration across the wider public sector at a local level has been further buttressed by the results of the Whole Place Community Budgets programme, and is a template for how a pooling of budgets and resources can deliver successful outcomes.

³¹ A frontloaded 28% reduction in funding over four years, compared to an average 8% for Whitehall departments

³² D. Crowe, *Catalyst Councils – A new future for local public service delivery* (Localis, London, 2012)

The Community Budgets pilots, building on the Total Place work under the previous Government, brought together central and local government to cooperatively re-design local public services to align priorities, reduce duplication, provide more joined-up services for residents and potentially achieve efficiency savings. The intention is that services will be more locally and individually responsive. In July 2013, the Government announced a further nine pilot areas, including Hampshire and Surrey.

Setting shared local outcomes across previously monolithic service providers, which often operated at a national level, represents a major opportunity to deliver more joined-up, responsive government. This should deliver better results across the board, whether supporting a vulnerable child or getting an unemployed young person back into work.

The problem

Despite the best efforts of dedicated public servants, the delivery of public services remains of a siloed nature in many areas.

The first wave of Community Budgets pilots made significant progress in individual areas. The question now is how a wholeplace approach can be expanded across the rest of the country and what role the Government's recently launched Public Service Transformation Network (PSTN) can play in supporting this.

This is no easy task, as there are a number of reasons why such reform is difficult to deliver. Firstly, it takes time – which most parts of the public sector have little of in an age of shrinking budgets. Secondly, it will require significant resource (both from local and central government) to establish baselines and develop new approaches. Thirdly, it requires all partners to be absolutely committed, from senior politicians down to officers working on the ground. A key part of the benefits is the local democratic accountability that local authorities bring to the table, thus such arrangements need to be developed in partnership.

Not only this, but for different public sector organisations to fully commit, they need to be able to share in the financial benefits. Adequate systems need to be in place to ensure savings are tracked, accounted for, and shared where necessary.

Recommendations for the Government:

- **Adopt a 'localism first' approach i.e. a presumption in favour of devolving control of local public services to local areas/partnerships unless there are very strong reasons not to do so.**
- **Continue to work with the Political and Constitutional Reform Committee and the LGA to redress the balance of power between central and local government.**
- **More specifically, senior Government figures should make clear that the collaborative approach inherent in the Community Budgets pilots is an essential component of future public service reform.**
- **In addition, the local government sector should build on the learning of the Community Budgets pilot areas to date and take advantage of the PSTN in supporting local reform.**

Part 2 – Creating the conditions for business growth

4.5 Improving business access to finance and support

The opportunity

Businesses are the source of economic growth. Reversing the squeeze on credit experienced by many smaller companies in recent years will have significant benefits.

Local authorities have a key role to play in helping provide the right local conditions that can nurture new enterprises, help more established ones develop and grow, and encourage businesses from further afield to invest. Of course, the public sector should not prop up failing industries or simply pick winners, but access to finance for both new and existing businesses is vital to support growth.

Interviewees had divergent views on the support that councils and LEPs could provide to help overcome barriers. Some wanted to see the local authority itself act as a lender to local businesses, and make use of the publicly-owned banks to facilitate intelligent lending to businesses – for example through new sub-national institutions. Others opposed this approach as risky, advocating the use of micro grants and loans for start-ups, and initiatives such as seminars to signpost businesses to sources of finance if conventional bank finance isn't available. In some areas the use of revolving loans for development finance has been particularly successful.

Arguably a focus on start-ups and SMEs serving only a local market is perhaps too narrow – the ambition needs to be to encourage an international outlook, support for larger businesses and exports. Councils, LEPs and Government need to work together to ensure that companies invest in an area, stay and can expand, with the public sector providing “clear and understandable support” through an effective combined ‘offer’.

The problem

The often onerous lending conditions sought by banks currently are still proving a key barrier to growth for many businesses. The Business Secretary recently suggested that banks are less willing than before the financial crisis to lend to small businesses.³³

Councils and LEPs can have good understanding of local business needs, but it is often challenging for SMEs to find assistance and support, whether it is seed corn or venture capital funding for start-ups or access to development finance. Following the demise of Business Link, there arguably remains a gap in the market for business startup advice.

Recommendations for the Government:

- **Expand the scale and remit of its new business bank as soon as possible.**
- **Continue to push for as much lending to SMEs as it can, using its influence over state-owned banks as appropriate.**

³³ www.independent.co.uk/news/business/news/banks-still-avoiding-lending-to-smes-8570750.html

4.6 Planning processes and housing supply that aid development

The opportunity

A planning system that enables appropriate development to be swiftly approved and built will help speed the construction of the houses, business premises, shops and amenities that support growth and thriving, sustainable communities.

The allocation of land for development and its regulation is a significant determinant of economic growth. However development can be seen as contentious when it affects greenfield sites, the landscape, local environment and quality of life.

Housing can play a key part in an area's economic aspirations as composition of local labour markets is heavily influenced by housing stock and prices.

Local authorities are robust in showing that they are doing the best within the new national planning framework (NPPF) to support delivery of the strategic vision at the heart of local plans. Identifying suitable sites for residential development, through having an up to date approved Local Plan, is a key role for local authorities and helps to provide certainty to private and social housing developers.

Some councils, including those in the South East, have even taken it upon themselves to act as developer in the early stage of housing projects. They have made the most of existing assets, such as council land, or through purchasing land for development to expedite sites and bring in a private sector partner at a later date. Councils such as Bracknell Forest and Wokingham have found innovative ways to continue development despite the economic downturn, partly through use of creative partnerships and trading companies.

Case Study: Oxfordshire – Taking a proactive approach to development

Overcoming development delays remains a key issue for local government.

Oxfordshire County Council is working with district councils, taking a proactive approach to help ensure development goes ahead once planning permission is granted. This includes 'de-risking' development sites and making sure infrastructure is in place before bringing them to market to help secure successful and swift development.

However, despite proactive interventions, development is still often slower than it should be, with councils needing greater powers of intervention to deliver the growth that the country needs.

The problem

For far too long, planning has been an adversarial system which encourages costly legal disputes rather than collaboration and resolution.

Along with London, the need for more housing resonates most across the South East.³⁴ With its growing population and outflows from London, a failure to ensure adequate housing supply could serve as a chronic barrier to future growth prospects.

While the Government has suggested that some local planning authorities have been acting as a block on development, this has been rebutted by the LGA.

³⁴ Financial Times Weekend, February 2nd and 3rd, 2013

Research commissioned by the LGA found there were 400,000 un-built homes with planning permission across the country, and that the overall percentage of planning applications approved hit a ten-year high in 2012.³⁵ This view was echoed by some of the councils we spoke to who reported that the planning system was working well in their areas and that they were approving an increased number of planning permissions

However not everyone we spoke to was as sanguine about the current performance of the planning system. As one interviewee put it, there is a general feeling among businesses when taking a planning application to local authorities that “the answer is no – now what was the question?” There was also a feeling the planning system could be sluggish at the local level – including a slow response to the NPPF, new regulations and drawing up Community Infrastructure Levy (CIL) schedules.

Interviewees reflected on the tough economic climate rendering some developments unviable due to planning obligations secured through earlier s106 agreements. The slow response of statutory consultees such as English Heritage, Natural England and the Environment Agency and a narrow, singular view that excludes a broader focus on sustainable growth, and ‘the economic benefits’, was also highlighted by interviewees. While the Government reviewed the role of consultees in 2012, the response and amended guidance covered cost only.

Another central barrier to building is the limits imposed on councils who wish to build new stock themselves. In the 1950s, councils in England were building almost 150,000 homes a year, in 2011/12 the figure was fewer than 2,000. While a return to the heyday of council house building is unlikely, a number of local authorities in the South East and elsewhere are agitating for the ability to borrow to build. Research has suggested that, were the housing borrowing cap to be removed, 60,000 houses could be built by councils over a five year period.³⁶ We would argue that this is a conservative estimate, but even this figure would have a significant impact on the supply of housing.

The LGA’s research also highlighted the existence of land-banking – where developers purchase and then hold prime development land undeveloped while its value rises. Findings showed that the average period between planning permission being granted and building completion had increased to nearly two years.³⁷ This not only delays development which is essential to national growth, but a shortage of viable sites can lead to speculative development, rendering the process of identifying and consulting on prime sites a wasted effort.

A number of suggestions have been made of late to help tackle this issue. Several of our interviewees suggested revoking planning permissions where development had stalled. Both political opponents such as the Mayor of London and Ed Miliband, alongside groups such as the Royal Institute of Chartered Surveyors have recently suggested more powers for councils to discourage landowners from holding back land unnecessarily.³⁸ Indeed, Boris Johnson even threatened developers with compulsory purchase orders (CPO) in an attempt to kickstart dormant developments.³⁹ While the HCA has wide-ranging CPO powers, usable to ‘improve the supply and quality of housing in England’⁴⁰ and local authorities can enact a CPO (following approval by the Secretary of State) where they make a compelling case in the public interest, the process remains lengthy and expensive, utilised only as a last resort.

35 www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10171/3704026/NEWS-TEMPLATE

36 www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10171/3995362/NEWS-TEMPLATE

37 www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10171/3704026/NEWS-TEMPLATE

38 www.guardian.co.uk/society/2013/jun/21/ed-miliband-developers-hoarding-land

39 www.standard.co.uk/news/politics/start-building-or-ill-make-you-sell-land-mayor-boris-johnson-tells-developers-8629130.html

40 www.gov.uk/government/uploads/system/uploads/attachment_data/file/7686/1527494.pdf

Recommendations for the Government:

- **Undertake a broad review into the standing advice for statutory consultees, encouraging the streamlining and expediency of this part of the planning system.**
- **Provide local authorities with discretionary powers to tackle land held back unnecessarily, for example:**
 - **Introducing ‘use it or lose it’ powers to revoke planning permissions (or a shorter default period of validity, e.g. 18 months); and/or**
 - **Permitting the levying of local charges on stalled developments; and /or**
 - **Undertaking a review of CPO powers. This would involve incorporating those held by local authorities and the HCA, with a view to considering whether such powers can be streamlined and speeded up so as to be used more effectively by local authorities.**
- **Enable councils to borrow against their assets to fund construction of new affordable housing.**

4.7 Better transport infrastructure

The opportunity

Improvement and expansion of transport links can prove key drivers of economic success.

As the Government outlined in its National Infrastructure Plan and 2012 Autumn Statement, it concurs that investment in transport is a key driver of economic growth. This is echoed by business figures such as Sir Richard Branson, who argues that “a thriving economy must be well connected with the world and be able to move people and goods efficiently in its domestic markets.”⁴¹

The South East acts as a gateway for businesses and passengers nationally who want to access ports including Southampton, Dover and Portsmouth and airports including Heathrow and Gatwick. However, there is currently a gap in the market for funding large scale cross-boundary strategic projects. They are outside the reach of individual local authorities or groups of partners (e.g. LEPs/Local Transport Bodies [LTBs]) but do not yet feature on the Government’s national programme despite the potential for supporting national growth and an excellent return on Government funding. Funding for these schemes could come from the Government’s recently announced pipeline of public infrastructure totalling over £100 billion by 2020, of which £70 billion will be spent on transport projects; plus potentially EU funding which the Government has announced will be aligned with local growth investment.

Across the political spectrum and at all spatial levels of government there is recognition that transport is a key public good, essential to the nation’s economic wellbeing. As Lord Heseltine set out in his recent review: “decisions

41 www.thisismoney.co.uk/money/news/article-2287541/MONDAY-VIEW-SIR-RICHARD-BRANSON-We-remain-focused-investment-bring-growth-Britain.html

on housing or transport... will have far greater long term economic prospects than any form of direct support provided to business."⁴² Direct benefits that accrue from successful transport systems include: higher employment levels; increased productivity levels; and a reduction in costs (e.g. increased efficiency through shorter, reliable journeys for goods and labour). This is particularly the case in the South East, given the key two-way inter-relationship with London (commuting and goods/services), as well as its gateway role for the UK economy.

Being home to the UK's only high speed rail line and its physical connection to continental Europe via the Channel Tunnel epitomizes the South East's gateway function, together with its air and seaport capacity. About 95% of the volume of the UK's international trade is transported by sea, with Southampton, Dover and Medway among the top ten busiest ports in the country.⁴³ There are also significant traffic volumes through the municipal ports of Portsmouth and Ramsgate.⁴⁴ This has serious implications for congestion caused by HGV traffic. South East airports such as Gatwick and Southampton have some of the highest number of passengers after London. In addition the close proximity of Heathrow, Luton and Stansted, as well as emerging airports such as Manston in Kent, mean that the South East is a significant stakeholder in any debate about future airport capacity.

Case Study: Reading: The battle for transport funding

Reading Borough Council has successfully made the case for additional resources for two new transport interchanges as part of a £895million transformation of Reading Station and the surrounding area. They attracted funding, including £9.6 million from the DfT towards a £13.2 million council-led project. As a critical rail link between London, the South East, South West & Wales, these improved links and interchanges will have wider benefits.

However, such funding is subject to a complex and resource-intensive competitive process. While all competitive bidding processes require time and effort which may not result in a successful outcome this is particularly the case for transport projects, where extensive design and modelling work is required.

Ultimately, not all local authorities have the capacity to engage with this, nor is it necessarily the best use of public funds. We have argued here, and in previous reports, that a significant proportion of funding should be devolved on a non-competitive basis.

The problem

Growing congestion and bottlenecks on road and rail networks risk obstructions to the effective transportation of people, goods and materials across the South East and also impacts on London and the UK.

Traffic speeds on the roads are slowing leading to unreliable journey times, with speeds in areas such as Brighton and Hove, Reading, Slough, Portsmouth and Southampton ranging from 40% to 32% lower than the national average. Rail routes that underpin the ability of commuters to travel between the South East and London, and vice versa, for work are increasingly congested, restricting economic growth potential across both areas.

⁴² *No Stone Unturned in the Pursuit of Growth* (2012)

⁴³ Southampton and Medway are the 2nd and 5th busiest container ports, and Dover the top UK port for roll-on roll off freight.

⁴⁴ www.gov.uk/government/uploads/system/uploads/attachment_data/file/9257/port-freight-statistics-final-2011.pdf

New opportunities for local control over some transport schemes through local authorities and LEAs/LTBs are welcome, but there is still a lack of local control/influence to promote schemes with national benefits. Local partners should be more than consultees, with a key role working with Government to help align priorities.

Further, the funding mechanism underpinning Britain's roads has been called into question, with Fuel and Vehicle Excise duties expected to fall by up to £13bn a year by 2029.⁴⁵

In the 2013 Spending Review, the Government announced that the Highways Agency would be transformed into a state-owned firm, mirroring the governance of Network Rail. Further, the organisation would be given a six-year funding agreement.

Prior to this announcement, but while the Highways Agency's future was under review, Localis addressed this point in recent research, arguing that there is a lack of join up and integration between the nation's strategic road networks, rail franchising, ticketing and timetabling. See Localis' earlier research on this subject – 'The Road to Growth'.⁴⁶ Sub-national integrated transport management arrangements are prevalent on the continent, e.g. those in Spain and Germany. These countries have a far more localised, integrated approach to transport planning and investment, in many areas negating the need for a national, centralised organisation such as the Highways Agency. It remains to be seen how the new organisational arrangements will work, but it is not clear that these will solve the problems set out in our report.

But perhaps the biggest problem is where to access the funding for projects to upgrade road and rail links. Transport projects are frequently costly and with local authorities' budgets under pressure, it is time to consider new sources for funding, such as charging where this has local support.

Given the scarcity of cash, it is important that the Government achieves maximum bang for its buck – which means that, as we recommend above, there should be a 'balanced portfolio' approach to the allocation of grant funding and use of funding guarantees (as outlined previously). At £257 per resident the South East had the lowest levels of capital funding in 2009–10, £155 below the national average (and compared to £851 per head in London). Recently, however, the South East's LEAs and emerging LTAs have been more successful in their indicative Local Major Transport Scheme allocations for 2015/16 to 2018/19 better reflecting transport demand – an approach which interviewees wanted to see continuing if such funding forms part of the future 'Single Pot'.

45 P. Johnson et al, *Fuel for Thought: The what, why and how of motoring taxation* (IFS, London, 2012)

46 S. Howell, *The Road to Growth* (Localis, London, 2013)

Recommendations for the Government:

- **Help fill the gap in the market for funding strategic transport schemes that are smaller than national, but larger than local, which can demonstrate that they support national economic growth.**
- **Despite the recent announcement on the future of the Highways Agency, the Government should reconsider the future of the strategic road network along more localist lines. This should include devolving greater control and funding to LTBs/LEPs/ groups of local authorities, or allowing them to bid for control of sub-sections of the network from the Highways Agency.**
- **Take a balanced portfolio approach to DfT funding, and this must be maintained as a key principle as elements of transport funding move into the Single Local Growth Fund.**
- **Consider the introduction of alternative road funding models (where locally supported), such as tolling and road charging to reduce the impact on the public purse of future transport projects.**

4.8 Ensuring fit for purpose skills provision

The opportunity

Equipping the workforce with a more appropriate range of skills will help individuals to realise their potential, and businesses to grow.

Councils have long been involved in employment schemes, as part of their critical role in economic development and supporting younger residents in particular. Many council leaders in the South East see understanding skills gaps as an important lever in encouraging appropriate training and skills provision.

With some skills funding, though not apprenticeships, set to feature in the devolved Single Local Growth Fund, councils and LEPs will have a key role to play in working together to ensure training and qualifications better match business and growth needs. The LGA believes that, based on evidence emerging from the Community Budgets pilots, a devolved model of skills funding and provision driven by employer demand has the potential nationally to reduce youth unemployment by 20% and achieve annual savings of £1.25 billion.⁴⁷

⁴⁷ www.local.gov.uk/c/document_library/get_file?uuid=fe612120-4c27-4d97-a855-74244b511410&groupId=10171

Case Study: Berkshire City Deal: Breaking down silos

Lessons from Berkshire highlight the downsides of control from Whitehall. Through the Reading & Central Berkshire City Deal bid, the authorities are seeking to tackle the significant emerging skills gap in areas such as construction and the service sector, as well as a sizeable NEET cohort.

Under current arrangements, local authorities feel that skills provision is trainee demand-led, rather than designed around the needs and requirements of local employers. Arguably, the current system in recent years has not delivered for local businesses, or perhaps more importantly, local residents. By allowing local skills money to be spent in an inefficient fashion is not only a waste of public money, but also of people's lives. While the City Deal may ultimately enable Reading & Central Berkshire to tackle this major issue locally, this level of devolution is not currently open to many other parts of the country, including much of the South East.

The problem

Deficiencies in the skills base and a mismatch between the supply of skills and training provision and the needs of business have been identified in our interviews as a feature of many local labour markets in the South East; with an emerging skills gap a potential threat to growth.

Unemployment may be lower in percentage terms than in other parts of the country, but is high in absolute numbers. It is important that the South East is not seen by Government as an affluent area without any needs, as there are significant pockets of deprivation where communities are not engaged with employment opportunities.

From our interviews there is a sense of concern among local authorities and the business community that the current system fails to incentivise the right kind of local skills provision, and that training and skills provision is failing to equip people with the skills needed locally.

This Government has made several steps forward in reducing the enormously complex skills funding system and placing more control in the hands of local employers. Examples include the Employer Ownership of Skills pilot, encouraging LEP board members to sit on Further Education (FE) college boards and including the FE sector in LEP decision-making. However, the system continues to rely on soft levers of influence over provision rather than strategic commissioning of provision related to local employer need.

While the inclusion of Further Education capital and ESF skills match funding in the Single Local Growth Fund is a small step in the right direction, the ESF funding is, by definition, match funding, hence it requires existing local investment. Excluding this match funding, the devolved funding amounts only to approximately 8% of the annual £4.1bn adult skills budget.

Recommendations for the Government:

- **Devolve strategic commissioning of skills provision to local authorities.**

4.9 Faster Broadband

The opportunity

In an interconnected and rapidly digitizing world, areas with superfast broadband are well placed to support economic growth.

The Government is supporting investment in the nation's superfast broadband network via the rollout of highspeed broadband.

For example, in Berkshire, the LEP provides a focus for councils across an area to co-ordinate the delivery of strategic programmes across boundaries that might not be viable if conducted by individual councils, and its Superfast Berkshire project is tasked to drive broadband provision into 'white spots,' those areas without broadband access across the six unitary authorities.

Case Study: CloudConnX and Digital Eastbourne

Eastbourne Borough Council was supportive of the national initiative to install Superfast Broadband across East Sussex. However it was frustrated at the level of bureaucracy and slow pace of progress, and wanted greater local control over what it considered to be a key driver of local economic development. The council wanted to provide superfast broadband for local businesses and position the town as the most digitally advanced business environment on the south coast. To move things forward, Eastbourne took an equity share in CloudConnx, a small, local high-tech company. The company had the expertise and knowledge of wireless networks but lacked capital. Through investment of just over £350,000 and taking a 25% equity stake in CloudConnX, the Council has been able to actively support the design and implementation of a locally-owned and tailored solution to meet business needs and generate wider benefits to the public.

This example shows how future roll-out programmes should learn from innovative local approaches, as well as the need for local areas to have access to information about limitations of planned provision so they can plan to fill gaps.

The problem

Lack of access to broadband is a key obstacle to helping businesses develop, and extending broadband provision features as a priority for many LEPs across the South East.

While councils interviewed felt that local areas are slowly getting there in terms of extending provision, there is frustration at the barriers that have been presented by Government bureaucracy and EU procurement/state aid rules and regulations. Indeed, the Government has estimated that its rural broadband

programme is now 22 months behind schedule,⁴⁸ with the National Audit Office suggesting that there is no clear UK plan for reaching the EU's target of universal provision of 30mbps superfast broadband by 2020.

Broadband needs to be treated as a national asset of strategic importance and critical to the nation's infrastructure (alongside roads, energy and rail) if the country is to fully realise the benefits of the unfolding technological revolution and remain one of the world's leading digital economies.

In addition, from a localist perspective, decisions over how communities are ultimately linked up with provision must allow room for local flexibility, choice and influence. However, the diversity of solutions under the current Government programme have been severely limited, as the NAO notes: "by June 2013, 26 of the 44 local bodies had signed contracts and all 26 had selected BT as their supplier."⁴⁹

Clearly, the current programme is in progress and thus has limited capacity for adjustment, but further impetus in the roll out of superfast broadband, including a diversification of solutions, is required beyond the lifetime of the current parliament. Openness about gaps in the coverage of the current programme would also help local authorities identify problem areas and develop alternative solutions (as recently identified by the Environment, Food and Rural Affairs Committee).⁵⁰

Recommendations for the Government:

- **In developing broadband proposals beyond the lifetime of the current superfast broadband programme, Government should encourage a technology-blind approach to supporting superfast broadband rollout, which could help stimulate a growth in local infrastructure markets and provide revenue streams for local businesses and community organisations.**
- **In its late 2013 review, Ofcom should investigate whether the current regulatory framework is holding back local areas from developing their own superfast broadband solutions, and thus, local growth potential.**
- **Government should publish details showing what areas will be covered by BT provision, in order to encourage alternative providers to fill in the gaps in provision (as recommended by the EFRA Committee).⁵¹**

48 National Audit Office, The rural broadband programme (TSO, London, 2013), p.9

49 Ibid, p.6

50 House of Commons: Environment, Food and Rural Affairs Committee, Rural Communities: Sixth Report of Session 2013–14 (TSO, London, 2013), p.26

51 www.publications.parliament.uk/pa/cm201314/cmselect/cmenvfru/602/602.pdf p26

5. Conclusion

In this report, we have looked first at the role of the South East, its profile, and its contribution to the national economy. Naturally, as a net contributor to the exchequer with significant growth potential, it will have a key role in catalysing national growth.

Secondly, our research looked at the key barriers standing in the way of the South East and other parts of the country making a greater contribution to national growth and suggested a number of ways to speed this up.

While local government has done a good job to date, in order to continue to play this role and use these powers effectively, local government cannot remain dependent on central government for its funding. A greater degree of fiscal autonomy for English local government – like that available in other parts of the Western world – would allow councils to continue to drive growth in their local areas.

Finally, we call on the Government to ensure that all areas have equal access to the freedoms and flexibilities necessary to maximise the growth opportunities in their area; and to adopt a ‘localism first’ approach i.e. a presumption in favour of devolving control of local public services to local areas unless there are very strong reasons not to do so.

If action is taken on all these areas, then the true – locally-led – potential of the South East, and other parts of England, can be realised to drive forward national economic recovery.



With the country still deeply affected by the ongoing global economic crisis, stimulating economic growth and prosperity remain at the core of the nation's wellbeing. Public sector spending is projected to be falling until the end of the decade and the recovery remains nascent, so unleashing the economic growth potential of all parts of the country has never been more important for both national and local government.

This report, *Clearing the Hurdles – Freeing localities to boost national growth*, looks at some of the ways in which local authorities, working with partners, including Local Enterprise Partnerships (LEPs), could help to catalyse and promote economic development. In particular, it focuses on freedoms and flexibilities that, if granted by Government, could help enhance the growth potential of both local areas and the whole country. Such changes would enable local authorities to contribute to economic growth not only in their own rights, but also as key partners in LEPs.



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