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# Resetting the South East

LEVELLING UP AFTER BREXIT, CLIMATE CHANGE AND COVID

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# 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.

## What we do

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.

## 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.

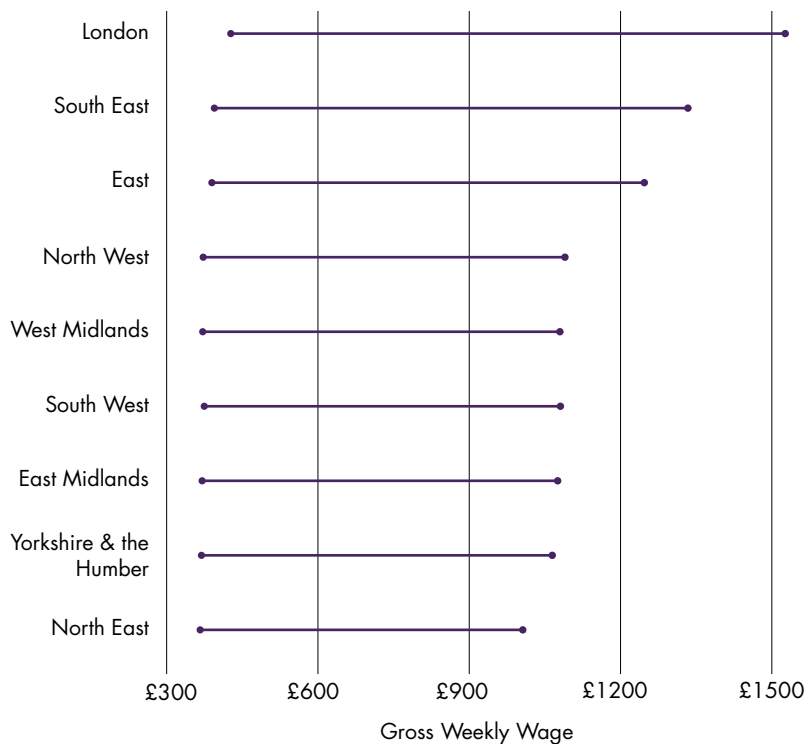
### The different economic faces of levelling up

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.

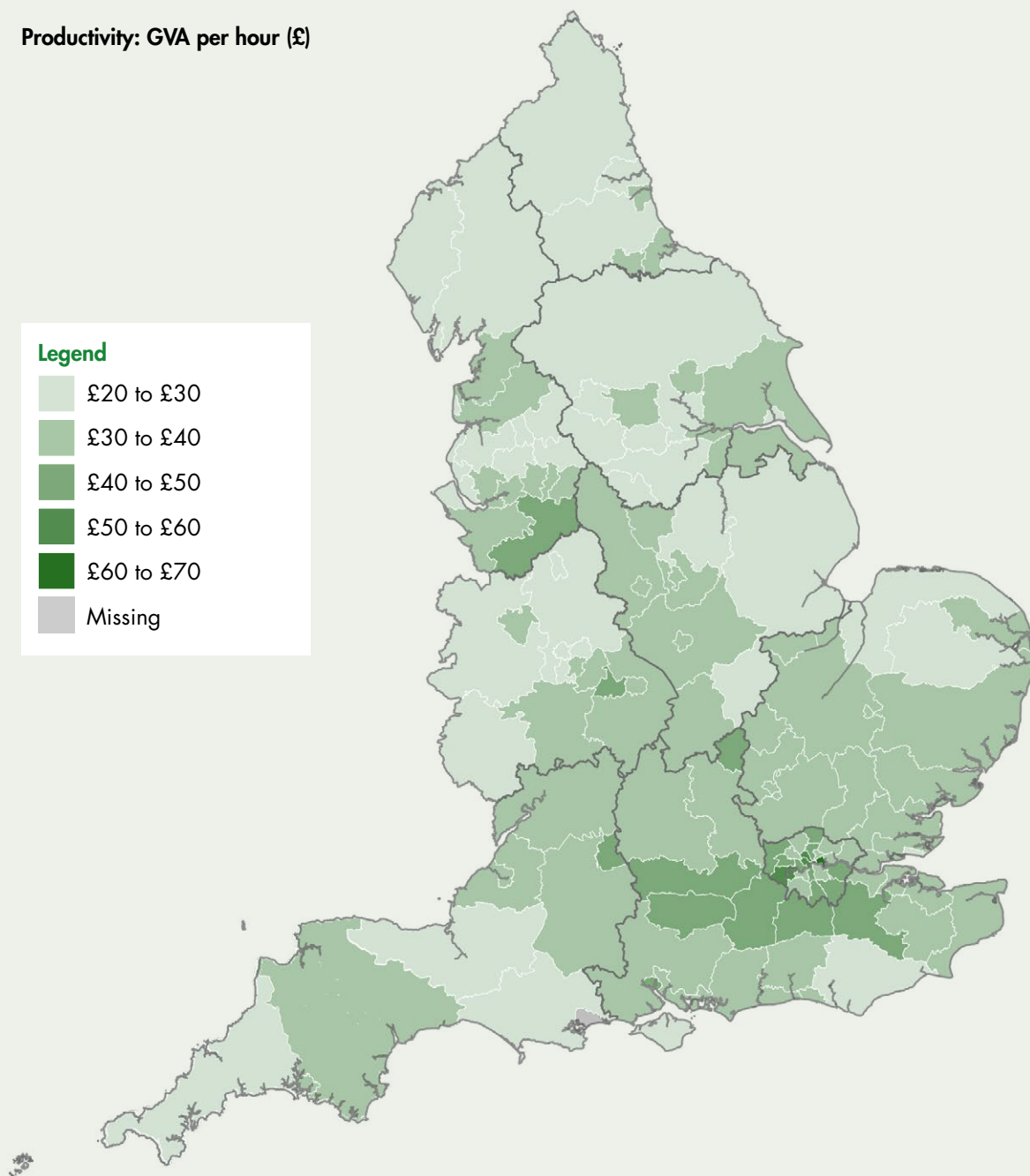
### **The people's priorities in South East England**

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 (£)****Legend**

|            |
|------------|
| £20 to £30 |
| £30 to £40 |
| £40 to £50 |
| £50 to £60 |
| £60 to £70 |
| Missing    |



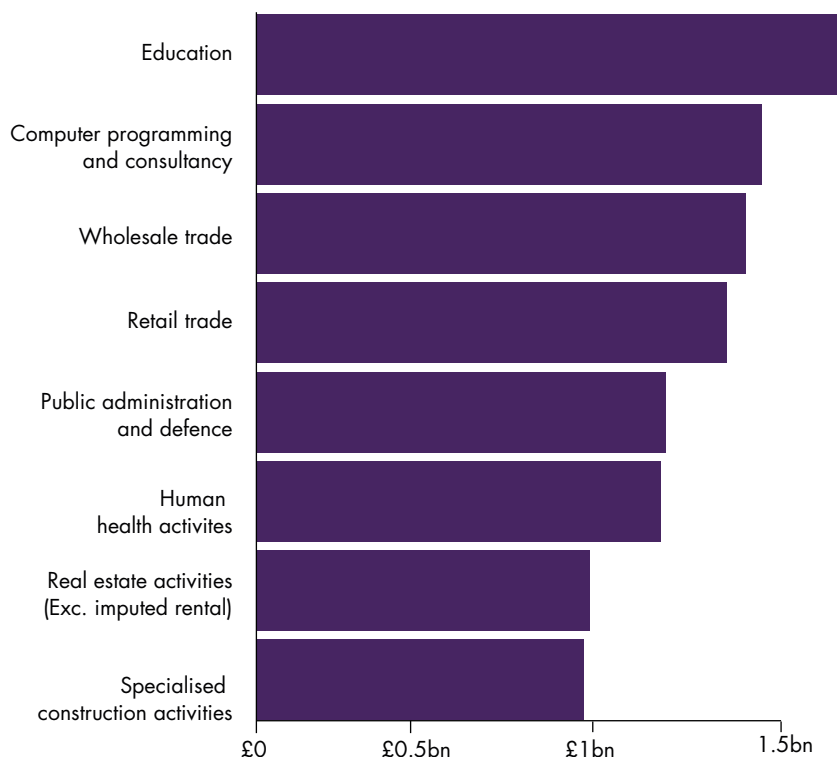
### The challenges facing the South East as an engine for Global Britain

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<sup>1</sup>. 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.

However, in the context of the roads of South East England – many of which,

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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.

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<sup>2</sup>, 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.

The preference for single, unified voices at the subregional and local level,

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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

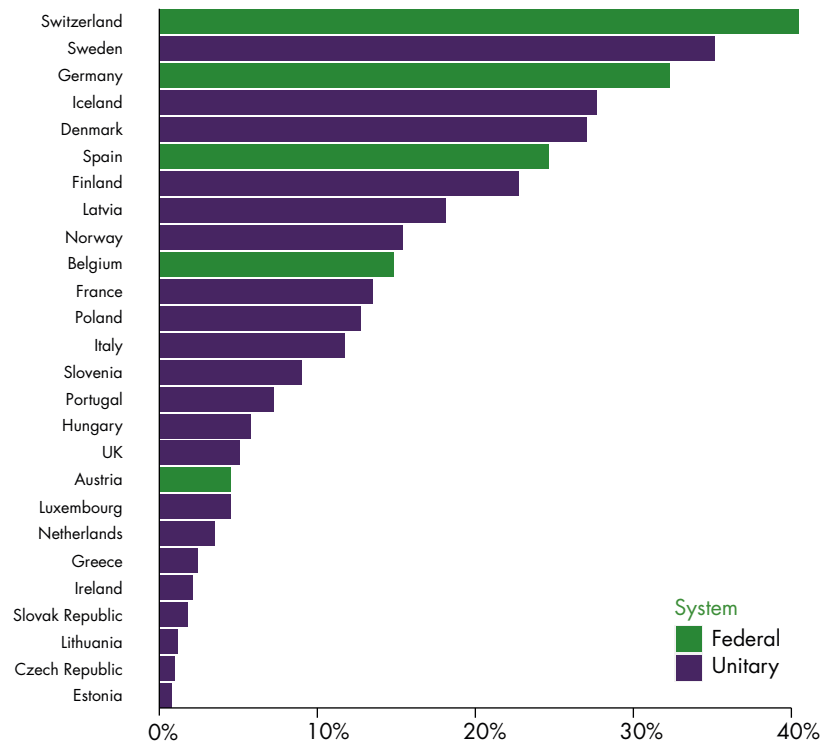
which is clearly articulated in the Levelling Up White Paper, sits uneasily with the current institutional landscape in the South East. Political wrangling and the continued drip-feeding of individual funds look to be the likely future of devolution in the South East - unless changes are made to the 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)<sup>3</sup>; 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<sup>4</sup>. 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.

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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.



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