LOCALIS

Resetting the South East

LEVELLING UP AFTER BREXIT, CLIMATE CHANGE AND COVID

By Callin McLinden & Joe Fyans

About Localis

Who we are

We are a leading, independent think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Decentralising political economy.** Developing and differentiating regional economies and an accompanying devolution of democratic leadership.
- **Empowering local leadership.** Elevating the role and responsibilities of local leaders in shaping and directing their place.
- **Extending local civil capacity.** The mission of the strategic authority as a convener of civil society; from private to charity sector, household to community.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.

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We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. We also run a membership network of local authorities and corporate fellows.

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Acknowledgements

The research for this report involved conversations with various nationally and locally focused stakeholders, all of which helped strengthen the work and develop its conclusion. We would like to thank everyone who gave up their time to participate in the research interviews and roundtables. Huge gratitude is also owed to South East Councils, Cllr. Nicholas Heslop and Sean McKee for commissioning and supporting the research. We are extremely thankful to Localis chief executive Jonathan Werran along with our colleagues Zayn Qureshi and Grace Newcombe for providing direction, inspiration, and assistance throughout the research process. Any errors or omissions remain our own.

Callin McLinden & Joe Fyans

Research roundtables

The research for this project was initiated with three research roundtables, held by Localis and South East Councils and attended by local, regional and national stakeholders in February 2021. These roundtables were invaluable in identifying the parameters and focus of the research, and a debt of gratitude is owed to all the participants, listed below.

Session 1: Global Britain

- Tim Aker, Development Manager; Kent and Medway Federation of Small Businesses
- Cllr. Paul Bettison, Leader; Bracknell Forest Council
- Adam Bryan, Chief Executive, South East Local Enterprise Partnership
- Ana Christie, CEO, Sussex Chamber of Commerce
- David Godfrey, Director of Strategy; Kent County Council
- Sally-Ann Hart MP, Chair; APPG for South East Councils
- Sue Littlemore, Lead for Policy, Strategy, Communications & Policy Engagement; Enterprise M3 LEP
- Sean McKee, Chief Executive; South East Councils
- Susannah Watson, Regional Director – London and South East; CBI

Session 2: Net Zero

- Roger Blake, Infrastructure and Networks Director; Railfuture
- Ben Gibbons, Regional Advisor; National Farmers' Union
- Matthew Grigor, Public Affairs Manager; Associated British Ports
- Ann-Marie Mountfield, Chief Executive; Solent Local Enterprise Partnership
- Cllr. Tony Page, Vice Chair; South East Councils
- Dr. Vicky Price, Economics & Business Consultant
- Heidi Skinner, Head of South East England Policy; Logistics UK

Session 3: "What can Levelling Up do for South East Councils?"

- Cllr. Susan Brown, Leader; Oxford City Council
- Prof. Dame Athene Donald, Emeritus Professor of Experimental Physics, University of Cambridge
- Cllr. Peter Fleming, Leader; Sevenoaks District Council
- Heather James, Editor; The Municipal Journal
- Simon Newell, Head of Policy, Partnerships & Scrutiny; Brighton & Hove City Council
- Cllr. Rebecca Paul, Deputy Cabinet Member for Levelling Up; Surrey County Council
- Cllr. Nick Prescot, Leader; Runnymede Borough Council
- Dr. Mark Sandford, Senior Researcher; House of Commons Library
- Geoffrey Thornton, Senior Policy Adviser; Cities and Local Growth Unit, BEIS
- Prof. Tony Travers, Director; LSE London
- Mr. Tom Walker, Director; Levelling Up Unit, Cabinet Office

Executive summary

This report is the result of a research project undertaken to investigate the role of the South East region in Levelling Up, and what is necessary for its constituent local authorities to deliver – individually and collectively – on this multi-layered and ambitious set of environmental, economic, and social transformations. As one of only three regions of the country to be net contributors to the Exchequer, the role of the South East region in advancing the levelling up agenda for national renewal remains pivotal. This report thus seeks to lay out:

- The strength and weaknesses of the current position of the South East in the levelling up conversation.
- How the region can contribute productively to the "People's Priorities" of the government's Plan for Growth.
- What role the local state in the South East has to play in levelling up the whole country.

The South East and Levelling Up

The perception of the South East is one of greener pastures – where the investment and opportunities of London have bled into surrounding home counties' areas bolstered by centuries of strong global trade and transport links. This inter-regional lens, whilst not without merit, misses a significant part of what is felt on the ground across the UK. A more mutualistic conversation, which stresses the value to the UK of the South East as a strategic asset, would be far more beneficial to economic growth than one which stresses the need to 'cool' the South East.

The need for a more constructive conversation

Although focused in terms of outcomes on individual communities, the element of the levelling up endeavour which aims to uplift communities, improve social infrastructure and regenerate the built environment in places 'left behind' by growth is often couched in regional language. Inequality between regions is a visible and undeniable factor of the UK economy. However, this means that inequality within regions can be hidden by the relative affluence of high earners when thinking about places left out of growth and prosperity. The South East is in places no different to other regions. Some of the country's most difficult places to live in terms of social mobility are in the region. However, as the South East is not as populous overall in the lower rankings – these pockets of deprivation are glossed over and go amiss.

The South East is home to many coastal towns that were already significantly 'left-behind' long before COVID-19 became endemic. During the crisis, many of the South East's conurbations were hit hard by furlough, job loss, and other expenses and labour force changes brought on by the pandemic, particularly 'airport towns' like Slough and Crawley. Even those comfortably off are disgruntled by the state of levelling up discourse so far – themselves recognising housing prices, congestion, poor infrastructure, and faltering public services as critical issues facing the region.

Communities across the South East could therefore benefit in many ways from the kind of support outlined in the Levelling Up White Paper and the prospectus for the Levelling Up Fund. However, the prevailing conversation around Levelling Up – and its stated prime goal of changing economic geography – has led to a perception, if not tacit understanding from ministers downwards, against the South East receiving any such funding.

This is not to deny the success of the region. Despite the need for granularity and nuance, the South East is a more productive, resilient region with notably strong assets of many kinds. The South East, therefore, has a significant role to play in driving not just its own recovery and levelling up, but also that of other regions as well – through a more strategic use of assets that is driven by the dynamic of regional mutuality and granular bottom-up community initiatives. Furthermore, looking beyond its national impact, the South East is a truly international region, leading the UK in trade as a net exporter of services, with several ports and major warehouses. The proximity and existing relationships with Europe are still unique assets of the South East – even in a post-Brexit environment. Ports such as Southampton are global gateways that support economic activity far beyond the South East. The benefit to the whole country of doubling down on productive capacity and boosting the export strength of the South East must not be forgotten when discussing regional economies.

The different economic faces of levelling up

The core issue for increasing opportunity across the UK is that of infrastructure, both hard and soft. This is an issue of long-term investment and not one that easily presents itself on the high streets of towns in the former 'red wall', where the political impetus for the agenda was born. The aesthetic impact of raising the quality of life through the patient financing of small-scale, community-based initiatives around areas like high streets and cultural institutions is therefore also important to raising 'place pride' across the country. Rather than a long-term, structural approach based on capital finance, this kind of levelling up is best achieved through the passporting of funds to the hyperlocal level and making improvements based on community priorities. Levelling Up is thus an economic agenda with two different faces, both of which must exist in a reciprocal relationship with the ultimate success criteria: economic growth.

Wage inequality

Difference between top and bottom 10% of owners

Source: Annual Survey of Hours and Earnings

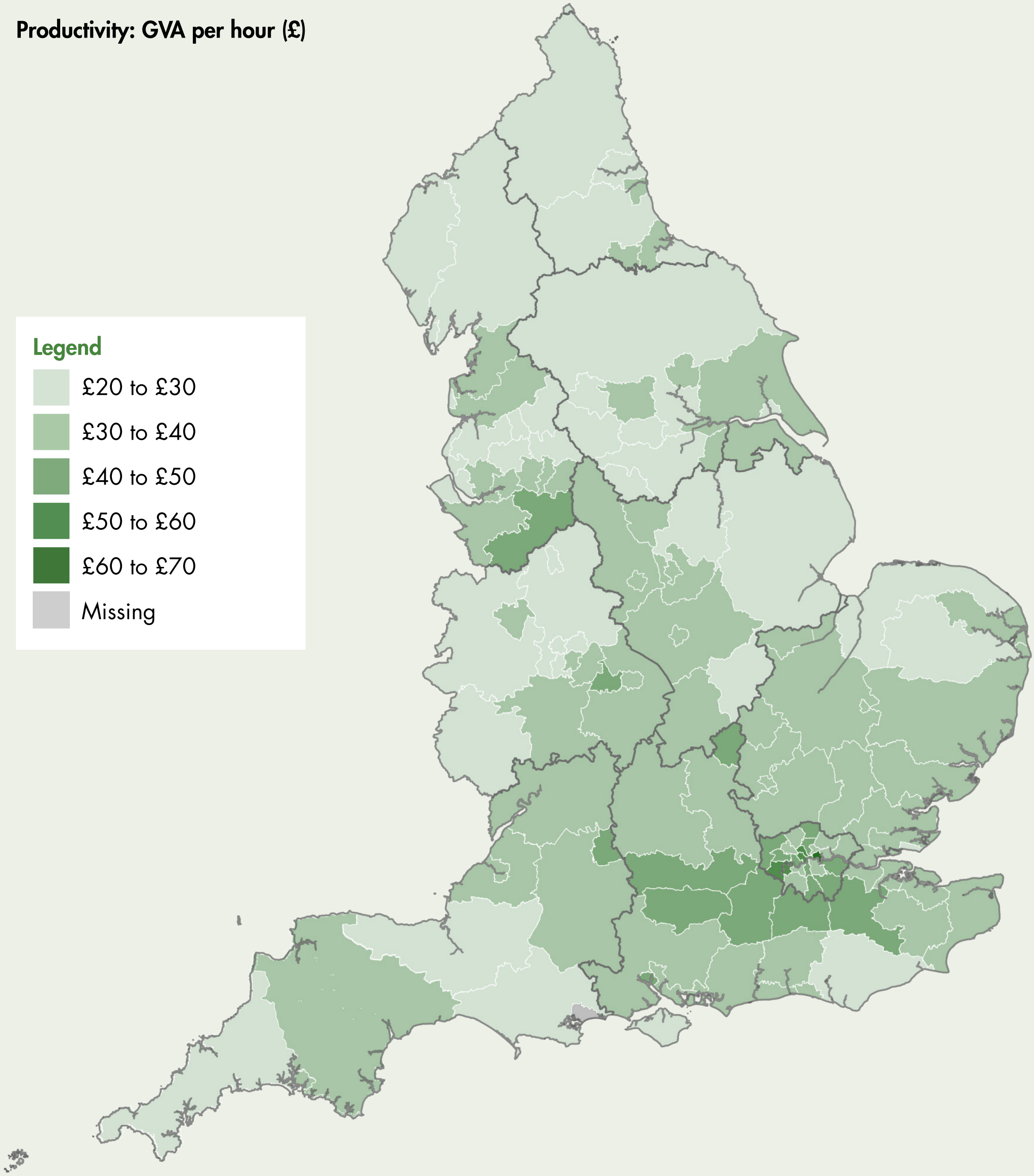
Government's own ability to responsibly finance the agenda hinges on unlocking growth by rapidly bringing the productivity levels of England's lagging regions closer to those seen in London and the South East. This is the essence of the more challenging, structural and long-term economic face of levelling up, that which seeks to bring the nation's infrastructure up to speed and in line with competitors. Given the regional disparities in productivity, the extent to which this effort must be capital-funded by government, and the timeframes for expected returns on investment, is regionally-dependent. Unlocking growth in the South East will be crucial if the government is to underwrite the investment required in parts of the country with much smaller and less dynamic regional economies. The positive side of this issue is that comparatively fast returns to national growth can be gained by allowing places in the South East to drive growth and the subregional and local level.

The major obstacle to taking such an approach is that the levelling up debate thus far has set up a conundrum wherein which, through an admission of regional inequalities and a pursuit of policies on that front, it is now more difficult to justify investment in the South East due to its assessment as being prosperous and 'overheated'. This is despite high investment demand persisting in the South East – particularly post-Brexit and moving into pandemic recovery. If the South East continues to be identified by central government as an area fattened by the wealth of agglomeration, there is a real risk that the encouragement and investment needed by South East businesses, as well as the economic offer of individual places to attract new businesses, will weaken.

The people's priorities in South East England

The government outlined in its Plan for Growth a set of 'People's Priorities' which it views as crucial elements of its 2019 electoral mandate. As well as Levelling Up, other priorities were Global Britain and reaching Net Zero. A properly resourced South East – in terms of governance powers and capacity – is key to meeting these expectations.

Productivity: GVA per hour (£)

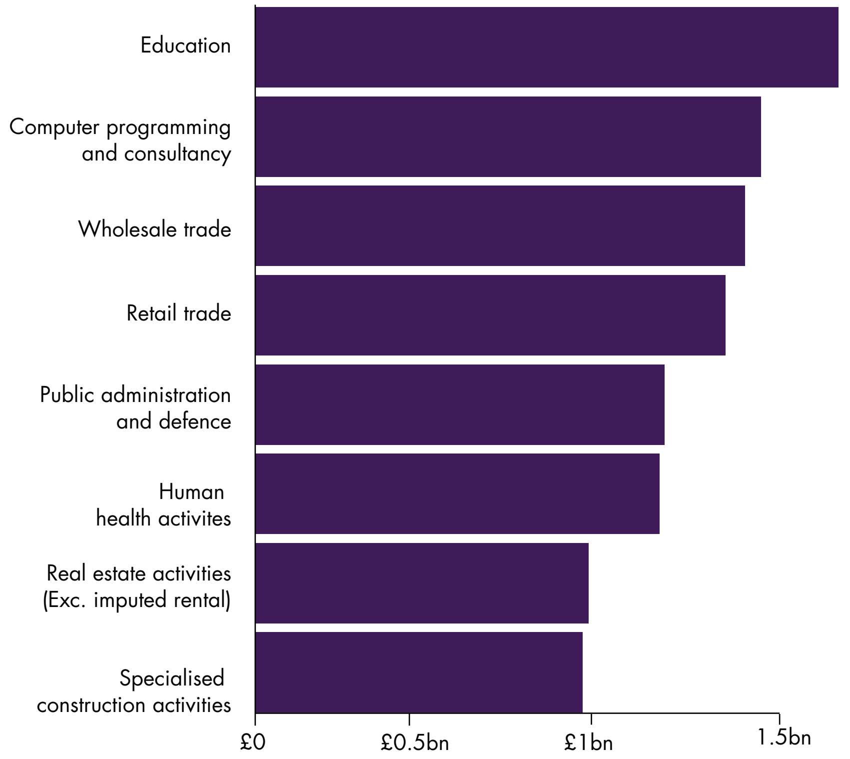


The challenges facing the South East as an engine for Global Britain

Fostering the prosperity of all regions must be a prerequisite to 'Global Britain' – as it allows the country to build public consent and project influence for a more open and liberalised trade policy. This can be facilitated by boosting productivity through investment in industries that are important for regional employment and where the UK is already strong. In this respect, the South East is in a good position, connecting the UK with international markets and attracting inward investment from across the globe. The South East is also home to world-leading universities and has a comparative advantage in sophisticated goods and services – and the businesses and organisations responsible for their success – which will be key to increasing trade and further improving the region's international status.

The challenges facing the South East as an engine for Global Britain should not be understated however, even with the region's strong starting point. In industries across the country, there has in recent years been much national coverage of shortages of staff, supplies, and materials – partially due to COVID-19 but often due to changes relating to Brexit. In the absence of adequate free trade deals or wholesale guidance and support from central government on the new trading environment, businesses have had to bear the double hit of Brexit complications and pandemic impact. As well as regulatory concerns, a key challenge facing industry in the South East and across the country is the decrease in labour supply. Having left the EU, the South East faces a serious problem with skills demand – particularly with demanding projects such as retrofitting. In the medium-term, there is a need to bring all in the South East up to a level 2 qualification standard.

High value sectors in the South East



Source: ONS

Driving up exports and investment in the South East

Typically, there has been a correlation between both exporting and inward investment, and higher productivity in the UK. Post-Brexit, increasing export activity and retaining inward investment is a clear and stated priority – particularly for the South East where productivity lags but inward investment has typically excelled. Making it cheaper and easier for South East businesses to export should be a key priority for local and central government in enabling economic growth in the region and beyond. There are several sectors that are either already notably strong or have great export potential. However, in a 2021 CBI study, the South East ranked fourth out of nine regions for export intensity, with exports accounting for approximately 28 percent of GVA. Increasing the export intensity of the region would be a step along the road to realising the potential of Global Britain and must be prioritised accordingly.

In the context of Global Britain, this calls for an improved business and sectoral support offer – from both central and local governments – so that inward investment is secured, and export activity is increased to a wider scope of countries across the world, to make up for a loss of access to the Single Market. Here, a partnership approach is vital: to align strategic goals, diversify local economies, recover pre-pandemic productivity, and drive economic transformation going forward. To bolster and support the South East's unique research & development offer, there must be a push to increase connectivity between places through investments in digital and physical infrastructure.

Decarbonising transport in the South East

Despite the context of recovery, it is important to retain focus on net zero ambitions. The South East is well-equipped to focus on net zero ambitions and has made admirable progress to this end. Even in the current context, many local authorities have made provisions in moving towards a 'green' recovery[1]. In the South East as in the rest of the country, the preponderance of annual emissions from transport makes decarbonising the movement of people a clear priority on the road to net zero.

The challenge of net zero transport emissions involves encouraging rapid uptake of new technologies such as electric vehicles, modal shifts in transport away from private journeys and a focus on the carbon impact of ongoing and planned improvements to transport infrastructure. The South East needs better public transport to lift barriers to both economic growth and decarbonisation. Despite progress in governance, the issue on the ground is that there is a patchy framework developing – particularly in terms of the South East's bus infrastructure – and funding appears to be shrinking day by day.

Outside of major towns and urban centres, there are significant gaps in transport infrastructure and accessibility. The South East has the highest take-up of electric vehicles in the country, which places the region at the forefront of the transition away from internal-combustion engines in private vehicles. However, the region also has among the lowest ratio of chargers to vehicles in all of the UK (second only to the joint lowest ratio of the North West and East of England). Charging infrastructure and associated energy grid updates are therefore important in a region with high uptake of electric vehicles like the South East.

1 Examples include the ARG Challenge Fund from West Berkshire Council, Oxford City Council's focus on livability and community infrastructure and Lewes District Council's strategy for a community wealth-building focused Green Recovery.

However, in the context of the roads of South East England – many of which, particularly those around London, are extremely congested – simply decarbonising private vehicles is unlikely to be enough. Part of achieving this will therefore involve improvements to public transport, which in many parts of the South East is either unaffordable or subpar, with a very expensive rail network and a patchy bus system serving large parts of the region. Investing in the rail network capacity of the South East – with an eye towards cross-regional connectivity to challenge the 'spider web' network around London – would bring benefits to regions beyond the South East and broaden access to investment opportunities. The other primary form of public transport in the South East, bus networks and the companies that serve them, are under serious threat, with funding facing a cliff-edge in 2022.

With multiple moving parts and broad areas of overlap, a fundamental reset of how transport is managed and funded across the South East will be required to bring the various initiatives and agendas into alignment and ensure as smooth a transition to net zero as possible. Integrated transport strategies, from the regional down to the local level, are required to manage this change and they must factor in the need for a modal shift in transport as places also look to stimulate economic recovery. Much of the region is covered by Transport for the South East (TfSE), but TfSE has no statutory footing and is far from the only actor operating in this space locally – with institutional overlap observable with many central government programmes, cross-council initiatives and the individual or collaborative work of various LEPs.

Green industries in the South East

There is great potential for the South East in terms of green industries – due to a wealth of assets and established research & development clusters. To ensure prominent sectors continue their growth effectively, as well as bringing more lagging sectors up to speed, councils must be empowered to support businesses to innovate – as the status quo that was enabling growth, or in some cases stunting it, has been fundamentally altered by the pandemic and Brexit.

Local leadership has a role in many sector opportunities in the region, if properly empowered. A major, ideally nationwide, retrofit programme is overdue – even basic measures like loft insulation have failed to be delivered adequately. Local authorities are in a key position to be able to use funding and distribute it to residents and retrofitting firms in a way analogous to business support funding during the pandemic. As well as the domestic transition, there is a role for convening and strategising from local government in agricultural land use. Linking together different modes of food production in South East – either physically or on a strategic basis – will be key to a more efficient and innovative sector going forward. Local leadership should better engage farmers, colleges, and industry to this end. The opportunities are not limited to agriculture. In the South East there are over 7,000 jobs in forestry[2], this section of the labour market could sustainably produce a million tonnes of timber each year if it were managed correctly.

As with transport, there is a distinct possibility that the sheer number of different institutional actors with overlapping remits could reduce the efficacy and speed of the transition to net zero, with a need for overarching strategic responsibilities to be clearer delineated emerging. A clearer framework of responsibility, with statutory footing given where required, might reduce the risk of inefficiency and provide clarity for local businesses and residents.

The role of the local state

If levelling up is to be approached seriously by local government, councils and local stakeholders must come together and carve out a role for themselves in pursuing the agenda and addressing the root causes of inequalities. Developing effective governance arrangements, playing a meaningful role in economic stewardship, and flying the flag for local businesses and communities are critical roles for the local state.

Powers and policy

For local government, after ten years of austerity, there are revenue gaps in terms of social infrastructure provision that remain hard to plug. Across the region, there is generally an understanding held by local leaders of what could be done to improve local economies. Furthermore, since there is a considerable amount of expertise in the region, it is vital that strong networks of communication exist to support the sharing of information and best practice in this uncertain time. Yet the ability for councils to act on this knowledge and draw together expertise is extremely restricted.

Businesses, particularly smaller enterprises, are facing significant concerns over inflation and the current size of the tax burden. In turn, councils across the South East are trying to work out the best way to create favourable conditions for enterprise. Real devolution means empowering local government to face these challenges in a holistic and long-term manner. This is currently impossible, and the strictures handed down through the Levelling Up White Paper do not leave much hope for meaningful change in the economic governance of the South East.

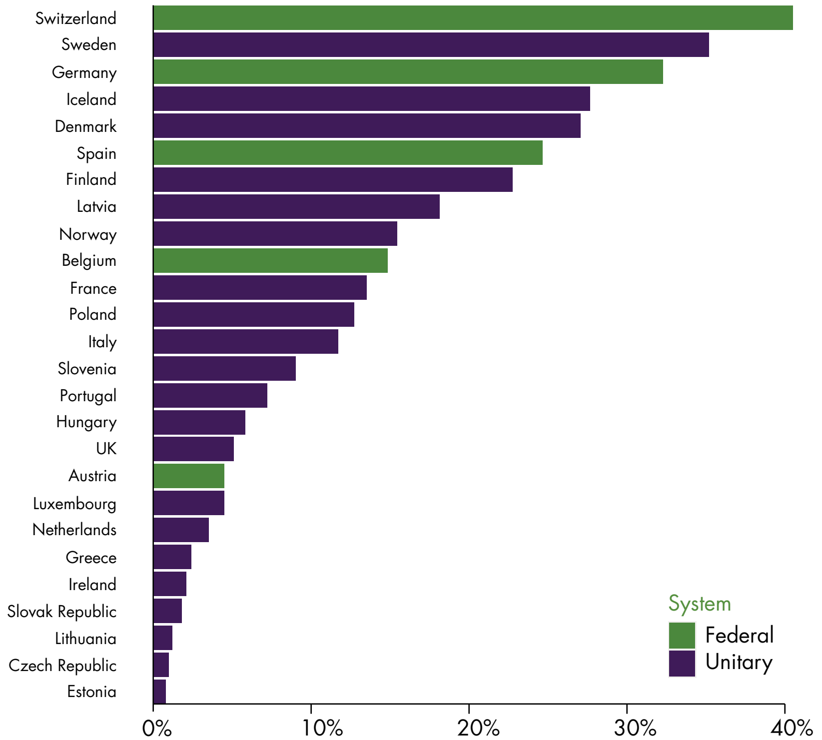
2 Greenslade, Murphy, Morse, and Griffiths (2020) – Seeing the Wood for the Trees: Limiting Woodland Management and Sustainable Local Wood Product Use in the South East of England

The preference for single, unified voices at the subregional and local level, which is clearly articulated in the Levelling Up White Paper, sits uneasily with the current institutional landscape in the South East. Political wrangling and the continued drip-feeding of individual funds look to be the likely future of devolution in the South East - unless changes are made to the framework put forward by the white paper. The paper, particularly in its early analysis, acknowledges that there are different geographic scales appropriate for different issues and envisions a dynamic relationship between stakeholders, managed locally, to drive development – practice well established in the South East. Yet the devolution framework makes no such concession to the need for flexibility at the local level.

The white paper makes clear once and for all that a combined authority, with a mayor sat atop multiple unitary authorities, as the conduit for and coordinator of Whitehall funding into a local area, is the preferred model. Partnerships between local authorities are relegated to the lowest form of devolution in the white paper but have been used to deliver results across the country and particularly in the South East. Local authorities across the South East work in clusters to drive growth on issue-areas, in a way which is dynamic and responsive This is not to say that the South East could not benefit from a clearer regional structure, with a more coherent cascade of responsibilities. But such a framework need not deliberately sideline certain actors and push local government towards a single preferred form.

For the South East to reach its full potential, avoiding costly administrative and heated political debates of the kind currently associated with unitarisation, a more flexible approach from Whitehall has long been needed. While some steps were made in the white paper, the focus is on devolution to, at the lowest level, subregions, with little to say for the actual level of place. District councils, all but excluded from the Levelling Up White Paper, are left with extremely limited powers through which they can channel their estate and funding towards local economic growth. The administrative and political quagmire which unitarisation debates routinely lead local authorities into could be avoided, to the benefit of the region and the country at large, by a more flexible devolution framework. A regional structure for devolution, with cascading responsibilities, is attainable in the South East without major reforms.

Local tax retention in European OECD nations
Percentage of total tax revenue



Source: OECD

Funding and finance

Committing resources towards building relationships across the region, understanding the local profile of each place, and ensuring investment aligns with clear strategic priorities will contribute towards the South East levelling up on its own terms. Procurement and other existing processes have value-creating potential that can be unlocked through better collaboration and co-ordination of resources. Similarly, making good use of match-funding and underspend, even if pursued incrementally, can make the difference in supporting particularly small-to-medium scale projects. However, these sorts of incremental actions are essentially the upper-limit of the local state in a system as fiscally-restricted as that which English local government must operate in.

Fiscal devolution and flexibility are glaring omissions from the Levelling Up White Paper, particularly given the potential to use fiscal levers to drive investment in the 'people's priorities'. Greater local control of funding and taxes, powers to drive affordable housing and development, and the power to streamline health services are all stated priorities of South East councils for devolution. A more strategic approach to business rates, where and how they are leveraged, could see significant financial gains for local authorities in the short term. Powers such as those vested in the Business Rates Supplement Act which allowed the Greater London Authority to finance Crossrail would be welcomed and potentially effective in the South East. Another option is tax increment financing (TIF)[3]; a mechanism for promoting growth also used to good effect in London – particularly in developing areas.

Beyond these measures with clear English precedent, there are also a plethora of local taxes applied in our European neighbours with relevance to councils in the UK. The most obvious of these is a 'tourism tax', with much debate over the possibility of trying a small hotel levy of the kind seen across Europe in Birmingham during the Commonwealth Games[4]. This has enthused local leadership across the South East, particularly in coastal towns where tourism is relatively high but funding for public services is increasingly and precariously low.

A re-evaluation of the fiscal relationship between Westminster and the South East is particularly pertinent as recent changes to the rules on debt repayments threaten to put the financial sustainability and spending plans of local authorities at risk. In the current fiscal environment, with restricted funding and little-to-no fundraising power, there is very little that South East councils can do to drive investment in a 'hard' or formal way. While fiscal equalisation is of course necessary in such an economically uneven country, this does not preclude giving those local authorities in a position to do so the ability to raise additional levies and taxes.

3 House of Commons (2021) – Local government in England: capital finance
4 They Work For You (2020) – Local Commonwealth Games levy

Recommendations

General recommendations

- The pre-publication discourse around 'levelling up' alienated communities and local leaders in the South East. While the Levelling Up White Paper made some progress in this regard, **a less regionally-fixated and zero-sum focus is required for the agenda to succeed.**
- In advancing the Levelling Up White Paper, **government must re-think the assumption that directing investment away from an 'overheated' South East will 'cool' the region** and 'heat' the rest of the country.

Local Recommendations

- A unified approach within the region is crucial to advancing the devolution debate. To create a unified and bottom-up framework for devolution, **local authorities should come together in a major 'Summit for the South East'**. This is due to a pressing need for local leadership:
  - to **decide upon the preferred structure** of local government in the South East;
  - to **set broad regional priorities** for levelling up and **define key regional assets**.
  - This could be done in concert with, or as a report submitted to, the forthcoming regional Levelling Up Director for the South East.

Structural/governance recommendations

- The devolution framework currently offers nothing for district councils working in partnership with counties, LEPs and each other to achieve local goals across a functional economic area. **The devolution framework should extend the powers offered under 'level 2' to joint ventures**, providing they are incorporated as a single body with a nominated leader to be the point of contact for and accountability to Whitehall.
  - In revising the framework, given the vital importance of increasing export intensity to achieving the government's Global Britain ambitions, government should **review the role of local government in exports.**

- The South East, as a whole region, faces numerous unique transport challenges relating to decarbonisation and pandemic recovery. **As the regional body for transport, Transport for the South East should be made a statutory body with strategic responsibilities**. The existence of such a body should be a pivotal part of the plans for reforming the rail franchise system.
  - This should involve an **expansion of TfSE's ability to raise finances** to invest in the network.
  - As part of its formalisation, the transport body should also be **given a statutory role in reducing emissions.**
- Current rules on council borrowing are driving councils closer towards a core service offer and further away from driving national priorities at the local level. In line with the positive changes to the local government pension scheme (LGPS) rules, **government must work to improve the conditions for municipal investment in clean growth and levelling up**.

Financial recommendations

- There is ample room for councils in surplus-generating areas of the country to raise funds for capital investment towards levelling up goals. **Councils which are in areas of net contribution to the Treasury should be able to raise additional levies to fund investment**.
  - This could include powers like those afforded to the Mayor of London in the Business Rates Supplement Act or the ability to use expansive Tax-Increment Financing for pro-growth schemes.
- More broadly, a serious **investigation into appropriate fiscal levers for the region, in the style of the London Finance Commission, should be held on South East council finances.**
- There is also room for councils to help drive levelling up through their spend, as identified in the procurement green paper. To this end, **procurement reforms to allow local discretion should be urgently brought forward in the South East**.
- Towns relying on the aviation sector have been among the hardest hit by the pandemic. In the South East and across the country, the government must put forward a plan for **revenue and capital aid of airport towns** to support public services and at-risk workers through a very difficult transition.

Introduction

As one of only three regions of the country – the others being London and the East of England – to be net contributors to the Exchequer, the role of the South East region in advancing the levelling up agenda for national renewal remains pivotal. As the bastion of many of the country's export-driven growth sectors, the region will be central to hopes of attaining long-term national economic recovery.

However, despite the surface prosperity, the South East contains pockets of deprivation, especially in coastal areas, that are as in urgent need of fixing as anywhere else in the country. So, in a sense there is a real case to disrupt existing assumptions about the Levelling Up agenda and the South East's journey in navigating its post-pandemic recovery on every level and stage: local, sub-regional and national. Additionally, there are vital investment cases to be made across the south east for public service reform as well as economic growth if we are indeed to champion the region as a national strategic asset in the mutual and interdependent goal of levelling up the whole of the UK.

The Levelling Up White Paper, released in February 2022, rowed back from some of the more binary presentations of the agenda's policy goals. In its early stages, the paper acknowledges the importance of intra-regional inequality as being equal in many respects to inter-regional inequality. However, as it proceeds, the paper continues to lump the South East region with London as a single economic monolith and perpetuates the unhelpful narrative that addressing inequality should only occur on a regional basis, with lower investment in the South East seen as something that would prove effective in the cooling of an 'overheated' region and the consequent spreading of prosperity out across the country. This view is flawed, with serious risks to national growth overall attached to disincentivising investment in the South East.

The all-important white paper, setting out the blueprint for the government's flagship agenda, also provided very little in terms of workable devolution for the South East. Negotiable county deals may offer some potential and the proposal of 'London-style' powers is promising. Yet the insistence on certain forms of governance and the total sweeping aside of others found in the devolution framework signal that is not a realistic prospect in the country's second-most productive region. In any case, the absence of tax-raising powers or an increase in capital or revenue investment will mean local authorities will lack the resources to improve local economies and will remain financially trapped by issues such as social care.

It is not too late to correct course. Much of the analysis contained in early chapters of the Levelling Up White Paper resonates in the South East, with acknowledgement of many of the issues the region faces and a clear definition of levelling up as being about growing, not re-dividing, the national economy. The conclusions and policy prescriptions, however, leave room for a great deal of further discussion around the table. Additional measures to free up local government, as well a more flexible approach to governance, could put the South East region in a far better position to continue to drive growth across the UK.

This report is the result of a research project undertaken to investigate the role of the South East region in Levelling Up, and what is necessary for its constituent local authorities to deliver – individually and collectively – this multi-layered and ambitious set of environmental, economic, and social transformations. As well as extensive desk research, the report also brings together the findings of a series of expert roundtables and interviews examining how the South East can lead the charge in renewal and recovery of the whole country as we look ahead from the disruption of the past few years.

CHAPTER ONE

The South East and Levelling Up

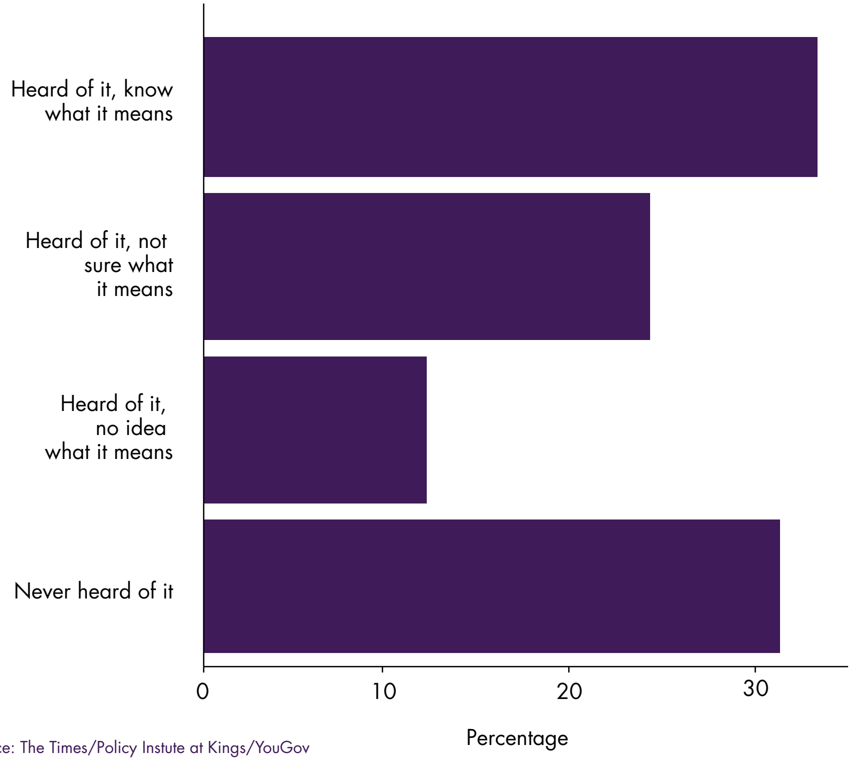
The ubiquity of 'levelling up' in government rhetoric is resonating with voters who are connecting the dots between what is being said and their sense of local patriotism or 'place pride'. Recent research from the Policy Institute at King's College London amongst others has shown that geographic inequality is of notable concern to the British public[5].

Nonetheless, when it comes to levelling up itself, polling has consistently shown that the public, whilst concerned about inequality, does not understand what it means or what policies it is supposed to result in[6].

5 Duffy et al. (2021) – Unequal Britain: Attitudes to inequalities after Covid-19
6 Ipsos MORI (2021) – Levelling up: what Britain thinks

Figure 1. Public understanding of Levelling Up

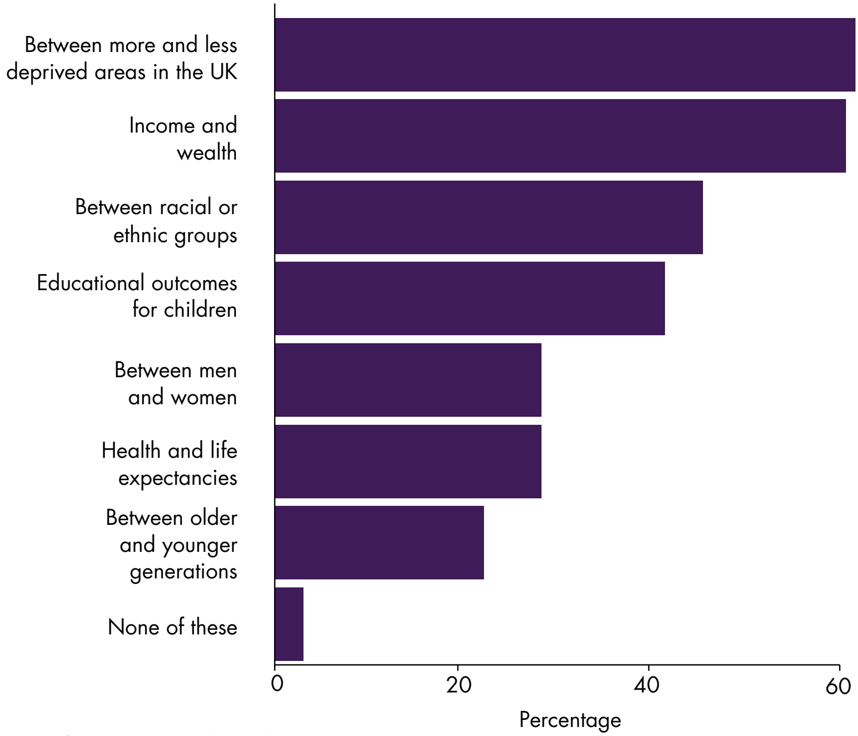
Percentage of people who have heard and understood the term



Source: The Times/Policy Instute at Kings/YouGov

Figure 2. Perceptions of geographic inequality

'Which three or four, if any, do you think are most serious in Britain?'



Source: Policy Institute at Kings/UKICE/IFS

This vagueness has resulted in levelling up discourse becoming structured around some unhelpful dichotomies – most pervasive of which is the idea of a prosperous London and the South East versus the rest of the country who have been 'left-behind', with the post-industrial North being most cited. The pretext is that a lack of equality of opportunity across the country has resulted in a loss of pride in places and a sense among people that where they live has been 'left-behind' by government in favour of the growth hotspots of London and the South East.

In South East Councils' most recent biannual regional polling of 500 members of the public, 252 business decision-makers, and 193 councillors, published in Autumn 2021, less unemployment and reduced poverty were the most popular answers to 'what action can level up?' with both achieving over 50 percent of total answers, and consistently the top two most cited across the public, business, and councillors[7].

1.1 The South East and the politics of Levelling Up

The perception of the South East is one of greener pastures – where the investment and opportunities of London have bled into surrounding home counties' areas bolstered by centuries of strong global trade and transport links. This characterisation of the state of the English economy may have a kernel of truth about it. It is, however, an unhelpful oversimplification that risks undermining the potential of the levelling up agenda as a means of bettering both people and place.

This inter-regional lens, whilst not without merit, misses a significant part of what is felt on the ground across the UK. As many sources[8][9][10] have noted, there is fundamentally more inequality within UK regions than there is between regions. Even if fixed on a regional lens of prosperity, a more mutualistic conversation, which stresses the value to the UK of the South East as a strategic asset, would be far more beneficial to economic growth than one which stresses the need to 'cool' the South East.

1.1.1 Inequality in South East England

Inequality between regions is indeed a much more visible and arguably manageable dynamic for central government. However, this means that inequality within regions can be hidden by the relative affluence of high earners. Even within the South East's most prosperous areas, there are still major education, health, and quality of life gaps, due in large part to the very high cost of living. There are places in the South East equally deserving of small-scale, community-focused funding to improve quality of life as there are in the North or Midlands.

This element of the levelling up endeavour is essentially one of financial support to uplift communities, improve social infrastructure and regenerate the built environment in places 'left behind' by growth. The South East is no different to other regions in this respect –some of the country's most difficult places to live in terms of social mobility are in the region[11]. Furthermore, South East local

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7 South East Councils (2021) – South East 1,000: Biannual Regional Monitor

8 Institute for Fiscal Studies (2020) – Levelling up: where and how?

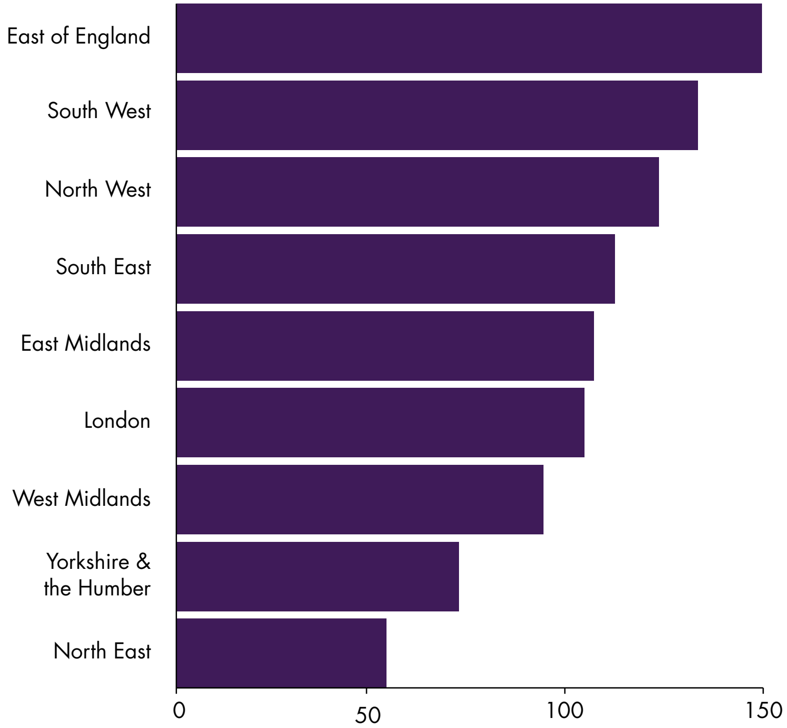
9 South East Local Enterprise Partnership (2020) – Written evidence to post-pandemic economic growth parliamentary select committee

10 UK2070 Commission (2020) – Make No Little Plans: Acting at scale for a fairer and stronger future

11 Social Mobility Commission (2020) – Monitoring social mobility

authorities such as Thanet or Hastings are home to some of the most deprived wards in the country[12]. However, as the South East is not as populous overall in the lower rankings – these pockets of deprivation go amiss.

Figure 3. Social Mobility Index - Disparity within regions
Difference between top and bottom local authorities



Source: Social Mobility Commission 2016

The South East is home to many coastal towns that were already significantly 'left-behind' long before COVID-19 became endemic, due to the loss of fishing industry and major declines in tourism, compounded by relatively poor transport infrastructure[13]. Similarly, a 2021 report[14] demonstrated that whilst many of the South East's cities and surrounding areas perform well on skills, they were hit hard

12 Ministry of Housing, Communities & Local Government (2019) – All ranks, deciles and scores for the indices of deprivation, and population denominators

13 Institute for Fiscal Studies (2020) – Levelling up: where and how?

14 PwC (2021) – Good Growth for Cities: The local economic impact of COVID-19

by furlough, job loss, and other expenses and labour force changes brought on by the pandemic. This was felt most acutely in places like Crawley[15] due to their proximity to the region's airports.

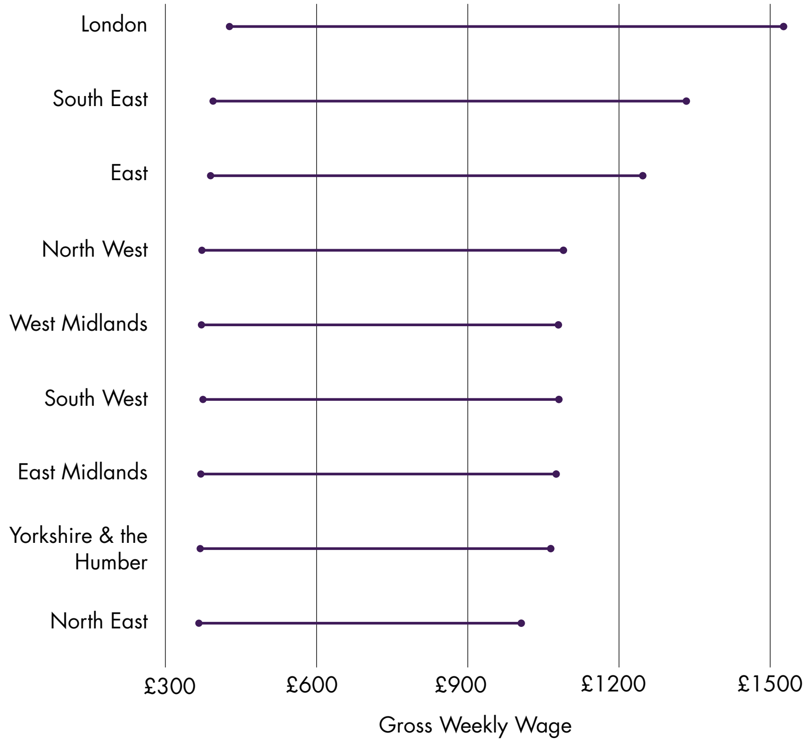
Even those who are comfortably well-off are disgruntled by the state of levelling up discourse so far – themselves recognising housing prices, congestion, poor infrastructure, and faltering public services as critical issues facing the region. Oxford, despite its status as a top global university city, strategic importance as a research centre and net contribution to the Exchequer, is one of the most unequal cities in the country. These issues have been compounded by the pandemic. As the CBI identify in a 2021 report, the UK lags on productivity, consistently struggles to attract investment, and opportunities are unevenly spread across geographies[16]. An APPG submission from the Federation of Small Businesses on 'Levelling Up'[17] elaborates further, noting that business confidence has dropped significantly recently. This will be sorely tested not only with the threat of rising inflation, but also from measures taking effect from April 2022 – namely the national insurance increase and lifting of the energy price cap. Restoring this confidence and enabling innovation will be critical to recovery in the South East.

15 Centre for Cities (2021) – A year of Crawley: how in less than 12 months the pandemic has completely changed the town's economic performance

16 CBI (2021) – Seize the moment: How can business transform the UK economy?

17 Federation of Small Businesses (2021) – APPG South East submission from FSB on 'Levelling Up'

Figure 4. Wage inequality
Difference between top and bottom 10% of owners



Source: Annual Survey of Hours and Earnings

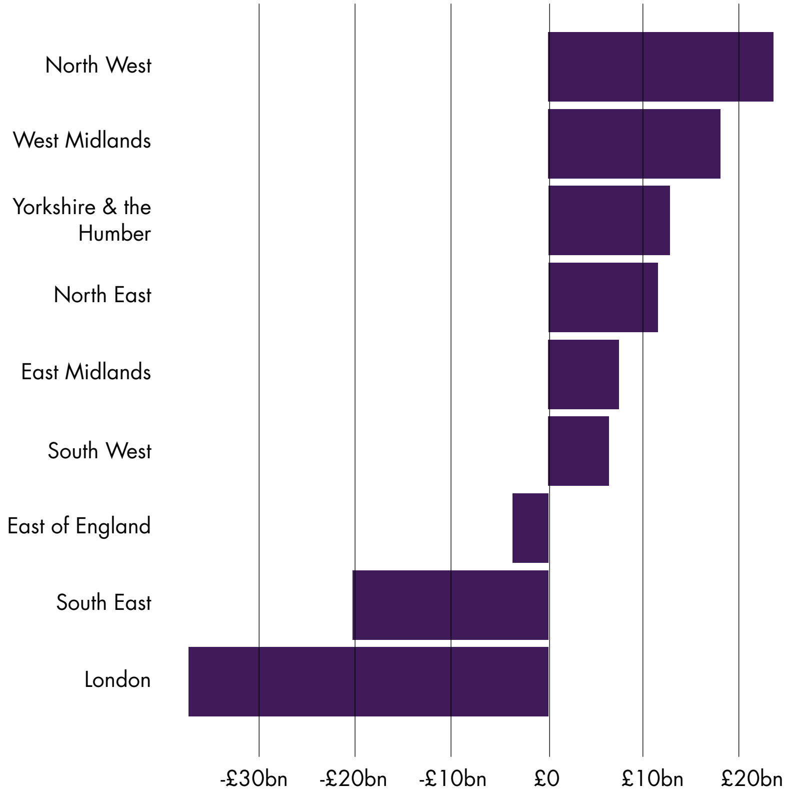
As the country begins to shift towards pandemic recovery, there are immediate challenges for South East businesses – particularly regarding labour shortages, supply chain pressures, and the cost of living crisis. Communities across the South East could therefore benefit in many ways from the kind of support outlined in the Levelling Up White Paper and the prospectus for the Levelling Up Fund. However, the discourse around levelling up – and its stated prime goal of changing economic geography – has led to a perception, if not tacit understanding from ministers downwards, against the South East receiving any such funding, something which national and local politicians across the region may be minded pushing back against in future.

1.1.2 Towards a more constructive conversation

This is not to deny the success of the region. Despite the need for granularity and nuance, the South East is a more productive, resilient region with notably strong assets – cultural, economic, environmental, and social. This should not mean exclusion from the levelling up agenda, on the contrary. The South East has a significant role to play in driving not just its own recovery and levelling up, but also that of other regions as well – through a more strategic use of assets that is driven by the dynamic of regional mutuality and granular bottom-up community initiatives. Levelling up is an inherently mutual project – the government must make sure the South East continue to thrive and grow to enable the growth of other regions.

The South East's private sector – home to multinationals and globalised assets – supports the rest of England. Allowing issues, such as the structural causes of inequality and the immense pressure placed on the region's infrastructure, in the South East to go unnoticed, untreated and to therefore deepen further would have a knock-on effect on other English regions that redirected capital investments alone would not be able to compensate effectively. Economic clusters rooted in the South East often cross boundaries and become cross-regional. There is value in getting to know the experience of these clustered businesses and organisations to get a sense of the regional mutuality of their economic impact, rather than simply seeking to direct investment elsewhere.

Figure 5. Fiscal balance of England's regions
Fiscal deficit with the Treasury



Source: ONS

Beyond its national impact, the South East is a truly international region – it is widely considered a global gateway for the UK. The region leads the UK in trade, is a net exporter of services, and is home to several ports and major warehouses[18]. The South of England is also home to 311 ongoing foreign direct investment projects, producing over 6,500 new jobs, as of 2021[19]. The proximity and existing relationships with Europe are still unique assets of the South East – even in a post-Brexit environment. Ports such as the Port of Southampton are global gateways that support economic activity far beyond the South East. The Solent Freeport is tipped to play an important

18 Office of National Statistics (2021) – International trade in UK nations, regions and cities: 2019
19 Department for International Trade (2021) – Inward Investment Report 2020/21

role as part of the national programme, feeding into the region's already strong trade infrastructure and availability of strategic waterfront land for further developments[20]. The benefit to the whole country of maintaining and, ideally, boosting the export capacity of the South East must not be forgotten when discussing regional economies.

Table 1: FDI and GVA in England's regions

Source: Department for International Trade, 2019 GVA from ONS

Group	Region	FDI projects	New jobs from FDI	2019 GVA
Northern Powerhouse	North East	276	7094	£5.4bn
	North West			£18.4bn
	Yorkshire & the Humber			£12.5bn
Midlands Engine	East Midlands	217	6592	£11.1bn
	West Midlands			£14.1bn
Southern England	East of England	311	6846	£16.5bn
	South East			£28.5bn
	South West			£14.1bn
London		492	13832	£45.8bn

The region also has strong research and innovation assets – with the presence of some of the country's top universities and research institutes – particularly in the fields of agri-tech, life sciences, and medicine. Education institutions and their contribution to the region's prowess in innovation and technology will be crucial to driving productivity and enhancing levelling up nationwide – particularly when working in partnership with public, private, and community stakeholders. With the region's world-class further education assets, there needs to be a more strategic approach to how these institutions feed into levelling up, with regards to local skills bases as well as the country at large. Local authorities are well-placed as both enablers and networkers of local and regional stakeholders. Councils should therefore leverage this soft power in bringing together organisations and community groups for the sake of a more holistic and strategic approach to identifying and addressing skills gaps and facilitating a transition to a net zero carbon economy.

20 Associated British Ports (2022) – APPG South East submission from ABP on 'Levelling Up'

'Levelling Up' beyond capital spend

When levelling up is viewed through a more long-term lens of increasing productivity and driving economic growth, rather than the more typical lens of outright capital spend, there are gains to be made in the South East that can help not just the region, but the country writ large. However, a genuine commitment to pursuing levelling up on this basis must be accompanied by a transfer of power downward. If levelling up is to be dependent entirely on the re-allocation of a fixed budget or set of resources, then the agenda risks amounting to nothing more than kicking the can down the road whilst stoking tensions between regions and places in the process. The South East is home to a wealth of anchor institutions and organisations – many of which have an international stature attracting export opportunities and inward investment. With well-established Local Enterprise Partnerships (LEPs) and other regional bodies to boot, there is great potential for the South East to set the bar for delivering levelling up.

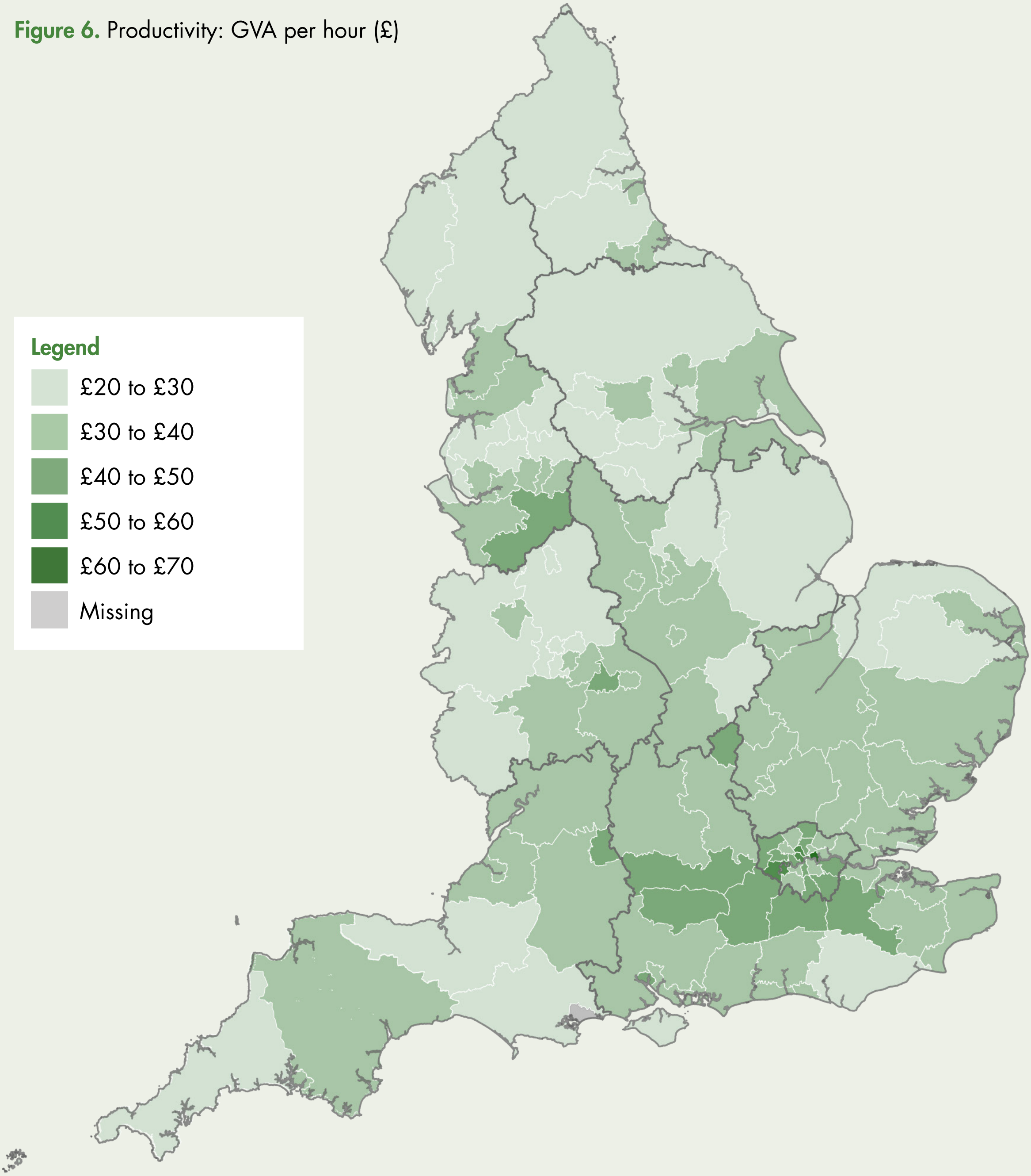
1.2 The South East and the economics of Levelling Up

1.2.1 The different economic faces of Levelling Up

The core issue of increasing opportunity across the UK is one of infrastructure. Whether this consists of 'hard' infrastructure, such as broadband, roads, or rail, or 'soft' infrastructure, like skills, training, or social activity, is a matter of local nuance – but nonetheless infrastructure contributes greatly to inequality. The connective infrastructure of the UK does not rate well compared to its international competitors; a problem even more pressing for a nation now seeking to attract investment outside of the single market. Success criteria in this respect would involve increasing the ease, speed and – crucially – the reliability of the UK's transport infrastructure and receiving returns on spillover investments such as the regeneration around new transport hubs.

This is an issue of long-term investment and not one that easily presents itself on the high streets of towns in the former 'red wall'. The aesthetic work of raising the quality of life through the patient financing of small-scale, community-based initiatives around areas like high streets and cultural institutions is therefore also important. Rather than a long-term, structural approach based on capital finance, this kind of levelling up is best achieved through the passporting of funds to the hyperlocal level and making improvements based on community priorities. Both these approaches to levelling up must exist in a reciprocal relationship with the ultimate success criteria: economic growth. The slow-to-no growth experienced by the UK since the financial crisis must be seen as a key impetus for addressing regional inequality; the lack of growth in any region outside London, the South East, and more recently the East of England, drags national productivity and prosperity.

Figure 6. Productivity: GVA per hour (£)



Government's own ability to responsibly finance the agenda hinges on unlocking economic growth by rapidly bringing the productivity levels of England's lagging regions closer to those seen in London and the South East. Increasing productivity is the essential criteria for success in levelling up, but this must be looked at on a regional basis, as productivity increases are required as soon as possible to fund the ongoing investment required by the self-same agenda. The extent to which levelling up must be capital-funded by government, and the timeframes for expected returns on investment, is therefore regionally dependent. In the South East, comparatively fast returns to national growth can be gained by allowing places to drive growth and the subregional and local level. Recent polling of South East residents, businesses and councillors had 56 percent of all respondents confident that their local council would make the right decision for their local area, whereas this drops to 44 percent when regarding central government[21].

Particularly in the context of recovery and renewal after the pandemic, unlocking growth in the South East will be crucial if the government is to under-write the investment required in parts of the country with much smaller and less dynamic regional economies. Furthermore, the risks of economically playing down the South East must be addressed, to ensure investment does not tail off in a region so crucial to the success of the national economy.

1.2.2 The economic risks of downplaying the South East

The levelling up debate has set up a conundrum wherein which, through an admission of regional inequalities and a pursual of policies on that front, it is now more difficult to justify investment in the South East due to its assessment as prosperous and 'overheated'. The Levelling Up White Paper offered recognition that the significant problems for the South East are ones of congestion and overcrowding. But the paper assumes that this would be alleviated simply with greater housing and job demand in other English regions. To shift the UK economy to such an extent that demand in the South East is reduced in the next twenty years would require a monumental and truly radical overhaul of tax policy – one that is simply not politically viable. Therefore, having the noting of 'cooling' take hold in central government thinking could see a potentially harmful framework for levelling up development in more relatively prosperous areas.

This is despite high investment demand persisting in the South East – particularly post-Brexit and moving into pandemic recovery. The CBI has long had concerns about investment going overseas, as opposed to other English regions, that

21 South East Councils (2021) – South East 1,000: Biannual regional monitor

appear to be beginning to materialise[22][23]. Ministers have denied they wish to 'decapitate tall poppies' in relation to London and the South East[24]. If the South East continues to be identified by central government as an area fattened by the wealth of agglomeration, and in need of a reverse 'Matthew effect' there is a real risk that the encouragement and investment needed by South East businesses, as well as the economic offer of individual places to attract new businesses, will weaken. If investment is steered away from South East businesses, instead of businesses gravitating towards the North or the Midlands, overseas investors may well seek to do business in other countries, leaving SMEs – for whom relocation is less of an option – to bear the brunt of the inevitable fiscal measures necessary to close capital and revenue investment gaps.

1.2.3 Productivity and ROI in the South East

Investment demand in the South East is too nuanced an issue to be reduced simply to capital injections into various individual projects – although this is no doubt a part of it. Increasing the efficiency of investment in the South East does not necessarily have to be a question of cash injections from central government. When it comes to the major capital spend, there are productivity gains to be made in the South East from the transfer of powers, rather than of capital. A degree of fiscal freedom for local authorities, or increased revenue funding, could not only help councils cope with the short-to-medium term issues of recovery. This would also be a much more generative and prudent use of public money.

Table 2: Business Rates income forecast 2022-23

Source: DLUHC

Region	Net non-domestic rates
London	£7.4bn
South East	£3.4bn
North West	£2.3bn
East of England	£2.1bn
South West	£1.8bn
West Midlands	£1.8bn
Yorkshire & the Humber	£1.7bn

22 CBI (2016) – Making a success of Brexit

23 Department for International Trade (2021) – Inward Investment Report 2020/21

24 Boscia (2021) – Boris Johnson promises not to 'decapitate' London as part of levelling up agenda

East Midlands	£1.5bn
North East	£0.7bn

Fiscal freedom would allow local authorities the autonomy to consult and use the money to deliver on distinctly local levelling up priorities, as well as creating the potential for local leadership to work with the private sector on processes such as procurement to deliver more public value locally. A vision of levelling up which allows the South East to grow from its own resources, to generate greater national growth which can support investment for growth in other regions, is one which stresses the dynamics of mutuality and the need for all regions to prosper for the UK to reach its full growth potential. This is contrasted to a conception where levelling up is dependent entirely on the re-allocation of a fixed and finite amount of resource, where all gains to the North are at the expense of the South and vice versa.

CHAPTER TWO

The People's Priorities in South East England

The government outlined in its Plan for Growth a set of 'People's Priorities' which it views as crucial elements of its 2019 electoral mandate. As well as Levelling Up, other priorities were Global Britain and reaching net zero.

A view of Levelling Up which ignores the potential growth returns from investment in the South East actively undermines these other two people's priorities. Rather, as the next section will argue, a properly resourced South East – in terms of governance powers and capacity – is key to meeting the expectations which result from the 2019 Conservative manifesto and subsequent comprehensive electoral mandate.

2.1 The South East and Global Britain

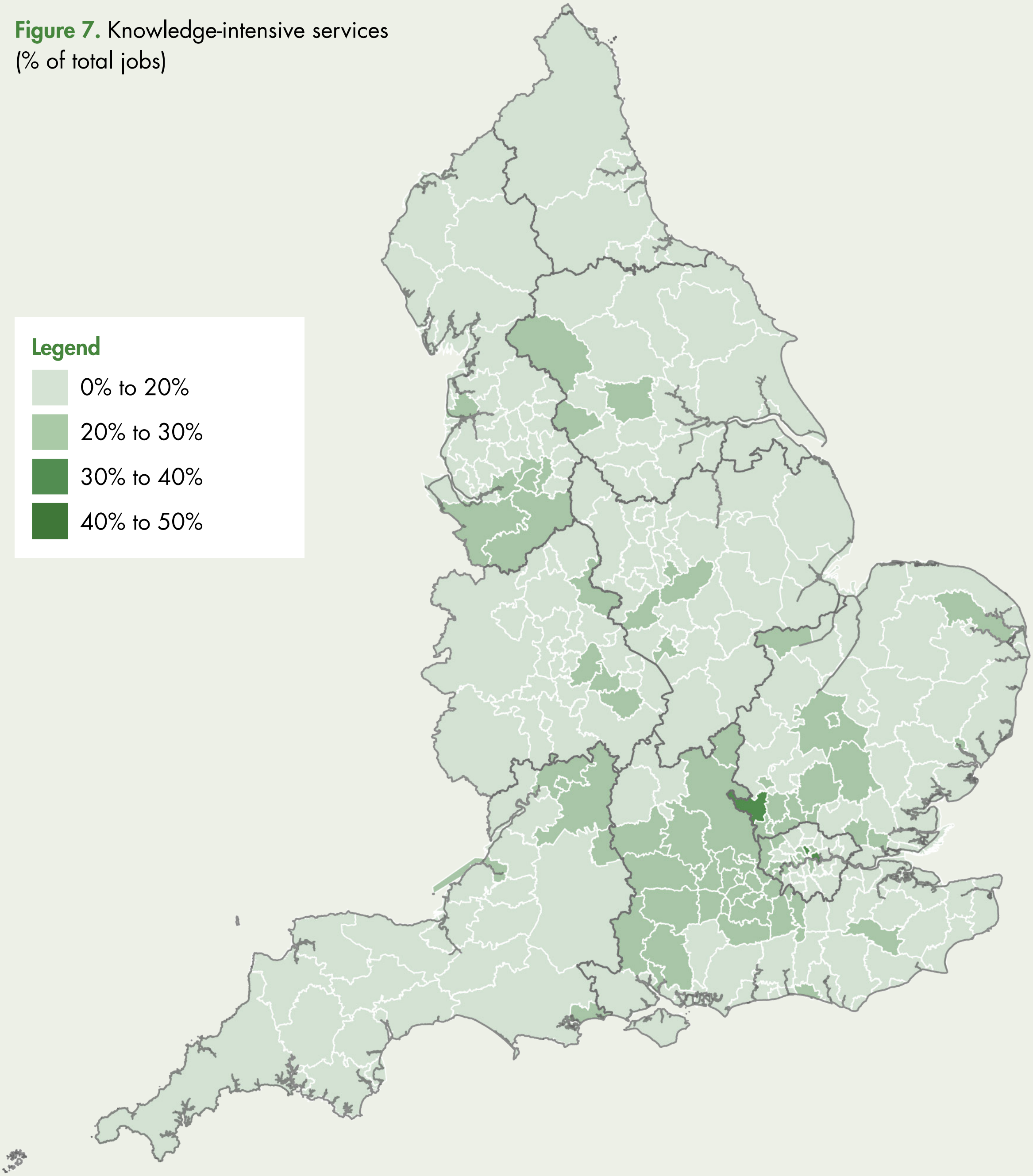
Whilst 'Global Britain' may strike many as another slogan with a loose policy definition, there is still an unavoidable need to develop and strategise a new approach to trade, industry, and global capital post-Brexit. Whatever the name may be, the South East is best poised to be the driving force behind such an agenda. The region is home to a wealth of global assets and institutions – with developed trading infrastructure to boot. However, for obvious reasons, the past five years have not been kind to businesses, industry, and trade relationships. Developing an understanding of how Brexit and the pandemic has impacted the South East's position as an asset to Global Britain will be crucial for local authorities going forward. As will enabling promising high growth sectors and strong exporters. Securing inward investment and upskilling local labour markets are where Global Britain and Levelling Up most intimately intersect. To this end, the following section will lay out key opportunities and challenges for the South East and how they can be managed best.

2.1.1 The South East as the engine for Global Britain: opportunities and challenges

Fostering the prosperity of all regions must be a prerequisite to Global Britain – as it allows the country to build public consent and project influence for a more open and liberalised trade policy. Without this foundation, there is a risk that voters reject what they perceive as an elite internationalist trade agenda, one not serving them materially. Therefore, there is a pressing need for Global Britain to integrate with levelling up to ensure that fears of global economic exclusion are abated and that global aspects of regional economies are delivering tangible and inclusive local outcomes. This can be facilitated by boosting productivity, investing in industries that are important for regional employment and industries where the UK is already strong. For example, the UK is strong in sophisticated services and R&D – both touted as foundational for future growth[25].

25 HM Government (2020) – UK Research and Development Roadmap

Figure 7. Knowledge-intensive services (% of total jobs)



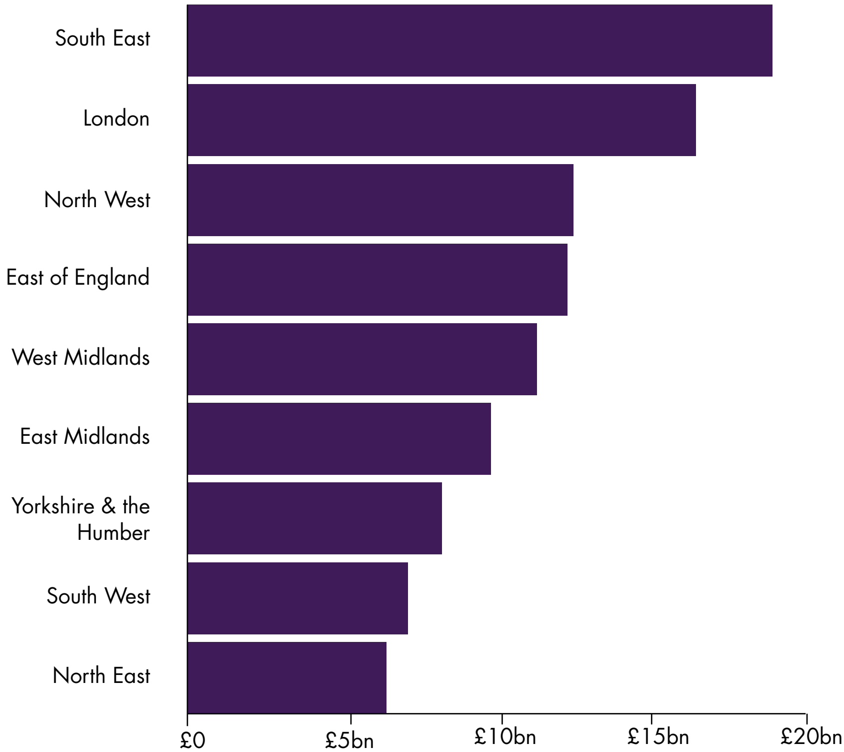
The South East is in a strong position, connecting the UK with international markets and attracting inward investment from across the globe. The region has three airports, several key ports and a history garnering inward investment, due to its various infrastructure assets and proximity to London. The South East is also home to world-leading universities and a comparative advantage in sophisticated goods and services – most notably in agri-tech, health & life sciences, food & drink, and digital & creative. Strengthening these locations, sectors, and industries – and the businesses and organisations responsible for their success – will be key to increasing trade and improving the region's and country's international status. This is especially prudent given that parts of the South East lag on various economic output and productivity measures[26] and many areas and businesses have been hit particularly hard by trading changes post-Brexit and the pandemic. Bringing the whole of the region up to standard and ensuring a strong recovery must be domestic priorities underpinning the push to a Global Britain.

The challenges facing the South East as an engine for Global Britain should not be understated, even with the region's strong starting point. In industries across the country, there has in recent years been much national coverage of shortages of staff, supplies, and materials[27]. On the one hand, this is due to a slowdown of the global supply chain due to COVID-19. On the other hand, Brexit has exacerbated these woes considerably. Increased associated trading costs, staff deficits, and complex bureaucracy have meant that firms – particularly those in the South East – have not been able to rely on a previous status quo of single market trade terms and strong relationships within the EU. In absence of adequate free trade deals and wholesale guidance and support from central government on the new trading environment, businesses have had to bear the double hit of Brexit complications and pandemic impact.

26 Evidence to this effect is laid out in the submissions of Coast 2 Capital LEP, Enterprise M3 LEP and SELEP to the South East APPG Levelling Up Inquiry

27 Makortoff (2021) – Staff shortages spreading to all corners of UK business, survey finds

Figure 8. Exports to the European Union, 2020



Source: House of Commmons Library/HMRC

There is a notable visibility of Brexit effects in the South East, with contrasting pictures from different terminals giving a clear illustration of the challenges and opportunities facing the region. Ports like Dover have been hit with queues and long stays – freight traffic exceeded 300,000 lorries in early 2021[28]. On the other hand, the Port of Southampton has been uniquely resilient to the effects of Brexit – due to trade there being so heavily oriented towards the rest of the world. This positions the port as a vital asset for the South East and central government in the context of Global Britain ambitions.

28 Port of Dover (2021) – Post-Brexit freight traffic at the Port of Dover exceeds 300,000

Central and local government must drive policy which maximises trade to the rest of the world from ports like Southampton, with the freeport announced in the Levelling Up White Paper a welcome step in this direction. However, intense investment and focus is also needed to alleviate the pressure on infrastructure felt by England's more European-facing ports. Moving forward with the reforms outlined in the Levelling Up White Paper, there is scope to bring powers associated with external trade – for example, the power to issue export documentation – into the devolution framework.

2.1.2 Aviation & airport towns

Some of the region's most productive areas are dependent on airports – particularly those that surround Gatwick and Heathrow, two of the country's largest. The South East has excellent connectivity with the rest of the world – there are global market access points in the form of these airports and ports. This puts the region in a strong position to secure benefits from more globally minded, post-Brexit trade agreements. However, COVID-19 has significantly disrupted aviation across the world – and the South East's airports have been no exception. This has led to a fresh and disproportionate impact on 'airport towns' – areas that rely on the economic success and job creation of their respective airports. Analysis by a panel of MPs found that areas surrounding the UK's top 20 airports saw a 145 percent average increase in unemployment benefit claims between January 2020 and January 2021[29].

Before COVID-19 took hold, Gatwick was poised to be a catalyst for the government's Global Britain ambitions – particularly regarding developing rest-of-world trade routes. In the first six months of 2021, Gatwick Airport recorded a £244m loss. This considerable drop in demand and revenue has resulted in a 40 percent job loss for the airport over the course of the pandemic – the South East's woes compounded further by losses in the region's other airports and companies within them. For Crawley, a town near Gatwick Airport where 1 in 5 jobs are in the aviation industry, the number of people claiming unemployment benefits increased 224 percent and that 41 percent of the local workforce had been furloughed. Centre for Cities reported[30] that 53,000 jobs in Crawley were classed as either "vulnerable" or "very vulnerable" out of a total 94,000 in the area – leading them to name Crawley as the place in Britain at the highest risk of widespread job loss and unemployment.

29 House of Commons (2021) – The Future of Regional Airports

30 Centre for Cities (2021) – A year of Crawley: how in less than 12 months the pandemic has completely changed the town's economic performance

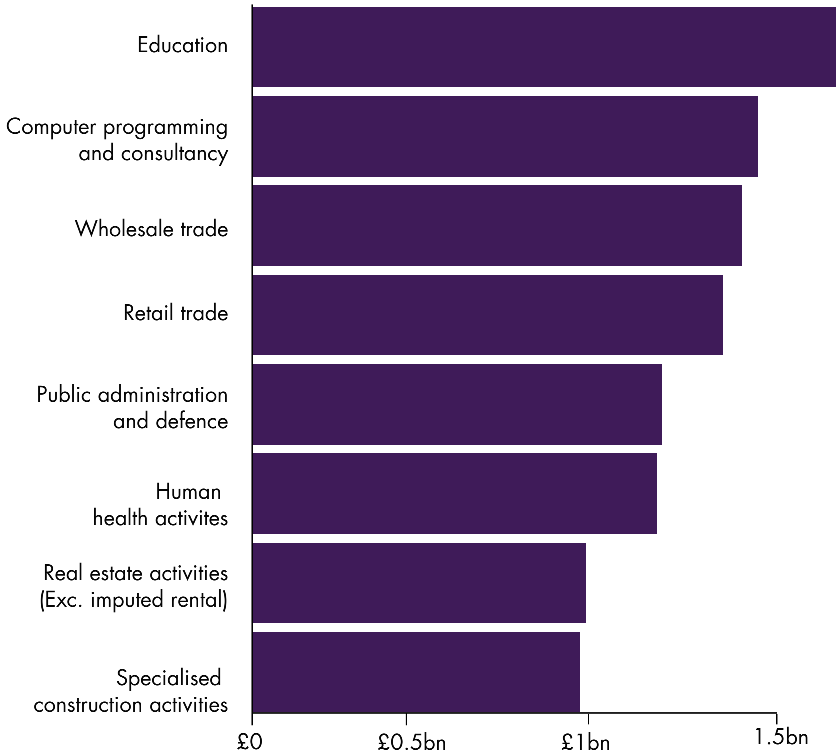
A strong revival of the South East's airports will be critical to rebuilding the local economies of airport towns and the region overall. Here, a partnership approach is vital – to align strategic goals, diversify local economies, recover pre-pandemic productivity, and drive economic transformation going forward.

2.1.3 Trade & industry

Typically, there has been a correlation between both exporting and inward investment, and higher productivity in the UK. Post-Brexit, increasing export activity and retaining inward investment is a clear and named priority – particularly for the South East where productivity lags in places but inward investment has typically excelled.

Trade is perhaps the most significant driving force behind the Global Britain agenda – but is somewhat unique in the sense that it is not particularly politically salient when it comes to voters. This could be a blessing – given that it allows for political headroom to pursue a more long-term, evidence-based strategy relatively free from electoral risk. Or it could be a curse – as there is a notable system of stakeholders that are prepared to mobilise but will need management, support, and investment to succeed. Without electoral pressure, there is a chance the full potential of this opportunity goes amiss, and problems stay unsolved.

Figure 9. High value sectors in the South East



Source: ONS

For the South East, there are several sectors that are either already notably strong or have great export potential. These include health & life sciences – most notably of which are sophisticated R&D offers such as agri-tech and pharmaceuticals – food & drink, and digital & creative – including software solutions and web services. Yet the export potential of the region is far from being met. In a 2021 CBI study, the South East ranked fourth of nine regions for export intensity, with exports accounting for approximately 28 percent of GVA[31]. Considering the South East's regional assets and trading infrastructure, this should be identified as a significant gap. Making it cheaper and easier for South East businesses to export should be a key priority for local and central government in enabling economic growth in the region and beyond.

31 CBI (2021) – Reviving Regions: Empowering places to revive and thrive – South East regional scorecard

Table 3: English regions by export intensity
Source: CBI

Region	Export intensity (% of GVA)
London	35.7
North East	32
West Midlands	31.8
South East	28.6
East of England	24.9
East Midlands	24.6
North West	23.5
South West	21.7
Yorkshire & the Humber	21.4

To bolster and support the South East's unique research & development offer, there must be a push to increase connectivity between places through investments in digital and physical infrastructure. In other words, to move from an orbital transport system centred on London to a more radial transport system. In the context of Global Britain, this calls for an improved business and sectoral support offer – from both central and local governments – so that inward investment is secured, and export activity is increased to a wider scope of countries across the world, to make up for a loss of access to the Single Market. This is particularly important regarding the region's cargo infrastructure.

As a gateway to global markets, the South East will be instrumental in driving up the UK's export ability post-Brexit and the country's attractiveness to foreign trade and investment. Whilst there is plenty to be done by local governance and stakeholders to this end, levelling up must be pursued with international success criteria in mind – such as increased export orders or contracts, better provision of exporting skills and knowledge support for SMEs, increased international exposure for local and regional businesses, and the presence of South East businesses in new, active international markets.

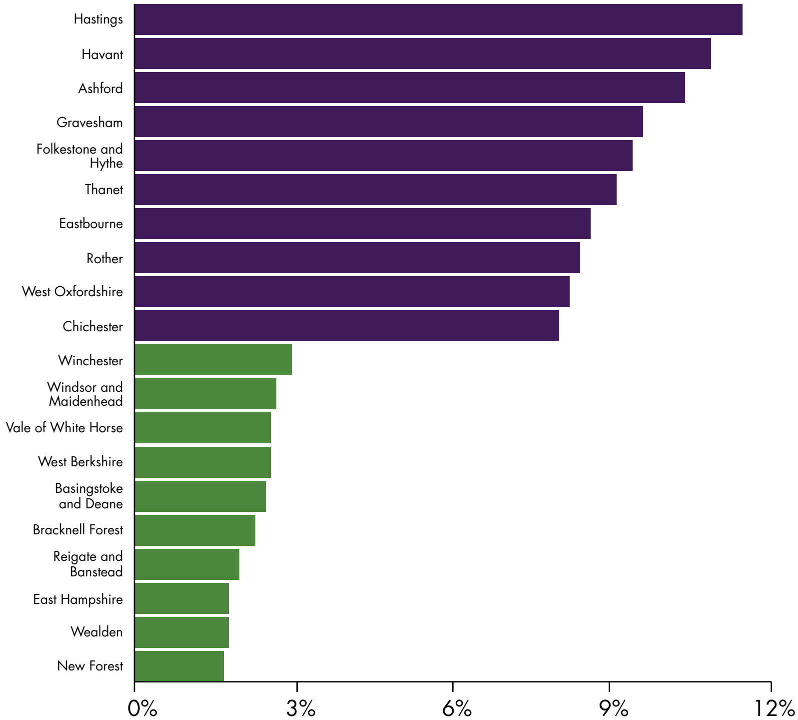
2.1.4 Overcoming challenges in key sectors

Despite Brexit, the South East's proximity to Europe, and the relationships that expand outward into the continent, are still an asset to the region – particularly long-term. The South East, given its trading infrastructure and export potential, should have a role to play in what the future of regulation looks like. Issues around labelling, packaging, and shipping costs are creating a great deal of complexity for businesses. Local leadership in the South East must have a say in the future of regulation too. Pushing back on the creation of double regulation and supporting industries that have been longstanding or caught up in post-Brexit trade turmoil will be key here. As will envisioning a system of regulation that best enables growth sectors in the region.

Food production is one of the South East's most important sectors, not just in relation to net zero ambitions but also for driving economic recovery and growth across the region. The sector has been hit by the withdrawal of EU grants and European labour yet has still managed to innovate and accelerate towards renewables, most notably solar. Another key sector for the South East is digital enabling technologies, alongside the innovation of practical implementation of these technologies. It is vital that local leadership convenes stakeholders in these and other key growth sectors to ensure that their interests are well represented in the new regulatory framework that seeks to enable Global Britain.

Figure 10. Skills disparities in the South East

Percentage of population with no qualifications, top and bottom 10 districts



Source: Annual Population Survey

As well as regulatory concerns, a key challenge facing industry in the South East and across the country is the decrease in labour supply. Having left the EU, the South East faces a serious problem with skills demand – particularly with projects such as retrofitting. In the medium-term, there is a need to bring all in the South East up to a level 2 qualification standard. In identified growth sectors – many of which LEPs and Skills Advisory Panels are acutely aware of – an advanced programme of upskilling should be proliferated to poise them well for recovery and sustainable long-term growth. South East industries that are making considerable efforts to embrace sustainability, such as construction, maritime, and the visitor economy, should also be targeted with relevant skills programmes to help enable and facilitate a more efficient and just transition to net zero.

2.2 The South East and Net Zero

Despite the context of recovery, it is important to retain focus on net zero ambitions. The slow and long-term nature of the climate crisis can see governments deprioritise crucial measures for the sake of more immediately visible issues – this is a critical mistake. The South East is well-equipped to not lose sight of net zero ambitions and has made admirable progress to this end – even in the current context, many local authorities have made provisions in moving towards a 'green' recovery[32]. Nonetheless, when it comes to achieving net zero, there is no such thing as too much progress and it is critical for the region to not become complacent in decarbonising and taking advantage of key opportunities. The following section draws attention to the decarbonisation of the South East's transport, industry, and energy – and outlines the potential for the region to become a driving force behind national net zero ambitions.

2.2.1 Decarbonisation of transport

Decarbonisation of transport is essential to achieving net zero carbon within the government's time frames, particularly regarding cars, which make up 55 percent of all transport emissions in the UK. The challenge of net zero transport emissions involves encouraging rapid uptake of new technologies such as electric vehicles, modal shifts in transport away from private journeys and a focus on the carbon impact of ongoing and planned improvements to transport infrastructure. The South East is in many ways well placed to lead the charge to net zero, however there are several risk factors which will require investment and planning to mitigate and overcome if the UK is to be net zero by 2050.

The South East needs better public transport to lift barriers to both economic growth and decarbonisation. Despite progress in governance, the issue on the ground is that there is a patchy framework developing – particularly in terms of the South East's bus infrastructure – and funding appears to be shrinking day by day. Transport for the South East (TfSE) is a regional body[33] that has the support of many local authorities as a singular voice for the South East on green transport issues. The partnership has a membership of local authorities, LEPs, district and borough representatives, and environmental delivery agencies. In 2020, the group produced a 30-year transport strategy for the South East with critical connectivity, digitisation, net zero, and sustainability actions and goals. While this is promising, TfSE has no statutory footing

32 Examples include the ARG Challenge Fund from West Berkshire Council, Oxford City Council's focus on livability and community infrastructure and Lewes District Council's strategy for a community wealth-building focused Green Recovery.

33 Covering the South East region with the exception of Buckinghamshire and Oxfordshire

and is far from the only actor operating in this space locally – with institutional overlap observable with many central government programmes, cross-council initiatives and the individual or collaborative work of various LEPs.

Outside of major towns and urban centres, there are significant gaps in transport infrastructure and accessibility. This pushes rural residents to purchase road vehicles by default. The South East has the highest take-up of electric vehicles in the country, which places the region at the forefront of the transition away from internal-combustion engines in private vehicles. However, the region also has among the lowest ratio of chargers to vehicles in all of the UK (second only to the joint lowest ratio of the North West and East of England). It is important that people are given clear market signals promoting a transition to electric vehicles, and a charger network which is over-capacity does not help achieve this goal. Charging infrastructure and associated energy grid updates are therefore important in a region with high uptake of electric vehicles like the South East. Yet there is a significant cost involved in upgrading local power networks to ensure the right supply. A paper by Deloitte estimated that between £8bn and £18bn of investment in electric vehicle charge point infrastructure will be required to meet the ambitions of the government's 10-point plan[34].

Table 4: Electric Vehicle to charger ratio in England's regions

Source: Society of Motor Manufacturers and Traders

Region	EV's per public charge point
East of England	49
North West	49
South East	44
South West	44
Yorkshire & the Humber	43
West Midlands	35
East Midlands	24
London	10
North East	10

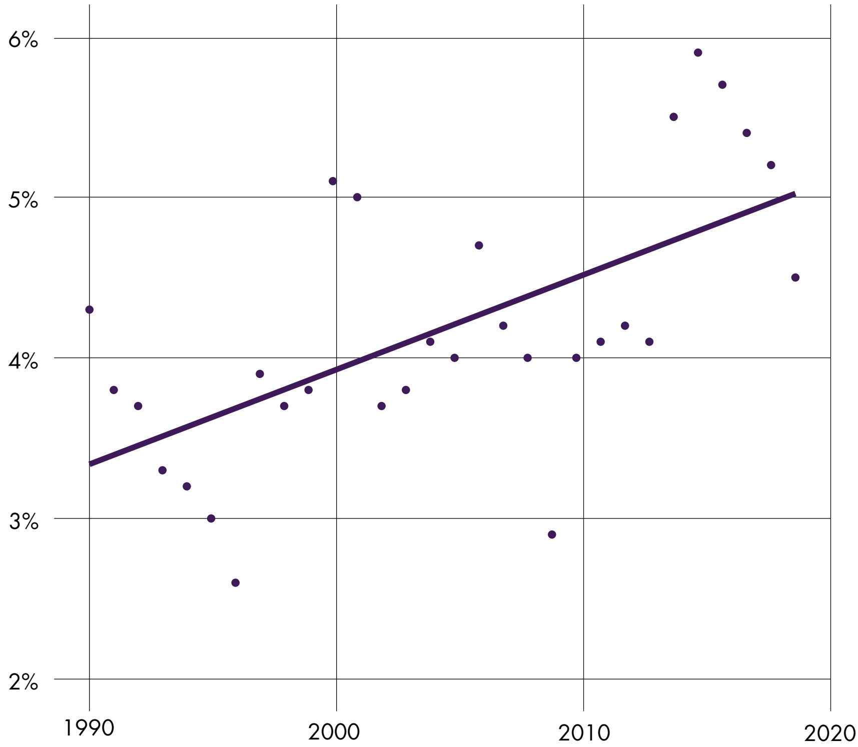
In the context of the roads of South East England – many of which, particularly those around London, are extremely congested – simply decarbonising private

34 Deloitte (2021) – UK EV charging infrastructure update (part 2): Show me the money

vehicles is unlikely to be enough. Increased use of electric vehicles will benefit industry and produce employment and skills opportunities. However, pursuing this solution in isolation will do little to reduce congestion meaning that economic downsides will persist. TfSE recognise this, with investments planned to reduce congestion across the network, as well as encourage a modal shift in transport away from a reliance on private vehicles. Part of achieving this will therefore involve improvements to public transport, which in many parts of the South East is either unaffordable or subpar, with a very expensive rail network and a patchy bus system serving large parts of the region.

Targeted increases in rail travel are an obvious cause for net zero policies, given the added benefit of decreasing congestion. However, for what is an already overcrowded South East rail network, this will require significant investment in rail capacity and increased services. Investing in the rail network capacity of the South East – with an eye towards cross-regional connectivity to challenge the ‘spider web’ network around London – will bring benefits to regions beyond the South East and broaden access to investment opportunities. The other primary form of public transport in the South East, bus networks and the companies that serve them, are under serious threat. There is a cliff edge of funding facing bus systems across the South East. Higher prices and reduced services were already a serious issue for deprived and rural communities, but these effects now risk affecting the everyday life of urban centres too.

Figure 11. Congestion on railways in London and the South East
Percentage of passengers over capacity at morning peak, 1990-2020



Source: Department for Transport

Facing these myriad issues across multiple modes of transport and policy agendas is a complex challenge. A fundamental reset of how transport is managed and funded across the South East is required to bring the various initiatives and agendas into alignment and ensure as smooth a transition to net zero as possible. This kind of radical policy shift must take place against a backdrop of a multiplicity of places looking to regenerate and renew their town centres after the pandemic, deeply considering questions of accessibility and flows of people. Integrated transport strategies, from the regional down to the local level, are required to manage this change and they must factor in the need for a modal shift in transport as places also look to stimulate economic recovery. There are multiple bodies working to this end currently, but they are underpowered and often lacking firm statutory footing.

The South East requires a better transport system with a focus on stronger connectivity between places outside of London. However, this must be approached in a way that is in line with net zero ambitions and sustainability. To balance the two is a difficult position for local leadership to manage – and will require support and a more joined-up approach that goes beyond patchwork capital projects and voluntary initiatives.

Market demand and net zero

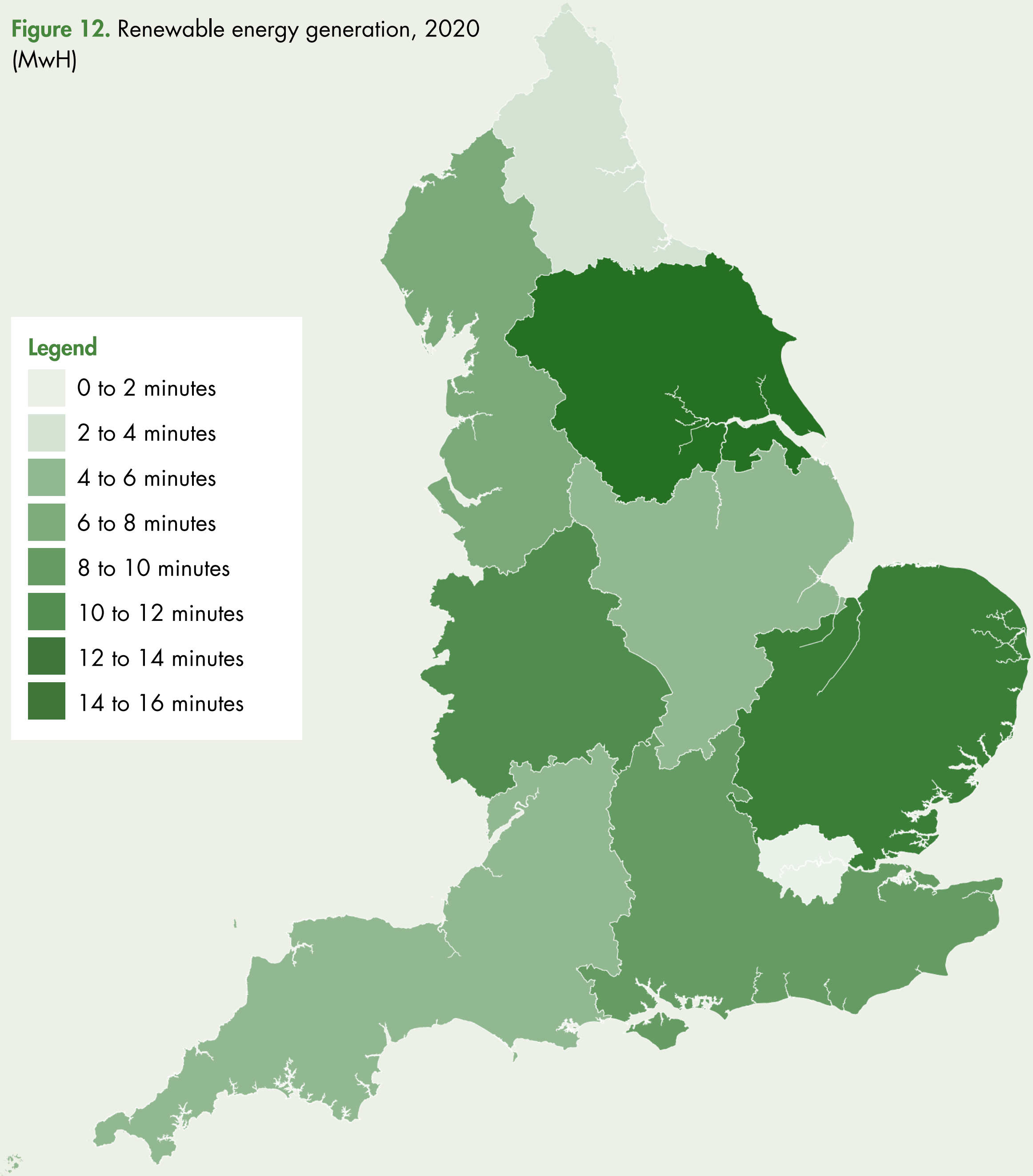
Managing market demand in the context of net zero is critical. When speaking of green skills and jobs, this must come with a pretence of market demand, one that is ideally managed appropriately. Otherwise, there is a risk that gaps will crop up and widen in the labour market. Here again, labelling can become more of a frustration than of use. By investing in and providing 'green' skills training, described as such throughout the process, there is a danger that specificity is lost which could result in a mismatch between skills supply and jobs demand. Take wind farms for example, there must be clear market signals about the prospects of wind produced power in the future. A market analysis to this end would start with which parts of the UK have the strongest and most consistent wind – and the land available to build farms. Once this type of analysis comes to fruition, the jobs and skills necessary to make it happen become more apparent, and the demand for them has been identified. This would allow for skills pathways to be provided on this specific basis – rather than being generalised and patchwork in action.

2.2.3 Decarbonisation of industry and energy

In terms of moving away from fossil-fuel burning energy generation, the South East is in a promising position. The South East is home to 17 offshore and 134 onshore renewable energy projects, ranking fourth of England's nine regions for overall renewable generation. This has the potential to greatly increase, with over £62bn of investment forecast in offshore wind projects off the south coast of England[35]. Three Local Enterprise Partnerships in the region – Coast to Capital, Enterprise M3 and the South East LEP – developed an energy strategy for the region. This strategy highlighted the potential for hydrogen in the region, with private sector and University partners engaged in further developing the logistical case for green hydrogen in the region.

35 Clean Growth South East (2021) – Introducing Clean Growth South East

Figure 12. Renewable energy generation, 2020 (MwH)



There is great potential for the South East in terms of green industries – due to a wealth of assets and established research & development clusters. Clean Growth South East – a partnership between Opergy Group, Kent County Councils and the South East LEP – cite around 85,000 jobs in clean growth sectors and 12,400 businesses, with a total economic value of around £5.98bn to the region[36]. Green technology is therefore a notable growth sector for the South East. There is considerable capacity for skills training in green technology and manufacturing. Promoting and facilitating, these industries will be crucial for local leadership, particularly as part of a post-pandemic jobs drive. To ensure growth sectors continue their growth effectively, as well as bringing more lagging sectors up to speed, councils must be empowered to support businesses to innovate – as the status quo that was enabling growth, or in some cases stunting it, has been fundamentally altered by the pandemic and Brexit.

Decarbonising the South East's maritime sector is an ongoing project vitally important to net zero prospects for the entire country. The Port of Southampton is set to have shore-based power, allowing vessels to plug in and run without the use of diesel engines – the first commercial port to do so. It is noted that shore power will improve air quality and save up to 863kg of carbon dioxide and 10.5kg of nitrogen oxide emissions each year[37]. Likewise, new investments have been made in Portsmouth Naval Base's carbon commitments through the Royal Navy[38]. £3.5m has been made available for building and bringing existing buildings up to a carbon-neutral standard on the base. Since 2003, power consumption on the base has reduced over 50 percent and carbon emissions have reduced by just under two-thirds.

Local leadership has a role in multiple sector opportunities in the region, if properly empowered. A major, ideally nationwide, retrofit programme is overdue – even basic measures like loft insulation have failed to be delivered adequately. Carefully managed, the energy efficiency and economic benefits of retrofitting are obvious. Local authorities are in a key position to be able to use funding and distribute it to residents and retrofitting firms in a way analogous to the funding that went to businesses during the pandemic.

36 Clean Growth South East (2021) – Introducing Clean Growth South East

37 Associated British Ports (2021) – Port of Southampton announces second Shore Power connection

38 Royal Navy (2021) – New Investments for Portsmouth Naval Base's Carbon Commitment

Table 5: Areas of high retrofit demand and fuel poverty in the South East

District	Retrofit demand*	Fuel poverty (% of households)
Portsmouth	63.9	10.7
Brighton and Hove	63.2	10.5
Thanet	62	10.6
Hastings	60.7	10.8

*% of properties rated lower than C for energy performance, 2011-2021

As well as the domestic transition, there is a clear role for convening and strategising from local government in agricultural land use. With London on the doorstep of the South East, there is a huge market for food production that the region has the lowest food miles to reach. The South East has a network of land-based colleges – and subsequently there are parts of the region with a notably strong skills base. Linking together different modes of food production in the South East – either physically or on a strategic basis – will be key to a more efficient and innovative sector going forward. Local leadership should better engage farmers, colleges, and industry to this end. The opportunities are not limited to agriculture. In the South East there are over 7,000 jobs in forestry – according to a 2020 paper[39], this section of the labour market could sustainably produce a million tonnes of timber each year if it were managed correctly.

As with transport, there is a distinct possibility that the sheer number of different institutional actors with overlapping remits could reduce the efficacy and speed of the transition to net zero, with a need for overarching strategic responsibilities to be clearer delineated emerging. A clearer framework of responsibility, with statutory footing given where required, might reduce the risk of inefficiency and provide clarity for local businesses and residents.

39 Greenslade, Murphy, Morse, and Griffiths (2020) – Seeing the Wood for the Trees: Limiting Woodland Management and Sustainable Local Wood Product Use in the South East of England

CHAPTER THREE

The role of the local state in Levelling Up

While many councils across the South East have been making progress at addressing inequalities in their local areas, others have unfortunately seen their inequalities deepen further – often unavoidably so.

If levelling up is to be approached seriously by local government, councils and local stakeholders must come together and carve out a role for themselves in pursuing the agenda and addressing the root causes of inequalities. Developing effective governance arrangements, playing a meaningful role in economic stewardship, and flying the flag for local businesses and communities are critical roles for the local state. The following section elaborates on the role of the local state further – as well as exploring the potential for new models of governance and funding in the South East.

3.1 Powers and policy

3.1.1 The need for real autonomy and a long-term vision

For local government, after ten years of austerity, there are revenue gaps in terms of social infrastructure provision that remain hard to plug. Yet levelling up is still largely seen as a capital investment from central government, rather than a revenue investment in local capacity. With this approach, it is unlikely that there will ever be enough money to achieve the stated levelling up goals – but the sector is being driven down a path where they are competing for ever decreasing pots of money, nonetheless. Although the Levelling Up White Paper made some progress against the inefficiency of pot-bidding, little is said about the sort of revenue financing with which local authorities can budget for the future.

Across the region, there is generally an understanding held by local leaders of what could be done to improve local economies. Furthermore, there is a considerable amount of expertise in the region. It is vital that strong networks of communication exist to support the sharing of information and best practice in this uncertain time. Yet the ability for councils to act on this knowledge and draw together expertise is extremely restricted. Businesses, particularly smaller enterprises, are facing significant concerns over inflation and the current size of the tax burden. In their turn, councils across the South East are trying to work out the best way to create favourable conditions for enterprise. Local leadership faces the challenge of reassuring local businesses and major employers that the levelling up agenda will not disadvantage them economically. Real devolution means empowering local government to face these challenges in a holistic and long-term manner. This is currently impossible, and the strictures handed down through the Levelling Up White Paper do not leave much hope for meaningful change in the economic governance of the South East.

Long-term certainty over budgeting, as well as greater control over local spend, is particularly important when thinking about labour market policies. Being able to create a pipeline of skills provision in parallel to pipelines of development depends on a council's ability to aggregate demand for skills, based on the kind of long-term forecasting which is undermined by short budget cycles which are all too often buffeted by political winds. Increasing productivity alongside accessible routes to training and re-training is crucial to driving growth that is socially responsible and sustainable, particularly in a situation like the one many airport towns in the South East find themselves in. Where councils can develop a vision over multiple years and have the capacity and funding to convene local skills providers and businesses, local government can drive up skill levels and productivity in the South East.

The recent precedent of effective and fast-moving delivery from local government throughout the coronavirus pandemic has not been taken into account by the white paper's appraisal of council capacity. Many of the initiatives that have been rolled into the Levelling Up White Paper lack a clear local role, even for the preferred combined authorities, with uncertainty over how local government will be involved. Furthermore, the preference for single, unified voices at the subregional and local level which is clearly articulated in the Levelling Up White Paper sits uneasily with the current institutional landscape in the South East. Political wrangling and the continued drip-feeding of individual funds look to be the likely future of devolution in the South East - unless changes are made to the framework put forward by the white paper.

3.1.2 Flexible devolution and governance structures

Strategic planning powers – particularly around spatial planning and transport – are crucial to developing and carrying out a vision for long-term economic stewardship. The need for local leaders to be able to highlight and codify key priorities in the spatial planning of their area, combined with meaningful powers to influence associated transport infrastructure, can greatly boost the ability of the local state to attract investment and drive economic growth. The white paper, particularly in its early analysis, acknowledges that there are different geographic scales appropriate for different issues and envisions a dynamic relationship between stakeholders, managed locally, to drive development – practice well established in the South East. Yet the devolution framework makes no such concession to the need for flexibility at the local level.

In the past couple of decades, devolution deals have been used to extend strategic planning powers to several areas in England. Apart from Cornwall, however, these have been metropolitan areas and even in the case of Cornwall, unitarisation of the council was seen as key to the feasibility of a devolution deal. Despite bespoke deals, the powers at the disposal of the metropolitan combined authorities overlap considerably, with a vague framework discernible. Devolution deals, in these extremely pressing circumstances, do not need to be as complicated or as drawn-out as they have been in the past. The loose principles of devolution spelled out through the deals of the past ten years have thus been codified into a framework by the Levelling Up White paper.

For the South East to reach its full potential, avoiding costly administrative and heated political debates of the kind currently associated with unitarisation, a more flexible approach from Whitehall has long been needed. In some regards, the devolution framework put forward in the Levelling Up White Paper advances this cause. The framework does at least simplify the process and attempt to bring some power closer to the local level. By placing the options for devolution into a clear structure, the white paper has made a step forward. Within the strictures of the framework, there is a step towards local delivery and local prioritisation of issues. Yet unfortunately, the same rigidity and unwillingness to compromise over governance structures remains hidden beneath the language of local choice. The devolution framework as it stands only concedes to existing structures and power arrangements as far as the county level, with a clear preference for restructure. Yet the White Paper is a statement of intent, not a legislative proposal. Therefore, there is an opportunity to refine and refashion devolution options.

The South East, like other English regions since 2010, does not have a single, articulated formal voice. The fragmented local government structure of the South East can make cross-boundary action challenging and lead to diminution of voice. Regional bodies are essentially central government agencies or voluntary organisations with no statutory footing or devolved status.

Partnership, both public and private, across boundaries is crucial to levelling up in the South East as it currently exists. The unitary authorities in Berkshire have been able to establish long-term partnerships with local anchor institutions, particularly on climate change. Yet across the region, it is acknowledged that local government influence and communication between stakeholders at the local level could be improved.

The white paper makes clear once and for all that a combined authority, with a mayor sat atop multiple unitary authorities acting as the conduit for and coordinator of Whitehall funding into a local area, is the preferred model. The South East is admittedly disparate, and it is undeniable that mayoral combined authorities have been able to provide a galvanising voice which works well with local employers in former metropolitan county areas. But there is no political appetite or support for mayors in the South East, with polling data showing that the public are not interested in the concept[40]. The people of the South East, and their local democratic representatives, are not convinced that a mayoral model is in their best interests and this argument needs to be developed by central government if it is convinced this is the best way forward.

The white paper focuses on devolution to subregions, at the lowest level, with little to say for the actual level of place. District councils, all but excluded from the Levelling Up White Paper, are left with extremely limited 'hard' powers through which they can channel their estate and funding towards local economic growth.

40 South East Councils (2021) – South East 1,000: Biannual Regional Monitor

Partnerships between local authorities are relegated to the lowest form of devolution in the white paper, but have been used to deliver results across the country and particularly in the South East. Local authorities across the South East work in clusters to drive growth on issue-areas, in a way which is dynamic and responsive[41] – this should not be precluded by the levelling up agenda. This is not to say that the South East could not benefit from a clearer regional structure with a more coherent cascade of responsibilities, but such a framework need not deliberately side-line certain actors and push local government towards a single preferred form. The administrative and political quagmire which unitarisation debates routinely lead local authorities into could be avoided, to the benefit of the region and the country at large, by a more flexible devolution framework. A regional structure for devolution, with cascading responsibilities, is attainable in the South East without major reforms.

3.2 Funding and finance: the need for a new approach

As one of only three regions to be a net contributor to the Treasury and with 62 percent of regional respondents believing that their local council would make the right decision for their local area[42], the case for devolution in South East England is notably strong. Greater local control of funding and taxes, powers to drive affordable housing and development, and the power to streamline health services are all stated priorities of South East councils for devolution. However, where fiscal matters are concerned, there are existing options and opportunities for fundraising in the South East irrespective of proper devolution of powers - given the scale of capital and wealth of assets in the region.

Types of local taxation

In 2020, Localis and the Local Government Association published *Fiscal Devolution: Adopting an international approach,* a report looking into different forms of devolved tax-raising powers under different systems in the UK's European neighbours. The report put forward a typology of three forms of local taxation:

41 Examples of districts working together in the South East region over the past decade include innovative, long-term projects like the Shoreham Harbour Regeneration, the joint local plan delivered by the South and Vale partnership and experimental forms of strategic governance like the collaborative economic development model implemented in parts of Oxfordshire and Buckinghamshire (alongside districts in the Midlands) in the early 2010s. This is in addition to multiple shared-service and joint venture agreements across different subregional boundaries, like the Mid-Kent Improvement Partnership.

42 Respondents include business decision-makers, councillors, and the public. South East Councils (2021) – South East 1,000: Biannual Regional Monitor

- **Fiscal freedom:** a broader suite of revenue-raising tax options for local government.
- **Fiscal devolution:** the devolution of some centrally-collected taxes, like income tax, to local level.
- **Fiscal federalism:** locally-determined tax regimes.

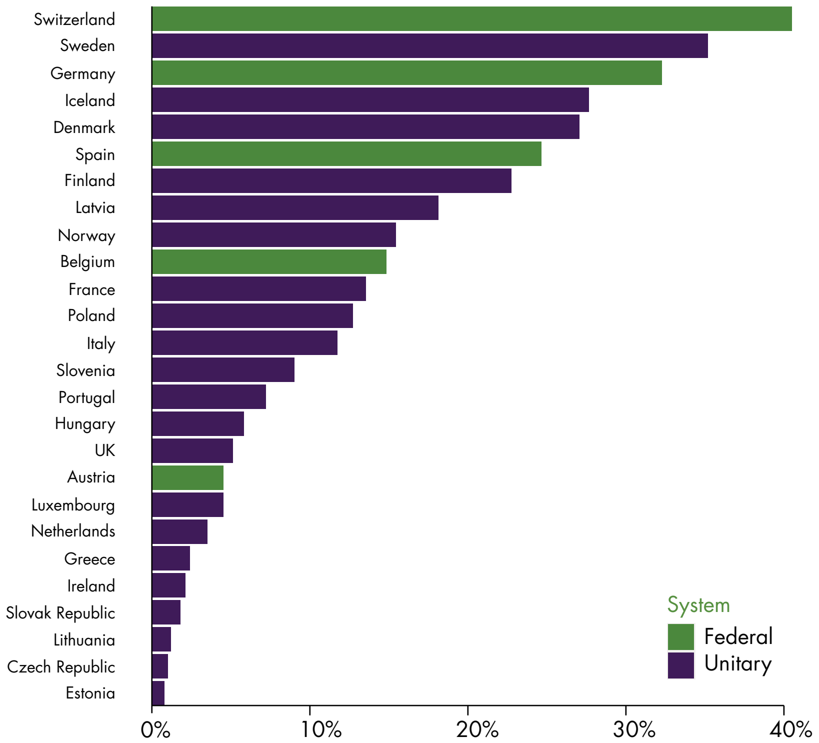
Fiscal freedom is the workable option in the English, and particularly the South East, context. Rather than reconfigure the nation's tax collection and fiscal equalisation structure, a move to fiscal freedom simply means allowing councils to raise certain levies of residents and businesses with consultation democratic approval. For example, certain authorities in the Netherlands choose to levy a 'canal tax' on residents for the maintenance of the local canal network.

3.2.1 Potential revenue sources

Although council tax revenue is minute (2.5 percent[43]) compared to other government income streams, it is the most politically sensitive – due to its visibility. Nonetheless, it remains one of the very few taxation powers at the disposal of local authorities, despite them still not having full control over number of tax bands, tax ratios across bands, or overall tax rate. With business rates, there is political headroom for a more productive approach to securing funding – although local authorities are still not entirely in control and do not yet retain 100 percent of revenues.

43 Department for Levelling Up, Housing & Communities (2021) – Collection rates and receipts of council tax and non-domestic rates in England, 2020-21

Figure 13. Local tax retention in European OECD nations
Percentage of total tax revenue



Source: OECD

A more strategic approach to business rates, where and how they are leveraged, could see significant financial gains for local authorities in the short term. One such example is the presence of many large-scale business properties along motorways and corridors in the South East. A more progressive business rates approach to these businesses could provide steadier revenues, in absence of central reforms, and they needn't be radical or off-putting – particularly if done in consultation. The ability to raise extra business rates levies with large businesses was granted to the GLA and combined authorities by the Business Rate Supplements Act 2011. Although this power is not currently held by other local authorities, there is nothing to stop councils putting together a consultation and taking the results to government.

Furthermore, as has been used in London, localisation and better management of business rates can allow local authorities to delineate 'business improvement districts (BIDs)' – a defined area in which a levy is charged on all business rate payers for the sake of area development and long-term sustainability. Another option is tax increment financing (TIF)[44]; a mechanism for promoting growth – particularly in developing areas. Its use is heavily regulated in the UK, but it is a means to which local government can finance infrastructure it requires. In London, where the practice has been used to fund the Northern Line extension to Battersea, TIF was instrumental in overcoming the "…high upfront cost of enabling infrastructure"[45].

Beyond these measures with clear English precedent, there are also multiple local taxes applied in our European neighbours with relevance to councils in the UK. The most obvious of these is a 'tourism tax', with much debate over the possibility of trying a small hotel levy of the kind seen across Europe in Birmingham during the Commonwealth Games[46]. This has enthused local leadership across the South East, particularly in coastal towns where tourism is relatively high but funding for public services is increasingly and precariously low.

3.2.3 Governance and co-ordination

Fiscal devolution and flexibility are glaring omissions from the white paper, particularly given the potential to use fiscal levers to drive investment in the 'people's priorities' of net zero, Global Britain and levelling up.

Changes to the rules on debt repayments threatens to put the financial sustainability and spending plans of local authorities at risk. Those councils who have more of a dependence on commercial activity and procurements are at the greatest risk. For the South East, there are two dozen local authorities at particular risk of Section 114s and a ban on all non-essential spending[47]. Places need greater powers over borrowing and investment, to stimulate local investment and lead on decarbonisation. In the current fiscal environment, with restricted funding and little-to-no fundraising power, there is very little that South East councils can do to drive investment in a 'hard' or formal way. While fiscal equalisation is of course necessary in such an economically uneven country, this does not preclude giving local authorities in a position to do so the ability to raise additional levies and taxes.

44 House of Commons (2021) – Local government in England: capital finance

45 London Finance Commission (2013) – Raising the capital

46 They Work For You (2020) – Local Commonwealth Games levy

47 LGC (2022) – Two dozen South East councils thought to be at risk of Section 114s

A better co-ordination of governance and resources towards sustainable growth can strengthen the financial position of the South East. Committing resources towards building relationships across the region, understanding the local profile of each place, and ensuring investment aligns with clear strategic priorities will contribute towards the South East levelling up on their own terms. Procurement and other existing processes have profitable potential that can be unlocked through better collaboration and co-ordination of resources. Similarly, making good use of match-funding and underspend, even if pursued incrementally, can make the difference in supporting particularly small-to-medium scale projects. The scale of this can also be improved through increased collaboration and co-ordination between councils and other tiers of governance.

Despite various options at the disposal of local authorities and governance bodies in the South East, the extent and scale of funding necessary to facilitate key infrastructure projects requires a nuanced and sustained settlement that would be better approached through devolving fiscal powers directly. Between community budgets, city deals, and combined authorities, there are emerging concepts of soft devolution developing. Local enterprise partnerships (LEPs) are also playing a key role in evidence gathering and understanding the economies of regions, though their future is currently under review.

However, the magnitude of devolution necessary to take levelling up seriously is far greater than the piecemeal slow drip of recent decades. England's economy remains one of the most centralised in the world, resulting in sub-optimal outcomes and unnecessary inertia at the local level.

4. Recommendations

General recommendations

- The pre-publication discourse around 'levelling up' alienated communities and local leaders in the South East. While the Levelling Up White Paper made some progress in this regard, **a less regionally-fixated and zero-sum focus is required for the agenda to succeed.**
- In advancing the Levelling Up White Paper, **government must re-think the assumption that directing investment away from an 'overheated' South East will 'cool' the region** and 'heat' the rest of the country.

Local Recommendations

- A unified approach within the region is crucial to advancing the devolution debate. To create a unified and bottom-up framework for devolution, **local authorities should come together in a major 'Summit for the South East'**. This is due to a pressing need for local leadership:
  - to **decide upon the preferred structure** of local government in the South East;
  - to **set broad regional priorities** for levelling up and **define key regional assets**.
  - This could be done in concert with, or as a report submitted to, the forthcoming regional Levelling Up Director for the South East.

Structural/governance recommendations

- The devolution framework currently offers nothing for district councils working in partnership with counties, LEPs and each other to achieve local goals across a functional economic area. **The devolution framework should extend the powers offered under 'level 2' to joint ventures**, providing they are incorporated as a single body with a nominated leader to be the point of contact for and accountability to Whitehall.
  - In revising the framework, given the vital importance of increasing export intensity to achieving the government's Global Britain ambitions, government should **review the role of local government in exports.**

- The South East, as a whole region, faces numerous unique transport challenges relating to decarbonisation and pandemic recovery. **As the regional body for transport, Transport for the South East should be made a statutory body with strategic responsibilities**. The existence of such a body should be a pivotal part of the plans for reforming the rail franchise system.
  - This should involve an **expansion of TfSE's ability to raise finances** to invest in the network.
  - As part of its formalisation, the transport body should also be **given a statutory role in reducing emissions.**
- Current rules on council borrowing are driving councils closer towards a core service offer and further away from driving national priorities at the local level. In line with the positive changes to the local government pension scheme (LGPS) rules, **government must work to improve the conditions for municipal investment in clean growth and levelling up**.

Financial recommendations

- There is ample room for councils in surplus-generating areas of the country to raise funds for capital investment towards levelling up goals. **Councils which are in areas of net contribution to the Treasury should be able to raise additional levies to fund investment**.
  - This could include powers like those afforded to the Mayor of London in the Business Rates Supplement Act or the ability to use expansive Tax-Increment Financing for pro-growth schemes.
- More broadly, a serious **investigation into appropriate fiscal levers for the region, in the style of the London Finance Commission, should be held on South East council finances.**
- There is also room for councils to help drive levelling up through their spend, as identified in the procurement green paper. To this end, **procurement reforms to allow local discretion should be urgently brought forward in the South East**.
- Towns relying on the aviation sector have been among the hardest hit by the pandemic. In the South East and across the country, the government must put forward a plan for **revenue and capital aid of airport towns** to support public services and at-risk workers through a very difficult transition.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