Local Devolution and Infrastructure Finance

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THE INFRASTRUCTURE FORUM

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Contents

Foreword

The prospect of significant devolution of financial and project power to local authorities, combined authorities and other bodies in England is highly exciting.

It builds upon the work of City and Growth Deals, the endeavours of Local Enterprise Partnerships and, as this careful study shows, on the recommendations of a plethora of contributors to the debate on sub-central financial autonomy.

For some the issue is a constitutional one. It is part of localism. To be truly effective in shaping policies and building infrastructure and services to match local requirements, it is widely agreed that authorities need more financial autonomy than has prevailed in England for many years.

For those involved in infrastructure networks there is a highly pragmatic add on to the constitutional debate. There is a stream of attractive potential projects in local transport, schools, education, caring and social services, energy, and economic development which can be unlocked if we can design the right policy mechanisms.

Tim Pugh's analysis looks closely at the means which have been developed so far and the possibilities for the future. The analysis leads to some significant conclusions based on the need to make this new beginning durable and sustainable. It would be a dreadful waste if the first opportunity of significant decentralisation of power to local authorities were to be designed in a way to make it easy for the centre to snatch back the decisions and the money. If devolution in England is to work central Government must lock itself in to the concept and commit. Authorities will not create and investors will not invest if they think that Whitehall can initiate policy reversal and snatch back power if the mood changes.

This is why powers to set budgets, budget priorities and raised finance also need to be devolved. Revenue streams need to be predictable over project lifetimes. The devolution of powers also helps authorities to establish user charging, value capture and other revenue raising regime initiatives.

Restricting devolution to areas with a single elected mayor may act as a poison pill for the whole concept. It is encouraging that the Chancellor of the Exchequer has recognised that business rates must be truly decentralised. Investors must be able to see the medium and long term future so that they can commit with confidence to areas where the burden of business rates has been removed in exchange for infrastructure development.

Many of those who grapple with these issues, including in Whitehall departments, complain that local authorities can lack the skills and the scale to deliver. So local Government units must for these purposes, as Tim Pugh argues, be economically functional and not just politically convenient.

Whitehall has embarked upon these devolution initiatives through a series of "deals". This is no bad thing as it has the power in the system which prevails today and it will require "deals" to hand some of that power over to sub central bodies. As the concept matures however, Whitehall too must be prepared to back its innovation with confidence, in order to turn what are essentially pilot projects into a new regime which makes local fiscal and financial autonomy a permanent part of English life.

Graham Mather
President
The Infrastructure Forum

1. Background

On 8th June 2015, the Cities and Local Government Devolution Bill ("**the Bill**"), having been introduced to Parliament immediately after the Queen's Speech on 27th May, received its second reading in the House of Lords.

Baroness Williams of Trafford introduced the Bill on second reading[1] as:

"*a devolutionary bill that puts in place a legal framework enabling us to decentralise power to our cities and counties, and across the country. ……Decentralisation is the key to achieving economic success in our cities. It enables places to take greater control over and responsibility for the key things that make it work".*

The principles behind the Bill have generally been welcomed by Westminster politicians, local Government pressure groups and think tanks alike.

Nevertheless, wide concerns existed before the Bill was deposited and have continued. These include:

- how devolution can work within the current confused hierarchy of local authority relationships and demarcations (geographical and functional) between local authorities, local economic partnerships, combined authorities multi-tier and unitary authorities;
- how the boundaries within which powers are devolved will be set;
- how devolution of powers and responsibilities sits with past and forecast cut-backs in local Government finance;
- how devolution of powers and responsibilities can work absent devolution of fiscal powers;
- what local governance arrangements would need to be put in place as the price of devolution of powers; and
- generally concerning "deal-based" financial and devolution settlements with local authorities.

These concerns look to be thrown into significantly sharper relief as the Bill makes its way through Select Committees and debates in Parliament.

[1] See Lords Hansard 8 June 2015 at Column 652.

2. Austerity, City Deals, Growth Deals Combined Authorities and LEPs

The genesis of the Bill lies in: restructuring of public sector funding at regional and local levels; creation of Local Enterprise Partnerships (LEPs) and combined authorities; and increasing decentralisation of delivery responsibilities.

The shift from grant settlements to "negotiated" City Deals, Growth Deals and Devolution Deals provides the backdrop. Achieving reductions in spending, whilst simultaneously influencing spending priorities and targeting growth initiatives, are all underlying Treasury objectives.

LEPs

LEPs have no statutory basis or (unless incorporated) separate legal personality. They emerged as the 2010 - 2015 Coalition Government swept aside Regional Development Agencies and local leaders' boards.

A variety of different LEP formats and typologies exist. These include: City Region LEPs, LEPs with Enterprise Zones, local authority led LEPs, LEPs refashioned from RDAs and LEPs with legal personality.

As LEPs have evolved, they have been treated as the conduit for applying for or (through a LEP lead authority with a legal personality) receiving regionally allocated or distributed funds. These include: European Regional Development Fund (**ERDF**); European Social Fund (**ESF**); European Agricultural Fund (**EAF**); Local Growth Fund; Growing Places Fund; Local Infrastructure Fund; and some Enterprise Zone-related funding. Research by Localis[2] records some £18.5bn as having been allocated to or received by LEPs to date.

Austerity and local Government funding cuts

Over the same period as LEPs have been established, Local Government finances have been drastically cut. There has been a real contraction of public sector funding, going much further than simply reallocating budgets to different delivery bodies. CIPFA have estimated - 30% real terms reductions in expenditure.

In December 2014[3], the Government announced further cuts for local authorities of 1.8% for 2015/2016 and announcements of yet deeper cuts are expected in the November 2015 Spending Review. September 2015 bids for Devolution Deals have been made in anticipation of these cuts.

"Over the same period as LEPs have been established, Local Government finances have been drastically cut. CIPFA have estimated - 30% real terms reductions in expenditure."

[2] "The Next LEPs – Unlocking growth across our localities" March 2015.
[3] DCLG Statement via Kris Hopkins MP to Parliament on the provisional local Government financial settlement for 2015 to 2016 – 18 December 2014.

Joint resourcing and combined authorities

In several larger areas, under powers introduced under the Local Democracy Economic Development and Construction Act 2009 and the Localism Act 2011, combined authorities have been formed. These enable joint functions of local authorities to be discharged through a public body with its own personality and its own general power of competence.[4]

As of March 2015, there were five formally constituted combined authorities: Greater Manchester, North East, West Yorkshire, Sheffield, and Liverpool.

As of September 2015, West Midlands leaders are struggling to find sufficient common ground to join forces.

City Deals Growth Deals and the Local Growth Agenda

City Deals

City Deals were launched in 2011 with the objective of enabling cities "*to forge their own path, to play to their own strengths and to find creative solutions to local problems*"[5]. They were linked to a shift, from 2013/14 onwards, in local authority funding. The move was away from centrally fixed formula grant towards a *"settlement funding assessment"* divided between revenue support grant and a portion of retained business rates.

The first wave of City Deals focussed on the eight largest Cities outside London: Greater Birmingham/Solihull; Bristol and West of England; Greater Manchester; Leeds City Region; Nottingham; Newcastle; Sheffield City Region and Liverpool.

From October 2012, a further twenty Wave 2 City Deals were struck with a wide geographical spread of Cities, from Sunderland and the North East to Brighton and Hove.

Each Wave 1 City Deal contained specific infrastructure financing elements such as devolution of local transport funding, TIF or Earn-Back mechanisms (involving borrowing against projected future business rate revenue, or in the case of Earn Back, tax receipts) or an integrated investment fund. Appendix 1 includes an abstract of the elements included in Wave 1 City Deals as published by Government[6].

Wave 2 Deals were to choose from a menu of infrastructure finance related options. These included: a consolidated capital investment pot; pooling of business rates across local authority areas (especially useful for combined authorities); devolving local transport major funding; increasing control over rail services; devolving HCA funding and responsibilities; providing large sums for broadband infrastructure and specific proposals concerning local bus services.

Growth Deals

Growth Deals are a response to recommendations, in Lord Heseltine's Review Report *"No Stone Unturned",* for a single local growth fund. They embrace European funding sources and a domestic Local Growth Fund pot. They are applied for, negotiated with and administered through LEPs. We attach a summary of the scope of Local Growth Deals announced on 7th July 2014[7] in Appendix 2.

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[4] i.e. to do anything it considers appropriate for purposes of: carrying out of its functions; incidental to its functional purposes; or indirectly incidental to its functional purposes.

[5] Foreword by Nick Clegg Deputy Prime Minister to "Unlocking Growth in Cities" 2011.

[6] See: "Unlocking growth in cities: City Deals – Wave 1" - HM Government July 2012.

[7] Abstracted from the Local Government Information Unit 31 July Policy Briefing – "Local Growth Deals and the Local Growth Fund" (31 July 2014)

Perceived successes and shortcomings of LEPs, combined authorities, local Government finance reforms and City Deals

The current Government, driving forward initiatives hatched during the Coalition, is enthusiastic about: the public private partnership elements of LEPs; economies of scale and closer governance associated with combined authorities; and the controls exercisable via *"something for something in return"*, *"payment by results"* local *"deal"* based settlements.

A constant theme of both City Deal and Growth Deal negotiations has been pressure for stronger forms of governance (notably combined authorities, elected mayors and/or a Growth, Transport and/or Skills Board) of local economic development and, in principle, a willingness to countenance substantive devolutionary measures in return.

LEPs

LEPs have become a part of the national economic landscape and, according to public statements, would have remained so whichever party had won the May General Election.

On the positive side:

They are generally regarded as a good thing:

- the March 2015 Localis Report (see footnote 2 above) reported 60% of LEP stakeholders rated their LEP to be good or very good.
- LEPs have been seen as catalysts for improved cooperation between authorities and business input has been welcomed.
- contributions from university and further education sectors have been seen as helping nurture economic development and to incubate small businesses.
- LEPs have been seen as having an ability to intervene and make connections.
- a perceived strength of LEPs as a concept is their freedom from prescription and diversity of form and structure, which combine to enable them to be shaped to mesh with the dynamics of local economies and cultures.

Less positively:

Several criticisms have been levelled. Some are as much about the way funding is allocated as about the performance of LEPs themselves. Others are almost the flip side of perceived strengths. Criticisms include:

- much of the £18.5bn allocated to LEPs since their formation in 2010 has been determined by and conditioned according to central spending priorities[8].
- LEP Boards are not strongly representative of their local business community[9].
- not all LEPs represent a functional economic geography and those which do not tend to lag behind in terms of collaboration, political alignment, funding and performance[10]. Sometimes

[8] Localis
[9] Localis
[10] Localis and Association of Directors of Development Economy Planning and Transport (ADEPT)

LEP boundaries and sizes have been influenced less by functional economics than by political geographies.

- LEPs are in some cases, badly drawn – where they split county councils for example[11].
- LEPs are not democratically accountable[12].
- LEPs are perceived as understaffed and lacking resources.[13]
- lack of capacity and capability will constrain their ability to maintain relationships, review plans and manage programmes.[14]
- overlapping LEP boundaries have resulted in delays and wasted opportunities for collaboration.[15]
- the Strategic Economic Plan prioritisation process is cumbersome, restrictive and inappropriate when assessing complex schemes designed to deliver broader economic benefit.[16]
- LEP models are inconsistent – some (e.g. London and Greater Manchester) are advisory panels; others (e.g. Tees Valley) are a company; others still are wholly informal.[17]
- lack of arrangements for transparency and corporate public sector governance.[18]

Some of the perceived shortcomings of LEPs were recognised early on by senior figures within or close to Government. Brandon Lewis MP (currently Minister of State for Housing and Planning) commented in September 2012: "*There was a clear consensus that LEPs need genuine devolution of power and influence, sufficient funding and improved connectivity with Government and the national economic agenda in order to succeed*".[19]

Local Government finance reform

There are some diametrically opposed views on Local Government Finance.

The Government is an enthusiastic advocate of austerity and reform of local Government finance to reduce deficits and national debt whilst simultaneously creating economic space to be filled by private sector activity.

Those whose budgets have been gouged at successive spending reviews view recent reforms with much less enthusiasm.

[11] County All Party Parliamentary Group – "Ambitious growth deals for Counties" (June 2014)
[12] See previous note
[13] Localis and ADEPT
[14] Smith Institute and PWC: "Delivering growth – Where next for Local Enterprise Partnerships" (Summer 2015)
[15] ADEPT
[16] ADEPT
[17] Lee Pugalis Northumbria University
[18] Lee Pugalis
[19] In his role as Chair of the APPG on Local Growth – foreword to All Party Parliamentary Group on Local Growth Local Enterprise Partnerships and Enterprise Zones Report: "Where next for LEPs" September 2012.

The 2015 Local Government Finance Survey carried out by the Municipal Journal and the Local Government Information Unit found that 93% of respondents did not consider the current local Government finance system fit for purpose.[20]

The Local Government Association has been particularly scathing:

> *"While councils have continued to balance their budgets, the funding gap in local Government is still growing by £2.1 billion each year. Closing the gap each year demonstrates councils' resilience, but each efficiency saving that is found reduces the potential for efficiencies in future years, so many councils are forced to look for savings from service reductions."*

In the 2015 edition of their annual survey: *The Local State We're In",* PWC commented:

"Leaders and Chief Executives remain relatively confident in the short term, ….that they will be able to make the necessary savings in the next year without seriously impacting the quality of service delivery and outcomes.

When it comes to the next five years, confidence crumbles with only one in ten Chief Executives confident in their council's ability to manage savings. When it comes to the sector as a whole, the spectre of failure looms large with nine out of ten Chief Executives believing that some local authorities will get into serious financial difficulties in the next five years."

[20] See Local Government Information Unit Article 19 February 2015.

City Deals

City Deals have similarly drawn diverse responses.

On the positive side:

"The major dividends from current City Deals (and perhaps some of the Strategic Economic Plans to follow), are the opportunity to build credible cohesive local leadership teams, with shared ambitions and priorities, and a distinctive, positive profile and reputation in national and global markets. When these types of teams come together and meet a Government with genuine conviction to devolution and city leadership, then we can make a "real deal"."[21]

Less positively:

"The new City Deal arrangements in England and Scotland have scratched the surface of devolution of infrastructure powers, but they see central Government maintain strict fiscal control over their operation and there have been highly uneven outcomes in allocations to city-regions. At one extreme, over a million people in the Black Country received around £3million in immediate cash commitments from Whitehall while the 1.75 million people living in Glasgow & The Clyde Valley will benefit from a total of £1billion of direct grant funding from the UK and Scottish Governments."

The City Deals are an important development, but when viewed in an international context they do not represent radical decentralisation. A more comprehensive and systemic approach is required to support local infrastructure delivery."[22]

[21] Professor David Marlow of the Newcastle University Centre for Urban and Regional Development Studies, commented in an article in "Place Making Resource" on 5 December 2013 – albeit in the context of an article in which significant concerns were also raised.

[22] Professor Andy Pike iBuild Infrastructure Research Centre (Newcastle/Leeds/Birmingham University joint venture) – March 2015.

Local Growth Deals

Positive comments include:

From ADEPT and CEDOS (Chief Economic Development Officers Society):[23]

"We welcome the Local Growth Deal announcements and the commitments both nationally and locally to invest in local economic growth. We also welcome the creation by Government of an inter-Departmental Local Growth Team."[24]

From the Local Government Information Unit[25]:

> "….some of the deals contain important and innovative transformations of the local growth landscape that may have significant long-term impact on both local economies and central-local relations…."
>
> Local Government Information Unit

[23] See joint report: – "Local Growth Deals – An Early Assessment" (September 2014).
[24] Ibid foreword.
[25] Policy Briefing – "Local Growth Deals and the Local Growth Fund" (31 July 2014)

Less positive comments include:

- criticisms levelled at: the scale of the Fund (too low); the degree that it ring-fences expenditure rather than allowing local prioritisation; and the degree to which announcements for 2015/2016 simply re-present existing allocations mainly in relation to transportation matters.
- From the County All Party Parliamentary Group[26]:

  "3.15….The evidence we have received suggests that these discussions are far narrower than was envisaged in the Government's description of the process, and was certainly the case in relation to the first two rounds of city deals.

  3.16 In particular the focus is very much on a national assessment of projects that are due to start in 2015-16 (for which only £2bn of local growth fund is available). All the signs are that only a very small element of the local growth fund will be allocated for use at the discretion of a local area in the context of the priorities established in the SEP and local growth deal. Rather, the bulk of the fund for 2015-16 will be allocated to specific projects. This falls way short of the level of devolution envisaged by Lord Heseltine and which we consider is necessary to encourage county and county unitary councils and LEPs to enable additional economic growth at a local level.

  5.3….While negotiation was promised for the current growth deals, the reality resembles a bidding process, assessed on a scheme by scheme basis, with priority being granted to "shovel ready" schemes for 2015/16."

- From the City Growth Commission:[27]

"The Local Growth Deals announced in July 2014, for example, were initially intended to enable single-pot financing of strategic economic priorities agreed by LEPs and local authorities. By the time they had been through the Whitehall machine, they amounted to little more than central Government approval of specific local projects that happened to align with ministerial priorities. Such veiled 'centralised localism' needs to stop."

- From the Local Government Information Unit[28]:
  - *"..hardly about decentralisation. There is no discernible rationale for the allocations of powers, resources and conditionalities between LEPS…."*
  - *"….LGF is a long way from the "single pot" proposed by Heseltine, and nominally agreed by Government. By and large departmental and agency funders have deconstructed the scheme into "their" pots…"*
  - *"It is difficult to get any sense of a coherent approach to "economic rebalancing" (i.e. away from London and the South East) in the LGF…."*
  - *"….Most of the commitments made by national agencies are either modest or heavily caveated…"*
  - *"…..A further major concern for LAs ought to be the revenue implications of the agreements – which are largely capital funding…."*
  - *"….Because deals are LEP based, they are – almost by definition – neither about "real places", nor about individual LAs."*

[26] "Ambitious growth deals for Counties" (June 2014)
[27] City Growth Commission – "Powers to Grow – City Finance and Governance" (September 2014).
[28] Policy Briefing – "Local Growth Deals and the Local Growth Fund" (31 July 2014)
[29] "Planning" magazine 4 September 2015.

Conclusions regarding City Deals and Growth Deals

City Deals and Growth Deals polarise opinions. They involve novel concepts and, on their face, are consistent with the philosophy of a Government intent on removing red tape, encouraging entrepreneurialism and rewarding responsibility and self-reliance.

Nevertheless, there have been teething problems. Bedding down periods are apparent and still continuing. Some provisions of deals are in practice dependent on yet to be passed primary legislation.

Whilst significant understanding is developing, some authorities have complained that terms for drawdown of funds are functions of developing ministerial agendas and are still being negotiated or satisfied a number of years after the deals were "concluded".

There is evident scope for benefits from deals struck to date to increase as the economy picks up. The opposite view is that the deals involve much re-badging and renegotiation of previous funding streams and a net reduction in resources to perform the same tasks. Those holding this view argue that, even if economic growth occurs, if cuts continue, service providers will struggle to perform and service levels will deteriorate. Criticisms of Growth Deals in particular tend to be intertwined with concerns over the interface between LEPs and local Government and the degree to which all, or even most, LEPs are truly representative of their areas of operation.

The deal-based approach can be viewed as symptomatic of the importance to Government of maintaining controls over national expenditure. Macro-political and macro-economic challenges of the Scottish Devolution vote and diminishing North Sea oil and gas revenues have focused Central Government thinking on the affordability of public expenditure.

In the long term, one might question the sustainability of a public sector finance system in which the uncertainties of time-limited deals are ever present and budgets are eroded year on year. In a Planning magazine article on 4 September, an un-named former Whitehall permanent secretary is quoted as saying Councils are *"an easy target, because national politicians don't directly feel the pain of local authority budget cuts".*[29]

In the short term, however, the attractions to Government are evident. Central Government is able, through the conditions negotiated, to control expenditure and balance national books by holding back or switching off funding, whilst placing responsibility for service delivery outcomes squarely at local level.

[29] "Planning" magazine 4 September 2015.

3. Implications for infrastructure funding and delivery

City Deals should, in theory, make infrastructure funding and delivery much easier for local Government bodies, especially combined authorities.

Wave 1 City Deals are now bearing fruit. Those for Greater Manchester, Glasgow and Leeds are widely perceived as being highly successful in establishing TIF and Business Rate Retention fuelled revolving investment funds. These are designed to fund not only transport (predominantly) but also housing and regeneration programmes over extended periods. Greater Manchester's earn back deal, for example, is worth £30m a year.

As the recent London First Report *"London's Infrastructure: Investing for Growth"* commented: *"in the absence of more systematic fiscal devolution, we see scope for HM Treasury to apply [City Deal] principles to a wider range of schemes in London so as to enable growth-stimulating infrastructure investment to go ahead".*

Nevertheless, there is a recognition that ad hoc negotiated City Deals come at a price. Negotiation processes can be lengthy and resource intensive. The price of a "deal" includes accepting additional responsibilities and that funds should be ring-fenced for application towards agreed priorities, some of which may have been due for funding under now withdrawn grant-based capital investment programmes. In addition, the prevailing view is that , by comparison with Wave 1, the Wave 2 City Deals have been less innovative, more generic and have involved lesser levels of fiscal freedom for the Cities concerned.

"In practice, scale is vitally important. For City Deals to make a major impact on infrastructure delivery, existing economies, future economic potential, transport networks all have to be of sufficient scale to benefit…. There are few localities of sufficient scale."

In practice, scale is vitally important. For City Deals to make a major impact on infrastructure delivery, existing economies and future economic potential, transport networks all have to be of sufficient scale to benefit from the sorts of local transportation freedoms, and long-term retained business rates settlements the deals can provide. There are few localities of sufficient scale. For smaller and less economically successful areas, City Deals can be little more than a means of keeping hold of some sources of funding which would otherwise be lost. Few have the economic strength and long term political consensus possessed by the Greater Manchester Authorities.

Nevertheless, lessons learned and mechanisms implemented in some of the largest, most capable economic areas will be available for smaller areas willing to embrace innovation, especially if they are willing and able to plan ahead and/or join forces with other areas.

Other commentators suggest that regional imbalances as well as scale may be an issue. In a recent report[30], Sheffield Political Economy Research Institute commented:

"Although the North West is the recipient of a relatively high level of public infrastructure investment (albeit significantly below London and the UK average), the North East receives the lowest amount per head than [sic] any other region – and around one thirteenth of that received by London.

[30] "SPERI British Political Economy Brief No 15 - Public infrastructure investment and business activity in the English Regions" (September 2015).

The bias towards infrastructure funding in London suggests that the Conservative Government's commitment to geographical rebalancing of the UK economy is highly questionable and will continue to inhibit private sector growth in other regions.

The evidence contained in [the brief] suggests that the Conservative Government's fiscal discipline in being applied unevenly in the English regions….."

It is likely that recent figures demonstrating regional imbalance are skewed by the projected cost of mega projects such as Crossrail, Thames Tideway Tunnel and HS2 Phase 1. Even so, with other major projects such as UK airport capacity expansion, Crossrail 2 proposed in and around London, and cutbacks announced in Network Rail's capital programme, the imbalance seems set to continue even if HS2 Phase 2 goes ahead.

4. Calls for further devolution of powers

Inevitably and understandably, given the springboard of City and Growth Deals and continuing austerity measures for local Government, the focus of those arguing for devolution within England has embraced requests for fiscal as well as operational powers. Nevertheless, there is a recognition that levels of capacity and aspiration are variable.

> *"devolution should not be a top-down blanket 'policy' but a process through which the UK's major metros can benefit from new powers and flexibilities that match their capability and ambition."*
>
> City Growth Commission

The City Growth Commission argued in September 2014[31] that:

- *"To compete on the global stage,….UK metros need sufficient decision-making powers and flexibilities to become financially self-sustainable……."*
- *"Working with local partners to support growth and deliver high quality public service outcomes, metros need to be empowered to tackle the long-term causes of welfare dependence, manage down their share of the national deficit and – by more integrated, informed investment decisions – help put the UK economy on a more inclusive, sustainable footing."*

The Commission argued for ambitious "decentralisation and devolution for those cities able to shoulder the burden of genuine risk". Nevertheless, it recognised that:

- *"devolution should not be a top-down blanket 'policy' but a process through which the UK's major metros can benefit from new powers and flexibilities that match their capability and ambition."*
- *"for some cities, the economics of agglomeration – concentrating and connecting highly productive resources – might remain elusive."*

This balanced view and recognition of the dichotomy in aspiration and capacity between the largest City regions and smaller economic groupings is evident in other commentaries[32].

A joint submission by the West Yorkshire Combined Authority and Leeds City Region Enterprise Partnership on the topic of Northern Devolution was explicit in expressing frustration and in outlining solutions in several areas. It commented:

"As part of our City Deal, a Combined Authority (CA) has been established for the area of West Yorkshire. This includes York as a partner member and also the Local Enterprise Partnership (LEP), alongside the West Yorkshire leaders and opposition members, on one strong board of equals spanning both the private and public sectors. Our CA and LEP are united behind a single Strategic Economic Plan and our strategic investment decisions are taken within a single

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[31] See note 27 above

[32] The Smith Institute/ PWC report "Full speed ahead – connecting our cities and regions"[32], commented with specific reference to transport devolution:
"There was [at a series of roundtable events involving regional stakeholders] some disagreement….on the "appropriate" level to which transport powers and funding should be devolved. It was said that in some places the councils were too small and clearly lacked the resources to deliver transport planning and development. In others, like the combined authorities, devolution could lead to tensions with national transport bodies whose strategic plans may not dovetail with local and sub-regional transport plans."
Nevertheless, the report concluded with a clear message from stakeholders that *"As far as local and regional transport was concerned, "Whitehall doesn't know best". The future is about localised decision making with the focus on city-regions and combined authorities and single regional transport plans and funds."*

appraisal framework. By introducing this stable, robust and accountable governance model, we have created the conditions in which we can build on the successes summarised earlier and deliver effectively our Growth Deal and maybe more.

Piecemeal and conditional allocations of funding are hindering the coherent local planning and co-ordination of strategic investment decisions. To address this empowerment gap, our ask is for a West Yorkshire and York Act which enables the following:

a) Introduction of a single CA area budget to maximise value for money and further advance coherent planning, including the following elements as a practical first step, but not the end point, of the fiscal devolution journey:

- *Long term funding based on % of GVA growth incentivising local investment in economic growth.*
- *100% retained business rates.*
- *Unfreezing council tax.*
- *Pooling the funding and assets of national and local public sector agencies.*

b) Requisite functional powers, including:

- *Powers to put in place an integrated transport system for the City Region (such as found in London and major European city regions).*
- *Powers for the City Region to determine its own housing strategies.*
- *A collaborative approach to commissioning of non-specialist health services.*

c) Introduction of enabling legislation that allows our Combined Authority to determine its own membership and scope as well arrangements for ensuring strong, visible, political leadership."

5. Calls for fiscal devolution

As previous sections note, the devolution debate is not just about the ability to exercise powers and responsibilities locally. Power and responsibility without the freedom to budget and the ability to raise finance to meet commitments are unsustainable. Equally, devolution or decentralisation of powers is illusory when finances for exercising them are dependent on ad hoc, often short-term, "deals" which in turn dictate spending priorities to match contemporary Central Government sentiment.

"The devolution debate is not just about the ability to exercise powers and responsibilities locally. Power and responsibility without the freedom to budget and the ability to raise finance to meet commitments are unsustainable."

Pressure for fiscal devolution has come from many directions: not only the Local Government Association and its membership, but also the London Finance Association, the Core Cities Group, the City Growth Commission, the Independent Commission on Local Government Finance, the think tank Respublica and the House of Commons Select Committee on Communities and Local Government. This pressure will be manifest in a variety of the bids currently with Government for consideration.

London Finance Commission

In its May 2013 report, – *"Raising the Capital",* the London Finance Commission (established by the Mayor of London in 2013) made a series of recommendations. These were designed to enable London Government *"to have the freedom to make appropriate investments in its own infrastructure both to cater for the growth already forecast for its population and economy and to promote additional economic growth"*.

The report recommended (among other things):

"Property taxes should be devolved first, as they have immobile bases and are therefore well suited to local control. We recommend that the full suite (council tax, business rates, stamp duty land tax, annual tax on enveloped dwellings and capital gains property disposal tax) should be devolved to London Government, which should then have devolved responsibility for setting the tax rates and authority over all matters including revaluation, banding and discounts. The yields of these taxes should be offset through corresponding reductions in grant to ensure a fiscally neutral position for the Exchequer, at the outset. Not least because the yield from property taxes is already high in London, devolution will lead to much greater pressure on London Government to account to residents and businesses alike for the activities the tax revenues fund.

In addition to these devolved taxes, London Government should be able to introduce new smaller taxes. Although unlikely to increase revenue substantially, they could be used as useful policy levers to promote economic development or other aims."

City Growth Commission

In its September 2014 report *"Powers to Grow: City Finance and Governance"* the City Growth Commission argued for fiscal devolution to those cities with sufficient will, leadership and capacity. It saw this as a necessary part of wider decentralisation and devolution of powers.

In the Commission's October 2014 report *"Unleashing Metro Growth",* it recommended a shift in fiscal powers from the Centre to City Regions through:

- multi-year settlements of upwards of five years;
- ability to retain the proceeds of growth through outcomes focussed financial models;
- freedom to spend grants without ring-fencing – thus enabling city-regional pooling of budgets;
- greater flexibility of capital reserves along with more borrowing flexibility; and
- freedom for the most devolved cities to retain a suite of taxes, offsetting revenues in a net neutral grant settlement with the Treasury.

Independent Commission On Local Government Finance

In February 2015, the Commission, chaired by Darra Singh, published its final report *"Financing English Devolution".* The report's recommendations included:

- multi-year settlements to enable long term planning for local authorities and other public sector services;
- 100% of Business Rates and Business Rates growth to be retained by local Government;
- Council Tax discount-setting and decisions on who receives Council Tax support to be devolved;
- Council Tax reforms including ability to vary bandings and to revalue;
- setting a programme for fiscal devolution using the Smith Commission's principles as a basis for reform; and
- introduction of place-based budgets for those sub-national areas willing and able to take on this reform.

6. Select Committee on Communities and Local Government

In a wide-ranging report dated 30 June 2014, the House of Commons Communities and Local Government Select Committee recorded the findings of its inquiry into *"Devolution in England: the case for local Government"*.

Committee Conclusions

The Committee's conclusions included several directly concerning fiscal devolution including:

"152. The key features of the fiscal devolution we want to see adopted in the next parliament are as follows.

(a) Local and central Government should agree a framework of taxes, powers and responsibilities which can be devolved and decentralised to local authorities. The framework would provide a range of options for local authorities from decentralisation of spending powers to full fiscal devolution of several taxes and powers to institute new taxes and enhanced borrowing powers.

(b) The initiative for seeking powers and responsibilities should lie with local authorities.

(c) The area to which fiscal powers (as opposed to decentralisation of spending) are initially devolved should demonstrably function as an economic unit —most likely being a group of authorities such as in London or the areas covered by combined authorities.

(d) The functional economic area should be able to demonstrate a record of competent, strategic financial management and have governance arrangements which ensure transparency and accountability, including democratic elections.

(e) The powers and responsibilities devolved should be subject to negotiation between the authorities seeking the powers and central Government.

(f) An independent office would bring objectivity to the process: evaluating devolution proposals; assessing relative needs and resources of local authority areas, including devolved areas, every 10 years; and commissioning the independent revaluation of business rates and council tax values every five years.

(g) The arrangements governing fiscal devolution have to balance incentives to stimulate local growth, a key rationale behind fiscal devolution, with some equalisation and redistribution of resources from authorities with the greatest resources to those with the greatest needs. These arrangements would: require an assessment of need and resources; have a mechanism for redistributing disproportionate growth; provide a safety net for local authorities facing severe and unexpected downturn in their circumstances; and include periodic reassessments.

(h) Decisions on national levels of public expenditure in England are for ministers but the current system of public expenditure control will need to be adapted to allow fully funded local expenditure no longer to count against tight national controls."

Government Response

In February 2015, after an eight month gap, the Government responded to the Committee's recommendations. It rejected the vast majority of the Select Committee's recommendations involving substantive fiscal devolution; preferring instead to re-emphasise its approach of individually negotiated City Deals and Growth Deals.

It commented:

"The Government is committed to the continued growth of the UK economy and welcomes the Committee's acknowledgement of the importance of deficit reduction. Any changes on fiscal devolution need to be considered in the context of the importance of long term control of public expenditure and tax rates as a proportion of national income.

The Government is committed to a substantial programme of decentralisation and devolution.

Funding decentralisation and devolution of responsibility is as important as fiscal devolution. Tailored Deals provide a clear framework for further decentralisation of funding that reflects local priorities, capacities and challenges and that provides the opportunity for all areas to make the case for further decentralisation. The freedoms and flexibilities provided for in recent Deals provide an opportunity to test out further devolution of responsibility and build a practical, evidence-based case for decentralisation, as well as rewarding growth."[33]

"Any future fiscal decentralisation will be for the next Parliament to decide."[34]

First steps toward fiscal devolution

In a keynote speech to the October 2015 Conservative Party Conference George Osborne announced devolution of business rate revenues to English Local Authorities with effect by 2020. Business rates within Scotland and Northern Ireland have already been devolved and those in Wales are to follow suit. In contrast with the £20.5bn of annual revenues mentioned in Danny Alexander's March 2015 announcement of the Treasury review of business rates, the 5th October announcement put total Business Rate revenues to be devolved at £26 Bn.

The intention as announced, is: to enable Councils to retain all business rate revenues raised in their areas; to give all authorities freedom to reduce business rate levels within their area and the ability of areas with an elected mayor (subject to business community support) to increase their business rates by up to 2% a year. As with previous reforms of business rates, there will be a safety net for areas where rates fall beneath a particular threshold.

The full results of Treasury's overall review of the business rate system are not due until Budget 2016.

Retention of business rate receipts has been an important element of the largest City Deals and of incentives to communities in which fracking ultimately takes place. It remains to be seen what more responsibilities Local Authorities will take on in return for these retained revenues and how this new initiative is reflected in the November 2015 Spending Review.

[33] Response to Recommendation 8.
[34] Response to Recommendation 13.

7. City and Local Government Devolution Bill

How it was introduced

When, in June 2015, Baroness Williams of Trafford introduced the Bill into the House of Lords, she described it as:

"a devolutionary bill that puts in place a legal framework enabling us to decentralise power to our cities and counties, and across the country."

As this statement articulates: the Bill sets a framework rather than detail; it enables rather than delivers.

Scope

The Bill will only apply in England and in Wales. The legislation would not cover Scotland or Northern Ireland.

The Bill is generic, flexible and empowering in nature. The detail to be applied in any area subject to devolution would be the subject of a separate statutory instrument. As with establishing combined authorities, the Secretary of State would be empowered to decline applications.

This makes the Bill compatible with the Government's preferred "deal-based" approach to settlement with individual authorities as well as with extant combined authority arrangements.

The focus of the Bill as introduced into the House of Lords was on facility for devolution of powers to combined authority and individual councils or a combination of councils subject to an elected mayor being put in place.

This focus on the mayoral model for holding devolved authorities accountable combined with failure to directly address fiscal devolution, has resulted in the Bill being criticised.

During passage through the House of Lords, the Government was defeated on a vote concerning power of the Secretary of State to insist that a local area must have an elected mayor even if it did not want it and could demonstrate this through consultation.

It has been suggested that Clive Betts, Chairman of the Communities and Local Government Committee, backed by the Local Government Association will, in the Commons, press for the Bill to embrace fiscal devolution. At the same time the Government is likely to push back on the elected mayor issue.

The Bill's Second Reading debate in the House of Commons is scheduled for 14th October 2015.

Reaction to the Bill

The Core Cities Group's reaction to the Bill was simple and direct:

"Over our twenty years of joint work we have closely examined how devolution can help different places. We have concluded that:

- *devolution should be to a meaningful geography, the 'functioning economic area' or other relevant boundary whether city/city-region or non-metropolitan equivalents; and*
- *that Government should be open to other non-mayoral governance models, which can demonstrate they are sufficiently robust.*

We therefore believe the terms of this Bill should be permissive rather than prescriptive, supporting each place that has the potential to do more for the nation. It is Government's role to set out the principles by which devolution should operate, with cities and other places then demonstrating how they will match that."[35]

Combined authority areas would not automatically be entitled to devolved powers or any particular suite of them. They would have to submit their proposals for a directly elected Mayor to the Secretary of State.

Communities and Local Government Committee inquiry into the Bill

On 24 July, 2015, after the Bill had received its Third Reading in the House of Lords, the Communities and Local Government Committee, reconstituted after the General Election, announced its inquiry into the Bill. The Chair of the Committee, Clive Betts MP, commented:

"Devolving power to local areas is the right way to help boost economic growth across the country and can potentially deliver more effective and efficient public services. As a Committee, we will want to examine whether this Bill can help deliver real devolution, making services responsive and accountable to local people, and how far the Greater Manchester model is a template for other areas".

The deadline for submission of evidence was 1st September 2015.

In its generally supportive submission to the Inquiry, the British Property Federation made a number of telling points. These included:

"Focus on regional growth

5 It is crucial that the aim of the Bill and, indeed, of the Government's devolution agenda, is to further regional growth and allow people to benefit from growth in their area rather than allowing the argument to become mired in a constitutional quagmire over governance structures.

Manchester Model

11 While there are clearly positive benefits to be learnt from the establishment and work of the Greater Manchester Combined Authority, it is important to remember that this has been made easier by the work of the Association of Greater Manchester Authorities for nearly 30 year prior. Other combined authorities are very much in their infancy, and there is a danger of over-burdening local authorities who are struggling financially if they are encumbered with too much responsibility in a short period without an increase in resources. In addition, Manchester's political stability is unusual.

Governance structures

15 Whilst the addition of a Mayor has delivered benefits to some areas by offering a single focal point with whom the development industry can engage, in others there has been concern over the reliance on a single figure head. In areas where the leadership is not pro-business, devolution may in fact be a damaging prospect for the region. In addition, the UK is so small that an extended mayoral system could lead to an unhelpful amount of internal competition for the same funds or schemes.

[35] See Core Cities Group's reaction to the 2015 Queen's Speech and the Cities and Local Government Devolution Bill – 28 May 2015

16 We believe there is no "one-size-fits-all" solution to the stronger local governance arrangements that may be needed where significant new responsibilities are devolved……"

The Centre for Cities in its (again generally supportive) submission concluded:

> *"Even in places where substantial [devolution] deals are agreed, devolution will take time to deliver. Although a number of agreements have been struck to push power down from Whitehall to local Government since 2010, the amount of devolution that has actually been achieved is relatively modest. This is in no small part a reflection of the political and policy difficulties associated with devolving power in a highly centralised state and the extent of capacity building required at the local level to take on new functions. The Greater Manchester Deal, for example, will only be fully implemented two and a half years after being initially announced."*

Devolution agreements to date and September 2015 devolution bids

Devolution Agreements for Manchester and Sheffield, settled in the dying months of 2014, built upon and took forward elements within earlier concluded City and Growth Deals. In recognising that elements of the deals required primary legislation, they set the scene for the Cities and Local Government Devolution Bill to be pursued in the immediate post General Election period.

The Manchester and Sheffield Agreements were held out as game-changers and followed by Agreements for Leeds City Region and West Yorkshire (March 2015) and Cornwall (July 2015). We attach summaries of the Sheffield City Region Devolution Agreement at Appendix 3 and of the West Yorkshire and Cornwall deals at Appendix 4.

In July 2015, in anticipation of the Devolution Bill being passed, and in anticipation of the November 2015 Spending Review, Treasury set local Government areas across the country a seven week deadline to bid for devolved budgetary and spending powers, if they were to be taken into account in the November review.

Some 38 bids were submitted by the 4th September 2015 deadline. A full list of those who submitted bids appears at Appendix 5. The bids were not only by the largest combined authorities but also by counties, groups of authorities and smaller individual authorities. The powers and devolved budgets typically sought embraced education, transport, healthcare, housing and business support. Several also sought fiscal freedoms.

The West Yorkshire Combined Authority and Leeds City Region LEP were explicit when submitting their September bid, only six months after the March 2015 Devolution Agreement. Their list of 26 separate *"asks"* is both extensive and representative of the most ambitious combined authorities. The list appears in Appendix 6 and seeks not only powers of self-determination but also freedom to raise finance.

There is a widespread view that, as with Wave 1 and Wave 2 City Deals, the devolution deal negotiating process will differ as between the *"powerhouse"* core cities and combined authorities and the next tier areas and authorities. Thus, with a small number of the most powerful authorities and areas, bespoke detailed deals will be negotiated, to be worked up into statutory instruments in due course. For others, there will be indications given of what might be offered if the right results can be guaranteed.

By tying the request for bids and the negotiations themselves to the timeframe for the spending review, commentators such as the Centre for Cities have noted that deals are unlikely to be struck unless fiscally neutral – enabling central Government departments to deliver and demonstrate savings whilst "devolving" powers and budgets to local level. There is a recognition among the more pragmatic combined authorities that the price of a workable deal will include (like it or not) commitment to an elected mayor[36].

> "The challenge for local areas, as was the case with City Deals when first they came to be negotiated, is of creating negotiating and planning capacity in areas with which they may be much less familiar than in Whitehall."

The challenge for local areas, as was the case with City Deals when first they came to be negotiated, is of creating, negotiating and planning capacity in areas with which they may be much less familiar than in Whitehall.

In an attempt to overcome asymmetries in capacity and negotiating power, the Local Government Association has created a number of information sources and tools. These are designed to capture experience from devolution negotiation processes to date and to assist those negotiating with Government.

The LGA's planning tool: *"A new devolution baseline: a planning tool for councils"* picks out and summarises trends for the six public service areas: *"transport, employment, skills, enterprise and growth, energy and environment, and use of assets".*

The tool identifies: lessons from City, Growth and devolution deal negotiations to date; where particular successes have been achieved and why; questions designed to draw attention to capacity considerations and what evidence needs to be accumulated.

In addition, the LGA has pooled advice regarding the various governance and accountability models. These include not only combined authorities and directly elected mayors but also joint committees under which two or more local authorities can deliver functions across their areas and cross area economic prosperity boards.

It remains to be seen how effective this more joined up approach will be. It is ironic, however, that as framework legislation for constitutional change to facilitate devolution of powers is being debated and refined in Parliament, hard-nosed, financially driven individual "deals" are already being negotiated ad hoc.

It is in this context and having regard to the importance of investor confidence wherever infrastructure is to be financed, that we make the recommendations below.

[36] In the case of the West Yorkshire Combined Authority and Leeds City Region LEP submission, frustration with the requirement for an elected mayor was evident but it was also turned into a negotiating lever:
"By submitting their bid, the council leaders have acknowledged that Government will insist on an elected metro-mayor. However they remain adamant they will only agree to a mayor and the costs of introducing one if the powers and funding on offer from Government match their substantial ambition for the city region's economy, infrastructure, jobs and housing.":

8. Recommendations for Economically Sustainable Devolution

Introduction

It is critically important that local areas are supported by the infrastructure necessary to cater for their current and foreseeable populations.

Infrastructure investment is dependent on identified need, strategic planning, necessary consents, availability of funding and finance, ability to procure and (assuming third parties or the private sector are involved) investor confidence.

From the perspective of those delivering infrastructure, the legal identities of the procuring and consenting bodies need to be clear. Their access to sufficient funds and finance and their ability to contract are essential.

Devolution requirements

If infrastructure investment is to be sustained as part of the shift to City and local Government devolution, the following will be important:

Units for devolved powers

- although Core Cities and Combined Authorities are likely to pioneer the most complex and far-reaching devolution settlements, devolution should not be restricted to City regions. Historically, large county authorities have, like the largest Metropolitan bodies, been the drivers of cohesive local government and infrastructure provision. Several have shown themselves to be adept at delivering economies of scale and developing sophisticated ways of working with LEPs and Unitary and district authorities in their areas. If efficient, cohesive units exist at county, sub-county or cross-county level they too may merit devolution, even if more limited in scope;

Physical and economic geography

- the geographical extent of the areas subject to devolved powers should be clear;
- areas should not physically overlap one another;
- they should have economical as well as physical legibility and integrity;

Governance

- governance arrangements within devolved areas should be clear and transparent;
- unnecessary overlaps (such as sometimes occur between LEPs and local authorities and even between neighbouring LEPS) should be avoided; -
- areas to which powers can be devolved should be free to select from a range of functionally effective and locally deliverable governance models. Restricting devolution to areas with a single elected mayor may act as a poison pill;
- there should be stability around both the groups governing areas subject to devolution and the governance structures applicable to them;
- there should be full consultation and analysis around what governance and public accountability models really work and which are best suited for achieving sustainable devolution. One size doesn't fit all but neither will plethora of different models aid transparency, consistency in financial treatment or predictable accountability.

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Financially sustainable devolution

- powers to set budgets, to set budget priorities and to raise finance should be devolved as well as operative powers and responsibility;
- fiscal devolution will in practice be essential. The more powers and duties that are devolved and the greater the degree to which centralised funding sources are stifled the greater the need to raise finance locally. Family silver, in the form of property assets can only be sold once. Pension funds can only prudently be applied to safe and revenue raising investments. Revenue account public services in the nature of many of those devolved do not fall into this category
- a menu of local fiscal devolution possibilities to accompany devolution of powers and responsibility should be generated, combined with clear statements as to what the entry requirements will be in terms of justification, collection machinery, administrative, enforcement and appeal mechanisms and overall oversight and governance arrangements. The City Growth Commission has already made suggestions in that regard.
- revenue streams (whether raised or retained locally or received from Government) should be predictable over sufficient periods of time to underpin finance arrangements – the recently announced proposal to allow local authorities to retain all business rates from 2020 will go some way towards achieving this;
- powers should be devolved to facilitate user charging, value capture and other revenue raising powers – retention of business rates should be the beginning not the end.

What happens pending devolution or in areas where it doesn't happen?

It is clear that the process of finalising devolution settlements and fixing boundaries of devolution will be a negotiated process with those cities and other areas who want it and who are suited to devolution. There will be some areas who either do not want it, or for whom devolution would be manifestly unsuitable.

It is equally clear that negotiations leading to devolution (whether within the group or groups to whom powers are to be devolved or between the group and Central Government) are slow and usually painful. The rate of progress will differ between more and less politically and economically powerful areas. The Bill when enacted and the 2015 spending review will simply be steps along a much longer and politically tortuous path.

Devolution of powers will take time and the extent of devolution will evolve at different rates in different areas. The history of Scottish and Welsh devolution is testament to this. Therefore, in the meantime, and for the benefit of those beyond the scope of the devolution debate, it is important that the current system, where it is short of devolution, is made to work more effectively and efficiently.

Pending more formal devolution, and in any event, the following will be important:

Building capacity

- greater clarity should be provided around governance, the practical scope of City and Growth deals, the scope for powers to be devolved and the prerequisites to devolution;

Ability to raise finance

- financial elements of "deals" should be such as to allow finance freely to be raised. Short term relaxations in duties to collect business rates and uncertain, overly conditioned re-allocations of central funds do not fit with longer term decentralisation (let alone devolution), of powers and responsibilities. Deals such as business rate retentions and ability to benefit from GVA uplifts must apply over sufficiently long periods to satisfy investment criteria of potential institutional backers. The promise of business rate retention by 2020 will go some way towards removing uncertainty but even so there will be a five year lead in.
- if responsibilities are to be devolved from central to local Government, so too must the ability to raise funds to discharge those responsibilities. This will require fiscal freedom to raise sources of funding and not just freedom to borrow and a duty to dispose of assets.

Review of LEP geographical and administrative boundaries

- the geographical and operational boundaries of LEPs and how they relate to the practical operational areas of those with local Governmental responsibilities should be reviewed in order to streamline, remove overlaps and anomalies.

Creating economically functional units

- irrespective of devolution in the short term, it will be vitally important to arrive at economically functional (and not just politically convenient) local Government units for the purposes of continuing decentralisation of activities and budgets. This was engineered in preparation for Cornwall's Devolution Agreement. There seems every reason to consider that it should be addressed in other localities.

> "It is clear that the process of finalising devolution settlements and fixing boundaries of devolution will be a negotiated process…it is equally clear that negotiations of this kind are slow and usually painful. Therefore, in the meantime, and for the benefit of those beyond the scope of the devolution debate, it is important that the current system…is made to work more effectively and efficiently."

End note: city and local government devolution and the many underlying city, growth and devolution deals are fuzzy edged and fast moving. This note addresses itself to developments up to the beginning of October 2015. Many further developments are likely to follow.

Appendix 1: Menu From Wave 1 City Deals[37]

Greater powers and incentives to invest in growth

- Earn Back: a new payment by result model that incentivises a city to invest in growth in return for a share of the national tax take. (Greater Manchester)
- New Development Deals: the freedom to deliver critical infrastructure through tax increment financing, with the ability to borrow against future business rate income in key development zones. (Newcastle, Sheffield and Nottingham)
- Economic Investment Funds: the power to pool multiple funding streams and business rate income into a single investment fund, leverage private sector capital and invest in local priorities. Cities will be able to create self-sustaining investment funds that will reduce dependence on central government grants. (Greater Birmingham and Solihull, Bristol and West of England, Greater Manchester, Leeds city Region, Liverpool City Region and Sheffield City Region)

Greater powers and levers to deliver the skills and jobs that local businesses and people need

- Local skills funding model: a new model of skills funding that will match local contributions (public and private) with national funding to provide a skills budget that cities will control to invest in the skills that local businesses need. (Sheffield City Region)
- Skills Bank: an employer owned mutual that will match public sector funding with private sector investment and allow businesses to buy the skills and apprenticeships that their local economy needs. (Liverpool City Region)
- Outcome incentives: new models to give cities greater influence over the skills system by using incentive payments or payment by results. (Greater Manchester and Liverpool City Region)
- City apprenticeship hubs: enabling cities to boost apprenticeship numbers by supporting SMEs take on apprentices through Apprenticeship Training Agencies, brokerage and incentive payments. (Bristol and the West of England, Greater Manchester, Leeds City Region, Newcastle and Nottingham)
- Localised youth contracts: local alternatives to the national 16-17 youth contract programme, with cities having the power to design and deliver local models to reduce NEETs. (Leeds City Region, Liverpool, Newcastle)

Greater freedoms and tools to support local businesses

- Local venture capital fund: a localised model that will match national funding with local contributions to create a venture capital fund that will invest in high tech start up and growth businesses across an economic area. (Nottingham)
- Business Growth Hubs: city led business hubs that bring together all the support, advice and services that investors and local businesses need to locate, grow and trade. (Greater Manchester and Bristol and West of England).

[37] Abstracted from: "Unlocking growth in cities: City Deals – Wave 1" – HM Government July 2012

Greater powers and resources to drive critical infrastructure

- Rail devolution: increase city control over rail services by devolving greater responsibility for commissioning and managing franchise arrangements for local and regional rail services (e.g. Northern Rail). (Bristol and West of England, Leeds City Region, Greater Manchester and Sheffield City Region)
- Devolution of local transport majors funding: matching local resources with devolved transport budgets so cities have the power and resources to make strategic transport investments. (Greater Birmingham and Solihull, Bristol and West of England, Leeds City Region, and Sheffield City Region)
- Localised asset management: joint investment programmes that bring together local and national assets in an economic area to unlock resources for housing development and regeneration (Greater Birmingham and Solihull, Bristol and West of England, Greater Manchester, Liverpool and Newcastle).
- Broadband: Resources to deliver super-fast broadband across cities. (Bristol and West of England, Greater Manchester, Leeds City Region, Newcastle, Greater Birmingham and Solihull).
- Low carbon pioneering cities: local programmes that will help cities make critical investment in green infrastructure and technology; generate low carbon jobs; and accelerate reductions in emissions. (Greater Birmingham and Solihull, Leeds City Region, Greater Manchester, Newcastle, Nottingham)

New powers and responsibilities have been matched by strengthened governance and accountability

[Directly elected mayors:]

Liverpool and Bristol have voted to have directly elected mayors supported by strong decision making structures across the wider economic area;

[Combined authorities:]

Leeds and Sheffield have joined Greater Manchester in forming a West Yorkshire and South Yorkshire Combined Authorities; Newcastle is working with the seven authorities across their economic area to take steps towards a North East Combined Authority;

[LEPs]

Birmingham is an unusually large Local Authority - one of the biggest in Europe - and has developed strong private sector leadership and decision making across the Local Enterprise Partnership; and

[Private Sector Governance Arrangement]

Nottingham's City Deal is focussed on a particular area of the City Centre – the Creative Quarter – which is wholly within the city council's boundaries and Nottingham has created a new Private Sector Governance arrangement to deliver the Deal.

1.6 Huge progress has been made in just over seven months since the publication of 'Unlocking growth in Cities'. But city deals are not a 'one time' event but a continuing process. Over the months and years ahead, the core cities will need to make the most of these new powers and projects; show that local power and initiative can and does work; and come back to Government to negotiate greater powers and freedoms.

Appendix 2: Local Government Information Unit Policy Briefing

7 JULY 2014 ANNOUNCEMENTS CONCERNING LOCAL GROWTH DEALS

EDITED EXTRACTS FROM LOCAL GOVERNMENT INFORMATION UNIT POLICY BRIEFING – "LOCAL GROWTH DEALS AND THE LOCAL GROWTH FUND"

"WHAT DO LOCAL GROWTH DEALS ACTUALLY SAY?"

"Beyond amounts announced, Growth deals specifically mention over 600 projects, a number of programmes and other measures that LEPs are now expected to deliver.

At their core, all deals contain Department for Transport (DfT) 'devolved transport majors' and sustainable transport programme; over 50% of LGF is transport-related. The deals also suggest a larger influencing and engagement role for LEPs in rail franchising and strategic road investment. As a corollary, they (and LA partners) need to review the relationship of Local Transport Board (LTBs) to LEP governance.

All the deals also contain the Skills Funding Agency (SFA) FE capital investment programme, and up to 20% of LGF has been allocated for these purposes. In due course, LGF will also provide match funding to SFA skills programmes in the EUSIF.

However, most deals also contain other commitments. Each LEP is expected to lead a business support 'growth hub' and simplification process. Most contain commitments to further roll-out of superfast broadband (and sometimes further more advanced ICTs infrastructure - like 'Terabyte City' in West of England or a '5-G Testbed' in some of the LEPs bordering London).

There are many projects which seek to maximise the benefits of HS2 - both in 'HS2 phase one" and 'phase two' LEP areas. A new national regeneration body is to be established to develop these (which may not be a particularly 'local' solution)! The most extensive interventions may be Greater Birmingham and Solihull (GB&S) LEP which was concurrently 'awarded' the Construction HQ for HS2, and government support for an area-based Local Delivery Vehicle for Curzon Street area.

In a similar vein, a number of LEPs receive support (skills, supply chain, R&D) for major nuclear investments - notably those around Hinkley (Heart of South West, West of England, Gloucestershire) and in the North West (Cumbria, Lancashire); and also for the North West's 'Atlantic Gateway' strategies. Certainly, LAs need to consider the role and positioning of nationally-significant 'transformational' economic investments in future iterations of their SEPs and any LGF proposals.

There are a range of enterprise and innovation programmes supported – from extending existing RGF schemes (e.g. Humber), to new business loan funds (e.g. Greater Manchester with Cheshire and Warrington), to new innovation centres and 'Science parks' (e.g. Leeds City Region, Greater Cambridge Greater Peterborough), to a plethora of business-facing skills centres (e.g. British Glass Academy, Sheffield).

Also on skills and employment, there are… pan-LEP programmes and pilots like a 'mental health employment trailblazer', an Enterprise Advisors in schools approach, and a disadvantaged learners pilot.

On housing, many of the transport and infrastructure investments are specifically targeted at opening up housing sites. More directly, around 50% of deals seek to accelerate housing supply through loans to named developers/developments, and an uplift in HRA borrowing for specific

LAs. In London a £70m New Homes Bonus (NHB) contribution is contained within the growth deal.

Finally, of general note, government and LEPs have agreed a range of flood defence and mitigation measures through the growth deal/LGF route. …….

In agreeing 'deals', government has made quite detailed demands on some LEPs in terms of leadership, governance and partnership working, which will impact significantly on LAs. Many deals expect reviews of LEP Board governance, the relationship between LEPs and LAs, between LEPs and their sub-committees, and on reporting and accountability arrangements.

Government requires much of most Local Planning Authorities (LPAs). A majority of deals contain commitments to strengthening structures and processes for joint-LA collaboration (including Joint Statutory Committees and other instruments). There are multiple statements concerning LEPs working with LPAs to ensure delivery of Local Plan housing numbers; LPAs revisiting and improving the discharge of the 'duty to cooperate', and the delivery of 'strategic planning priorities'. ……"

Appendix 3: Summary of Sheffield City Region Devolution Agreement[38]

Skills

Sheffield City Region will work with Government to deliver an integrated skills and training system across the local area, driven by the needs of the economy and led by the private sector, giving local businesses the skilled labour they need to grow.

- Sheffield City Region will have devolved responsibilities in relation to adult skills funding and provision. The LEP and Combined Authority will form a joint venture partnership with the Skills Funding Agency, which will be responsible for recommissioning provision so that a new, forward looking system is in place by 2017.

This arrangement will cover:

- The Adult Skills Budget (other than participation funding for apprenticeships and traineeships)
- The Apprenticeship Grant for Employers (AGE)
- Through an enhanced version of its existing Skills Bank, Sheffield City Region will play a central role in enabling businesses, especially SMEs, to take up and invest in apprenticeships. Working within Government's reform agenda for apprenticeships in which funding will be routed directly to employers, the Deal will enable businesses to either liaise with the SCR Skills Bank or directly with Government
- Sheffield City Region will work in partnership with the National Careers Service on the 'Inspiration' agenda to coordinate employer-education activity more effectively, building on the existing Enterprise Advisors pilot.

Employment

The Department for Work and Pensions (DWP) will continue to work closely with Sheffield City Region to ensure their work joins up with the local skills and training offer.

- DWP will consult with Sheffield City Region about the possibility of joint commissioning for the next phase of the Work Programme beginning in 2017
- DWP will enter into discussions with Sheffield City Region over a public sector reform pilot from 2015 bringing together JCP, SCR local authorities and other bodies to improve outcomes for ESA claimants.

Business support

Sheffield City Region will get a more flexible and responsive business support system, in which the LEP has more power to meet the needs of local businesses.

- Sheffield City Region will align national and local business support through the LEP's Growth Hub, so that businesses get a joined up service which meets their needs.

The Government will work with SCR to develop a devolved approach to the delivery of business support from 2017 onwards, subject to the outcome of future spending reviews

- UKTI will become principle partner with Sheffield City Region's Export Centre of Expertise and work closely with the LEP to encourage more businesses to export

[38] Summary abstracted from: Sheffield City Region Agreement on Devolution – February 2015

- Government and Sheffield City Region will work towards a solution that will allow the Yorkshire JEREMIE to continue on an interim basis.

Transport

Sheffield City Region will be supported in playing a key role in developing transport to meet the needs of a growing economy.

- Government will explore options to give Sheffield City Region more control over the delivery of local transport schemes, particularly in preparation for HS2
- Government will work with Network Rail to ensure that the appropriate infrastructure works are undertaken to support introduction of the Tram Train service utilising Sheffield's new vehicles on delivery
- Sheffield City Region will enjoy improved liaison with Highways Agency and Network Rail, ensuring that investment decisions are properly informed of local economic priorities.

Housing

Sheffield City Region will work with Government to increase house building and maximise the economic returns from public sector land assets.

The local authorities within Sheffield City Region will form a Joint Assets Board with the Homes and Communities Agency to influence asset disposals in a way that supports the local economy.

Future devolution

Through this Deal Government and Sheffield City Region will embark on a new relationship.

This first phase of this is underpinned by the skills, business support, transport and housing initiatives set out in this document. Future phases will involve Government and Sheffield City Region continuing to work together on transferring further resources, powers and policy levers to local level, whilst also strengthening the City Region's governance and capacity to deliver.

As part of this, Sheffield City Region will consider different options for improving local governance and accountability. In response to any further agreements on local governance, Government will consider what further powers and funding could be devolved to Sheffield City Region over time, potentially including greater control over the levers of local growth and public services, as well as fiscal powers, such as a payment by results mechanism. Any further agreements will be subject to further discussions at local and national level.

Appendix 4: Summaries of the Leeds and West Yorkshire and Cornwall Devolution Agreements

LEEDS AND WEST YORKSHIRE

Substance[39]

- Reform the further education system in West Yorkshire, to be done jointly by the combined authority and the Government (BIS, DfE, SFA and EFA);
- Devolution of The Apprenticeship Grant for Employers (AGE);
- Consultation with the Department for Work and Pensions regarding joint commissioning of the next phase of the Work Programme, from 2017;
- National and local spending on business support to be aligned through the Leeds City Region Growth Hub, with more devolution of support from 2017 onwards; closer working with UKTI and the newly created LEP International;
- **More control for the Leeds City Region over the delivery of local transport schemes**; improved liaison with Highways England regarding investment in the strategic highways network; infrastructure works to be aligned with Leeds City Region's investment strategy for rail stations;
- **Reconfiguration of the city region's Joint Assets Board with the Homes and Communities Agency** (HCA); development of a joint Asset and Investment Plan.

Governance

This is a topic which was sensitive and mired in Yorkshire politics. The concept of a "Leeds City Region" mayor leading a West Yorkshire Combined Authority was inamicable to the combined authority members. In consequence the Devolution Agreement commented:

"In the event of any future agreement, West Yorkshire Combined Authority will consult on options for enhanced governance, decision-making and delivery arrangements that will be mutually agreed with Government."

CORNWALL AND CORNWALL AND SCILLY ISLES NHS TRUST

SUBSTANCE[40]

Under the deal, the following powers will be transferred:

- Devolution of local transport funding and of power to franchise bus services, **subject to primary legislation permitting this to be done** and to public consultation in Cornwall: this will be accompanied by the introduction of a smart ticketing system;
- Joint working to "reshape further education training and learning provision for adults", with the new system to begin in 2017. This will include aligning the Adult Skills and Adult Community Learning budgets with local funding for further education;
- Discussions with local partners to improve outcomes for Employment and Support Allowance claimants, and identifying new apprenticeship opportunities;

[39] Summary abstracted from House of Commons Library Briefing Paper No 07029 "Devolution to local government in England" (4 September 2015) Bold type our emphasis.

[40] Summary abstracted from House of Commons Library Briefing Paper No 07029 "Devolution to local government in England" (4 September 2015). Bold type our emphasis.

- Cornwall Council to have intermediate body status for EU Structural Funds, giving it the power to select projects for funding from April 2016;
- Government and Cornwall Council will work together to integrate local and national business support services, aimed at a **"devolved approach" from April 2017**;
- Proposals to be invited for a low carbon enterprise zone related to geothermal energy, plus joint working with the Government on energy efficiency in homes and community energy projects;
- Cornwall Council and local health bodies to **produce a business plan for the integration of health and social care** provision;
- Enhanced **joint working regarding land and buildings owned by the public sector in Cornwall**, including the NHS and the Homes and Communities Agency, building on the work of the Cornwall Property Board;
- Establishment of a Cornish Heritage Environment Forum.

GOVERNANCE[41]

Governance

46. The Government recognises that **Cornwall has already taken a series of steps to streamline and strengthen its governance arrangements**, creating a more effective governance landscape that already enables: enhanced partnership and co-operation between public sector organisations; and effective joint working between the public sector and private sector. Key elements of the governance landscape include:

- One unitary council. Cornwall underwent a process of local government re-organisation in 2009. Cornwall County Council and six district councils were replaced by a single local authority – Cornwall Council. This council adopted a Leader-Cabinet model.
- One Clinical Commission Group – NHS Kernow.
- One acute NHS trust – Royal Cornwall Hospitals Trust.
- One Local Enterprise Partnership – Cornwall and Isles of Scilly Local Enterprise Partnership.
- Cornwall and the Isles of Scilly are covered by the Devon and Cornwall Police. However this agreement does not include and proposals which relate to policing.

47. Both Government and local partners recognise that all policy areas have the potential to have an impact on the Isles of Scilly. The Government will therefore work with the Council of the Isles of Scilly and other local partners to determine the level of involvement the Isles of Scilly wish to have, as part of the implementation of this Devolution Deal.

48. Government and local partners also recognise that certain proposals in this deal (e.g. public transport) will have an impact beyond Cornwall and the Isles of Scilly. In these areas **Cornwall Council and Cornwall and the Isles of Scilly Local Enterprise Partnership will work with relevant Local Enterprise Partnerships and local authorities in other parts of south west England** to ensure effective implementation of these proposals.

49. In order for Cornwall and the Government to understand how new arrangements have worked and the impact of the devolution deal on growth and outcomes, Cornwall will work with Government to plan an appropriately funded evaluation of this deal. This plan could take the form of, for example, process evaluation, outcome evaluation and impact evaluation methods including Randomised Control Trials or other suitable methodologies for each element of this deal.

[41] Extract taken from the Agreement itself. Bold type, our emphasis.

Governance Arrangements

50. As part of the implementation of this Devolution Deal, **Government will agree with local partners which organisation will lead the delivery of each policy area** – Cornwall Council, NHS Kernow or Cornwall and Isles of Scilly Local Enterprise Partnership. This process will also confirm which organisation is the "accountable body" for any funding that is devolved or decentralised (on a case-by-case basis) and the role Council of the Isles of Scilly will play in delivery of this deal.

51. In addition, as part of the implementation of this deal, **local organisations will work with Government to design and agree an appropriate overview and scrutiny function for this deal**. This function will provide elected representatives and, where relevant, business representatives with the ability to scrutinise the delivery of this deal and the impact it is having in the local area.

52. Cornwall Council recognises that a key ambition of Government, through Devolution Deals, is to strengthen governance in local areas. Building on the significant Governance reform in 2009, where Cornwall moved from seven local authorities to one local authority, **Cornwall Council will take forward a council boundary review**. This boundary review is expected to reduce the number of local councillors and will be taken forward by the Boundary Commission. This review will commence in 2017.

53. The Government recognises that **Cornwall has further ambitions around devolution and decentralisation, for example on housing including low cost starter homes and planning. Government will have further discussions with Cornwall on these ambitions**, which are set out in "The Case for Cornwall". However **any future Devolution Deal will be predicated on strengthening of local governance**, which would meet the Government's ambition for visible and accountable leadership that enables residents to understand who is taking local decisions.

Governance Principles

54. In finalising this deal's governance arrangements the Government and local partners will seek to adhere to the following principles:

- This **Devolution Deal will be fiscally neutral** for the Government and Cornwall. Local partners will be able to withdraw from a transfer of responsibility if they judge the cost to be prohibitive.
- Her Majesty's Treasury **"Green Book" principles will be applied to any business cases required in order to commence delivery** of this agreement.
- Accounting regimes and principles will be rationalised as far as possible. Decisions on this point will be taken on a case-by-case basis, subject to detailed discussions with Cornwall and the relevant Government Department(s).

Appendix 5: List of those submitting Devolution Proposals by 4th September 2015 Deadline

- 1 *Aberdeen
- 2 *Cardiff
- 3 Cheshire and Warrington
- 4 Cornwall
- 5 Cumbria
- 6 Dorset
- 7 'D2N2' – Derbyshire, Derby, Nottinghamshire and Nottingham
- 8 *Edinburgh
- 9 Gloucestershire
- 10 Greater Brighton
- 11 Greater Essex
- 12 Greater Lincolnshire
- 13 Greater Manchester
- 14 Greater Yorkshire
- 15 Hampshire & Isle of Wight
- 16 Heart of the South West
- 17 Herefordshire
- 18 Hull, Yorkshire, Leeds City Region and the Northern Powerhouse
- 19 *Inverness & Highland City
- 20 Leeds City Region
- 21 Leicester and Leicestershire
- 22 Liverpool City Region
- 23 London
- 24 Norfolk
- 25 Northamptonshire
- 26 North East
- 27 Oxfordshire
- 28 Sheffield City Region
- 29 Surrey, West Sussex & East Sussex
- 30 Swindon
- 31 Suffolk
- 32 Tees Valley
- 33 Telford & Wrekin
- 34 West Midlands
- 35 West of England
- 36 Wiltshire

- 37 Worcestershire
- 38 York, North Yorkshire and East Riding

*in devolved nations

Appendix 6: Leeds City Region Devolution Asks

Leeds City Region Devolution Asks

4th September 2015[42]

Fiscal

- Control of a 10-year infrastructure precept, which is exempt from the Council Tax capping regime, to deliver major new investments such as a world class 'metro-style' public transport network that is HS2 and HS3 ready;
- Power to levy and retain Supplementary Business Rates to invest in major strategic infrastructure in a similar way to the London Crossrail scheme; and
- Retention of 100% of the local growth in business rates.

Transport

- Responsibility for a devolved and consolidated transport budget, with a multi-year settlement to be agreed at Spending Reviews;
- Responsibility for franchised bus services (subject to the Buses Bill) to secure access to 'fare box' revenues, and for integrating simple smart ticketing across all local modes of transport;
- Devolved ownership of local rail stations, with associated budgets;
- Devolved powers, responsibility and maintenance budgets for a locally defined strategic highways network (including the M621 and M606), including new traffic management powers such as moving traffic enforcement; and
- A Memorandum of Understanding with Highways England with regards to traffic management and emergency management on the M62.

Housing, Regeneration and Planning

- Control of a new £500 million Housing and Regeneration Investment Fund, including a fiscally-neutral transferred £350m revolving loan facility;
- Enterprise Zone / Tax Increment Financing status for major developments at growth areas around principal transport hubs, including Leeds South Bank, York Central, Bradford City Centre, Wakefield, Huddersfield and Halifax , as well as any new wider area based Enterprise Zones that may be established in areas such as in the Colne Valley, Dewsbury and Harrogate;
- To be the Government's delivery agency (potentially via a Land Commission arrangement similar to London) to ensure assets are used and disposed of in a way that supports growth and regeneration, to include local assets, such as those belonging to HCA, Network Rail, Highways England, NHS, MoD - and other Public Assets not currently controlled by the HCA;
- Responsibility for a strategic infrastructure investment plan to direct infrastructure investment priorities which will provide long term confidence to those wishing to invest in the City Region;
- Powers to incentivise developers to bring forward strategic sites and prevent land banking - and to bring empty buildings back into use;

[42] Abstracted from letter dated 4 September 2015 from the Leaders of the West Yorkshire Combined Authority to Lord O'Neill of Gatley.

- Responsibility for budgets, including DCMS/BDUK, to deliver ultrafast broadband connectivity and further develop the market;
- Responsibility for local energy generation and efficiency; and
- Responsibility for flood defence capital investment through devolved DEFRA and Environment Agency powers and budgets.

Growth/Investment:

- Responsibility for managing European Structural and Investment Funds in the same way as London;
- Responsibility for devolved and integrated business support budgets, building on the LEP's growth hub, including the resources for Growth Accelerator, Manufacturing Advice Service (MAS), Innovate UK and UK Trade and Investment (UKTI) Export Advice. Working closely with the City Region Universities and HEFCE, secure greater influence over national investment in HE for innovation and business engagement, so it is better linked to our priority economic sectors, for example via Catalyst and knowledge exchange funds. This will build on the Memorandum of Understanding already in place with the City Region Universities;
- Identify a significant share of national investment for global R&D facilities on a par with the Crick Institute, to accelerate our Northern Powerhouse research and SME commercial strengths in digital health innovation and innovative manufacturing - and work with the City Region to relocate a Research Council to our area; and
- Secure ring fenced UKTI resource on inward investment and sector specialists, and deliver culture, arts and tourism through oversight of devolved funding held by Arts Council England and Heritage Lottery Fund.

Education, Skills and Employment

- Responsibility for regional education advisory services, innovation funds for kinship care, family group conferencing and multi-agency interventions to put children and young people at the heart of the economic growth strategy;
- Powers to drive the improvement of careers advice and schools - and for local authorities to be able to intervene in academy schools deemed by Ofsted to be failing;
- Control of Further Education capital and revenue budgets (including 16-18 provision) - and powers to reshape and re-structure local skills provision that is responsive to the needs of employers and communities, including giving approval for and development of specialist technical & vocational education facilities;
- Devolved budgets for employer-led skills investment to allow our joined-up skills brokerage service to help more employers offer apprenticeships;
- Devolved DWP national programmes and budgets targeted at addressing worklessness (currently the Work Programme).

Public Service Reform

- To adopt Police and Crime Commissioner powers - and explore potential oversight of other 'blue light' and criminal justice services to improve interoperability and protect the front line; and
- Control of a programme that extends the successful Troubled Families model of joined-up public services to a cohort of adults with multiple and complex needs, with financial costs and benefits shared between local and national partners.

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Getting in touch

If you would like to talk through your project or discuss solutions to your legal needs, please get in touch.

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