

Report to: **Cabinet**  
Date: **29 June 2015**  
By: **Chief Executive**  
Title of report: **South East Seven (SE7) and South East Devolution Update**  
Purpose of report: **To provide an update on the progress of the SE7 partnership and the initial devolution work with partners and Government**

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**Cabinet is recommended to:**

**Note the progress of the partnership and the initial work on devolution for the South East.**

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## **1. Position Statement**

1.1 The last SE7 Leaders' Board meeting of Leaders and Chief Executives took place on 15 May 2015 and the notes of the meeting are attached as Appendix 1. The meeting had a specific focus on the decentralisation and devolution agenda with discussion on national policy shifts and the implications and opportunities for the SE7 partnership.

1.2 Following agreement at the previous meeting, Tony Travers, Director at London School of Economics, attended the meeting to deliver a presentation (a copy of the presentation is attached with the minutes at Appendix 1) on the challenge facing the public sector over the next five years, with a specific focus on:

- Future public expenditure and the consequence for Local Government; and
- The evolution of Government policy towards "sub-national Government".

1.3 The key points of Tony's presentation and the discussion were as follows:

- The Government's financial plans signal a continued period of reducing monies for the public sector, with Local Government taking a continued, larger share of the burden.
- The policy shift towards devolution represents an opportunity for Local Government to build strong cases for local freedoms and flexibilities.
- The SE7 offer/ask to Government would be better received if it were to be seen as providing a solution to or taking on a Central Government challenge.

1.4 The Board was in agreement that the SE7 is well-positioned to build a case for a transfer of a package of freedoms and flexibilities. A case for devolution could build upon the existing SE7 framework (namely a coalition of the willing where two or more councils can collaborate on shared priorities) and arrangements as a long-established partnership, with a proven track record and a strong and well-recognised brand (both nationally and locally). Any devolution activity would be predicated on strong relationships within the two-tier areas of the SE7 and would be an alternative to a change to Unitary Authorities.

1.5 The Board also considered the work undertaken by the Chief Executives' Board (with the support of KPMG) to explore the specific devolution opportunities for the SE7. Caroline Haynes, Director at KPMG, set out the context and options for the SE7. The key points of the discussion were as follows:

- A SE7 devolution offer would fit with the Conservative manifesto pledge to "strengthen and improve devolution for each part of our United Kingdom in a way that accepts that there is no one-size-fits-all solution". Development of a SE7-specific devolution offer and governance model is critical to ensure the proposal is received well by

Government and is locally appropriate for the SE7 (i.e. to reflect that the SE7 is not a city region and that the mayoral model would not be appropriate).

- The relationship of most of the SE7 area to London was considered critical and infrastructure within the SE7 was noted as an essential component of a SE7 offer.

## **2. Next Steps**

2.1 It was agreed that a coalition of willing SE7 authorities would be formed, who would work at pace to progress this activity. The case for devolution will not focus solely on savings: it is primarily about the best possible outcomes and service provision for residents. The group would develop a SE7 framework for fiscal devolution of the following:

- road and rail infrastructure;
- digital infrastructure;
- adult social care and health;
- employment and skills; and
- support to local businesses.

2.2 Since the meeting, East Sussex, Surrey and West Sussex County Councils have, agreed to explore with Government what powers and freedoms can be devolved to this part of the South East. The three councils are clear on the crucial role that partners, especially Borough and District Councils, will play in the shaping of a successful devolution offer. Further detail of the initial offer to Government is set out in the letter to the Secretary of State for Communities and Local Government, Rt. Hon. Greg Clark MP, at Appendix 2.

2.3 As the devolution discussion develops with Government and partners over the coming weeks and months, further updates will be provided to Members. Where decisions need to be made which impact ESCC, formal endorsement will be sought through Reconciling Policy, Performance and Resources and other relevant governance mechanisms.

2.4 A communications and stakeholder engagement strategy will be developed to ensure the devolution offer can be shared and communicated in the most effective way.

2.5 A number of additional activities will also be progressed by the SE7:

- Collaboration with the Behavioural Insights Team will continue and an update will be shared with the Leaders' Board at the next meeting in September; and
- The Chief Executives' Board will consider the review by Louise Casey into the Rotherham Child Sexual Exploitation case at their next meeting and any lessons will be shared at a future meeting of the Leaders' Board.

**Becky Shaw**  
**Chief Executive**

Contact Officer: Lee Banner

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## **SOUTH EAST SEVEN (SE7) MEETING**

### **Friday 15 May 2015**

## **Attendance**

### **Members**

- Cllr. Keith Glazier, Leader, East Sussex County Council (Chairman)
- Cllr. Roy Perry, Leader, Hampshire County Council (Vice-Chairman)
- Cllr. Paul Carter CBE, Leader, Kent County Council
- Cllr. John Simmonds, Deputy Leader, Kent County Council
- Cllr. Alan Jarrett, Deputy Leader, Medway Council
- Cllr. John Furey, Cabinet Member for Highways, Transport and Flooding, Surrey County Council
- Cllr. Louise Goldsmith, Leader, West Sussex County Council

### **Officers**

- Becky Shaw, Chief Executive, East Sussex County Council
- Lee Banner, Policy Officer, East Sussex County Council
- Indea Cadman-Rivers, Policy Development Officer, East Sussex County Council
- Gary Smith, Assistant Director: Adult Social Care, Hampshire County Council
- David Cockburn, Head of Paid Service, Corporate Director of Strategic and Corporate Services, Kent County Council
- Neil Davies, Chief Executive, Medway Council
- David McNulty, Chief Executive, Surrey County Council
- Gill Steward, Chief Operating Officer, West Sussex County Council

### **Visitors**

- Caroline Haynes, Director, KPMG
- Professor Tony Travers, Director, London School of Economics

### **Apologies**

- Penny Thompson, Chief Executive, Brighton & Hove City Council
- Andrew Smith, Chief Executive, Hampshire County Council
- Cllr. David Hodge, Leader, Surrey County Council

<b>1.</b>	<b>Introduction and Minutes of last meeting</b>
1.1	Cllr. Glazier welcomed everybody to the meeting and everyone introduced themselves.
1.2	The Board <b>AGREED</b> the minutes of the last meeting of 13 January 2015.
1.3	It was confirmed that that the Chief Executives' Board is continuing to liaise with the Behavioural Insight Team (BIT) and progress will be reported to the Leaders' Board.
1.4	The Chief Executives' Board is considering the review by Louise Casey into the Rotherham Child Sexual Exploitation case at their next meeting in June and any lessons will be shared at a future meeting of the Leaders' Board.
<b>2.</b>	<b>General Election: Reflections and Implications</b> <b>(a) Guest Speaker – Professor Tony Travers, London School of Economics, to share his reflections</b> <b>(b) Opportunity to discuss implications</b>
2.1	Tony Travers delivered a presentation entitled 'The challenges facing the public sector over the next 5 years' which focused on: <ol style="list-style-type: none"> <li>1. Predicted public expenditure in the future and the direct consequence on Local Government; and</li> <li>2. The evolution of government policy towards "sub-national government" with specific focus on policies regarding cities and Scotland.</li> </ol> <p>A PDF of the presentation is circulated with the notes of this meeting.</p>
2.2	As part of the first section of his presentation, Tony set out the following points: <ul style="list-style-type: none"> <li>• The Chancellor of the Exchequer is planning on running national spending at a level lower (via reducing public spending) than tax receipts (approximately 36% - amongst the lowest in Europe) in order to mitigate and pay off the national deficit and produce a surplus over the course of this Parliament.</li> <li>• As the Coalition Government protected a number of the Departmental Expenditure Limits (DELs - eg. Health, Education, Welfare) and unprotected other DELs (eg. Local Government, Defence, Transport), the burden of reducing the deficit was not experienced equally. The result of the General Election in May 2015 reinforces the split between the protected and unprotected categories and the contributions that will be required over the course of the Parliament towards the deficit reduction. Less money will be available for the public sector as a whole but the channelling of more money to protected areas means that unprotected areas will experience a disproportionately large reduction. Local authorities' spending in England has reduced since 2009. It is predicted that Local Government spending is to fall by 40%-45% between 2009/10 and 2020.</li> <li>• It was acknowledged that National Non-Domestic Rates are currently under review and this may impact business rates.</li> <li>• The need to consider more joint working and working with the private sector will become more important.</li> <li>• The upcoming Spending Review and the budget (July 2015) will shed more light on the financial context for the public sector.</li> </ul>
2.3	The second part of the presentation focused on decentralisation and devolution policy and Tony set out the following:

	<ul style="list-style-type: none"> <li>• The Government has decided that the economy needs to be rebalanced and when comparing GVA per head for the southern regions: South East, East and London, they have been growing at a higher rate, comparative to the rest of the country. In the current context of devolution for Scotland and Wales, devolution for England also needs to be considered. The approach should be viewed as a “levelling up” of the northern regions, rather than the “levelling down” of the southern regions.</li> <li>• Jim O’Neil has been appointed as a Treasury Minister in David Cameron’s Government reshuffle. This appointment to “make devolution and the Northern Powerhouse happen” is evidence for current and future discussion focused on spending and control for cities with an elected Mayor.</li> <li>• The first wave of “City Deals” was launched in March 2015, with Greater Manchester’s (GM) the first to be published at the Budget. Eight deals with the wider economic areas of all the “core cities” outside London have now been concluded.</li> <li>• It was recognised that in order to support urban areas in growing faster, a small number of northern cities/city regions should be focused on.</li> <li>• The current Government is placing a great emphasis on elected Mayors in exchange for new powers (including transport [and the ability to implement a bus franchising system]; a city-wide planning function; and housing functions). Although the Mayor in the GM model is elected, this is within a power-sharing agreement with the Local Government Leaders, assuming joint leadership. Greater responsibility for skills and the Police and Crime Commissioner role may also be devolved to Local Government. In the run up to the General Election, the Chancellor also confirmed that he was willing to hand over some control of the NHS to GM. It was suggested that, by partially devolving the NHS to cities, the argument, in terms of social care, and other Local Government councils wanting devolution becomes a lot more powerful.</li> </ul>
2.4	<p>The SE7 Leaders were in agreement that the political arguments and strategic choices have to be considered, as well as economic objectives, when considering devolution. Any bids for devolution should be conducted as part of a symbiotic relationship as opposed to at the expense of another region.</p> <p>The tactics of approaching Government regarding devolution were discussed. It was acknowledged that the SE7 devolution “ask” to Government would be better received if it is seen to be providing a solution to a government challenge or to take on a matter which is considered difficult for Central Government.</p> <p>Cllr. Glazier thanked Tony Travers for his attendance and contribution to the discussion and debate.</p>
<b>3.</b>	<b>The SE7 Case for Devolution and Communications Strategy</b>
3.1	<p>Caroline Haynes was welcomed to the meeting. KPMG has worked with the SE7 Councils to develop the SE7 Case for Devolution.</p> <p>A number of the key points raised by Caroline include:</p> <ul style="list-style-type: none"> <li>• It was acknowledged that, although the case for SE7 devolution is strong, there needs to be greater agreement and clarity regarding next steps. The purpose of the discussion was to act as a starting point for decisions and</li> </ul>

	<p>actions.</p> <ul style="list-style-type: none"> <li>• The Conservative Government pledged in their manifesto to “strengthen and improve devolution for each part of our United Kingdom in a way that accepts that there is no one-size-fits-all solution”. This is key for the SE7 in developing a devolution and governance model that works for the seven councils.</li> <li>• The unique context of the SE7 region was presented. The SE7 is the third largest economic region in GVA in the UK (with London and Northwest in first and second) and the difference with the Northwest has lessened during recent times. The importance of the SE7’s proximity with airports and travel links and active enterprises was recognised. KPMG suggested that with the SE7 economy growing faster than the UK as a whole, the case for devolution must focus on the capitalisation of this important foundation since more control would allow SE7 to better reach its growth potential.</li> <li>• The SE7 “growing pains” were discussed with a huge rise in population of the SE7 in the last decade. Over 700,000 people have left London and moved to the SE7 area in the last 10 years and the same number is due to move again in next seven years. This will result in greater social requirements including infrastructure needs. In the SE7 area, more schools places will be required; adult social care spending in the SE7 region is the same as London but with 50% of population, due to the high numbers of older residents. 12% of the total Adult Social Care spending in England is in the SE7.</li> <li>• Infrastructure was noted as a salient issue considering the substantial rise in usage of the railways in the South East and the disproportionate resources invested. It was understood that should this begin to impinge on London’s success, this issue will be of increasing political and economic importance.</li> <li>• The connection to and link with the four LEPs across the SE7 area was raised.</li> </ul>
3.2	<p>The SE7 initial devolution framework comprises fiscal devolution over the following areas:</p> <ul style="list-style-type: none"> <li>• road and rail infrastructure;</li> <li>• social care and health;</li> <li>• employment and skills; and</li> <li>• infrastructure for the future.</li> </ul>
3.3	<p>Although detailed work is to be conducted, there needs to be some consideration about “entering the conversation” early, allowing SE7 partners to be recognised in the conversation and navigate challenges.</p> <p>Leaders <b>AGREED</b> that the SE7 should move quickly to state the case for devolution to the new Government and that the Chief Executives’ Board should continue to develop the work.</p> <p>It was <b>AGREED</b> that a coalition of willing authorities would be formed, who would work at pace to progress this work (although this doesn’t permanently exclude any authorities). The Case for Devolution would not focus on savings: it is primarily about the best possible outcomes and service provision for residents and solving at local level significant challenges for Government.</p> <p>Governance arrangements are still to be decided and the initial importance is</p>

	<p>to provide a strategic case for councils to work together in the SE7 area, which then, in turn, allows opportunities to arise.</p> <p>It was <b>AGREED</b> that the SE7 would ensure that the County Councils Network and the South East Strategic Leaders would be kept informed of this work.</p> <p>It was <b>AGREED</b> that West Sussex County Council will continue to lead the discussion and work on devolution.</p> <p>Surrey County Council <b>AGREED</b> to co-ordinate the communication and stakeholder engagement plan.</p> <p>Cllr. Glazier thanked Caroline Haynes for her attendance and contribution to the discussion.</p>
<p><b>4.</b></p>	<p><b>Next Meeting</b></p>
<p>4.1</p>	<p>The date of the next meeting of SE7 Leaders' Board is 10.30am - 12.30pm, 18 September 2015, Sofitel Gatwick.</p>

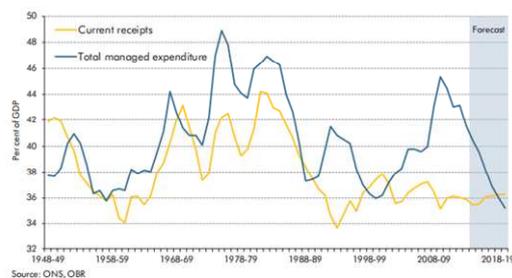
## The challenges facing the public sector over the next 5 years

Tony Travers  
London School of Economics

### UK public finances in the longer-term

- Many governments run deficits, and not only for 'Keynesian', counter-cyclical, reasons
- Politicians now find themselves, because of their weakened position, offering 'Sweden's public services with American taxes'
- UK tax receipts are stuck at 37-38% of GDP
- No deficit (or a surplus) means spending cannot exceed receipts

### Taxation and public expenditure as % of GDP



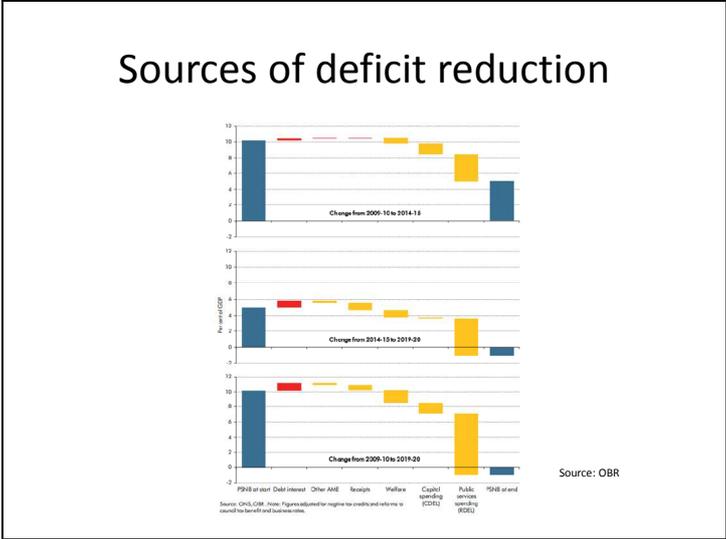
Source: Office for Budget Responsibility, *Economic and fiscal outlook Charts and Tables*, March 2014, Chart 1.1

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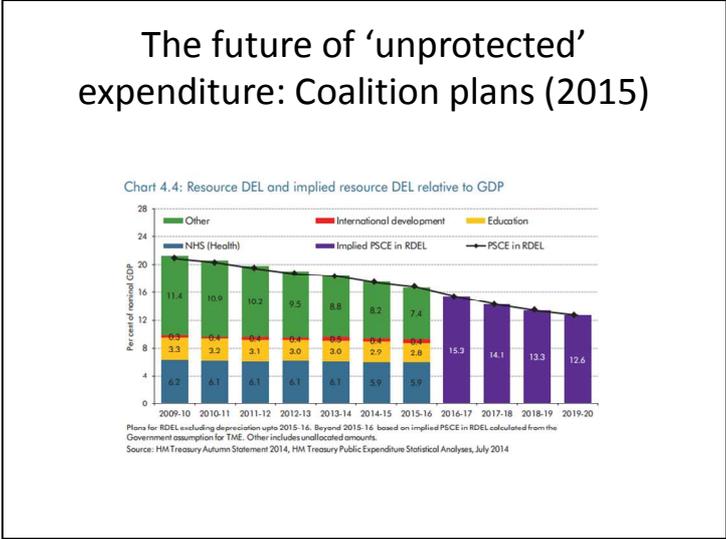
### Cutting the UK deficit

- A small part of public expenditure has borne most of the effort to reduce the deficit
- Borrowing up, welfare spending up, 'protected' spending up, interest charges up
- 'Unprotected' services such as local government, police, Home Office and capital investment have been sharply cut
- The General Election has not changed any of the underlying factors
  - Indeed, the protected services are now protected to 2020

Slide 5



Slide 6



Slide 7

### The State is changing: more welfare and less of everything else

- The NHS is increasing within the State, as is welfare and education
- Defence, Business, Home Office, Justice, Transport and local government all now in long-term decline
- Reducing public expenditure to 37% or even 35% of GDP will further raise the share of welfare within public expenditure

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### Public expenditure as % of GDP

	1975-76	1990-91	2000-01	2009-10	2013-14	2018-19 Con	2018-19 Lab
Health	5.2	4.7	5.4	8.2	7.9	8	8
Education	6.2	4.8	4.6	6.2	5.5	5	6
Social protection	9.0	11.7	12.8	15.6	15.4	15.5	15.5
All other services	26.1	18.0	11.5	17.0	15.0	7.5	9.5
<b>TOTAL</b>	<b>46.5</b>	<b>39.2</b>	<b>34.3</b>	<b>47.0</b>	<b>43.8</b>	<b>36</b>	<b>39</b>
Defence	5.4	3.8	2.6	2.6	2.2	?	?
Housing	4.2	1.0	0.5	1.1	0.7	?	?

Sources: (i) *The Government's Expenditure Plans 1981-82 to 1983-84*, Cmnd 8175, Tables 1.2, 1.7, 2.10 and 2.11  
 Spending for Scotland, Wales and Northern Ireland has to be added to England to create UK  
 (ii) *Public Expenditure Statistical Analyses 2014*, Table 4.4  
 (iii) *Budget 2015*, HM Treasury, Table 2.3  
 Note: Some difference in definitions in 1975-76 compared to all later years. But impact marginal

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### The changing composition of the UK State (IFS)

**The changing role of the state**

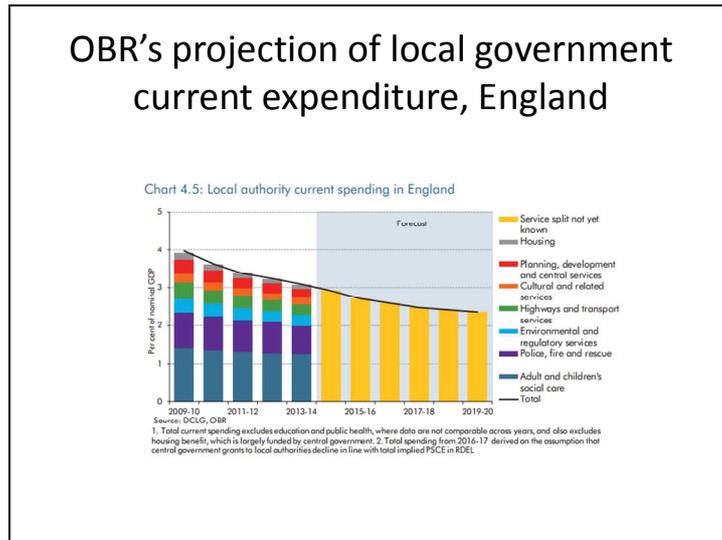
Percentage of total public spending (%)

— Health  
 — State pension  
 --- Debt interest

Sources: PESA 2014, DWP Benefit Expenditure tables 2014, EFO December 2014, ONS

Institute for Fiscal Studies

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### Local government current expenditure 2009-10 to 2018-19 (cumulative, projected)

England	2009-10	2018-19	% change	
			cash	real
Highways & transport	6541	3110	-52.5	-59.7
Social care	20963	21885	+4.3	-11.4
- Children's	6396	7571	+18.4	+0.5
- Adults	14567	14313	-1.7	-16.6
Housing	2715	1346	-50.4	-57.9
Culture, env't, planning	11083	7105	-35.9	-45.6
- Cultural	3465	2083	-42.8	-49.0
- Environment	5308	4383	-17.4	-29.9
- Planning	2310	642	-72.2	-76.6
Police	12022	9502	-21.0	-32.9
Fire & rescue	2177	1971	-9.5	-23.2
Central services	3771	2700	-28.4	-39.2
<b>Total - cash</b>	<b>59272</b>	<b>47623</b>	<b>-19.7</b>	
<b>Total - real</b>	<b>59272</b>	<b>40418</b>		<b>-31.8</b>

Sources: (i) (2013-14 expenditure figures taken from DCLG Local authority revenue expenditure and financing statistics 2009-10; (ii) 2018-19 expenditure figures estimated by applying annual average cash percentage changes for each service from 2009-10 to 2013-14 to the period 2013-14 to 2018-19. Note: service-by-service figures scaled to fit total; (iii) GDP deflator; (iv) Public Expenditure Statistical Analyses 2014, Table F2 and OBR, Economic and Fiscal Outlook charts and tables – March 2014, table accompanying Chart 3.27).

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- ## The future
- Budget 2015: local government spending to fall by 40% to 45% between 2009-10 and 2020
  - A Labour-led government would moderate this somewhat
  - Real chance the LG fall will have to continue so as to fund the NHS, schools, international development and other 'protected' provision
  - Unless tax were to rise, but national politicians are incapable of raising tax other than for the 'very rich'
    - 50p income tax rate above £150,000; Mansion Tax, Non-doms
  - Where next for the State?
    - More regulation of the private sector
    - More joint working with the private sector
    - Greater leverage of private capital to deliver public objectives



Mr. Greg Clark  
 Secretary of State  
 Department for Communities and Local Government  
 2 Marsham Street  
 London  
 SW1P 4DF

11<sup>th</sup> June 2015

Dear Mr. Clark,

### **A proposal for devolution – Sussex and Surrey**

We, the Leaders of the three County Councils of Sussex and Surrey are keen to meet with you and Treasury colleagues to explore our thoughts about a set of offers to the Government. We believe that, by working with us and our local partners differently, we will deliver continued economic growth and tackle the “growing pains” caused by our area’s success.

As you are already aware the South East 7 (SE7) partnership of seven south east councils formed in 2010 has delivered fundamental service reform and significant savings. SE7 commissioned a report on the post-recession local economy. This work, called the “Cost of Success”, highlights the critical role the economy of the South East plays in the economic growth of the UK and identifies the impacts growth and population change, especially migration from London, have on public services and on infrastructure. It clearly identifies the risk that constraints to growth in our area could inhibit the continued recovery of the UK economy, especially in and around London. Sussex and Surrey, at the heart of SE7, are the partners who are ready and willing to seize the opportunity the Government’s commitment to City and County Devolution provides and to move forward with you at pace.

### **Sussex and Surrey**

At the geographic and economic heart of the SE7 area is a well-developed partnership between the three County Authorities of Surrey, East Sussex and West Sussex. Our combined GVA (2013) is £63.5 million which is bigger than both the whole of Wales (£52 million) and Greater Manchester Combined authority (£56 million). Our population (2,507,900) is comparable to that of the combined authority of Greater Manchester (2,714,900). Sharing support for the new administration’s ambition to deliver growth, the three Counties have committed to formalising their partnership under the banner of SE7 and to develop our existing strong relations with our borough and district councils and other local partners to develop a new model of public service delivery for our area. We believe we can develop a robust and effective alternative to structural change. We have the full support of our other SE7 colleagues. Our commitment to SE7 remains and it will

evolve, as will our complex partnership landscape, to ensure our focus is on delivery with appropriate accountability.

### **The proposal**

At the heart of our proposal for a new relationship with the Government is a huge appetite for effective delivery closer to our residents, communities and businesses; for sharing risk in an operating model that is less reliant on central state funding whilst securing sustainable funding for local public services; and delivering revenue that will support growth initiatives in other key economic areas. It recognises;

- The power and critical role of the South East within the UK economy.
- The area's role as the major source of funding of government spending in the UK.
- The need to balance strong economic growth and an increasing population with the preservation of our beautiful environment.
- The strong record of competence and effective delivery.
- The importance of giving the people of the South East a fairer deal.

We also see a need for a different approach to devolution – one that emphasises scale and the need for a wider collaborative approach to deliver value for money, sustainable public services and to remove barriers to further growth. Together we can ensure that the right decisions are made in the right places to guarantee that the current contribution to our nation's success and finances is not only continued but also expanded to its full potential. Our three counties are special places with a strong sense of identity and place. They are achieving the delicate and fundamental challenge of balancing strong growth and preserving a beautiful environment. However, their ability to sustain that crucial balance needs us all to work differently. We operate to simple and powerful principles:

- one place one budget
- to grow at scale you operate at scale
- strategic interventions need planning over time not annual bidding rounds
- strong local governance produces better value and outcomes

### **Our offer**

We have identified a number of concrete offers that we believe will enable us to achieve the delicate and fundamental challenge of balancing strong growth and the environment and to deliver significantly improved public service solutions for our local people. They focus on the following initial areas:

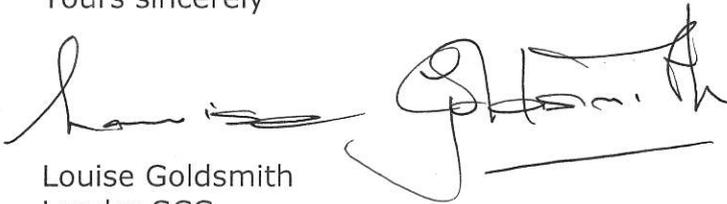
- Infrastructure and transport – ways of driving speedier and more locally informed decisions about transport and major infrastructure planning especially around Gatwick and A27, but including rail and road planning.
- Digital and broader infrastructure for the future – both the 5G plans and the more significant aspects of funding and intervention to manage the physical environment.

- Health and adult social care – recognising the key role social care plays in determining the success of the NHS locally – focusing on the care market, the skills resources and the oversight mechanisms to support it as well as service planning with CCGs.
- Employment and skills – to extend the success of the Troubled Families programme and to promote apprenticeships through new grant criteria.
- Support to local small businesses – mechanisms for reducing red tape and better managing the local and national regulatory agenda.
- Fiscal devolution – identifying ways of better distributing available funds to support local planning and interventions across the area.

There will be other areas for discussion – especially as our dialogue with partners develops. We are committed to working with the Government and our local partners, especially the District and Borough Councils across the area, to explore these and other areas and are keen to meet to start discussion as soon as possible.

We look forward to hearing from you.

Yours sincerely



Louise Goldsmith  
Leader SCC



Keith Glazier  
Leader ESCC



David Hodge  
Leader WSCC

cc George Osborne

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