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Restoring Britain's City States:

*Devolution, Public Service Reform
and Local Economic Growth*

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About ResPublica

The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

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Headline Findings

“For cities to achieve their economic potential, they must not only grow businesses and create jobs but also effectively tackle the problems of low skills and worklessness in order to increase resident tax revenues and drive down the human and economic cost of public service dependency.”

This report sets out the shared ambition of ResPublica and the Core Cities Group for the fullest possible devolution of public spending and tax raising powers to the UK’s largest cities and city regions. It argues for a rebalancing of the relationship between central government and cities, as the only real solution for addressing the interconnected challenges of local economic growth, public service reform and better governance.

The need for change

The Core Cities produce 24.4%¹ of the combined economic output of England, Wales and Scotland. This report finds that cities are net wealth producers, generating a surplus of work based taxes compared to local public spend (+£2.4 billion across the English Core Cities in 2012/13). However, with large resident populations on low incomes and with high levels of dependency on public services, much of this wealth generated in the English Core Cities – some £10.7 billion – flows out into surrounding sub-regions.

It is the mutual recognition on the part of cities and their surrounding boroughs that they are all interconnected and interdependent which has led to the development of city regions and combined authorities. The great potential of devolving powers to these emerging structures is that for the first time cities will have the capacity to change and transform their social and economic environment.

For cities to achieve their economic potential, they must not only grow businesses and create jobs but also effectively tackle the problems of low skills and worklessness in order to increase resident tax revenues and drive down the human and economic cost of public service dependency. The UK’s fiscal position continues to present the greatest challenge for public services which, as the last Autumn Statement made clear, will have to operate at 35% of GDP and stay there. But traditional cost cutting and efficiency savings will not be sufficient to control existing levels of demand. There will be little prospect for sustained economic growth without extensive and qualitative reform of public services.

This report argues that new, transformative ways of working are required to deliver on the twin objectives of growth and reform. Cities will need far greater control over public resources to shape local economies and design integrated place-based services that meet local needs and achieve local outcomes. The international evidence shows that cities perform better in those countries that are less centralised and where cities have greater powers, resources and responsibilities. UK cities must enjoy equivalent levels of self-governance to other international cities and municipalities if they are to compete and prosper.

The proposals, powers and resources required

The recent devolution deals in Greater Manchester and the Sheffield City Region could mark a historic turning point in the long-standing demand for city-based devolution in the UK. The two agreements combine different elements of devolved departmental budgets (such as Transport and Housing) and enhanced influence over how some services are delivered (such as employment and skills). Extrapolating the per capita value of the Greater Manchester deal across all the English Core Cities would total £11.7 billion per year, exceeding the policy pledge that Labour has made for devolution to cities in England over the course of the next Parliament (approximately £6 billion per year).

This report argues that what has so far been agreed in Manchester and Sheffield should signal the beginning of a differential and incremental process that can lead to full place-based devolution for all Core Cities in the UK. As they stand, both deals fall some way short of a whole-system place-based approach or 'Devo Max' settlement. Arguably what has been devolved are separate silos of government spending, not integrated services across departments. And it is the full place-based devolution of all services and their integration which is the real social and economic prize that should be pursued by government, opposition and all the cities and regions of the United Kingdom.

The report calls for urgency to devolve more budgets and services, across departmental boundaries much further and much faster. This would build on apparent cross-party consensus about the need for devolution to cities and harness the existing political momentum to deliver immediate results, starting now with the roll-out of additional city devolution deals and bridging into the first 100 days of a new government. Following the first Comprehensive Spending Review, cities would expect to agree five-year funding settlements for wider devolution packages to include:

Economic powers

- Fully devolved local transport funds, decentralised bus and regional rail regulation to city regions, and earn-back deals for major local transport funding

- Local control of all public spending on housing, including housing capital budgets and the ability to determine housing benefit levels and vary broad rental market areas
- Devolved responsibilities and budgets for all employment and adult skills programmes to city regions
- Devolved business support budgets and a proportion of UKTI budgets and functions to enable cities to take a more direct and proactive role to local trade and investment opportunities
- Responsibility for strategic spatial planning at the sub-regional level to include powers to acquire and designate land use and housing development
- Devolved responsibilities for energy efficiency and decentralisation of the energy market to create local energy companies.

Public services

- Devolved Education Funding Agency (EFA) for schools and all 16-19 provision with local responsibility for school performance and careers advice
- Co-commissioning function for integrated health and social care, with oversight by Health and Wellbeing Boards
- Integration and devolution of current differentiated funds for Early Years to local/combined authorities and Health and Wellbeing Boards
- Devolved and integrated budgets for emergency services across a defined city region footprint
- Devolved responsibilities to neighbourhood panels.

Fiscal devolution

- The removal of controls on levels of council tax
- Extension of full business rates flexibility and retention to local authorities
- Freedoms to introduce new local taxes, including for example recycling and tourism/hotel room/traffic taxes, subject

to local consultation with affected stakeholders.

Parliament should also:

- Ask the independent Devolution Agency which we advocate (see below) to study and make recommendations on the possible benefits of local income and corporation tax variation on the basis of place. The Agency should encourage a city region to come forward and pilot these measures
- Allow borrowing on Housing Revenue Account subject to Debt Deals with individual cities and city regions. Such deals to be related to the growth engendered in the regions by devolution
- Enable earn-back deals for investment in infrastructure, transport and housing.

Furthermore, the report proposes that over the course of the next Parliament, cities should begin to pilot 'whole service' devolution packages, and that further fiscal devolution should be progressed to include:

- All property taxes and other locally determined taxes
- The retention of income tax for all qualifying local authorities/combined authorities – with the level of income tax retention to be decided through a process of research, discussion and negotiation mediated through and run by the Devolution Agency.

How this will be achieved

The report recommends that the next government should set up an independent body or '**Devolution Agency**' to oversee place-based devolution in the UK. This should be a standing body for the duration of the next Parliament, independent of Whitehall and the devolved administrations in Scotland and Wales. With clearly defined terms of reference, its purpose will be to:

- Define the parameters of devolution to cities and places (along the lines of the Smith Commission in Scotland)
- Assess the readiness of individual propositions from cities for new devolved powers

Headline Findings

- Facilitate negotiations between cities and individual departments/administrations to agree deals
- Inform and ideally direct any other government commissions relevant to this agenda, such as the implementation of fiscal devolution, new models for local accountability, and cross-boundary working.

The Queen's Speech should outline a '**Devolution Enabling Bill**' to allow a full range of city-based devolution. It should include or be supplemented by supporting legislation to:

- Codify the relationship between central and local government
- Devolve primary legislative powers (in line with powers of the Scottish and Welsh bodies)
- Strengthen local governance and accountability with the facility to create **Metro Mayors** and establish **Local Public Accounts Committees**, where desired
- Protect the freedom of cities to associate and collaborate across boundaries including the formation of new combined authorities, where desired by cities
- Enable local authorities to devolve powers and responsibilities to the neighbourhood level and where necessary to create neighbourhood councils.

Recommendations

1. All major political parties should set out their commitments to a radical programme of devolution to the UK's Core Cities in their 2015 General Election manifestos.
2. The next UK Government should establish an independent body, the Devolution Agency, to take forward the process of devolution for all the UK's cities and regions in general and England's in particular.
3. The next UK Government should commit to extending the legislative framework for city-based devolution.
4. The next UK Government should achieve full place-based devolution and avoid siloed decentralisation.
5. The next UK Government should deliver fiscal devolution to the Core Cities by the end of the next Parliament.
6. The next UK Government should enact a 'Duty to Collaborate' to commit all city authorities to collaborate with neighbouring authorities and all public and private sector actors at the trans-city level, to form combined authorities or other models of collaborative working and association.
7. Cities should commit to new levels of accountability and governance.
8. Cities should commit to devolving still further to their own localities.

1 The economic contribution of the wider urban areas of the Core Cities (measured by travel to work areas) remains at approximately 28% of the combined economy of England, Scotland and Wales or 27% of the UK economy. For the purposes of this work and to provide consistency with other figures, the new Local Enterprise Partnership (LEP) administrative areas have been used which reflect a smaller, more tightly defined geography.



Executive Summary

“The issue for England, and indeed for Wales and Scotland, is not devolution from one capital city to another but genuine transformative devolution from capital cities down to the nations’ own constituent cities and regions.”

Introduction

The devolution debate which is now sweeping across Britain has resulted in dramatic changes to the United Kingdom’s constitution and its method and manner of governing itself. The home nations have increasingly claimed and successfully argued that the central state governing from London is failing their countries and their people. At the time of writing, Northern Ireland has been offered the ability to vary its own corporate tax rate. Meanwhile, Scotland’s vote to stay in the United Kingdom has won it such a range of powers – including the ability to vary and levy income tax – that it has redefined the Union.

All of these ‘top down’ developments devolving from national capital to national capital, welcome as they are, have served to overshadow and suppress a perhaps more radical and transformative mode of devolution. That is the ‘bottom up’ demand for devolution coming from our cities and their surrounding and defining boroughs. In the maelstrom of the Scottish debate we have forgotten the political and social demand for a defining devolution that can lift our city states out of their present condition and finally speak to the needs of the ignored and the potential of the unaddressed.

The radical option for English devolution is not the proposal of English votes for English laws (delightfully entitled EVEL). While seeking to correct a perceived anomaly in intra-national influence, English votes for English laws disguises the fact that an English Parliament would mean settling for

the status quo for English cities and regions – continued governance from the centre and direct rule from London. What has not yet been recognised at Westminster is the widespread belief in England herself that the cities and the regions outside of London and the South East have been ignored and left to wither on the vine. Popular political support has yet to fully mobilise around English city-based devolution but the fragmentation of core and base support for established political parties in the regions outside the south-eastern economy is clear testimony to widely-held dissatisfaction with the current social and economic status quo. And this impatience with a centre that can only advance itself is not restricted to England; cities of the devolved nations, such as Glasgow and Cardiff, are also anxious to secure devolution for themselves so that the benefits of new powers do not just recreate a local version of the unresponsive centralised state.

We at ResPublica have long believed that the issue for England, and indeed for Wales and Scotland, is not devolution from one capital city to another but genuine transformative devolution from capital cities down to the nations’ own constituent cities and regions. Until now, the national devolution debate risks arguing for continued centralisation, but this time from Cardiff and Edinburgh as well as from London. No, the real task and the real gains are to be had from genuine devolution downwards from the English capital to English cities and regions, and from the Scottish and Welsh capitals to Scottish and Welsh cities and regions.

Why? Why should we devolve power to cities, city regions or combined authorities and their contiguous and constituent boroughs? What is to be gained from such an exercise? The answer, as we show in this report and have argued elsewhere, is that devolution is now an economic, social and moral necessity. The economic demand for devolution has two aspects. Firstly, because the central state's cuts to direct support under the seeming imperative of austerity are happening at such a scale and pace that local government in its current form simply cannot survive. The demands upon the local state are so extreme that just one service, adult and children's social care, is projected to swallow up the entire expenditure of most councils within the next 10 years. But the economic necessity for transformative and (at-scale) devolutionary reform is not just due to the demands of fiscal contraction, but also because of the extreme economic imbalance now present between many parts of the country on the one hand and the South East on the other.

Devolution is one of the necessary conditions for the economic renewal of Britain's cities and regions, especially those that lie outside the charmed circle of London and the South East. Devolution would and will allow for several changes which could, and we believe *will*, shift the economic growth prospects of our cities and regions by several orders of magnitude. The Core Cities Group has calculated that its ten member cities deliver 24.4% of the combined economic output of England, Wales and Scotland, and are home to over 21 million people. Independent forecasts have demonstrated that, with additional devolved powers, the eight English Core Cities alone could generate an extra £222 billion and 1.16 million jobs for the country by 2030.²

How can devolution deliver this? By directing the resources of the local state to help create the conditions for genuine economic growth – from the skills and education of the resident population and their mental and physical health to the business support and infrastructure that local businesses need to grow. By creating, for example, an economic ecosystem that will allow the cities, working with their local companies and manufacturers, to re-domesticate the supply chains that these leading business have lost over past decades. And by fashioning the right

environment for local start-ups, through which cities and their regions could help develop their medium-sized businesses by connecting them into integrated support networks which encourage them to link together and begin to compete at home and abroad. The solutions to the current imbalances of growth are many, but they must be co-ordinated and systematic if they are to create a new environment within which local economies flourish.

Devolution also has a deep social imperative. Once again, the old model of centralised public services, delivering the same thing to everybody regardless of need, has resulted in service provision where all too often nobody gets what they actually need. If a local authority is to be able to tackle, for example, mental health issues in the north of the city and skills shortages in the south, it will need a budget that is pooled, free of ring-fences and not determined by external and often conflicting outcome measurements. Place-based public service integration can deliver absolute transformations of public services. The new place-based offer eliminates the disaster of centralised departmental silo-driven services, removes the management and multiple back office costs of the inappropriate division of services, and for the first time allows early holistic intervention and prevention. But these gains can only be realised if place-based integration is at scale and if the powers devolved are free from external constraint on implementation. Unfortunately, city deals and the new devolved settlements for Manchester and Sheffield have really just devolved silos of public money, rather than achieving the 'whole-system' integration of those silos which is where the real savings are to be found and the transformative outcomes achieved.

Nationally, the potential magnitude of these gains is so high that estimates vary widely. Ernst & Young has estimated that place-based integration of public services would save the taxpayer **£9.4-20.6 billion** over five years if such schemes were implemented nationally and at scale.³ The current Secretary of State for Local Government and Communities, Eric Pickles, has suggested that the figure lies "somewhere towards the middle" of these two extremes.⁴ Given the current fiscal environment, it is clear that we must realise these gains, whatever they might be;

they are of such potential (and for central government unimaginable) magnitude that it would be deleterious not to pursue the at-scale gains located in full and holistic place-based provision of public services.

Finally, of course, there is a moral imperative in the devolution debate. Central dictate, especially when it fails to deliver, no longer commands public support. What voters in the often ignored hinterland of our nations want is the genuine transformation of their cities and areas. Neither they, nor we, want a country where it is only possible to succeed if one relocates to London and bases all that one does and hopes for in the South East. The millions of people in the cities in the rest of the UK also want a future for their children and, rightfully, hope for a better place for them in terms of health, education and opportunity. It is a telling failure of modern politics that no political party has been able yet to offer this to them. We and the Core Cities would argue that a city-based renaissance cannot take place at a distance and through the orchestrations of Whitehall. And given the history of centralised governance, many fear that Whitehall itself had written off the rest of the country as in terminal decline and thereby peripheral to the interests of UK PLC, whose sole vehicle is London and its environs. This is why the language of city-based devolution and the 'Northern Powerhouse' is potentially so transformative. For the first time since the Second World War it is now recognised that transformation of the rest of the country needs a radically reformed local state with a vast increase in power and influence if the hopes of the people who live there are to be realised.

But voters will only endorse new powers and new possibilities of local governance if they come with new models of transparency and accountability. Local government cannot simply defend the institutional status quo at a local level while arguing for wholesale devolution and the complete transformation of its powers from the centre. And indeed this is implicitly recognised in the strides Core Cities have made in transforming their governance. If local government is arguing for change, it too must be open to change and to creating the structures and institutions necessary to deliver on the new promise of devolution. So we have a real moral and democratic opportunity to renew the British constitution and recover its great

cities. Given the depths of local contempt for the system as it is, the contemporary loss of faith in politics and politicians is unlikely to be restored at the national level through national intervention. Devolution to the cities is much more likely to recreate a participatory politics through empowering localities and creating a sense of a 'shared state', operating successfully at local and national level. All of this means that, rather than seeing the state as a purely national entity which is weakened by devolution, the opposite is true – through popular devolution the national state will be strengthened, refreshed and empowered.

City-based devolution

Cities are the engines for growth, helping to drive strong national economic performance. Across the UK, cities take up just 9% of the land mass but account for 58% of jobs, 60% of the economy and 72% of high-skilled workers.⁵ And yet they are also the place where some of the country's most difficult social problems are concentrated. High levels of dependency on public services, especially welfare and health, are constraining the potential for growth and the ability of cities to be self-sustaining. The UK's Core Cities have made great strides in the past two decades. But in terms of economic growth and productivity, they have generally failed to outperform the national economy or narrow the gap with London and second-tier cities across the world. If all the Core Cities in England could perform just at the national economic average, a further £1.3 billion would be put into the economy every year.⁶

The international evidence shows that cities perform better in those countries that are less centralised and economically concentrated and where cities have greater powers, resources and responsibilities. Individually, second-tier cities may lag behind capitals, but their combined contribution to national economic performance is hugely significant. Many large democracies around the world already operate various devolved systems of government, and many other global cities and municipalities have long enjoyed greater levels of self-governance than equivalent cities in the UK. In terms of taxation and public finance, Britain is the most centralised of the world's major

democracies. For example, in Canada, Germany, Spain and Sweden the taxes determined by local and state/regional government exceed 10% of GDP, compared to 3% in the UK, where only council tax and a proportion of business rates have been retained locally.⁷ The disparity is even more pronounced at city level – for example, London receives 74% of its income through transfers from central government, compared to 37% in Madrid, 31% in New York, 26% in Berlin and less than 8% in Tokyo. Furthermore, the UK operates a higher level of central control over public expenditure. According to McKinsey, central government's share of public spend in Germany is 19%. It is 35% in France, but a massive 72% in the UK. But despite having the least control, our localities contribute the most: the UK's 56 largest towns and cities account for 61% of national economic output; London alone contributes 21% of national GDP.

Current party proposals

There is a broad consensus between the three main political parties about the need for greater decentralisation. On the back of the referendum in Scotland all parties have now made commitments to devolve further powers to all the nations, as well as the cities and regions, of the UK. This recognises, in part, the asymmetry that currently exists between nations, but also the importance of city growth to the national economy. Some of the UK's largest city regions have populations and economies equivalent to, or larger than, the current devolved parliaments.

Labour has pledged to introduce an 'English Devolution Act' securing devolution to the English regions by transferring £30 billion of funding over five years – for transport, housing, business support, skills and employment. The Liberal Democrats have called for 'devolution on demand' and the need to codify the constituent parts of the UK, including new legal rights for local authorities to demand powers – a statutory presumption in favour of the decentralisation of powers away from Whitehall. And although the Conservatives are yet to make any manifesto commitments about devolution, the Chancellor, George Osborne, has been explicit about the importance of cities and regions to the future of the economy (such

as the Northern Super City or Powerhouse as it is known) and has made plain his commitment to greater devolution in exchange for new Metro Mayors. Of the three main parties, it is the Conservatives who appear to most favour this model of city governance, while Labour and the Liberal Democrats have emphasised the need for local determination in this matter.

Currently, the main parties in Scotland and Wales are less engaged with the city-based devolution agenda. The recent Smith Commission expressed the desire to see the principle of devolution extended to local communities in Scotland but has yet to set out ways in which this can be realised. There is the strong possibility that English cities could arrive at devolved settlements ahead of cities in the devolved nations. We hope therefore that there will be further development of the parties' thinking on city-based devolution taking into consideration the evidence and arguments presented here in this report.

City deals

Over the course of the current Parliament, government has been devolving power and cities have negotiated bespoke deals giving them new powers and freedoms to decide how public money should be spent and allowing greater local control over investment to drive growth, housing, planning, and economic development. At the same time, the new Community Budgets and the rollout of the Government's Troubled Families programme have started to test how bringing together resources and funding for public services at a local level to design integrated services can achieve better outcomes. However, it is the recent agreements on different devolution deals in the combined authorities of Greater Manchester and the Sheffield City Region that could mark a historic turning point in the long-standing call for city-based devolution in the UK. The two deals differ not only in detail but also in their respective governance arrangements. Both build on the successes of their combined authority status and the achievements to date in the delivery of their City Deals (agreed in 2012) and Growth Deals (agreed in 2014).

The agreements in Greater Manchester and the Sheffield City Region combine elements of devolved funding of siloed

budgets (control) and the decentralisation of departmental functions and decision making (influence) about how services are delivered. As they stand, both deals fall some way short of a whole-system approach or 'Devo Max' settlement. Arguably what has been devolved are silos of government spending, but the real impacts of integrated services across departments have not yet been achieved.

That said, if we estimate the per capita value of the Greater Manchester deal and extrapolate this across all Core Cities, based on population, we can see that this would approximate to £14.2 billion a year (£11.7 billion across England).⁸ The scale of the Greater Manchester agreement if rolled out across the other Core Cities already exceeds the policy pledges that Labour has made for the next Parliament (£30 billion to cities in England over the course of Parliament or approximately £6 billion per year).

What has so far been achieved in Manchester and Sheffield signals the beginning of a differential and incremental process that can, in time, lead to full place-based devolution and provide a template for other cities in the UK.

Connecting economic growth and public sector reform

The case for devolution is not purely economic. It's also about better democracy, better governance and more cost-effective service delivery in a time of austerity. The UK's fiscal position continues to place public services under pressure. City authorities have experienced some of the most dramatic reductions in funding over the past five years. And yet despite these cuts across local government and other public services the next government will inherit a deficit of over £90 billion. As the Autumn Statement made clear, public services will have to operate at 35% of GDP and stay there. According to the Office for Budget Responsibility (OBR) the greater reduction in spending (60%) will need to come under the next Parliament. But public services are struggling to cut much further. Savings in one part of the system, including significant reductions by local authorities, have merely resulted in spending and demand increases elsewhere, fuelling longer-term dependency and reducing the capacity cities have to invest in growth.

The New Economy has undertaken analysis of public spending and tax receipts in 2012/13 across the eight Core City authorities in England.⁹ This identified a total of £39.7 billion in tax receipts by all workplaces within the boundaries of the Core City authorities, a surplus of around £2.4 billion.¹⁰ However, there is a substantial difference between the value of the tax raised by those working in the Core Cities and the taxes raised by residents (i.e. those living in the city authority boundaries) – which totalled £26.2 billion.¹¹ This means that annually more than £10 billion moves out of the cities themselves and into the broader city region, suggesting that although the Core Cities deliver significant value, much of this value flows out of local authority boundaries and into the surrounding city region, while many residents of Core City authorities live on low incomes. This implies that:

- The performance of all the Core Cities is critical to UK economy – without them we do not have a viable economy
- The prosperity of their surrounding sub-regions is highly dependent on the economic performance of the cities
- As well as net wealth producers, the Core Cities are also home to large populations on low incomes, with the attendant challenges this brings
- They are capable of producing a higher economic output if their relatively poor and service-dependent residents can be helped into work and good health.

In order for cities to achieve their economic potential, they obviously must make full use of their assets and strengths to attract investment, grow businesses and create jobs. Growth and jobs are integral to cities becoming net contributors to the national economy. But this growth must also focus on those currently trapped in dependency and immobility in our Core Cities. Effectively tackling low skills and worklessness is central to addressing both the potential for growth – through increased tax revenues – and driving down the cost of dependency on public services. It is a sobering thought that in times of great fiscal challenge there will be limited prospects for sustained economic growth without extensive and qualitative reform of public services.

The problem with public services

Public services in the UK are delivered through a number of central government departments – Health, Employment, Education, Skills – organised in large policy and funding silos, separate and disconnected from one another. This highly centralised approach leads to standardised national programmes, 'one-size-fits-all services', that can deal with uniform needs as they arise but are less able to proactively respond to, or get to the root cause of, more difficult or localised problems. The challenges facing many local communities, families and individuals are often complex and deeply entrenched, requiring multiple and simultaneous interventions across a range of issues – housing, training, employment, childcare. This demands a holistic approach to more effectively 'join up' government and integrate delivery at the local level, and to better meet the increasingly complex needs of service users.

Cities have a long history of partnership working to develop arrangements between local government and other public sector agencies. The more recent experiences of the Whole Place Community Budget Pilots, and the national rollout of the Troubled Families Programme, have demonstrated the benefits of addressing complex dependency through the ability to co-commission and pool budgets at the local level. By adopting a 'whole-place' approach, local partners and agencies have been able to connect and concentrate their efforts in the most disadvantaged and troubled neighbourhoods. However, the ways in which most of our public services are delivered means that they frequently operate at a level and scale that restrict the potential for genuine service integration. In the main, and for the vast majority of services users, top down 'vertical' funding arrangements deny the flexibility needed to work across departmental boundaries and effectively align services to meet local and individual need. Funding is already locked in, contracted and committed, and services already specified, with pre-determined targets and outputs, long before local partners are able to influence delivery.

Cities simply lack the necessary control over public resources to shape and design services in order to achieve distinct local outcomes. Consequently, many local communities and individuals experience a system that

provides overly prescriptive and reactive services, deeply disjointed and fragmented, with multiple points of access, assessment and referral but with limited continuity of care between agencies and providers. This situation disincentivises local co-operation as delivery organisations compete with each other unnecessarily. It results in wasteful duplication of ineffective activity across services. It limits innovation and the capacity to adapt to local variations, leading to unintended policy outcomes – solving easier-to-help problems but entrenching others – and, ultimately, poorer services at higher costs. Most importantly, it frustrates the public and undermines the quality of the services they receive, resulting in poorer outcomes and a reduced trust or belief in local and national governance to actually deliver public goods. The need for a transformation in public services has been obscured by the cutting of often already-failing services, and the debate about cuts risks just salami slicing untransformed services so that people merely get a worse form of what they have already received. What austerity should provide, however, is the occasion for a transformation of public services – such as the place-based integration which we are arguing for. The succession of centralised public service reforms over several decades has not resulted in radical change to the system or achieved significant improvements in tackling the most complex and interconnected social problems. It has been argued that the prevailing system of ‘command and control’ management – where decision making is distant from the work – has remained unquestioned in public services, whilst the underlying paradigm, developed to solve the problems of mass production which modern industry and service organisations no longer face, has outlived its usefulness.¹² The devolution debate allows cities to imagine how a transformational shift in public services can be achieved that finally allows complex problems to be addressed holistically and successfully.

The pathway to devolution

The complexity of the cultural, organisational, constitutional and legislative forces which underlie the current dysfunctional nature of local-central relationships must be recognised and

addressed and the barriers overcome if significant powers are to be transferred and full place-based devolution achieved. All parties to this process must change their assumptions, approach and organisation.

The Cultural path – develop the evidence, demonstrate the need, show the capacity

The gradual shift away from, and dismissal of, local political concerns has resulted in a long-standing tendency of the centre to limit and micro-manage local government as another agent of the state. This prevailing culture between central and local government is based on hierarchy, bureaucracy and models of ‘command and control’. A lack of trust in the accountability of sub-national government and in the perceived competence of local government to exercise additional powers is an important feature of this relationship. It is not too strong to suggest that local government and its abilities are often the subject of ridicule or even contempt from Whitehall, but this perception does not survive rational examination. For example, it is the central state that has run up vast debts while the local state closest to the front line has always exercised a very tight control on its debt and liabilities. And even government ministers admit that the ability of local government to manage debilitating cuts in funding speaks to the adaptive powers of councils.

A more likely explanation of ongoing central control is the belief that ministers and Parliament should be responsible and accountable. This, along with the fear of what might go wrong, outweighs the impulse to devolve. But if trust must be earned through the competent exercise of powers, it follows that some decentralisation must occur in order for places to demonstrate their capability. Policies for genuine localism must start from change in central government itself, as the Local Government Innovation Task Force has recommended. The behaviour of ministers and civil servants towards local government needs to change to challenge the institutions and processes of public administration and the silo mentality of central government.

That said, local government itself must adjust to meet the opportunities offered by devolution. City authorities are increasingly mindful of operating at the level of the city region and some of those have formed combined authorities. But others have yet to develop a vision for the territory they wish to co-ordinate or combine. What can devolution allow to be done differently and where and how? What is the need, and given the powers, how could things be reformed such that finally this need, be it good health or better education, is met?

Understandably, given the speed of development, cities are in different places with ambitions and visions yet to be realised. In some city regions, adequate policy teams responsible for the whole combined authority or city region have yet to be formed. In many areas, evidence is simply lacking, as is the idea as to how precisely devolution could improve the problems at hand. But as this report shows in the case studies that follow, evidence of a capacity to innovate and an ability to deliver transformed results abounds in all the cities. What is required is a building out from such achievements, in order to collaborate across boundaries and institutions to develop an ambitious across-the-board vision for the new city states. From this sense of what ought to be, evidence as to what currently is and how it falls far short of what is needed can be collected. Presented to government along with a plan as to how to use devolved powers to meet local need, this evidence would make a persuasive case that Westminster, Holyrood and the Welsh Assembly would find hard to ignore.

All of this requires capacity and long-term personal commitment by city leaders and their officers. It requires co-ordination between cities and all the other bodies that influence an area to come together and collaborate. It necessitates, as we have argued in our report *Devo Max – Devo Manc: Place-based public services*, that common city- and city region-wide outcome measurements be developed such that all the performance indices for public expenditure meet and match in terms of the outcomes pursued. But given that we are doing this in order to establish the appropriate economic and social ecosystem for further growth and public service transformation, it makes no sense to restrict this duty to collaborate to just the constituent boroughs of a city

region. We need to bring all the actors within a city region to the table to develop the most integrated and holistic ways of working together for the common good. We suggest that anyone in receipt of public money and operative in the devolved area be required to collaborate with city regions, from Local Enterprise Partnerships (LEPs) to Welfare to Work providers to government quangos. In addition, some external private agencies like the utilities companies should also be required to engage and come to the table. To facilitate both common outcome measurements and common working, we argue that Local Public Accounts Committees should be set up and tasked with ensuring common outcome measurements, and that they should be responsible, in consultation with all parties including the new Devolution Agency, for drafting a 'Duty to Collaborate' on a city region basis and compile the list of those who should be subject to this Duty.

The organisational path – the proposals, powers and resources needed

Centralism has become so deeply embedded in the workings of government departments that the institutional structures struggle to relate to local concerns. Central government departments have their own interests and priorities that do not necessarily cohere across government. Ministers are often personally invested in their departmental policies and are understandably reluctant to give them up, while civil servants are incentivised to focus on ministerial and departmental responsibilities and therefore protect all the powers that allow them to do this.

Unless the commitment to decentralisation forms a central plank of all policy decisions across all government departments, the process of devolution will continue to be fraught with inter-departmental tensions. Informal or one-off arrangements, concordats and accords will not be enough to reform the relationship between local and central government and make the machinery of Whitehall up to the job of devolving powers. A clearly specified manifesto commitment to a statutory presumption in favour of city region and place-based devolution would be an enormous accelerator to the devolutionary process, and we therefore argue for this in our recommendations.

Similarly, we also argue for a new independent body to be created, **The Devolution Agency**, which in England should have all the stipulative, regulatory and advisory powers necessary to act as the mediation agency between local and central government and deliver devolution to all the cities, city regions, towns and counties. In the other home nations, the Agency could have an advisory or consultative role if its function in England was seen by the home parliaments as meriting introduction in their own nations. We believe such a body is required to force Whitehall departments to act in a co-ordinated manner and deliver not decentralisation of departmental funds but genuine full-budget place-based devolution. The Devolution Agency should also encourage cities and city regions to be ambitious, and call on them to produce the evidence for the policies that will benefit from devolution and aid them in putting together the right proposals to central government.

The Agency needs to have this dual role because not all resistance to devolution can be isolated at the centre of government. Local communities – the electorate and the politicians that represent them – have all presented barriers in some form. Local government has on occasion opposed attempts to decentralise political powers, especially where this has involved changes to boundaries or the creation of new sub-national structures (e.g. regional assemblies) and governance (e.g. mayors) which were also voted down in public referendums.

Part of the local resistance to change was that it was all too often driven by the centre with little regard for the localities it was meant to serve, especially in the case of regional assemblies. Localities are understandably nervous of being subsumed into larger governance structures where they could lose identity and forfeit control. That said, operating at the right geographical scale has been a consistent requirement of central government in granting devolved powers and one that has been resisted at the local level. Rightly, in our view, government has wanted to give greater powers to those authorities that were bounded by the wider functional economy, hence the development of combined authorities. If cities are now imagining a different and better future and if they are coming up with ideas as to

what might be done, then this could and should change the dynamic of devolution to one where cities and their neighbouring boroughs seek to expand their influence into city regions. But to achieve transformative change, localities must not rest easy in the structures they have; these structures must also change alongside dispassionate and clear thinking about what the needs of the cities and their regions are and how those requirements might be met.

With the obvious exception of the Scottish Referendum, public apathy has been a common feature of most attempts to decentralise powers via referendums for regional assemblies, city mayors and police and crime commissioners. These experiences suggest that the public will only support institutional changes if they can see that they are relevant and will make a real difference to them. Crucial, then, to the success of city-based devolution is that the powers offered and asked for are of a sufficient depth and breadth to effect transformative change. Devolution will only be popular if it can change things and it can only change things if sufficient powers are devolved at a scale and across such a range that outcomes for the devolved areas are markedly enhanced.

To that end, we also call for additional tax raising powers for cities and city regions. We would want the devolution of the five property taxes, in line with the recommendations of the London Finance Committee. This should allow the flexibility to vary business and council tax rates and freedoms to introduce new local taxes including, for example, recycling and tourism/hotel room/traffic taxes, subject to local consultation with affected stakeholders. We would like the introduction of the retention of a certain proportion of income tax for all qualifying local authorities above an agreed level. In addition Parliament should ask the Devolution Agency to study the benefits of local income and corporation tax variation on the basis of place, subject to fuller place based devolution of public services to at least one core city region. Variation of income and corporation tax in a particular city is harder to argue for, since the Treasury tends to assume it is a fixed pot and that other cities would lose out if one gained such an incentive. However, if we are serious about addressing regional inequalities, then this measure, in a city of

low business start-ups, might genuinely help to turn things around and is worth exploring and piloting.

Finally, and perhaps most controversially, we believe that the case for professionalising local politics in England needs to be examined. In the light of the new asks being made of devolved cities, an analysis of the merits and demerits of continuing with the system of part-time politicians is long overdue. If we are serious about the potential of city regions and combined authorities (and on the basis of the evidence we should be), we do need to consider whether staffing the city region authorities with part-time local politicians, rather than full-time and properly paid ones is the right way forward. Given the oft-mentioned concerns about the quality and the importance of local government leadership, we believe that successful city regions may well need full-time, properly paid politicians and that the new Devolutionary Agency should examine the case for such a model.

The constitutional path – the structures that will deliver devolution

The outcome of the Scottish Referendum has reignited the arguments for an English Parliament. It is within this fast-moving debate about the UK's constitutional arrangements that the call for city- and other place-based devolution is taking place.

The UK's highly centralised constitution makes devolving powers to localities more difficult, although not impossible, as the different agreements in Greater Manchester and Sheffield demonstrate. The existing legislative framework prescribing the duties and responsibilities of local government is complex, but the current constitutional and legislative arrangements do not delineate or outline a clear local autonomy in terms of legal responsibilities, fiscal powers and funding. The present arrangements remain highly centralised and provide little formal protection from the interference of central government.

The history and tradition of centralisation present the case for a new constitutional and legislative settlement, one that can address the statutory relationships that exist between nations and between local

and central government. The adoption by the Core Cities of the clauses from the draft Bill for Local Government Independence will help in building the case for the constitutional protection and freedom of local government in England. However, the draft Bill does not address elected councils in the devolved nations or explicitly address or make provision for the devolution of powers. The proposals presented to Parliament by the Coalition Government include the Liberal Democrats' option for an English Devolution Enabling Bill. Again this speaks only to localities in England, while not addressing the issue of their freedom and independence from Whitehall.¹³ Devolution to cities and other places will need to be underpinned by new legislation – in all nations of the UK – to strengthen the constitutional status of local-central arrangements and to provide a more protected and democratically accountable system of local governance. The discussions about what structures are necessary to deliver devolution have all tended to be about the democratic accountability that is proper to and commensurate with these new powers. Overwhelmingly this is discussed through the prism of the mayoral debate and it is to that that we now turn.

The debate around direct accountability and Metro Mayors

So far, devolution has rightly walked hand in hand with local institutional change. All of the UK Core Cities have some kind of city region governance mechanism. Of the eight English Core Cities, five have now formed combined authorities, all with different and bespoke structures of accountability and delivery. Those cities that are not yet combined authorities are engaged in internal discussions as to the best structure to advance their own areas. Other city region governance arrangements may emerge and flourish as a result, in order to benefit from improved devolutionary offers, and in Cardiff and Glasgow, where city region governance is very well developed, the argument for city rather than national devolution is relatively new.

It seems clear that for the present Government the magnitude of devolution is dependent on new structures of capacity and accountability. Although the opposition parties have not yet spelt out their terms for

devolution, it seems unwise to assume that their demands of local government in return for devolution will be much different. To that end, it appears that the debate on Metro Mayors will not recede and that simply defending the institutional status quo is not an option for cities that aspire to fully devolved powers.

That said, there are different ways to resolve and deliver new structures of accountability. It must be remembered that Greater Manchester had many years of trust-building and inter-authority working before it formed its combined authority and agreed on a Metro Mayor in return for its devolved deal. People need directly accountable authorities if these new and extensive combined powers are to function successfully in a democracy. But one cannot simply impose trust upon an elected authority – it has to be learned and 'earned'. Many combined authorities are engaged in what one might call 'energetic discussion' on who should lead the new authorities and what structures are needed. This is all necessary and welcome. Indeed, a number of combined authorities have adopted an appointment model whereby each constituent authority selects a member to attend the combined authority and this body in turn elects a leader; this is probably a necessary and apposite measure but it should not be a final end goal. A selected 'senate' governing a city region is no substitute for a directly elected and accountable body, but this current arrangement is probably required as a transitional phase to engender trust and inter-authority working so that the real debate on how to realise the potential gains for the city and the region can take place.

In our view, the real question for cities and government in the Metro Mayor/ devolution debate is not the institution of the mayor itself but what it represents. And what is that? It is the evidence, policy work and vision for the city and city region. A mayoralty is one possible outcome of that debate, insofar as it is part of an institutional structure created to realise the policy and aspiration of the city region. In that regard, government should not in this, the first, phase of devolution impose mayors on city regions – it should instead properly ask, in managing the progressive tide of devolution: What is the vision of each city or city region in return for devolution, and how does each authority plan to realise that

vision? What evidence will be marshalled, what capacity will be generated, what type of institutional reforms will be instigated to fulfil the potential of the new devolved authority? The question to put to the Core Cities is: Do they know the potential of their cities and regions and, if not (as many combined authorities are new entities), how do they plan to chart and evidence this potential and then how do they plan to realise it? Internally, what structures will need to be created and, externally, what would be the manifestation of these developments to their voters and residents?

In all successful human strategy and advancement, agreement on common goals and how to realise them is the first order of play and the development of the capacity, ideas and plans to realise the potential of devolution is what is initially and most importantly required on the part of the Core Cities and newly combined authorities. Let us keep an open mind about what structures are suggested for that delivery – but let us also recognise that the status quo is not an option and that it is incumbent on city regions to develop a direct, democratically accountable structure for the governance of their city regions – a structure that may include mayors but could indeed be something else entirely.

This report makes asks of both the Core Cities and of central government. We have briefly outlined our recommendations to the cities, but only in order that they can engage in the proper and appropriate dialogue with central government, to finally devolve power and free cities from the central control that has constrained them for too long. The shared ambition of the Core Cities Group is radical: it is for the fullest possible devolution of public spending and greater control over local taxation for the UK's largest cities and city regions. We agree with this ambition and present the case that a resettlement of the UK's constitution and greater devolution to nations will not be sufficient to help our cities achieve their potential. We argue instead for a rebalancing of the relationship between central government and cities as the only real solution for addressing the interconnected challenges of local economic growth and public service reform. With reductions to public spending set to exceed those experienced during the current Parliament, the UK's fiscal position makes wholesale public service reform a

compelling necessity: to reduce the costs of increasing demand and dependency on public services by allowing more people to fully participate in the economy and benefit from the gains in economic productivity and growth, and to create holistic public services that finally address the causes of social disadvantage.

In meeting this challenge the benefits must be achieved at scale. Each city must first of all become responsible for local economic growth, including locally controlled revenue streams to generate economic investment, jobs and growth; and for the public services it deploys, to re-imagine place-based services designed around individuals, families and communities.

Cities cannot reform what they cannot control, and they cannot direct, change or renew what they are not able to influence. Consequently, we argue that each Core City needs a radical devolution of place-based powers and public sector budgets to enable it both to integrate public services and grow its economy.

However, the new devolution must not establish a local central state – devolution must pass on through the local authorities to the neighbourhoods and wards of the councils themselves, to people and the civic society groups they join and support. Cities recognise that the process of decentralisation must not stop at the city hall, that a model for city-based devolution must enable communities and citizens to be more fully involved in local decision making. In many respects the challenges faced in devolving to communities replicate the obstacles that need to be overcome in transferring powers from the centre to local government. The approach requires a complete transformation in philosophy and attitude to change the culture of how things are done and to have the local confidence to let go. If the process of devolution to local government is to be enshrined and protected in law then consideration needs to be given to formalising the engagement of local people in city governance in the form of a new duty to involve, empower and work with communities.

The timeline for action

The timeline is premised on the need for urgency, to build on existing momentum and deliver immediate results, starting now and bridging into the first 100 days of a new government. The action which we propose aligns with other recommendations for place-based devolution, although what we are asking for goes further, faster.¹⁴ We believe that city-based devolution should not be delayed by government re-organisation of central departments or sub-national bodies or by constitutional debates. Legislative reform should flow from what is required to devolve real freedoms and powers to cities and the re-organisation of central government and its agencies should follow from an understanding of what powers and functions should be retained.

Pre-2015 General Election

Building on the impetus of the recent Greater Manchester and Sheffield City Region deals, the Government should, during the remainder of this Parliament, bring forward:

- The first wave of differential city-region devolution deals, subject to what cities can presently deliver
- Legislative reform of the Local Democracy, Economic Development and Construction Act 2009, to give local authorities greater flexibility in working across functional economic areas
- Draft clauses of a Devolution Enabling Bill to introduce new legal rights for local authorities and city regions to demand powers. In short, a statutory presumption in favour of decentralisation
- The Review of Business Rates to include how fiscal devolution can be quickly enacted.

The devolved nations should also commit to a legislative process, equivalent to those proposed in England, to enable city-based devolution.

All cities should bring forward:

- Plans for collaborating across Metro areas – including the formation of new combined authorities or other collaborative models to be defined by cities
- Business cases for new devolved powers that can be immediately enacted without new legislation including, for example: wholesale devolution of skills and business support; co-commissioning of Work Programme Plus and other employment initiatives; and housing funding
- Plans to repatriate funding to cities including public health spend, re-localisation of all Business Rates, and the removal of “ring-fencing” on funding to cities such as the Dedicated Schools Grant.

All political parties should outline radical and ambitious manifesto commitments to city-based devolution.

First 100 days of next Parliament

Within the first 100 days of a new Parliament we expect government to set up an independent body, **The Devolution Agency**, to oversee city devolution in the UK with a remit to:

- Define the parameters of devolution to cities according to the Smith Commission in Scotland
- Assess the readiness of individual propositions from cities for new devolved powers
- Facilitate negotiations between cities and individual departments/ administrations and agree city deals
- Inform and ideally direct any other Government commissions relevant to this agenda, such as the implementation of fiscal devolution; new models for local accountability; and cross boundary working.

First legislative programme:

The Queen's Speech should outline a Devolution Enabling Bill to allow a full range of city-based devolution. It should include or be supplemented by supporting legislation to:

- Codify the relationship between central and local government
- Devolve primary legislative powers (along the lines of the Scottish and Welsh bodies)
- Strengthen local governance and accountability with the facility to create Metro Mayors and Local Public Accounts Committees, where desired
- Protect the freedom of cities to associate and collaborate across boundaries including the formation of new combined authorities, where desired by cities
- Streamline and simplify relationships currently defined by statute (e.g. between local/ combined authorities, LEPs and Health and Wellbeing Boards etc.) and allow ultimate control of these bodies to be assigned to an agreed city region authority
- Enable local authorities to devolve powers and responsibilities to the neighbourhood level and where necessary to create neighbourhood councils
- Create ‘School Commissioners’ and devolve responsibilities for school performance
- Create a single outcome framework for all devolved spend, so that measurements are simplified and unified such that they are mutually supporting rather than conflicting.

The first year of Government: 2015-16

Following the first Comprehensive Spending Review we would expect Government to agree five-year funding settlements with cities for wider devolution packages to include:

Economic powers

- Fully devolved local transport funds, decentralised bus and regional rail regulation to combined/local authorities, and earn-back deals for major local transport funding
- Local control of all public spending on housing, including housing capital budgets and the ability to determine housing benefit levels and vary broad rental market areas
- Devolved responsibilities and budgets for all employment (e.g. Work Programme, Youth Contract, Fit for Work) and adult skills programmes (including further education, apprenticeships and careers advice) to city region authorities
- Devolved business support budgets and a proportion of UKTI budgets and functions to enable cities to take a more direct and proactive role to local trade and investment opportunities
- Responsibility for strategic spatial planning at the sub-regional level to include powers to acquire and designate land use and housing development
- Devolved responsibilities for energy efficiency and decentralisation of energy market to create local energy companies.

Public services

- Devolved Education Funding Agency (EFA) for schools and all 16-19 provision with local responsibility for school performance and careers advice
- Co-commissioning function for integrated health and social care

with oversight by Health and Wellbeing Boards

- Integration and devolution of current differentiated funds for Early Years to local/combined authorities and Health and Wellbeing Boards
- Devolved and integrated budgets for emergency services across a defined city region footprint
- Devolved custody and probation services budget to local/combined authorities as appropriate
- Devolved responsibilities to neighbourhood panels.

Fiscal devolution

- The removal of controls on levels of council tax
- Extension of full business rates flexibility and retention to local authorities
- Permission to borrow on Housing Revenue Account subject to Debt Deals with individual Cities and City Regions. Such deals to be related to the growth engendered in the regions by devolution
- Enabling of earn-back deals for investment in transport and housing.

2016-20

- First cities to pilot ‘whole service’ devolution packages.
- Government to allow retention and then full fiscal devolution of all property taxes and other locally determined taxes (e.g. hotel bed tax) subject to support from businesses and the stabilisation of the local government finance system.
- Government to allow welfare earn-back to incentivise city regions to reduce welfare benefits.

- Roll out of ‘whole service’ pilots and fiscal devolution across all core cities.
- Devolved income and corporation tax variation to be planned and piloted in one city region
- Retention of income tax for all qualifying local authorities in city regions.

The 2020-25 Parliament

- Introduction of local income and corporation tax variation – in line with powers in devolved nations – on the basis of the piloted area to all city regions
- Devolution of Jobcentre Plus.

Recommendations

1. All major political parties should set out their commitment to a radical programme of devolution to the UK’s Core Cities in their 2015 General Election manifestos.

This should prioritise Core Cities in a stepped process towards devolved status, recognising their importance to future economic growth but also the limitations of central government in negotiating different deals with many different places.

The commitment should include:

- A statutory presumption in favour of devolution, where cities will have the legislative freedom to put forward plans for greater powers – on a differential and incremental basis, according to their own wishes, at the pace and scale to match their ambitions – and where central government will need to meet much higher thresholds for refusal.

All parties should identify a comprehensive package of powers and legislative timetable for cities in line with the enactment of the

Smith Commission in Scotland. This should include the commitment to:

- Protect the freedom of cities to associate and collaborate across boundaries including the formation of new combined authorities, where desired by cities
- An early approval of a ‘core offer’ or new devolution deals commensurate with those already agreed in Greater Manchester and Sheffield City Region
- Multi-year budgets and the first devolved packages.

From this position all Core Cities will be encouraged to formulate their detailed propositions for how further devolution might work in their areas.

Such commitments should be contained in all political manifestos of the major parties in all nations of the UK.

2. The next UK Government should establish an independent body, the Devolution Agency, to take forward the process of devolution for all the UK’s cities and regions in general and England’s in particular.

This should be a standing body for the duration of the next Parliament, independent of Whitehall and the devolved administrations in Scotland and Wales. In England it should have a stipulative, regulatory, research and advisory role. In Scotland, Wales and Northern Ireland it could play an advisory and liaison role until adopted by the home parliaments should they consider its English role worth copying. The Devolution Agency should not be encumbered or delayed by any re-organisation of departmental structures or constitutional arrangements and it should inform and ideally oversee any potential reviews and committees relevant to this agenda (including any proposals to review LEP boundaries, city-LEP governance models, or the implementation of fiscal devolution).

This body should:

- Set out the principles and parameters of intra-national devolution, that is, devolution within, not between, the home nations

- Establish a joint framework between English cities and central government for achieving a staged (and eventual) full place-based settlement for English cities including the stabilisation of local government funding, fiscal devolution and devolved spend over the course of the next Parliament
- Take forward the devolution commitments, assessing devolution plans and facilitating the process for full place-based devolution of public services between English cities and individual departments and administrations
- In collaboration with the Department for Local Government and Communities, the Devolution Agency should examine the case for professionalising local politics in England. In the light of the new asks being made of devolved cities, examination of the merits and demerits of continuing with the system of part-time politicians is long overdue. If we are serious about the potential of city regions and combined authorities, we need to consider whether staffing them with part-time local politicians, rather than fulltime and properly paid ones, is the right way forward. Given the oft-mentioned concerns about the quality and the importance of local government leadership, we believe that successful city regions may well need full-time, properly paid politicians and that the new body should examine the case for such a model
- This Devolution Agency will require the personal commitment and leadership of the Prime Minister to provide the necessary political weight to place-based devolution as the primary vehicle for economic growth and public service reform.

3. The next UK Government should commit to extending the legislative framework for city-based devolution.

The first legislative programme of the new Parliament will need to bring forward statutory measures or The UK Devolution Enabling Act for cities, towns and counties, to include:

- The current powers and responsibilities of local government, combined authorities and LEPs – and where necessary the powers and

responsibilities of such territories that should be prescribed by statute

- Establishment of **Local Public Accounts Committees** (see recommendation 7)
- Legislation permitting different forms of city governance, including provision for directly elected Metro Mayors and other forms of locally determined accountability
- A review of the constitutional and statutory instruments necessary to transfer full devolutionary powers and enact new laws where necessary to support the practical financial arrangements needed for devolution and place-based accountability.

The same legislative possibilities should be explored and hopefully taken forward in the devolved nations, and the Devolution Agency can serve a similar purpose there should its services be requested.

4. The next UK Government should achieve full place-based devolution and avoid siloed decentralisation.

While the current growth deals in Manchester and Sheffield are to be warmly welcomed, they still look very much like devolution of departmental budgets along the siloed lines of current Whitehall structures. But this will not build on the whole-place/total-place pilots which were very successful, nor will it achieve the full place-based settlement of public sector spend which is where the real merits and gains from devolution are to be found. It is vital that the new Devolution Agency tackle this from both the perspective of central government and the local city region or combined authority.

The new Devolution Agency should ask central government to create cross-departmental and silo breaking civil service teams to administer and co-ordinate different departments in delivering all their localised spend to a city regions. This may well take a culture change programme across Whitehall but backed by the Chancellor or the Prime Minister this has a chance of succeeding. The Agency should ask government to truly deliver on the potential of place-based pilots and integrate the devolution offer they will make and avoid the farming out of single funding streams.

Similarly, the Devolution Agency should encourage local authorities to be innovative and ambitious in their plans and proposals, and they in turn should encourage integrated asks and place-based proposals from cities and their environs. As part of a staged approach towards achieving a fully devolved and whole-system settlement, cities should be encouraged by the Devolution Agency to bring forward their propositions for service integration across departmental budgets and policy areas, based on their identified needs and priorities.

This process should be differential, based on the merits of each city's progress and achievements to date. Full devolution should allow for a whole-system approach to public service integration. This would see departmental budgets devolved to city region or combined authority level, be free from ring-fencing, and pooled, where appropriate, at the city level with local discretion to spend according to need and without the necessity to report along departmental lines.

5. The next UK Government should deliver fiscal devolution to the Core Cities by the end of the next Parliament.

This should include:

- The devolution of the five property taxes, in line with the recommendations of the London Finance Committee. This should allow the flexibility to vary business and council tax rates
- Freedoms to introduce new local taxes including for example recycling and tourism/hotel room/traffic taxes, subject to local consultation with affected stakeholders
- The introduction of the retention of income tax for all qualifying local authorities in city region relationships. The level of income tax retention should be a process of research discussion and negotiation mediated through, and run by, the Devolution Agency
- Asking the Devolution Agency to study the possible benefits of, and make recommendations about, local income and corporation tax variation on the basis of place. We would welcome a city region coming forward to pilot these possibilities.

- The composition of income will change with significantly more devolved spending in cities coming from taxes raised. To balance this increased financial responsibility, cities should be given increased borrowing powers, to be agreed with the UK Government, to support capital investment and ensure budgetary stability.

6. The next UK Government should enact a 'Duty to Collaborate', to commit all city authorities to collaborate with neighbouring authorities and all other public and private sector partners at the trans-city level to form combined authorities or other models of collaborative working and association.

While this should not threaten the autonomy of individual authorities, it should at the very least establish joint working around common problems that affect the city regions. We believe

that this duty should be enforced locally rather than centrally by the Local Public Accounts Committee. This will help cities to demonstrate the coherence of proposed geographical boundaries where new devolved powers will operate and where collaboration over functional economic areas could bring clear benefits. Authorities should explore opportunities at the trans-city level to pool funding and resources and organise whole-system approaches to public service delivery. This duty to collaborate should also apply to any significant budget holder of public money in the city region, from national agencies to welfare to work providers to LEPs to hospitals and schools. Since all would see the benefits from place based interventions, all should at the least attempt to collaborate and produce the best outcomes. We also believe that significant private sector actors should also be brought to the table, such as large local businesses or the public utilities companies.

7. Cities should commit to new levels of accountability and governance.

Combined authorities and other agreed forms of local collaboration should work with local partners, and government, to implement new levels of shared accountability and governance commensurate to the level of devolved responsibilities and powers. This should include consideration of:

- **City leadership:** In the form of a cabinet-style qualified-majority decision making process, a directly elected mayor and assembly, or another democratically elected governance model not currently on the statute books but which cities may bring forward. Cities must agree to enhance democratic accountability across agreed territories before receiving any additional powers to raise and spend tax revenues at the city-region level

2 Oxford Economics forecast for Core Cities (2013), 'Competitive Cities, Prosperous People: A Core Cities Prospectus for Growth'. Manchester: Core Cities Group, p.6.
3 Ernst & Young and Local Government Association (2013) 'Whole Place Community Budgets: A Review of the Potential for Aggregation'. London: Ernst & Young LLP, p.1.
4 House of Commons Communities and Local Government Committee (2014), 'Community Budgets, Third Report of Session 2013-14'. London: The Stationery Office, p.9.
5 Core Cities Group (2013) p.4.
6 PWC for Core Cities Group (2013) p.5.
7 Derived from OECD (2015) 'OECD Revenue Statistics - Comparative tables' [Online] Available at <http://tinyurl.com/revenuestatistics>
8 Based on Greater Manchester's early quantification of their devolution agreement and excluding any items which are not additional to what is already under Greater Manchester's control (e.g. Police and Crime Commissioner funding and Earn-back), The New Economy has estimated that the deal provides £800 million of additional funds under Greater Manchester's direct 'control' and a further £1.2 billion of enhanced 'influence'. Using a per capita calculation to extrapolate what this would mean if replicated across the other core cities, this showed a total value of funds under direct control of £4.5 billion and £7.2 billion of enhanced influence to the English Core Cities.
9 This analysis does not include the recent entries to the Core Cities of Glasgow and Cardiff.
10 Tax receipt estimates have been produced using a multiplier of GVA as a proxy, as detailed tax receipt data are not available at a sub-national level. £1.3 trillion of GVA was raised in England in 2013. Of this, around £113 billion was raised within the local authority boundaries of the Core Cities and a further £222 billion in

- **Public scrutiny:** Government should enact, and combined authorities should agree to, the creation and implementation of **Local Public Accounts Committees** to consider and advise on how money is spent, but also to scrutinise, intervene and where appropriate discipline. Crucially these Committees should also oversee the implementation of single outcome measurements for the whole city region so that public funding is not supporting conflicting outcomes. Similarly they should help facilitate and police the duty to collaborate to bring about the best co-ordinated use of public money in a place-based devolutionary environment
- **Accountability to Parliament:** This should provide the mechanism for combined authority members and central government to jointly hold officers to account for progress against agreed priorities. This could include an official or local accounting officer empowered to mediate between government and city regions.

8. Cities should commit to a model for devolving still further to localities.

In accordance with the principles of subsidiarity, any city-based settlement should be further devolved to enable communities and citizens to be more fully involved in local decision making. Local governance structures and delivery models will need to evolve in response to local experience and central government needs to give consideration to formalising the engagement of local communities in city governance. Local authorities should be given a duty to involve, empower and work with communities.

the surrounding city regions. This is equal to 26% of the English economy. Workplace GVA was calculated by multiplying mean annual workplace wages from the Annual Survey of Hours and Earnings (ASHE) 2013 by the number of jobs in each Core City to give a total wage figure for the city. This was then divided by the equivalent total wage figure for the associated lowest level geography for which GVA data was available (NUTS3) to give a city work-based GVA figure. Across the UK, £550 billion was collected in tax in 2012/13, accounting for around 39% of GVA, so to be conservative it has been assumed that tax receipts accounted for 35% of GVA in the Core Cities.

11 Resident GVA was calculated in a similar way to workplace GVA but using resident jobs (i.e. number of jobs held by residents of the city) as the basis for proportioning of GVA from NUTS3 areas rather than workplace jobs.

12 Seddon J, "Freedom from Command and Control: a better way to make the work work", 2003, Vanguard Press

13 Cabinet Office (2014) 'Implications of Devolution for England, December 2014'. London: Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office, p.29.

14 The City Growth Commission's interest in devolution is primarily economic, although recognising the relationship of growth to public service reform the Commission does not make wholesale recommendations for devolved public services. IPPR's Decentralisation Decade recommends that fiscal devolution should follow in the 2020-25 Parliament. RSA City Growth Commission (2014) 'Powers to Grow: City finance and governance'. London: RSA. Ed Cox, Graeme Henderson and Luke Raikes (2014) 'Decentralisation Decade: A plan for economic prosperity, public service transformation and democratic renewal in England'. Newcastle upon Tyne: IPPR North.



1. Introduction

“Devolution is one of the necessary conditions for the economic renewal of Britain’s cities and regions.”

The Core Cities include the city authorities of Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Situated at the centre of wider urban conglomerations, these Core City regions represent the ten most populated areas in Britain and the largest economies outside of London. They account for over a quarter of the total population of the UK and 24.4% of total GVA.¹⁵

As the 2015 General Election approaches, the public policy debate on devolution continues to gather momentum. The decision of the Scottish people to remain part of the Union and the resulting recommendations of the Smith Commission to devolve extensive new powers have come to define the current limits of a ‘Devo Max’ agreement while accentuating the ever more asymmetric relationship that now exists between the four nations of the UK.

At the same time, the recent agreements to give new powers to the combined authorities of Greater Manchester and the Sheffield City Region, while marking an important turning point for city-based devolution in England, raises the prospect of different city-based settlements within the context of disproportionately devolved nations.

This report sets out the shared ambition of the Core Cities Group for the fullest possible devolution of public spending and the greatest control of local taxation to the UK’s largest cities and city regions. We argue for a rebalancing of the relationship between central government and cities as the only real solution for addressing the interconnected challenges of local economic growth and public service reform.

The Core Cities are major contributors to the national economy, but in terms of growth and productivity they lag behind similar sized second-tier cities in other developed countries. The UK’s fiscal position makes delivering on city growth essential in order to narrow the performance gap between the Core Cities and London as well as their international counterparts. With public spending as a percentage of GDP set to fall to its lowest level since the 1930s, further cuts to public services in non-protected departments will, as the Autumn Statement implied, exceed those experienced during the current Parliament. The position makes wholesale public service reform an absolute necessity, to reduce the costs of increasing demand and dependency on public services and to allow more people to fully participate in the economy and benefit from the gains in productivity growth.

We present the case that in meeting this challenge the benefits must be achieved at scale. Each city must first of all become wholly responsible for local economic growth including locally controlled revenue streams to generate economic investment, jobs and growth, and for the public services it deploys to re-imagine place-based services designed around individuals,

Core Cities Contribution to GVA in UK and England*

UK Total GVA = £1,383bn

UK Core Cities
Combined GVA £337bn



24.4%
of total UK GVA

UK Core Cities

English Core Cities
Combined GVA £281bn



20.3%
of total UK GVA

English Core Cities

**The economic contribution of the wider urban areas of the Core Cities (measured by travel to work areas) remains at approximately 28% of the combined economy of England, Scotland and Wales or 27% of the UK economy. For the purposes of this work and to provide consistency with other figures, the new Local Enterprise Partnership administrative areas have been used which reflect a smaller, more tightly defined geography.*

families and communities. Cities cannot reform what they cannot control, and cannot direct, change or renew what they are not able to influence. Consequently, we argue that each core city needs a radical 'vertical' devolution of powers and public sector budgets, some of which will be to the local authority, some held by other agencies, but all of which are capable of greater alignment than is currently the case. This approach, we contend, will deliver

greater integration of public services that can be tailored to meet the real needs of people and place. Centralised and standardised public services delivered through silos and along departmental lines all too often preclude the possibility of holistic integrated care. Instead, services must be bespoke and personal; they must be upstream of current thresholds for action and integrate at the earliest possible stage to ensure that prevention genuinely

results in a lessening of demand on, and cost of, public services.

This project identifies the limitations of the current centralised system and the constitutional and departmental barriers to devolution and public service integration which must be overcome, and it charts the way ahead to budgetary and fiscal devolution.

15 The economic contribution of the wider urban areas of the Core Cities (measured by travel to work areas) remains at approximately 28% of the combined economy of England, Scotland and Wales or 27% of the UK economy. For the purposes of this work and to provide consistency with other figures, the new Local Enterprise Partnership administrative areas have been used which reflect a smaller, more tightly defined geography.



2. The Call for City-Based Devolution

“The international evidence shows that cities perform better in those countries that are less centralised and economically concentrated and where cities have greater powers, resources and responsibilities.”

2.1 Introduction

Decentralisation has been described as one of the defining global trends of the modern age.¹⁶ Many large democracies around the world already operate various decentralised systems of government including the federal countries of Germany, the United States and Australia. And increasingly a large number of other nations have embarked on some form of decentralisation programme. In the main this has included developing and transitional countries, particularly those managing the demise of some of the most centralised regimes in the world (e.g. the democratic transition in Spain and later the Soviet Union) and the emerging separatist demands that result from this.¹⁷ But other developed countries have also made systemic attempts to decentralise, including the nations of Scotland, Wales and Northern Ireland.

A key feature of this decentralising trend has been the transfer or ‘devolution’ of powers and responsibilities from the centre to local levels of government. The 15 year programme to devolve central government functions in Japan to reformed municipalities and prefectures is perhaps the most recent and significant example of comprehensive and systemic ‘territorial decentralisation’ in the developed world.¹⁸ Of course many other global cities and municipalities have long enjoyed greater levels of self-governance than equivalent cities in the UK; a situation which many commentators suggest is stifling the economic potential of both our cities and nations.

However, local autonomy is not equally distributed between places within decentralised states. Rather, it varies based upon a jurisdiction’s population size and economic base. Large cities, with important economic interests have greater authority and influence than do smaller, less affluent communities. The international evidence suggests that decentralisation will naturally lead to localised and asymmetric settlements. But these differences notwithstanding, the process will need to operate according to a set of principles and an agreed framework that will establish the conditions, as well as the scale and pace, for devolution.

2.2 Definitions

The terms ‘decentralisation’ and ‘devolution’ are often conflated and used interchangeably. The academic literature presents varying and sometimes confusing technical definitions which can differ in concepts between countries. We have adapted a set of international definitions from the World Bank and United Nations Development Programme, which describe decentralisation as an overarching term of which devolution is commonly understood as the most extensive and genuine form. These definitions refer to the different ways in which decision-making powers and authority – including political, administrative, fiscal, and market decentralisation – are transferred from the centre to lower levels of governance. There is however clearly some overlap between these terms and consequently definitions are not so precise.

Political decentralisation: this aims to give citizens or their elected representatives more power in public decision-making. Advocates of political decentralisation assume that decisions made at a local level will allow greater participation and will be better informed and more relevant to diverse interests in society than those made only by national government. Political decentralisation often requires constitutional or statutory reforms, and the strengthening of legislatures.

Administrative decentralisation: this refers to the system of transferring authority and responsibility for the planning, financing and management of public services and certain other public functions, among different levels of government or functional authorities. There are three main forms of administrative decentralisation:

1. **Deconcentration** – often considered the weakest form of decentralisation, this term refers to the transfer of administrative functions through the relocation of central administrative bodies to different geographical areas. In the UK context this might best be illustrated by the experience of the Government Offices for the Regions.
2. **Delegation** – is a more extensive form of decentralisation and refers to the transfer of administrative and regulatory functions to other bodies and agencies which may be local, regional or national such as quasi-autonomous non-governmental organisations (QUANGOs), not wholly controlled by central government but ultimately accountable to it.
3. **Devolution** – is the most common understanding of genuine decentralisation involving the legal transfer of powers, rights, assets and financial resources to lower levels of government. In its purest form a devolved territory will have certain fundamental characteristics, including:

- Autonomy and independence, clearly perceived as a separate level of government over which central authorities exercise little or no direct control.
- Clear and legally recognised geographical boundaries within which they exercise authority and perform public functions.
- Authority to make investment decisions and secure resources to perform their functions.
- Accountability, clearly perceived by local citizens as answerable to the electorate for providing services that satisfy their needs and over which they have some influence.
- Reciprocal, mutually beneficial, and coordinated relationships between central and local governments.

Fiscal decentralisation: this refers to the dispersion of previously concentrated powers of taxation and revenue generation to other lower levels of government.

Market decentralisation: involving privatisation and market deregulation by shifting responsibility for government functions from the public to the private sector.

Wales and Northern Ireland as well; and where constitutional reforms to improve governance in the United Kingdom will also need to empower 'our great cities'.²¹

But despite the apparent cross-party agreement in favour of city devolution, and the different deals that have been reached in Greater Manchester and Sheffield, there remains some uncertainty about what this might look like in practice as well as how and when this should be enacted on a wider scale. The current danger to the kind of place-based settlements that cities are demanding comes in the form of a potentially distracting constitutional dispute about the West Lothian Question and calls for 'English votes for English laws'.

For Labour, who would stand to lose most in the event of an English Parliament, the solution is an 'English Devolution Act' securing devolution to the English regions, by transferring £30 billion worth of funding over five years – for transport, housing, business support, skills and employment – allowing the 100% retention of business rates, and for councils and the NHS to join forces locally to end the care divide. Building on the planning framework of Scottish and Welsh devolution, the Act will form a new "English Regional Cabinet Committee" chaired by the Prime Minister, convened regularly and attended by relevant Secretaries of State and leaders from major City and County Regions that come together for extra powers, and who may choose to elect a leader.

Speaking at a preparatory meeting of what could become the new English Regional Cabinet Committee, Ed Miliband described Labour's proposals as "a radical plan for spreading power and prosperity across England's city and county regions, so that the recovery reaches your town square – not just the Square Mile of the City of London". The proposals would "reverse a century of centralisation so that every region of England can benefit from the local planning and support the last Labour government delivered for Scotland and Wales."²²

These manifesto commitments follow the Labour Party Policy Review²³ which has placed great emphasis on ending top-down centralisation, arguing for greater devolution of public funding, particularly for economic development, and calls for limited fiscal decentralisation (The Adonis

2.3 Current party proposals for city-devolution

The proposals for further devolution in Scotland revealed a broad consensus between the three main political parties about the powers to be devolved or retained by the UK Parliament, with general agreement on most areas of departmental spend including welfare, and some key

points of difference in terms of fiscal devolution.¹⁹ All parties have since vowed to enact the recommendations of the Smith Commission²⁰ and in addition have now made commitments to devolve further powers to all the nations, as well as the cities and regions, of the UK. As the Prime Minister made plain on hailing the result in Scotland, a balanced settlement is now required. One that is 'fair to people in Scotland and importantly to everyone in England,

Growth Review²⁴), more responsibilities for local and combined authorities (IPPR's 'Condition of Britain'²⁵) and greater local accountability and governance (The Local Government Innovation Task Force²⁶).

Of the main UK political parties, the Liberal Democrats have been unique in their long-standing commitment to federalism, constitutional reform – including for the House of Lords – and a resolution of the 'English Question'. One might imagine that these beliefs would see the party placed at the vanguard of the current constitutional debates. However, while Nick Clegg has welcomed Labour's call for a constitutional convention and the need to codify the constituent parts of the UK, he has categorically stated that it must not delay the introduction of new legal rights – a statutory presumption in favour of the decentralisation of powers away from Whitehall – to enable devolution on demand.

*"I see no reason why we cannot publish draft clauses for this early next year alongside our other pressing reforms."*²⁷

While the Conservatives are yet to make any manifesto commitments about devolution, the Chancellor George Osborne in particular has been explicit about the importance of cities and regions to the future of the economy. During his party conference speech the Chancellor made plain his commitment to make *"reducing the gap between north and south, London and the rest, one of the central ambitions of the next Conservative Government."*²⁸

This follows on from his previous Northern Powerhouse speech in which he outlined his commitment to greater devolution in exchange for new Metro Mayors.

*"I am putting on the table and starting the conversation about serious devolution of powers and budgets for any city that wants to move to a new model of city government – and have an elected mayor."*²⁹

Having already announced that Greater Manchester will receive new 'London Style' powers in exchange for an elected 'Metro Mayor' for the City Region, the Chancellor reiterated in his Autumn Statement that his door remains open to *"other cities who want to follow [Manchester's] cross-party lead"*³⁰ But the deal agreed in Sheffield, in which the Liberal Democrat leader intervened,

has seen the Coalition Government agree to let cities come forward with their own preferred way of strengthening governance before receiving extra responsibilities.

The outcome of the election may affect the legislation necessary to cement these agreements, and any others that may soon follow, but it is already clear that parties across the political divide are speaking a similar language. The suggestion that cities will need to come together with neighbouring authorities, albeit at their own command, is consistent across all parties. However, the question of mayors remains unresolved with the Conservatives favouring this form of governance, while Labour and the Liberal Democrats have emphasised the need for local determination in this matter.

If devolution is an issue on which all parties will contest next year's election, then cities could be the ultimate winner in a 'race to the top' as the pace and scale of devolution increases. However, there is the strong and paradoxical possibility that English cities could arrive at devolved settlements ahead of cities in the devolved nations. Presently the main parties in Scotland and Wales are less engaged with the place-based agenda. The management of Crown Estate assets is the only 'power' transferred to local authorities in Scotland, as recommended by the Smith Commission, although in his foreword to the report Lord Smith does make clear that:

*"There is a strong desire to see the principle of devolution extended further, with the transfer of powers from Holyrood to local communities. This is an issue that will require significant further thought and discussion and I welcome the enthusiasm of all parties for greater empowerment of our communities. The Scottish Government should work with the Parliament, civic Scotland and local authorities to set out ways in which local areas can benefit from the powers of the Scottish Parliament."*³¹

2.4 Why cities matter

The call for more freedoms for cities has been a long-standing feature of public policy debate in the UK. Cities are clearly important. They are where most people live and work, and where most businesses

are concentrated. They are the engines for growth, helping to drive strong national economic performance. Across the UK, cities take up just 9% of the land mass, but account for 58% of jobs, 60% of the economy and 72% of high skilled workers.³² And yet they are also the places where some of the country's most difficult social problems are concentrated. High levels of dependency on public services, especially welfare and health, are constraining the potential for growth and the ability of cities to be self-sustaining.

The UK's Core Cities have made great strides in the past two decades. But unlike many second-tier cities across the world, they have failed to outperform the national economy. In terms of economic growth and productivity the UK's Core Cities have failed to narrow the gap with London and with their international counterparts. Any gains that were made have been eroded since the recession. Most UK cities are now falling behind similar sized second-tier cities in other developed countries.³³

It has been argued that the size of London's GDP relative to the national economy has contributed to regional inequalities and the underperformance of second-tier cities, leaving the national economy spatially and structurally unbalanced.³⁴ Capital cities are crucially important to their national economies but continued policy emphasis and disproportionate investment in capitals puts the collective interests of second-tier cities at risk. This in the long run leads to the underperformance of both cities and the national economy.

Individually, second-tier cities may lag behind capitals, but combined their contribution to national economic performance is hugely significant. If all the Core Cities in England could perform at the national economic average, a further £1.3 billion would be put into the economy every year.³⁵

Both capital and second-tier cities must be supported – to produce a win-win, and not a zero-sum outcome. The international evidence shows that cities perform better in those countries that are less centralised and economically concentrated and where cities have greater powers, resources and responsibilities. Spreading investment and encouraging high performance in a range of cities, rather than concentrating on the capital city, produces national benefits.

2.5 The centralised state

Increasingly, the view being expressed in cities by local authorities, businesses and politicians across all parties is that excessive centralisation is holding back economic growth. In terms of taxation and public finance, the UK and particularly the English nation is a highly centralised and top-down state.

In the UK only council tax and a proportion of business rates have been retained locally, which together represent approximately three per cent of GDP. In many other countries the taxes determined by local and state/regional government exceed 10% of GDP. No other major OECD country has such a small proportion of overall tax determined by local government as the UK.³⁶

Furthermore the UK operates a high level of central control over public expenditure. According to McKinsey³⁷, central government's share of public spend in Germany is 19%. It is 35% in France, but no less than 72% in the UK. The disparity is equally pronounced at city level – for example, London receives 74% of its income through transfers from central government, compared to 37% in Madrid, 31% in New York, 26% in Berlin and less than 8% in Tokyo.

Clearly it has not always been this way. In the nineteenth century Britain's great Victorian cities were at the centre of the Industrial Revolution. They were places where engineers, scientists, financiers and entrepreneurs all came together to share ideas, new technologies, products and markets. A local system of municipal government enabled political leaders to have much more power and responsibility for the governance of their cities, to support growth, generate wealth and to create a wide range of new public services designed to help improve people's lives. With the facility to raise local taxes, cities were directly responsible for all the infrastructure needs of their growing communities including public utilities such as sanitation, water, gas, electricity, as well as the provision of public health, hospitals, schools, housing, policing, transport and roads.

However, the status and independence of our cities has over the course of the last century gradually been eroded. Most commentators identify the shift towards centralisation with two seismic developments in Britain's political history:

the end of Empire and the post-war establishment of the NHS and the welfare state; and the privatisation drives under the Conservative governments of Margaret Thatcher (1979-1990) and John Major (1990-1997).

The creation of the welfare state enshrined the concept of universal public services, rooted in historical ideas of equality and fairness, where all citizens can access the same uniform services, regardless of place or personal circumstance. This resulted in a vast national system where public services, once localised and piecemeal, were standardised, funded and delivered within a number of large government departments. The central state became the guarantor of this new settlement, paid out of general taxation, and its administrative apparatus became the main instruments of social change as gradually ministers and Whitehall began to accumulate all responsibility for public service provision.

However, by the 1970s, the quality, consistency, cost and efficiency of public service provision had become a central issue. The 1979 Conservative government challenged the assumptions of the post-war administrative welfare state model. Committed to the concept of free markets and minimal government intervention and regulation, Margaret Thatcher's government began the privatisation of many state-owned monopolies, particularly utilities. While the government's liberalising and decentralising agenda was intended to trim the remit of the state and reduce public expenditure, opposition to its policies, particularly from local government, resulted in central government stripping local authorities of many of their powers and sources of revenue. Between 1980-1981 and 1989-1990, central funding allocated to English local authorities declined from £14.6 billion to £9.5 billion.³⁸ The restrictions placed on local authorities during these periods culminated in an unprecedented level of central authority.

2.6 Economic growth and public service reform

Successive governments have attempted to tackle the related challenges of economic growth and public service reform. The efforts during the 1960s and 1970s to both

reverse economic decline and reduce public spending were deemed to be so ineffective that they were to give rise to a radical new vision for the future of the welfare state, one that would oppose the prevailing economic orthodoxy.

The period of Conservative government (1979-97) witnessed radical changes in government policies which aimed to strengthen the national economy, address market failure, reform ailing public services and regenerate Britain's failing cities. An extraordinary number of 'localised', area-based interventions were directed at cities during this period, including Urban Development Corporations, Enterprise Zones, Urban Development Grants such as Action for Cities, City Challenge and the Single Regeneration Budget, City Action Teams, and Task Forces. But the approach was overwhelmingly a top-down and centralist programme, bypassing the control of cities and local authorities completely. The new market economy sought to include all sectors – public, voluntary, and especially private – with a new notion of local partnership working. The importance of private sector involvement evolved from the idea that central government should and could not provide all the resources necessary for economic growth and urban renewal.

Alongside these measures to support growth, 'New Public Management' reforms were introduced by the Thatcher government in the 1980s. These sought to address the increasing burden of public expenditure by reshaping the public sector around three macro-themes³⁹:

- Competition: introducing private sector suppliers, outsourcing, internal markets, asset sales, and deregulation.
- Disaggregation: breaking up large bureaucracies by introducing quasi-government agencies, and separating purchaser-provider roles.
- Incentivisation: introducing 'business' motivations for organisations to make 'the best' use of resources and improve performance.

This centralised and managerialist approach came to dominate public services over the following decades, spanning several governments. The Labour government (1997-2010) continued the theme.

introducing new and more complex forms of performance management (Best Value, Star Ratings and League Tables) in an attempt to modernise local government and drive up the standard of local public services through inspection and target setting. Public Service Agreements between Departments and the Treasury, and Local Public Service Agreements between central and local government set out what was expected of particular departments and in turn local authorities, with rewards of additional funding in return for improved performance against an extensive range of government targets.

The language of 'new localism', 'double-devolution', and 'place shaping' gradually emerged during New Labour's term of office, signalling an intention to break away from managerialist local government reforms to recognising and prioritising the role of community empowerment and local involvement as a major policy target. The Lyons Review (2007) made specific recommendations for the devolution and release of constraints on the funding of councils, including the re-evaluation of property values to current market prices; an abolition of council tax capping; assigning a proportion of income tax to local government; and re-localisation of the business tax rate.⁴⁹ But the Labour government did not take up any of these major reforms.

Despite significant successes in devolving greater powers to Scotland, Wales, Northern Ireland and London, ultimately the position of strong central authority in relation to economic growth and public services was maintained by Labour. In England, economic performance was organised at the regional level with the creation of new Regional Development Agencies (RDAs). This represented a form of delegated decentralisation but simultaneously introduced another institutional layer between central government and the localities. A national economy centred on financial services was failing to narrow the performance gap between regions and the runaway growth in London and the South East, while it became increasingly clear that the general programme of New Public Management, intended to bring market disciplines to public services and reduce the role of the state, had not resulted in a systemic cultural change.

2.7 City deals

The coalition government moved quickly to end the era of top-down government. The culture of target setting and performance monitoring was immediately relaxed. Local Area Agreements were no longer enforced by central government and Regional Development Agencies were replaced with new Local Enterprise Partnerships. The introduction of the Localism Act (2011) as part of the coalition's early legislative programme was to signify far-reaching reform to cover a wide range of issues related to local public services, with a particular focus on the general power of competence, community rights, neighbourhood planning and housing.

The Core Cities amendment to the Localism Act allowed for the creation of City Deals – bespoke arrangements between cities and central government to provide the tools needed to drive local economic growth, including greater powers to:

- Invest in growth and critical infrastructure such as transport and broadband through tax increment financing with the ability to borrow against future business rate income in key development zones (Newcastle, Sheffield and Nottingham) and new earn-back mechanisms (Greater Manchester).
- Design and deliver local employment and skills provision like the devolved apprenticeship programme (Sheffield) and localised youth contracts (Leeds City Region, Liverpool, Newcastle, Glasgow).
- Support local businesses with venture capital funds to invest in high-tech start up and growth businesses (Nottingham) and city-led business growth hubs (Greater Manchester and Bristol and West of England).

Cities have negotiated new powers and freedoms that give them control to decide how public money should be spent and which allows greater local control over investment to drive growth, housing, planning, and economic development – further strengthened by the City Growth Deals. At the same time the new Community Budgets and the roll out of the government's Troubled Families programme are testing how to bring together resources and funding for public services at a local level to design integrated services and achieve better outcomes.

Government has been devolving but for many the advances to date have been too slow, too small, and too piecemeal, while every attempt to give new powers to local communities seems to accentuate the central control of the state. The Localism Act empowers local communities, for example, to establish free schools while bypassing local democracy and allowing the Secretary of State to veto local decisions. At the same time responsibilities that have previously rested with lower tiers of government, such as education, have been centralised. A common criticism of LEPs has been that although appearing to devolve economic development functions to a sub-national level the powers and funds that previously resided with Regional Development Agencies have in the main not passed down but returned to the centre.

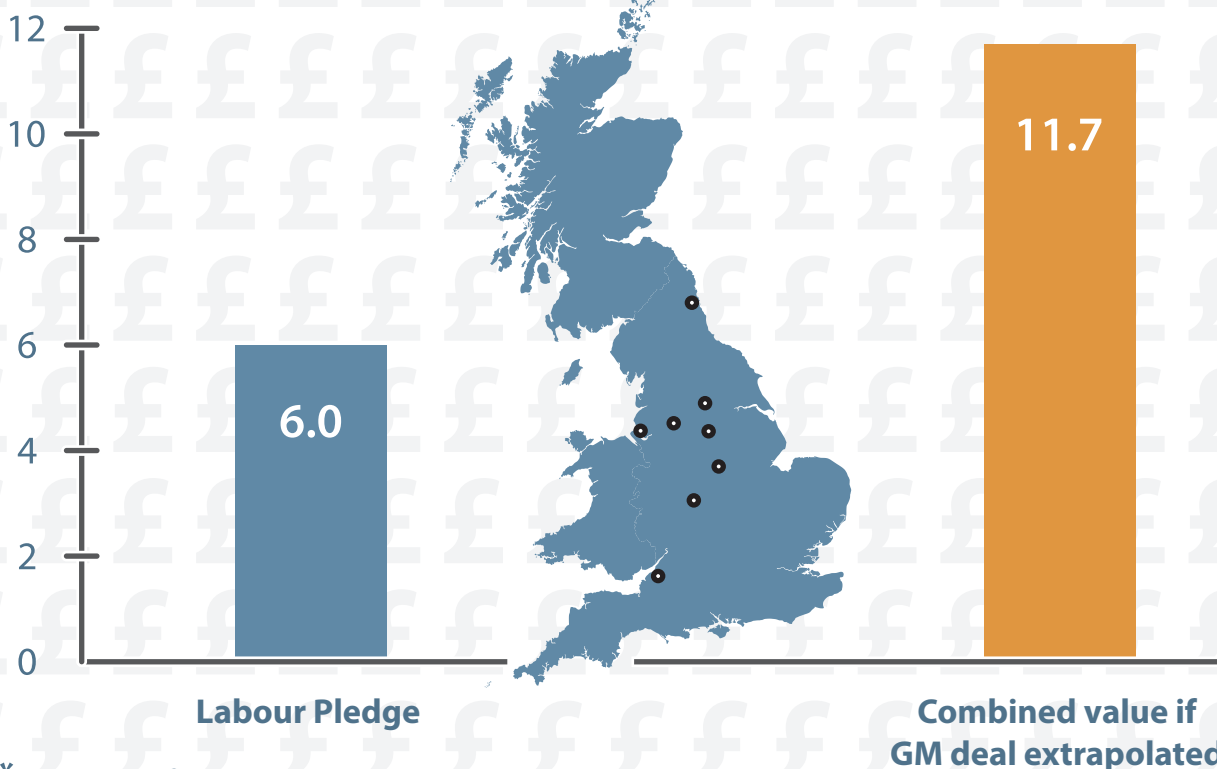
But progress has been made. The recent announcements to agree different devolution deals in the combined authorities of Greater Manchester and Sheffield City Region mark a historic turning point in the long-standing call for city-based devolution in the UK. The two deals differ in terms of the depth and scope of their agreements but also in terms of their respective governance arrangements (see Chapter 4 for the discussion of city governance). Both build on the successes of their Combined Authority status and the achievements to date in the delivery of their City Deals (agreed in 2012) and Growth Deals (agreed in 2014).

The Greater Manchester Agreement contains a number of additional freedoms and flexibilities across a range of service areas, including health and social care, early years, and transport, which capitalise on the City Region's developing growth and reform agenda. This includes:

- Greater influence over adult skills provision, with responsibility for devolved apprenticeships, and business support budgets
- Co-commissioning of the next phase of the Work Programme, an ESA Employment Pilot, expansion of the "Working Well" welfare pilot, and the launch of a new pilot for over 55s
- Bus Franchising and a single transport budget with a TFL-style multi-year settlement

Hypothecated gains for English Core Cities based on a per capita allocation of the GM devolution deal versus Labour policy pledge

£bn per annum *



* For each of the next 5 years

One way to judge the parties on devolution - comparing current devolution pledges (only Labour have yet made any: £30bn over the next Parliament) against the extrapolated value of the devolution deal for Greater Manchester

- Control of a new Housing Investment Fund of up to £300m
- A revamped earn-back deal to allow payment by results - up to £30 million per year of tax for the growth it creates through a £1.2 billion infrastructure investment fund to enable the Metrolink extension to Trafford Park
- Control of existing health and social care budgets, to plan for an integrated service
- A dedicated Schools Grant to support the rollout of the new Early Years delivery model
- Mayoral responsibility for the role currently covered by the Police and Crime Commissioner
- Devolved planning freedoms, including the power to create a statutory spatial strategy.
- A significant and unique element of the Sheffield deal will be the scale of devolved responsibility for adult skills which will establish a joint venture between the combined authority, BIS and DWP to co-commission and integrate employment and skills provision across the City Region. This will follow on from the successful City Deal programme and look to establish a new restructured skills system by 2017. Other elements include:
 - Responsibility for devolved business support budgets
 - Agreement to explore the co-commissioning of the Work Programme

- “Discussions” on an ESA Pilot
- Extension of Sheffield City Region’s influence over local roads, railways, trams and buses, including more strategic long-term decision
- Working with HCA on disposals of central government land.

The agreements in Greater Manchester and the Sheffield City Region combine elements of devolved funding of siloed budgets (control) and the decentralisation

of departmental functions and decision-making about how services are delivered (influence). As they stand both deals fall some way short of a whole-system approach or ‘Devo Max’ settlement. However, if we estimate the per capita value of the Greater Manchester deal and extrapolate this across all Core Cities, based on population, this would approximate to £14.2 billion per annum (£11.7 billion across England).⁴¹ The scale of the Greater Manchester agreement already exceeds

the policy pledges that Labour have made for the next Parliament (i.e. £30 billion to cities in England or approximately £6 billion per year). What has so far been achieved in Manchester and Sheffield signals the beginning of a differential and incremental process that can, in time, lead to full place-based devolution, while providing a template for other cities in the UK. As Lord Heseltine commented, “In England, devolution is now unstoppable.”⁴²

16 Rodríguez-Pose A, Gill N, 2003, “The global trend towards devolution and its implications”, *Environment and Planning C: Government and Policy*, 21(3), 333 – 351
17 United Nations (DDSM and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46

18 Ikawa H, 2008, “15 Years of Decentralization Reform in Japan”, National Graduate Institute for Policy Studies (GRIPS), Council of Local Authorities for International Relations (CLAIR), Institute for Comparative Studies in Local Governance (COSLOG)

19 The Command Paper published on the 31st October set out the proposals of the three main UK political parties for further devolution in Scotland. On welfare the parties set out their proposals for further devolution of powers on the Work Programme, Housing Benefit and Attendance Allowance to the Scottish Parliament. No party made commitments to devolve welfare benefits, pensions or Jobcentre Plus. On fiscal devolution the Conservatives stated that the Scottish Parliament should be responsible for setting the rates and bands of income tax in Scotland although definitions of income and personal allowances and thresholds would continue to be set by the UK Government. Labour stated that they would widen the variation in income tax in the Scotland Act from 10p to 15p and introduce new Progressive Rates, so that the Scottish Parliament can increase the rates of tax in the higher and additional bands. The Liberal Democrats stated that income tax paid by Scottish taxpayers should be almost entirely the responsibility of the Scottish Parliament.

20 The recommendations of the Smith Commission in Scotland have defined the current limits of the ‘Devo Max’ settlement, which all parties have vowed to deliver, including: the permanence of the Scottish Parliament; the devolution and assignment of tax receipts with the powers to vary the rates of income tax and the thresholds at which these are paid (excluding the lower limit for personal tax allowance); a share of VAT receipts to be assigned to the Scottish Parliament; fully devolved Air Passenger Duty; welfare powers over a limited number of benefits including those for carers, disabled people and those who are ill; benefits which currently comprise the Regulated Social Fund and Discretionary Housing Payments; and adjustment of the Block Grant equivalent to the revenue forgone by the UK Government.

21 Scottish Independence Referendum: statement by the Prime Minister, 19th September 2014

22 <http://press.labour.org.uk/post/101405021109/a-plan-to-spread-the-recovery-to-the-town-square> [Accessed 5 February 2015]

23 The Labour Party commissioned a number of key reports as part of its Policy Review. These include IPPR’s Condition of Britain; The Adonis Review; and the Innovation Task Force.

24 Mending the Fractured Economy: Smarter state, better jobs, Final Report of the Adonis Review, Policy Network, July 2014

25 IPPR, The Condition of Britain: Strategies for social renewal. June 2014

26 Local Government Innovation Taskforce, Final Report: People-powered public services, July 2014

27 Nick Clegg: ‘This opportunity cannot be hijacked’, 21 September 2014 [online] Available at http://www.libdems.org.uk/nick_clegg_this_opportunity_cannot_be_hijacked

28 George Osborne, Conservative Party Conference speech, 29 September 2014

29 <https://www.gov.uk/government/speeches/chancellor-we-need-a-northern-powerhouse> [Accessed 5 February 2015]

30 George Osborne, Autumn Statement. House of Commons, 3 December 2014

31 The Smith Commission, “Report of the Smith Commission for further devolution of powers to the Scottish Parliament”, November 2014

32 ‘Competitive Cities, Prosperous People: A Core Cities Prospectus for Growth’, published 21 November 2013

33 Parkinson M, Meegan R & Karecha J, 2014, “UK city-regions in growth and recession: How are they performing at home and abroad?”

34 *Ibid.*

35 “2013 Good Growth for Cities index”, PwC

36 Source: Derived from ‘OECD Revenue Statistics Comparative tables’ [online], Available at <http://tinyurl.com/revenuestatistics>

37 Source: TNE32 Fiscal Devolution, January 2014

38 Alldritt C, Masters J, Gerritsen S, and Kippin H, 2010, “A Brief History of Public Service Reform”, London: 2020 Public Services Trust at the RSA.

39 Dunleavy P, 2010, “The Future of Joined-up Public Services”, London: 2020 Public Services Trust at the RSA

40 The Lyons Inquiry into Local Government, “Place-shaping: a shared ambition for the future of local government”, 2007, London: HMSO

41 Based on GM’s early quantification of their devolution agreement and excluding any items which are not additional to what is already under GM control (e.g. Police and Crime Commissioner funding and earn-back) New Economy have estimated that the deal provides £800 million of additional funds under GM’s direct ‘control’ and a further £1.2bn of enhanced ‘influence’. Using a per capita calculation to extrapolate what this would mean if replicated across the other Core Cities, this showed a total value of funds under direct control of £4.5bn and £7.2bn of enhanced influence to the English Core Cities.

42 [Online] Available at: <http://www.placenorthwest.co.uk/news/archive/17117-heseltine-devolution-unstoppable-after-manchester-deal.html#sthash.OuWhLVKe.dpuf> [Accessed 5 February 2015]



3. The Case for Change

“The ways in which most of our public services are delivered means that they frequently operate at a level and scale that restrict the potential for genuine service integration.”

The macroeconomic case for city-based devolution has been advanced by the City Growth Commission and the Adonis Report amongst others. Work commissioned by the Core Cities Group from Oxford Economics suggests that with greater financial and administrative freedoms the eight Core Cities in England could deliver an additional 1.16 million jobs and £222 billion in GVA to the UK economy by 2030⁴³ – equivalent to adding in the economy of Denmark to the country’s productive capacity.

But the case for devolution is not purely economic. It’s also about better democracy, better governance and more cost-effective service delivery in a time of austerity. Here we argue for a rebalancing of the relationship between Whitehall and cities as the only real solution for addressing the interconnected challenges of local economic growth and public service reform.

3.1 The state we are in...the fiscal position

The UK has returned to growth but the Government’s central economic policy of deficit reduction is proving increasingly difficult to achieve. Britain’s fiscal consolidation still has a long way to go before the public finances are on a sustainable footing. This position continues to place our public services under pressure as never before.

Services, and particularly those provided by local government, have over the course of the current Parliament experienced huge cuts, with another round in 2015/16 yet to take effect. As the National Audit Office (NAO) has recently identified, government funding to local authorities will have reduced by 37% in real terms between 2010/11 and 2015/16, equating to 25% of local authorities’ total income when taking into account council tax receipts.⁴⁴ UK city authorities have experienced some of the most dramatic reductions in funding over the past four years. And yet, despite these cuts across local government and other public services, the next government will inherit a deficit that will stand at over £90 billion. As the Autumn Statement made clear, public services will have to operate at 35% of GDP and stay there for the duration of the next Parliament as public spending will fall to its lowest level since the 1930s, requiring a further £60 billion of spending reductions in unprotected departments.

The plans, according to the Treasury spending watchdog, the Office for Budget Responsibility (OBR), also presume the loss of a further one million public sector jobs by 2020, a renewed public sector pay squeeze and a further freeze on tax credits. As Robert Chote, the Chairman of the OBR, has stated, the UK has seen just 40% of the necessary cuts – the next 60% will come under the next Parliament. But public services are struggling to cut much further – co-location, shared services and back office efficiency savings can only go so far. Reductions in spend by local authorities

Potential economic growth by 2030 due to devolution to the English Core Cities

+1.16m Jobs +£222bn GVA



Equivalent to adding Denmark to England's economy

have been offset by increases in spending on welfare, health and social care. Savings in one part of the system have merely resulted in spending and demand increases elsewhere, which is fuelling longer-term dependency and reducing the capacity cities have to invest in growth. This is leading to poor outcomes for people, for cities and for the public purse.

On current trends, assuming that spending projections are accurate and the statutory responsibilities of councils remain the same, within the near future the cost of children's services and social care alone will consume local authority spend. The Society of Local Authority Chief Executives (SOLACE) has reported a 14% increase in people looking for social care support since 2010 – while budgets have been cut by 26% – and a 12% rise in initial contacts to children's social care in the past 12 months. Without reform, future demand will exceed the level of service that can be funded in just a few years (three to four years by Local Government Association [LGA] estimates).

3.2 Connecting growth and reform

The analysis of public spending undertaken by New Economy across the eight Core City authorities in England identified a total expenditure of £37.3 billion in 2012/13.⁴⁵ At the city-region level this figure will be exponentially bigger, in some places by a factor of 10 or more. The largest areas of public spend are welfare benefits (DWP/HMRC), health (NHS/CCGs) and local authority funding, which includes social care and education – the latter being a significant service area of major importance to cities, although one which local authorities have limited control over beyond pass-porting monies to schools.

(See Figure 1 opposite)

Of the total spend, approximately 36% is identified as reactive – defined as money spent reacting to the consequences of problems caused elsewhere, such as dealing with excluded pupils, the costs of taking children into care, drug-related crime, acute healthcare including A&E and welfare benefits.⁴⁶ Reactive measures involve providing public services to tackle symptoms rather than proactively addressing the causes – using resources to prevent problems arising and prevent cases reaching a more serious or costly state. The reform of public services, to shift the emphasis from reactive measures to downstream prevention and early intervention, is increasingly necessary to provide positive social and economic outcomes and better value for money when overall public spending is reducing.

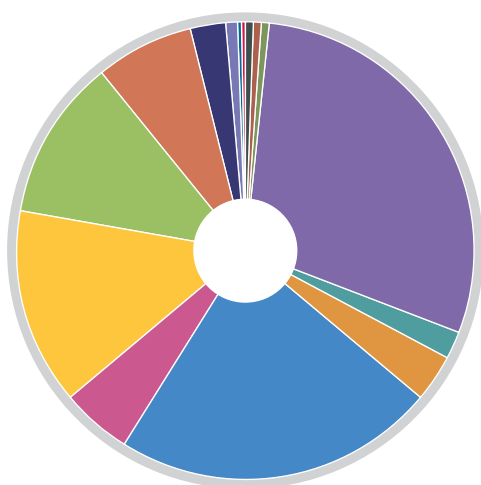
New Economy conservatively estimates that in 2012/13 the Core City regions generated around £117 billion of tax, around one pound in every four collected nationally.⁴⁷ Of this £117 billion, around £39.7 billion was raised by all workplaces within the boundaries of the Core Cities local authorities.⁴⁸ This exceeds the total public expenditure of these cities (37.3 billion), delivering a surplus of around £2.8 billion. However, there is a substantial difference between the value of the tax raised in the workplaces of the Core Cities compared to the tax raised by their residents. Core Cities residents (i.e. those living within the city authority boundaries) raised £26.2 billion – around two-thirds of the total tax take of the cities.⁴⁹

This means that annually more than £13 billion moves out of the cities themselves and into the broader city region, suggesting that although the Core Cities deliver significant value, much of this value flows out of local authority boundaries and into the surrounding city regions, while many residents of Core City authorities are living on low incomes that are insufficient to raise the level of taxes required to fund the cost of the public services consumed.

National research suggests that in the recent past (with the exception of a short period in the early 2000s) English Core Cities have performed below the national average economically, with the majority of them delivering below the national economic average output.⁵⁰

Fig. 1

Core Cities - Total public service expenditure by agency 2012/13 (£m)



Reducing levels of worklessness and those at risk of moving onto long-term benefits due to health reasons; improving qualifications levels; opening up more employment opportunities; and increasing progression into higher skilled and higher paid employment – all of these are critical to driving down the costs of public services and increasing the tax revenue in cities. Ensuring people are better connected to growth and employment opportunities will be fundamental to closing the tax and spending gap across cities. There will be limited prospects for sustained economic growth without extensive and qualitative reform of public services.

3.3 The problem with public services

Public services in the UK are delivered through a number of central government departments – Health, Employment, Education, Skills – organised in large policy and funding silos, separate and disconnected from one another, following different objectives and working to different time scales. Some services are provided directly by government departments (such as tax, pensions and welfare benefits). Others are delivered through a multiplicity of agencies operating at different tiers (nationally and locally) appointed and contracted by, or on behalf of, the state. Service outcomes are measured according to national frameworks and reported upwards through national systems of departmental and ministerial accountability.

This highly centralised approach leads to standardised national programmes, 'one-size-fits-all services,' that can deal with uniform needs as they arise but are less able to proactively respond to, or get to the root cause of, more difficult problems. The challenges facing many local communities, families and individuals are often complex and deeply entrenched. Interrelated problems such as generational unemployment, poor health and criminality often need multiple and simultaneous interventions across a range of issues such as housing, training, employment and childcare. This requires a holistic approach to more effectively 'join up' government and integrate delivery at the local level and to better meet the increasingly complex needs of service users.

Source: *New Economy 2014*

In short, this analysis suggests that:

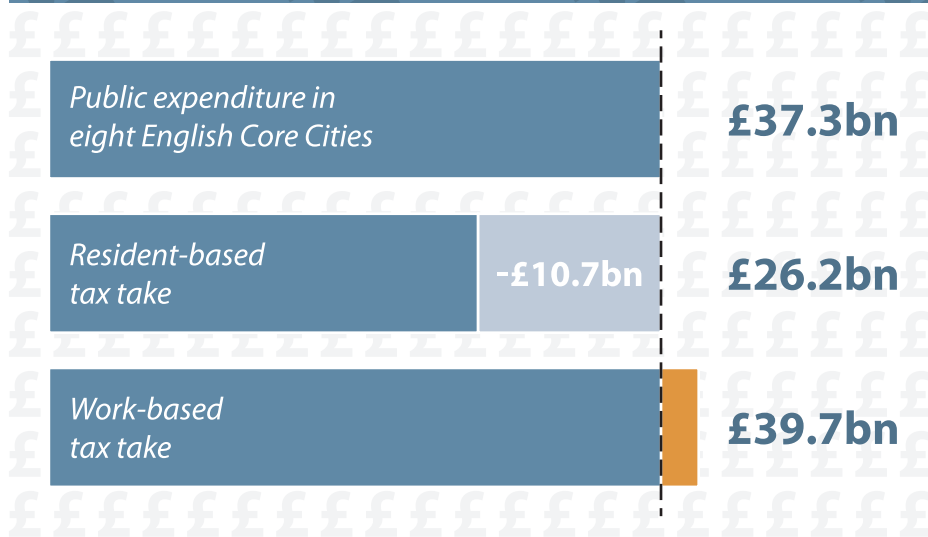
- The performance of all the Core Cities is critical to UK economy – without them we don't have a viable economy
- The prosperity of their surrounding sub-regions is highly dependent on the economic performance of the cities
- As well as net wealth producers, cities are also home to large populations on low incomes, with the attendant challenges this brings
- They are capable of producing a higher economic output.

Our cities, like many of the communities, families and individuals who live in them, are unable to sustain themselves and unable to reduce their dependency on public funding or close the gap between the

taxes they generate and the cost of public services. Despite being major contributors to the national economy, the Core Cities remain net consumers of public money. The gap between public expenditure and the resident-based tax take across the eight Core City authorities in England is costing the public purse an estimated £10.7 billion a year.

In order for cities to achieve their economic potential, they must make full use of their assets and strengths to attract investment, grow businesses and create jobs. Growth and jobs are integral to cities becoming net contributors to the national economy. Effectively tackling low skills and worklessness amongst the resident population of cities is therefore central to addressing both the potential for growth and the dependency on public services that are holding back productivity.

Work-based tax take greater than public spending in English Core Cities



£2.4bn surplus

Cities have a long history of partnership working to develop arrangements between local government and other public sector agencies. The more recent experiences of the Whole Place Community Budget pilots and, to a lesser extent, the national roll out of the Troubled Families programme have demonstrated the benefits of addressing complex dependency through the ability to co-commission and pool budgets at the local level. By adopting a ‘whole-place’ approach, local partners and agencies have been able to connect and concentrate their efforts in the most disadvantaged and troubled neighbourhoods.

However, the ways in which most of our public services are delivered means they frequently operate at a level and scale that restrict the potential for genuine service integration. In the main, and for the vast majority of services users, top-down ‘vertical’ funding arrangements – from government departments to delegated agencies and contracted providers – prevent the flexibility needed to work across departmental

boundaries and effectively align services to meet local and individual need. Funding is already locked in, contracted and committed, and services already specified, with pre-determined targets and outputs, long before local partners are able to influence delivery.

Cities simply lack the necessary control over public resources to shape and design services to achieve distinct local outcomes. Consequently, many local communities and individuals experience a system that provides overly prescriptive and reactive services that are deeply disjointed and fragmented, with multiple points of access, assessment and referral but with limited continuity of care between agencies and providers. This situation disincentivises local co-operation as delivery organisations compete with each other, unnecessarily and against the common good. It results in wasteful duplication of ineffective activity across services. It limits innovation and the capacity to adapt to local variations, leading to unintended policy outcomes – solving

easier-to-help problems but entrenching others – and ultimately, poorer services at higher costs.

System change

The succession of centralised public service reforms over several decades (see chapter 2) has achieved limited improvements in many outcomes. It is evident that as management and delivery systems have become ever more complex they have in turn repeatedly failed to tackle the most complex and interconnected social problems.

‘Complex theory’ and ‘systems thinking’ have become increasingly prominent across a number of disciplines, including public administration, enabling academics, policy-makers and practitioners to better understand how complex systems and organisations work in society. The term ‘command and control’ has been coined by John Seddon to describe the prevailing system of management – where decision making is distant from the work and based on abstracted measures, regulation, budgets and plans. Here we adapt some of his key concepts that are useful in thinking about how a transformational shift in public services can allow complex problems to be addressed holistically.

- **Perspective:** changing the locus of control, the point where decisions are made and services happen, is intrinsic to service integration. A radical place-based devolution of power would entrust budgets to the most appropriate local level to enable funding across traditional boundaries so that complex problems – relating to housing, welfare, health, employment and offender management – can be tackled in a holistic way.
- **Ethos:** The process of decentralisation must establish a new culture of localised production to create new levels of association and co-operation between institutions. This must go beyond current practices of partnership, alignment and co-location, to achieve wholesale and truly integrated services.
- **Purpose:** the design of services needs to proceed from an understanding of purpose – from the customer’s point of view. This requires knowledge and understanding of the type and variety of demands that customers place on

the system. The design of any system must place people at the heart of the enterprise enabling the active engagement of citizens, their insights and resources.

- **Scale and flow:** Trying to manage costs by pursuing ever greater economies of scale has led to poor outcomes and the failure to meet the real demands of people who need help, while trying to derive greater productivity through 'specialisation' has led to increased fragmentation. Both of these ultimately

increase the costs of public services.⁵¹ Service improvement (both financial and qualitative) lies in streamlining the flow of work, being clear about purpose and redesigning the service to meet real local demand.

- **Decision making:** Integrating the scale and flow of work at the local level and putting frontline workers in control will allow them to innovate and improve services, at the point of delivery, based on their own learning and experience. Frontline workers, as successfully deployed in the Troubled Families programme, understand and respond to demand, to pull in required expertise where needed, but to deal with each case 'end-to-end' from when it enters the system right through to resolution for the customer. Workers need latitude to experiment with and improve the work design.
- **Measurements:** The methods and measures must correspond to or provide insight into the true experience of the customer and how their needs have been addressed. Measurements relating to activity, costs and outputs result in perverse practices and the unintended consequence of service providers 'working the system', where meeting targets (or appearing to) takes precedent over meeting the needs of the citizens. When hospitals are paid by activity based on the number of patients they treat for different conditions, less is spent on effective action that can prevent longer term dependency and cost.

A systems solution requires measures that are derived from the work to be used by those who do the work for control and improvement. It means removing

all arbitrary measures from the system and training workers to assess variety of demand, ensuring that what they do relates to purpose and that the flow of work is predictive and preventative.

3.4 The need for reform

As the recent report of the Public Service Transformation Panel recognises, traditional 'top-down' and efficiency-based approaches to savings and service reductions will, despite some notable gains, become increasingly unsustainable. Public service transformation cannot by itself deliver the scale of reductions required. Reform must be properly aligned with growth. And this will require a whole system change that actively involves, to a much greater extent, those who provide and those who use public services. It will by definition require a decentred approach – transformation through place-based and person-centred integration.

Cities are currently tackling the pressing challenges facing different public services and we can evidence a great deal of innovation and success. The lessons across a wide range of policy areas are consistent.

- Many users of public services – and not just those with complex needs - will require multiple interventions
- Services which are not joined up will lead to more costly interventions and poorer outcomes
- Services which fail to meet real needs lead to repeated and reactive interventions (failure demand) which could have been prevented
- Effective services require local understanding of the issues and local discretion and flexibility to make decisions and implement solutions
- Integrated solutions require multi-agency working, pooled funding and assets and shared intelligence (such as data)
- Places need greater autonomy to transform local services.

The provision of some public services will require upfront investment before

substantive transformation can be realised. This is most evident in the provision of public infrastructure like low cost housing, transport, or new public sector energy markets which will generate economic and social benefits downstream of investment and where greater control of larger public spending and leverage of local assets is required to drive local economic growth and reduce dependency on public services.

Presently the key problems and barriers confronting local partners are the limits of the existing centralised system.

Health and social care

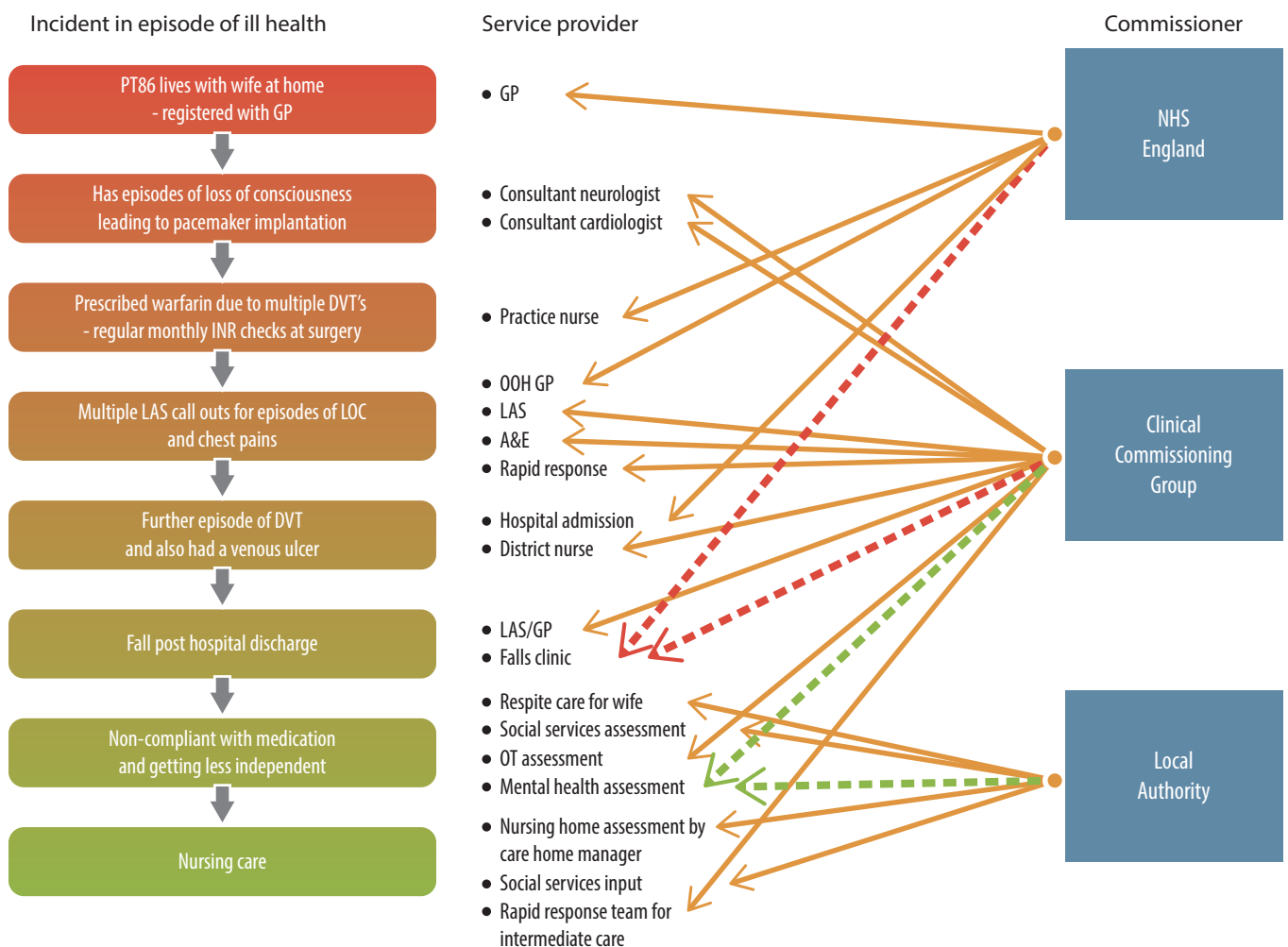
The issue

The health service is already significantly devolved with a high level of independence from central government on spending and service design. However, from a commissioning and service user perspective, the health and care system is very fragmented:

- Clinical Commissioning Groups (CCGs) are responsible for hospitals, community medical care and ambulances
- NHS England (NHSE) is responsible for commissioning primary care through General Practice (and NHSE delegates some powers to CCGs)

- Local authorities have the statutory duty to provide adult social care (non-medical home help, domiciliary care etc.).
- The patient's experience of care during an episode of ill health frequently involves all of these elements. This is particularly the case for the frail elderly, who may be in good

Fig. 2
Real patient experience – episode of ill health



Source: PPL Consulting, London Tri-Boroughs

OOH = out of hours, LAS = London Ambulance Service, OT = Occupational therapy



health but need help at home, and then experience an incident (e.g. a fall) which leads to interaction with the acute sector and longer-term medical rehabilitation and domiciliary help. It is also the case for people with long-term conditions who have high levels of interaction with their GP (primary care) and with specialists (secondary care), plus possibly some adult social care support.

The following diagram illustrates the experience of a real patient to show how complex the commissioning and provision landscape is for a fairly typical episode of ill health. There were 23 contracts, 19 services and 18 interfaces/changeovers to manage:

What is needed

The current system of health and social care is both unsustainable and suboptimal. NHS services that were set up to provide episodic care – often in a hospital setting – are now struggling to meet the changing nature of demand, including increasing numbers of people requiring long-term care including support from local authority social services who are themselves facing an imminent funding crisis.

Integration – to effectively cross-subsidise health and social care - is becoming more financially necessary. Recent analysis by Monitor outlines that integration and closer working between the NHS and social care to improve productivity and deliver care in the right settings would make a vital contribution to closing the estimated £30 billion funding gap the NHS faces by 2020/21.⁵²

There are a whole range of programmes and projects aimed at integrating care across the country. One of the most significant developments is the Whole Systems Integration (WSI) programme, where CCGs

Case Study 1: The Leeds Integrated Care Pioneer

The award of pioneer status to **Leeds** followed a rigorous process to select the most innovative and committed localities in driving forward service transformation. The aim is to make health and social care services work together to provide better support at home and earlier treatment in the community to prevent people needing emergency care in hospital or care homes. Leeds's stated intention is to go "further and faster" to ensure that adults and children in Leeds experience high-quality and seamless care. To date, this has resulted in:

- Twelve health and social care teams now working in Leeds to coordinate the care for older people and those with long-term conditions.
- A new NHS and local authority joint recovery centre offering rehabilitative care to prevent hospital admission, facilitate earlier discharge and promote independence. In its first month of operation, it saw a 50% reduction in length of stay at hospital.
- A programme to integrate health visiting and children's centres into a new Early Start Service across 25 local teams in the city. Children and families now experience one service, supporting their health, social care and early educational needs, championing the importance of early intervention. Since the service has been in operation, the increase in face-to-face antenatal contacts has risen from 46% to 94% and the number of looked after children has dropped from 443 to 414.
- New services where patients will be able to access their information online.

are using their powers to bring together all the relevant commissioners to provide one integrated supply chain or pathway for an entire cohort or population. Leeds is one of the fourteen early stage adopter pilots, and the only Core City, aiming to test out Whole System Integration between vertical (acute – primary care) and horizontal (social – community care) services.

Despite the advances that have been made in places like Leeds, the limitations of the current system prevent further integration. A single, ring-fenced budget for health and social care and a single local

commissioner is required at the local level to allow the freedom and flexibilities to address the issues they face. Such a place-based settlement would require greater democratic accountability for Health and Wellbeing Boards – at the level of local or combined authorities – in order for them to become place-based commissioners. In addition, agreed outcomes across health and social care, together with combined regulatory frameworks (similar to the model currently operating in Scotland) would need to be agreed to replace the current disjointed performance and accountability systems.

Early years and family support services

The issue

While the schools and health budget are amongst the few that have been ring-fenced and protected by successive spending rounds, early years and early intervention programmes have taken disproportionate cuts. Across a whole range of indicators for measuring life chances (including educational and social development, health and well-being, and income inequality) it is increasingly recognised that prioritising funding in early years is a better investment than spending to catch up later on.

Disadvantage starts young. At 18 months, children of parents with lower income and lower levels of formal education are already scoring substantially lower in

development tests, and these gaps typically widen.⁵³ Less than half of children on free school meals are deemed to have a 'good level of development' at five.⁵⁴ Less privileged children are getting left behind when they start compulsory education.

The evidence is clear. The first years of a person's life are crucial to their development and poor readiness creates the conditions for failure and future demand for public sector services in the medium and long term. And yet not only has funding to address this critical area of service delivery seen significant reductions, but what is available is drawn from across a number of government departments, including health, education and local government, with no overarching coherence or accountability. Consequently, the services that are available

to families and communities are poorly integrated with different delivery organisations commissioned via separate arms of the state, often in competition with one another, and with limited scope or incentive to align their provision. Cities want to change current outcomes, to create a streamlined service that works for parents and children. But this requires a system-wide commitment to a whole family approach, which allows for the full integration of currently differentiated funding streams and the local commissioning of all children's services to make the best use of resources and to support shared outcomes.

What is needed

A devolved settlement for early years and family support services would require greater local control of statutory funding across local government, the NHS, Education and DWP/Jobcentre Plus. This would allow local partners to:

- Pool funding and wider resources to design and develop a more responsive, preventative and fully integrated service
- Allocate funding according to locally defined and agreed ratios to account for differences in local deprivation measurements and to equalise funding where necessary according to children's age bands
- Resolve at the local level the current disparities in funding between schools and private, voluntary and independent providers
- Apply local knowledge and discretion in how funding for children and families should be spent and where different and additional needs can be provided for
- Focus on shared outcomes, according to a locally agreed framework
- Report to a locally accountable body.

Increased power and control over spending decisions for local governance will require improved access to departmental data. Simultaneously, strengthening accountability at the local level will give central government greater confidence in the transfer of such responsibilities.

Case Study 2: Newcastle Early Years and Family Support

Newcastle's approach to early years development has been to support local Sure Start Area Partnerships to provide integrated teams that are working within local communities, aligning resources and local knowledge to deliver holistic support for the most vulnerable families, in the most disadvantaged areas.

Newcastle has found this integrated approach to be a more effective than sharing 'one-off' grants for time-limited projects and evidence of impact can be seen across key performance indicators:

- Newcastle's prevalence of breastfeeding at 6-8 weeks (2013) is increasing at a faster rate than the national average, particularly in areas of high deprivation
- Obesity in reception year is showing a downward trend from 2012
- Educational attainment across Foundation Stage Profile (2008-2012) increased at a faster rate than the national trend while reducing the attainment gap to match the national average
- The trend for children aged 0-4 subject to Child Protection Plan (2011-2014, rate per 10,000 population) shows a downward trend
- Data across the majority of performance indicators reveals that it is within areas of high deprivation (1-30% Index of Multiple Deprivation [IMD]) that the greatest improvements are being made.

The soon to be developed Community Family Hubs aim to build on these successes by integrating the successful early years working within wider whole family work. Newcastle is undertaking a whole-system review of family support services, focusing on those children and families at risk of poor outcomes and high cost to public services. The aim is to shift investment from expensive, reactive services to preventative interventions.



Employment and Skills

The issue

High levels of worklessness and low skill levels amongst resident populations are two of the principal reasons why our largest cities are failing to perform at the level which equivalent sized cities in other developed countries are achieving. Low-skilled people (with either no qualifications or below the equivalent of NVQ Level 2) are more likely to be unemployed or in temporary, insecure employment. Low skills result in high levels of dependency on welfare and working benefits, low productivity, relatively low pay rates and a low tax yield.

What is needed

To maximise the gains of investment in growth, more people will need to be better connected to economic opportunities. More unemployed residents will need to enter into work and the overall workforce will need to progress into higher-skilled (and higher-paid) roles. This will be the key to making cities self-sustaining and bridging the gap between public funding and the tax revenues that cities are able to raise.

For this reason, the employment and skills system must be at the centre of a radical growth and reform agenda. For too long the employment and skills funding system has failed to meet either the demands of business or the supply of local labour. Cities and local partnerships have struggled to have a real influence over the provision of skills while increasingly losing the ability to shape local education. The ongoing

Case Study 3: Sheffield City Region 'Skills for Growth'

The **Sheffield City Region** (SCR) City Deal devolved £27.8 million of national skills funding to the Skills for Growth Partnership. The evidence from Sheffield demonstrated that the existing skills system was not generating, to the necessary extent, the skilled employees which businesses needed to match their ambitions for growth.

In only 18 months, Sheffield's City Deal has already demonstrated that there is considerable unmet demand among small businesses in the city region, having negotiated over 1,400 new apprenticeships and over 700 opportunities for adult workforce training in companies that have never, or who have not in the last year, engaged with the publicly-funded training system. One in seven apprenticeships has been created through the City Deal. This has contributed to Sheffield being consistently ranked in the top 10 local authorities for the proportion of teenagers taking up apprenticeships.

The recently announced devolution agreement in Sheffield will build on this success by forming a joint venture partnership between government (BIS, SFA and DWP) and the Combined Authority/LEP to design a locally-commissioned skills and employment offer.

failure to address the significant skills mismatch and to integrate skills with employment provision at the local level has contributed to the continued underperformance of our cities.

Devolving employment and skills budgets to cities and city regions could radically change the system into one which actually responds to the skills needs of local labour markets, employers and residents.



Troubled families

The issue

The Troubled Families programme aims to turn around by 2015 the lives of 120,000 families with the most complex problems and the highest levels of dependency on public services – estimated to cost the country £9 billion a year.⁵⁵ Typically this can include families with a history of unemployment, crime or antisocial behaviour and poor school attendance.

Although troubled families can be found across the country, not just in our major

cities, the Core Cities have large numbers of families with the most complex issues and were among the first to take part in the programme. Nationally, of the 117,000 families assisted as of August 2014, approximately 70,000 families are reported to have been ‘turned around’.

The Troubled Families programme builds on the evidence and practice that local authorities and partners have acquired through the provision of family interventions over many years. The emphasis is now about a more co-

ordinated, efficient and effective way to accelerate the pace of partnership transformation and whole system change.

Local authorities and their partners have been given the freedom and flexibility to test and embed new and sustainable approaches that are bespoke to the needs of their local communities and at the same time deliver significant savings and efficiencies to the public purse. Several councils are taking quite a radical new look at the way services are designed.

Table 1: Troubled Families Progress Information

City	Total number of families	Results at August 2014		
		Crime/anti-social behaviour/education	Continuous employment	Families turned around
Birmingham	4,180	2,007	134	2,141
Manchester	2,385	1,485	99	1,584
Leeds	2,190	1,510	94	1,604
Liverpool	2,105	1,564	113	1,677
Sheffield	1,680	1,068	32	1,100
Bristol	1,355	1,310	45	1,355
Nottingham	1,200	1,080	11	1,091
Newcastle upon Tyne	1,010	765	76	841
Total for cities	16,105	10,789	604	11,393
Total for England	117,910	63,151	6,357	69,508

Source: CLG, 2014

What is needed

The Troubled Families programme has been successful in dealing with complex dependency in de-cluttering the (often confusing) range of professionals working with families and to enable the family to build a relationship with a single key worker, who then pulls in support from the wider network as and when necessary. The Nottingham approach has shown what can be done through improved information sharing and by improved integration and upskilling of the existing workforce.

The challenge moving forward will be to shift emphasis and public spending from largely reactive to preventative services, and to make services available not just to the most extreme cases but to those families at risk of falling into dysfunction and chaos, and en route to troubled family status.

This work could be taken even further if there were devolved budgets and local decision-making powers to allocate funding and services.

Despite the clear and demonstrable successes of the programme there are further challenges that will need to be overcome if the deeply entrenched and complex problems faced by the most troubled families are to be overcome and for further integration of public services to be realised.

- **Data sharing:** Local areas need enhanced 'automatic' data-sharing powers to enable agencies to more easily identify priority families and respond to their needs in a holistic way and without requirement for individual consents.
- **Geography and scale:** The programme must operate within a number of different overlapping boundaries (e.g. local government, administrative arrangements for interrelated public service delivery including CCGs, the

Case Study 4: Nottingham's Priority Families

Priority Families is **Nottingham's** response to the national Troubled Families programme. It is a partnership between Nottingham City Council, the health, probation, housing, schools, and police services and Jobcentre Plus – as well as the voluntary sector and private sector, building on its established experience of co-ordinated working and emphasis on early intervention.

From the outset Nottingham's approach has been to provide a new way of working that can be sustained beyond the lifecycle of the Government's initiative. Nottingham has embedded a new delivery model in and across partner organisations, service teams and existing resources by:

- Training the existing frontline workforce and creating new senior experts within agencies – Priority Families Accredited Practitioners – to co-ordinate and mentor
- Delivering a more efficient and joined-up way of working, such as with our shared IT online platform for professionals.

Nottingham City has identified 1,200 families as a priority for support. To date over 1,134 families have been assisted, with 1,081 having shown improvements in their circumstances. Of those families who have shown improvements, there have been 693 families whose school attendance or exclusions have significantly improved, and 418 families have seen a significant reduction in youth crime and anti-social behaviour; there have also been 96 families who have made significant progress to work and another 11 who have been moved into continuous employment for over 6 months, and 40 children prevented from being taken into care.

Cost-benefit analysis for the Nottingham Edge of Care Hub shows that at least 40 children supported by the Hub alongside colleagues in children's Social Care have been, or are being, diverted from potential care. This has created considerable budget relief for the local authority, and has greatly improved outcomes for the families supported, and the wider community as a whole.

- Budget relief for September 2013 to March 2014 is £420,251 (net)
- Budget relief for financial year 2014/15 to date is £651,166 (net)

Work Programme, Skills, Police, Fire and Ambulance Services) to achieve a far greater alignment of public funding.

- **Multi-year funding:** A settlement with commitments to multi-year funding is

needed to allow for longer term planning and a higher degree of risk sharing between partner organisations.

Blue-light services

The issue

Sir Ken Knight's review of Fire and Rescue Services (2013) identified that the increasingly preventative work of fire and rescue authorities has played a pivotal role in reducing emergency

incidents by a massive 40% in the last decade.⁵⁶ Yet despite this reduction the expenditure on fire and rescue services (and firefighter numbers) has until recently remained broadly the same in many areas. Some fire and rescue authorities spend almost twice as much

per person per year as others, but there is no clear relationship between expenditure and outcomes.

The focus for the future must be on protecting frontline services; this will require innovative crewing and staffing models. The challenge for fire and rescue authorities will be to achieve interoperability, to increase levels of collaboration, co-responding and co-location with other blue-light services and deliver efficiency through consolidating public sector assets as well as closer working.

Case Study 5: Greater Manchester's Blue Light Services

Greater Manchester Fire & Rescue Service (GMFRS), together with the North West Ambulance Service, the Greater Manchester Police, health and social care departments, youth services and youth offending teams, is developing new integrated models for blue-light services. This will see, amongst other projects, the creation of multi-disciplinary and co-located teams to expand prevention and protection activities across the city region. There are three strands to this new model, including:

- 1. A joint emergency services training and development facility:** This will deliver a wide range of organisational Learning, Development and Inter-Operational Training programmes for the fire and rescue, ambulance and police services in Greater Manchester. It will enhance community prevention and protection work; improve interoperability of blue-light services in responding to both life threatening and non-life threatening incidents; and build joint capacity by rationalising existing individual training facilities, management structures, delivery and support.
- 2. Community Risk Intervention Teams:** This will provide 10 multifunctional teams, co-located in existing fire and rescue facilities across Greater Manchester. Teams will respond to high volume-low priority incidents such as falls in the home and calls relating to mental health. They will also expand prevention and protection activities to identify, assess and reduce a range of risks in the home such as fires, falls, burglary, and general deterioration in health and wellbeing. Teams will respond using specially adapted vehicles containing risk reduction and lifesaving equipment. Teams will specifically reach out to meet the health and social care needs of Greater Manchester's complex dependency cohort.
- 3. The Salford Integrated Prevention Hub:** This is a 'hub and spoke' model where multidisciplinary teams will deliver a range of interventions addressing the complex needs of the most vulnerable children, young people and families who fall within the Greater Manchester 'complex dependency' cohort. Integrated 'response teams' based on a key worker outreach approach will improve the interoperability of emergency and youth services in responding to antisocial behaviour, missing from home and incidents of domestic violence. Teams will respond to referrals but also proactively identify those at risk, taking assertive and persistent action to prevent that risk materialising. Starting in Salford this approach will, in time, be scaled up and mainstreamed across the Greater Manchester area.

What is needed

There is a pressing need for all blue-light services to make further efficiency and cost savings by combining resources and expertise and by reducing future demand on blue-light and wider public services. Over 50% of funding for fire and rescue services, as with police, comes from the central government Revenue Support Grant, with the rest made up from precept, council tax and business rates. The ambulance service, now being a regional organisation, is funded differently, but disaggregating its funding and assets and pooling collective budgets at source would give cities greater freedom as to how they construct their prevention and emergency response models for all agencies. At present, the Fire Minister and the Home Secretary retain responsibility, respectively, for fire services and the police. In Scotland and Northern Ireland these functions are fully devolved.



Housing

The issue

Over the last 30 years, Britain has failed to build enough homes. The private sector has provided a fairly steady but insufficient supply of new homes throughout the post-war period – allowing for the economic cycle – but 95% of public finance is now largely spent on housing benefits in the private rented market, compared with 5% on building new homes.⁵⁷

Current government forecasts suggest that as a minimum we need to build 232,000 new homes per year in England alone to keep up with projected household growth.⁵⁸ The current rate for house building completions is less than half that, the lowest since 1923. The lack of homes to rent and buy means that housing costs are rising for everyone. Growing numbers are unable to get on to the property ladder while many more struggle with unaffordable rents.

Since the reform of the Housing Revenue Account, a number of local authorities have taken the opportunity to start building council homes once more.

What is needed

The volume of development of new homes could be increased, in Birmingham and other Core Cities, if full devolution of housing powers and resources were implemented. The current centralised system does not let providers plan their programmes over the long term. Cities would advocate the transfer of housing powers to a local base, to the level of local/combined authority, with multi-year affordable housing funds (AHF) to allow a longer-term and more flexible approach to future delivery programmes.

The Core Cities Group has proposed a specific menu of devolved measures and programmes to sit within Single Housing Investment Plans for each city. This will develop a better national response to the unique opportunities that the cities present

Case Study 6: Birmingham Municipal Housing Trust

Birmingham is the largest of the Core Cities, with nearly 1.1 million people living in over 410,000 homes. This population is continuing to grow and between 2011 and 2031 it is expected that the number of households will grow by a minimum of 89,000. The city only has space for an additional 51,100 new homes. Just under two-thirds of the household growth will be for owner occupiers, with larger three and four-bedroom properties forming the majority of this demand. The remaining housing demand is spread across affordable housing tenures, with highest demand for two- and four-bedroom homes.

In 2009, at the worst point in the housing market, the council pioneered a model, which was subsequently adopted by the Homes and Communities Agency (HCA), to incentivise the private sector to build housing by sharing the financial risk with developers. The council, through BMHT, sought to redistribute financial risk between the Council and private developers, which it achieved in a number of ways by, for example: submitting the planning applications on behalf of developers, taking on the site conditions risks by carrying out all necessary surveys and taking any remedial action; deferring receipt of payment for land for up to 3 years; guaranteeing risk-free construction contracts for rented properties.

The council has since become the single largest housing developer within Birmingham, developing around 30% of all new homes in the city.

as well as providing cities with the flexibility to develop locally responsive plans that are supported by a menu of national policies and resources.

Devolved responsibilities would also allow cities to move public spending on housing away from revenue and towards capital, while generating rental income and reducing the welfare bill. Local areas should also be able to vary broad rental market areas (BRMAs) to prevent landlords overcharging the taxpayer in low-cost areas.

In addition, ring-fencing housing debt from other local government debt could allow

councils to lever more borrowing against the value of the stock to a position more consistent with housing associations and further enable them to build more homes. Raising the debt cap to build new housing will help to create 'good debt' through much needed capital assets which can generate revenue, as opposed to bad debt (such as housing benefit) which never pays for itself.

Energy

The issue

The systems of energy production in the UK have become dominated by highly centralised generation and distribution, with a national grid connecting users with a small number of large energy suppliers (the so called Big Six), managed by national organisations, regulators, and government. Weak competition between energy suppliers, lower wholesale energy prices not always being passed on to consumers and the cost of investment in decarbonisation and renewable technologies is contributing to escalating energy bills and fuel poverty for many households. Energy generation is in the main owned by foreign (and often state-backed) companies, with profits and economic benefits through supply chains, research and development accruing overseas.

Local developers are currently being held back by problems selling their energy to the largest six energy companies whose business models are fundamentally

threatened by the rise of local generation. But cities could help overcome this barrier in the route to market by providing an alternative to the big utilities by supplying cleaner and more affordable energy which would generate new sources of income and boost local economies in the process. Local energy companies present immense opportunities and a growing number of local authorities, including Bristol and Nottingham, are in the vanguard of responding to this challenge, with the eight other Core Cities following closely behind.

What is needed

Some of the opportunities to address the current national energy crisis can be found at a local level. There is potential for 'distributed generation' or smaller-scale energy generating technologies (the majority of which are renewable energies including biomass, solar, wind and

hydropower) to be captured locally and connected to the electricity distribution networks. This could radically transform the energy market, helping to decentralise energy generation and distribution, and giving rise to a system which is locally owned and more competitive.

The Core Cities report *Powering up our Cities* identifies the potential for leading UK cities to work with government to improve the nation's energy infrastructure and in doing so generate economic growth. The report also highlights the need to tackle issues such as supporting small-scale heat and power generation, reducing price inequality for poorer households using meters, creating district heat networks and driving innovation. The potential is huge. For example, in Germany, the municipality of Hanover (which is twinned with Bristol) is a majority owner in Enercity, now one of the largest energy suppliers in Germany, supplying 650,000 homes in the region as well as nationwide. With a turnover of more than €2.5 billion (£1.8 billion), the municipal energy company has also shown that by using modern technologies it can cut local carbon emissions and is on target to make a 25% reduction by 2020.

Full place-based devolution of budgets and responsibilities that are otherwise controlled by government or via the energy companies would allow local authorities to raise capital for investments and control existing energy efficiency budgets to help target interventions in a more cost-effective way than the current random and piecemeal approach. Evidence of existing energy efficiency schemes identifies that there is still unmet demand for energy efficiency improvements from households that have not benefitted from past utility obligations, or cannot afford personal investments in energy efficiency measures; a block exemption to state aid is required to allow council homes to also receive grants above the *de minimis* rates. Transferring relevant licences and responsibilities to enable a holistic citywide approach to the management of energy distribution, supply and generation (including supporting reductions in demand) will support the stable longer term planning and achievement of objectives.

Case Study 7: Bristol Energy Company

Bristol is a city with a driving ambition to provide an alternative to the Big Six energy providers and become the UK's most sustainable city. The city plans to show that a municipal-led approach to energy supply and distribution can provide major benefits to the local and regional economy.

Work on securing the necessary licences for power generation and supply is underway, negotiations with local energy generators and wholesalers of electricity and gas are in progress and a company is being set up as delivery agent.

The £140 million programme of energy generation and efficiency work is set to start in 2015 and will, over the next four years, deliver economic growth, create warmer homes, reduce fuel bills and cut carbon emissions.

The municipal energy company will focus on improving the energy efficiency of the city's homes, supplying and distributing gas and electricity, building large scale heating networks, investing in emerging technology and developing financial models, which might include community shares and social impact bonds, to incentivise private sector investment in community-level schemes.

This model of municipal ownership provides a democratic alternative to the shareholder-led existing energy firms. It actively encourages local and community involvement in tackling the energy crisis facing the UK. In addition, local energy generation and distribution improves national energy security by reducing dependency on foreign imports.



New investment models for business support

The issue

Low business density and employment rates are a key issue for most Core City authorities, where as a proportion of the working age population there are fewer businesses and fewer people in private sector employment than the national average. Rebalancing city economies that have for too long been over-dependent on public sector jobs has been a key economic priority for a succession of governments – and it is one that has been even more challenging to achieve after the financial crisis of 2008, since when most cities have seen a fall in business density rates. Public spending reductions and the removal of economic development programmes previously available through the Regional Development Agencies have required cities to refocus their development plans by working more proactively with business to attract private investment.

What is needed

A single funding pot would provide a flexible and holistic service to business investors. This approach could be significantly enhanced across the Core Cities, through proposals to devolve greater resources for economic growth to LEAs. Place-based budgets integrating local allocations of business support and UK Trade & Investment (UKTI) budgets as well as revenues from devolved taxes would help realise this and provide the opportunity to expand the scale and scope of new investment fund models for inward investment.

Case Study 8: Liverpool's Mayoral Investment Fund

Liverpool's response to the Mayoral Investment Fund (MIF) has been to support projects through a new and flexible investment approach to pioneer new models for the financing of future city regeneration and development. Bringing together a wide range of funding streams and assets and matching these with private sector funding to create a 'single pot', the MIF provides the ability to respond quickly and flexibly to capture economic opportunities. Decisions are made locally in Liverpool, avoiding the need for national or any other public body approval. This provides a streamlined, efficient and effective structure which enables both clarity and confidence in the market.

Deals are structured that support the mayoral objectives of Employment, Housing and Schools, with investments providing community benefits but also financial returns to the council, which could include rental income, business rates or in some instances net interest. Using the principles of invest to earn and invest to save, the MIF has supported a number of key investments which will in the medium and longer term deliver a financial return to the council or enhanced savings. During a period of limited public support and grant funding, this has been a unique way in which the city council and the Mayor have been able to support economic development priorities. This contributes to the Council's longer term financial sustainability and helps to safeguard, or invest the returns, in local services.

Since 2013, the MIF has invested £17.9m in 10 projects, which has leveraged £56.7m in private investment and when completed will create/safeguard 1,553 jobs. The MIF has been instrumental in making Liverpool, despite intense competition, the preferred choice for investment for a number of projects, helping to bring forward:

- The production of the **Briggs Automotive Company (BAC)** high-performance supercar. This development strengthens the city region's reputation in automotive production by building on the success of Jaguar Land Rover's Halewood plant, creating 60 new high-end manufacturing jobs, including apprenticeships and new supply chain opportunities.
- **H2 Energy Ltd's** world-class Manufacturing and Innovation Centre, which specialises in green energy production by converting food waste into power. H2 Energy will manage its first commercial 'bio-refinery' unit at its new facility in North Liverpool, bringing to the city 160 new jobs in manufacturing, engineering, design, research and development.
- The transformation of Liverpool's Grade II listed **Royal Insurance Building** into a stunning new hotel. Liverpool City Council purchased the freehold of the building for £1.95 million. This has resulted in £18 million of private investment with 150 construction jobs being created and over 50 full time equivalent jobs.

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- 43 Oxford Economics for Core Cities, 2013
- 44 NAO: "Financial sustainability of local authorities 2014", November 2014
- 45 This analysis does not include the recent entries to the Core Cities of Glasgow and Cardiff.
- 46 This is not to imply that the remaining 64% of public spend is purely preventative. The demand for reactive services is largely as a result of poor outcomes and a repeated failure to firstly prevent and then effectively address dependency.
- 47 Across England, £470bn was collected in tax in 2012/13, accounting for around 36% of GVA.
- 48 Workplace GVA was calculated by multiplying mean annual workplace wages from ASHE 2013 by the number of jobs in each core city to give a total wage figure for the city. This was then divided by the equivalent total wage figure for the associated lowest level geography for which GVA data was available (NUTS3) to give a city work-based GVA figure.
- 49 Resident GVA was calculated in a similar way to workplace GVA but using resident jobs (i.e. number of jobs held by residents of the city) as the basis for proportioning of GVA from NUTS3 areas rather than workplace jobs.
- 50 Department for Communities and Local Government, "Updating the evidence base on English cities", 31 January 2011
- 51 McKinsey have demonstrated that overhead functions typically account for 30 to 35 percent of governments' operating expenses. With public services the management chain of command extends upwards to giant back office departments and down through a complex and fragmented supply of contracted provision. Each layer increasing the costs management overheads.
- 52 Monitor, "Closing the NHS funding gap: how to get better value health care for patients", 10 October 2013.
- 53 Inequality in the early cognitive development of British children in the 1970 Cohort. Leon Feinstein, University of Sussex and Centre for Economic Performance, London School of Economics, 2000
- 54 "Early Years Foundation Stage Profile Attainment by Pupil Characteristics, Academic Year 2010 to 2011", England DfE Statistical First Release, December 2011
- 55 Department for Communities and Local Government, "The Fiscal Case for Working with Troubled Families - Analysis and Evidence on the Costs of Troubled Families to Government", 12 February 2013
- 56 Department for Communities & Local Government, "FACING THE FUTURE: Findings from the review of efficiencies and operations in fire and rescue authorities in England", 17 May 2013
- 57 IPPR, "Benefits to bricks: Mobilising local leadership to build homes and control the benefits bill", 19 June 2014
- 58 Department for Communities and Local Government, "Household Interim Projections, 2011 to 2021, England", Housing Statistical Release, 9 April 2013



4. The Barriers to Devolution

“The history and tradition of centralisation present the case for a new constitutional and legislative settlement. One that can address the statutory relationships that exist between nations and between local and central government.”

The complexity of the cultural, organisational, constitutional and legislative forces which underlie local-central relationships must be addressed and the barriers overcome if significant powers are to be transferred. A different, more flexible and decentred model of control, able to forge a new reciprocal relationship between central and local government, must be put in place to achieve a shared endeavour.

4.1 Cultural barriers

Centralism has not been achieved by accident. As we have discussed earlier in this report, the move towards a centralising state has been gradual and purposeful. The shift away from local political concerns has resulted in a long-standing tendency of the centre to limit and micro-manage local government as another agent of the central state. And this relationship has come to define the prevailing culture between central and local government. A culture based on hierarchy, bureaucracy and ‘command and control’.

The localist and centralist are by definition opposed in their thinking. The localist would argue that those closest to the problems that local areas face are best placed to provide the solutions, and that Whitehall is most likely to come up with universal solutions to meet minimum standards arguments (such as targets and milestones), stifling innovation and aspiration to achieve

beyond this. The localist believes that innovation in public services is more likely to happen locally through the greater variety, diversity, and difference localism permits; through emulation, through horizontal transfer and not top down directives from or responses to the centre. The centralist would counter that genuine plurality and innovation can only be generated from the centre, that councils are monolithic and uniform – look at local education – and that further centralisation is a logical and natural progression in preventing cases like Haringey’s ‘Baby P’, Birmingham’s ‘Trojan Horse’ or Rotherham’s child abuse scandal.

A lack of trust in the accountability of sub-national government and a fear that ministers will be held responsible for local failures which are not under their control is a feature of the UK’s centralised political culture and one which the media continues to perpetuate. This belief – that Ministers and Parliament should be responsible and accountable – is one of the major reasons why only limited powers have been offered to city regions. The perceived competence of local government to exercise additional powers is also important. Fear of what might go wrong is weighted strongly in central government’s unwillingness to release power. All too often local rather than central government has been the focus of ‘modernisation’ reforms. If trust must be earned through the competent exercise of powers, some decentralisation must occur in order for places to demonstrate their capability.

But there is an argument that goes beyond a lack of trust, an argument that somehow local government is an inferior level of politics and government which lacks the capacity, ability and calibre among officers and members to deal with the policy issues that confront it. Such disdain is expressed less in policy documents and proposals and more in the attitude of senior politicians and civil servants that pervade central-local relations. Moreover, there is an attitude from the centre which sees local government as simply there to do its bidding, a subservient body existing to implement its policies, especially those around public service delivery, and not as a 'government' free to act as it thinks fit – despite the Localism Act and general power of competence. Local government needs to be seen as a political agent and a governing institution – both 'local' and 'government' – and not just as a public service agency. This is part of the cultural shift required.

Policies for genuine localism must start with change in central government itself, as the Local Government Innovation Task Force has recommended. The behaviour of ministers and civil servants towards local government needs to change to challenge the silo mentality of central government. However, informal arrangements, concordats and accords will not be enough. Change in the institutions and processes of public administration at the national level are essential.

4.2 Organisational and structural barriers

4.2.1. Resistance from the centre – departmental barriers

The reluctance of central government to relinquish significant powers stems in part from the complexity of the task but also from the prevailing beliefs, attitudes and traditions at the heart of the British system of government. Centralism has become so deeply embedded in the workings of central government departments that the institutional structures struggle to relate to local concerns.

Central government departments have their own interests and priorities that do not necessarily cohere across government.

Ministers often enter departments with pre-existing policy agendas that they have personally developed and which they are understandably unwilling to give up, while civil servants are incentivised to focus on ministerial and departmental responsibilities and therefore protect all powers that allow them to do this.

It is in principle the role of Cabinet Office to co-ordinate between Whitehall departments but not to lead on departmental policy and strategy, so if a commitment to devolve is not invested across departments and instead sits more heavily with one area of government than another then this will present considerable barriers to decentralisation. A brief summary of various attempts to devolve across the main spending departments illustrates the difficulty in achieving this on a departmental basis.

The Department for Communities and Local Government (DCLG) and its predecessors DETR and ODPM is the department most associated with local government and localism. But it has proved to have little institutional leverage over other departments – not least the Treasury – as was evident in the failure to secure additional powers for the doomed North East Assembly. The Localism Bill was quickly enacted by the Coalition Government to herald a ground-breaking shift in power to councils and communities overturning decades of central government control. But the Localism Act contains many powers for central government to intervene and overturn the decisions of local government. DCLG has continued to exhibit contradictory attitudes and behaviours – not wanting combined authorities to 'suck power upwards away from local councils and local taxpayers' but neither trusting local government to make necessary decisions – believing councils to be wasteful and inefficient – or strengthen local accountability.

"Localism [should not] be a fig leaf for hitting hard-working people with a new range of municipal stealth taxes. Creating new taxes, more politicians and new tiers of local administration is not the answer – the starting point should be increasing local democracy and local accountability." Eric Pickles⁵⁹

The facts are that the devolution agenda has moved the debate beyond the traditional role of a siloed department for local government. If DCLG is to support the role of local government to be both 'local' and to 'govern' then it must prepare the way while accepting its own diminishing role.

HM Treasury (HMT) has, with the agreement in Manchester, emerged as the unexpected champion of localism. Up until this point localists have viewed the Treasury as the department least convinced by the micro-economic arguments for local 'additionality' and most wary about anything which risks increasing the deficit. Fixated by the prospect of failure, the spectre of a 'Detroit' haunts the worst case imaginings of a Treasury official. What happens if it all goes wrong? And who will pick up the cost? These are not unreasonable questions in any event but especially so given the rigid system of accountability that underlies central government and the premise that Parliament (i.e. the Treasury) must keep account of every penny spent. However, given the evidence the potential risks are overstated. There are few international examples of the kind of 'fiscal failure' that central government most fears. Even Detroit, which is the most often cited, had deep structural problems that went far beyond the failings of local governance.

For the Chancellor, the solution to this problem is in transferring this vision of accountability downwards, via directly elected mayors, so local government is responsible for keeping track of its own spending. There is, however, no view from the Treasury on immediate fiscal devolution to the English regions – as yet.

The Department for Work and Pensions (DWP) is arguably the most top-down and centralising of all government departments. With large monolithic work programmes, centralised employment services, and a universal welfare benefits system, DWP has been highly resistant to the call for localism. The agreements in Manchester and Sheffield have enabled a local commissioning role for employment programmes (e.g. The

Work Programme and Youth Contract) and other pilots. But this so far represents the limit of local freedoms. Devolving welfare benefits, pensions or Jobcentre Plus would involve crossing red lines which ministers consider sacrosanct and these freedoms are noticeably absent from the Smith Commission's 'Devo Max' proposals for Scotland.

The arguments for and against a devolved benefits system are complex and cities would need to be fully appraised of the potential gains and pitfalls of such reforms. Local variations to work related benefit risk some level of labour market displacement. Pensions are important to localities in terms of disposable incomes but they are not directly related to labour markets and devolving them would be neutral in its impact. Decentralising state pensions, although creating a potential investment pot for local infrastructure, is not currently a priority for cities. However the case for devolving employment services is more compelling. DWP argue that retaining central control over Jobcentre Plus protects universal entitlements and that the standardised national service works for most people. However, there is considerable dead weight in the system with most people finding employment by their own means, and little evidence that standard services can help people who need it most – the long-term unemployed and those with complex needs - even in the best of labour market conditions.⁶⁰

The Department for Education (DfE) has taken increasingly centralist steps over compulsory education during the course of the current Parliament, including further centralisation of capital and revenue funding for schools, the creation of new central executive bodies including the Education Funding Agency, and importantly the central control and monitoring of school performance and standards. At the same time there has been a movement to 'free' state-funded schools outside of the control of local authorities with new independent models of governance. The scope for local authorities to affect educational outcomes has become

ever more limited (despite the local education system, and spending, having vital wider impacts on cities) while ministerial accountability – as the 'Trojan Horse' incident in Birmingham revealed – has been maintained and strengthened.

The idea that ministers and Whitehall are more directly accountable for educational performance than local educationalists and professionals and that central government needs to intervene in issues of local school governance is indicative of a 'command and control' mentality that must be challenged. This is not to suggest that measures and structures are not needed to improve performance and cultivate best practice but these need to be more closely situated. Reversing the trend so that control of educational performance, funding and investment is aligned alongside other service delivery is vital in achieving place-based outcomes.

The Department for Business, Innovation and Skills (BIS) like most departments operates a partly devolved administration with funding for further and higher education organised via non-departmental bodies, and the newly created Local Growth Fund providing greater resources, responsibility and influence for Local Enterprise Partnerships. However, the department has fallen some way short of the recommendations made by Government in its response to Lord Heseltine's No Stone Unturned. The proposal to devolve adult skills budgets to local areas via a single pot has not been enacted, with the exception of limited city deal 'pilots'. The Secretary of State, Vince Cable has previously pledged to devolve skills commissioning but indicated that BIS would need to keep oversight and control to avoid the creation of a number of "totally different philosophies for training across the country". The department's response to devolving business tax is equally cautious, wanting this to be done but in a "partial" and "considered way".⁶¹

The Department of Health (DoH)

has already devolved significant levels of funding and service design in England with CCGs responsible for hospitals, community medical care and ambulances, NHS England responsible for commissioning primary care through General Practice, and local authorities having a statutory duty to provide social care. However, from the service user's perspective, these separate health and care systems have struggled to provide continuity of care and meet the real nature of demand. The current goal in the health and care sector is to provide integrated care, not least because it is becoming more financially necessary. Devolving responsibility for departmental budgets to geographically-based health boards (as is currently the case in NHS Scotland and Wales) would provide this place-based approach to health and social care.

The Home Office (HO) has instituted newly elected Police and Crime Commissioners. They have been greeted with public apathy in local elections, but are intended to improve accountability of police forces and in this regard represent a level of political devolution. Further supporting reforms to allow greater operability with other service provision (e.g. fire and rescue services) and to release accessible crime mapping data are required at the local level to tackle broader problems like anti-social behaviour, and to effectively deliver on integrated government initiatives like the Troubled Families programme. Devolved custody budgets and probation services to local authorities have also been identified by various partners as appropriate to any local settlement. But the Home Office has so far given no indication that it would be willing to simply hand over these powers.

The Department for Transport (DfT)

has been working towards devolving franchising powers for local rail services and the decentralisation of major local schemes to consortia of Local Enterprise Partnerships and local transport authorities. The Department is also in the process of enhancing the powers of local transport authorities – for example by giving them more

flexibility in tackling traffic problems and more responsibility for road classification. But although we are at the end of the current Parliament, city regions still do not have the strategic and operational powers over how they invest in, manage, co-ordinate and integrate transport infrastructure to meet the needs of local businesses and residents.

If there is a pattern consistent across all government departments spanning the last 30 years or more it is that where various attempts to devolve have been enacted they have happened by small degrees. In many cases reforms that have on the one hand empowered professionals to make decisions, enabled citizens (through personalised budgets) to have greater control over their own care, or provided new freedoms to challenge and set up new services such as schools, have at the same time bypassed local democratic structures and further strengthened political power at the centre.

Shared 'localist' values cannot be assumed and decentralisation will not be achieved on a departmental basis. Greater co-ordinating power is required to implement significant change. The Cities Policy Unit, created to negotiate city deals, is the most recent example of central government's attempts to get around this primary obstacle, but despite the recognised achievements of this approach, progress was slower and the gains smaller than cities would have liked, demonstrating the limits of such co-ordinating mechanisms in overriding objecting ministers and departments.

Unless the commitment to decentralisation forms a central plank of all policy decisions across all government departments, the process of devolution will continue to be fraught with inter-departmental tensions. A clearly specified manifesto identifying individual departmental pledges, harnessed in government by consistent prime ministerial support and leadership, is required to force Whitehall departments to act in a coherent manner. There is a need to reform the conceptual relationship between local and central government to bring the machinery of Whitehall up to the job of devolving powers.

4.2.2 Local barriers

Not all resistance to devolution can be isolated at the centre of government. Local communities, the electorate and the politicians that represent them, have all presented barriers in some form.

Local government has consistently opposed attempts to decentralise political powers, especially where this has involved changes to boundaries or the creation of new sub-national structures. The abolition of the Metropolitan County Councils was supported by district councillors dissatisfied with losing powers; the North East Assembly was opposed by threatened second-tier councils; and the failure of most mayoral referendums was in part due to the opposition of local councillors at risk of losing local decision making powers.

Some authorities, as well as the communities and political parties they represent, can fear being subsumed into larger governance structures where they would become a minority and thereby forfeit control. This can be seen in the opposition to replacing two-tier systems and in some cases the ambivalence towards combined authorities, even though this is a 'collaborative' rather than 'integrated' model of metropolitan governance.

Devolution to Scotland, Wales and London was exceptional in that these reforms did not threaten pre-existing tiers of local government, all unitary councils. In London the boroughs largely supported the need for a pan-London arrangement and the establishment of the GLA.

Operating at the right geographical scale has been a consistent condition demanded by government when granting devolved powers and one that has been resisted at the local level. It was a feature of the City Deals and a major barrier in securing new powers for elected mayors whose governance was tightly bounded with local authority control and did not align to the wider functional economy.

Local government has also been caught between thinking in centralist terms about competing and securing favour for the expansion of their service areas and arguing for the general welfare of the locality. 'Topocrats' (from the Greek 'topos', meaning place) is a term coined by George Jones

to refer to those local authority officers and councillors whose focus and loyalty is to locality and its local authority.⁶² They differ from the associations of local 'technocrats', who are captured by the service for which they are responsible and with which they have a strong professional attachment. This tension at the heart of local government is understandable given the dominant culture of centralists thinking in local-central terms.

Attitudes of the local electorate

The attitudes of the public to decentralisation present some contradictory evidence. The Scottish Referendum resulted in a turnout of 84.5% which represented a new record for any election held in the UK since the introduction of universal suffrage in 1918. But public apathy has been a common feature of most other attempts to decentralise. In the referendum for a North East Assembly turnout was 48%, with 56% of residents stating that they didn't know what the issues were. Similarly with mayoral referendums, turnout and public awareness has been uniformly low – in Bristol only 24% of the electorate voted. One month before the 2012 mayoral referendums in Leeds, Sheffield and Bradford, 62% of residents polled in local surveys did not know the vote was occurring, while the turnout of 15% to elect the first Police and Crime Commissioner represents a historical low for any vote.

The referendum in Scotland shows that where the debate is sustained and the issues are made clear so that people can see what they are being asked to vote for – in terms of real powers – then decentralising reform is more likely to capture public awareness. Clearly the history and emotion of the nationalist debate in Scotland cannot be easily compared with the more anodyne local referendums in England. But the resulting 'No' vote to stay in the Union highlights a common trend, the so-called 'status quo bias' where the costs of change are weighted more heavily than potential gains, particularly if the outcomes of the change are uncertain.

The creation of the London Mayor and Greater London Authority is an exception. The turnout in 1998 was low (only 34%) in keeping with other mayoral referendums, but it delivered an overwhelming result, with the electorate voting 'yes' by a ratio of four to one. Initially the GLA had very few

powers, but control over local transport and the prospect of improving the daily commute was something that appealed to Londoners. The Mayor has slowly accrued more powers while public support for the role has strengthened.⁶³

Issues about historical, cultural and geographical identity are an important factor in the public's motivation to want greater autonomy. Nations clearly have strong and cohesive identities while London and some city regions, like Greater Manchester and Merseyside, have formed sub-regional identities and allegiances that bind agglomerations of distinct cities and towns. Overcoming identity-driven problems are important in convincing local areas to combine authorities and work together to achieve greater devolved powers. This requires political leadership, but geographies and political structures must make some economic and cultural sense in order for them to be accepted by the voting public.

In general terms the public has become increasingly sceptical about politicians, political parties and the political system. Low trust and satisfaction with government and a pervasive antipathy to the prospect of more politicians together with a perceived waste of public money have been closely correlated with voting in the North East Assembly and the 2012 mayoral referendums. The Hansard Society's Audit of Political Engagement in Britain shows a continuing frustration amongst the electorate, with the need for greater transparency (48%) and accountability (39%) featuring amongst the overwhelming priorities for political reform.⁶⁴ Ipsos Mori's "Trust in MPs" Poll (2013)⁶⁵ highlighted that Britons are more likely to trust their local MP than MPs in general (51%), while the recent poll conducted by the Local Government Association (LGA) reveals that three in four people trust their local councillor more than their MP to make decisions about local services.⁶⁶

The electorate in Britain's Core Cities have not been formally engaged in a public debate about decentralisation, although the events in Scotland have served to promote the arguments more generally. There is sufficient survey and polling evidence to suggest that the public would favour more transparent and more locally accountable forms of government. There are concerns over the control of some public services

(health and education) and the perceived threat to universal entitlements but the large majority of people continue to trust their local councils (76%) more than central government in making decisions about local services.⁶⁷

Experience suggests that the public will only support institutional changes if they can see that they are relevant and will make a real difference to them. Governance at a geographical level that lacks cohesion or local identity will seem remote and separate and the lack of meaningful powers on offer will equate to a lack of public interest. Devolving and redistributing powers among existing, recognised and relatively trusted institutions – local government – is likely to gain more support than establishing new or additional levels of government – regional assemblies.

4.3 Constitutional and legislative barriers

The call for city and other place-based devolution is now taking place within a fast moving debate about the constitutional arrangements in the UK. The outcome of the Scottish referendum on independence has highlighted the asymmetry that currently exists between nations and reignited the arguments for an English parliament.

The UK's highly centralised constitution makes devolving powers to localities more difficult, although not impossible as the different agreements in Greater Manchester and Sheffield demonstrate. Central-local relationships are based on voluntary associations or codifications that can be observed or as is often the case, ignored by government departments. Local government in the UK, unlike much of its European counter-part, lacks the most basic constitutional right to continued existence and while it may seem fanciful that a future government would abolish local government – although a recent proposal from two Liberal Democrat peers to replace England's 352 councils with 150 comes close to it⁶⁸ – it is not unheard of for government to abolish whole types of local government at a sweep (e.g. the metropolitan counties), or the removal district councils as in the 1974 re-organisation and the more recent creation

in 2009 of five county-based unitaries. At the same time the existing legislative framework prescribing the duties and responsibilities of local government is complex, including variations to the Local Government Acts; the Local Democracy, Economic Development and Construction Act (2009) through which councils can establish combined authorities or economic prosperity boards; and the Localism Act (2011). But the current constitutional and legislative arrangements can not delineate local autonomy – in terms of legal responsibilities, fiscal powers and funding - or provide formal protections from the interference of central government. Arguments about functions, responsibilities and local government's close relationship to public services, have served to focus attention away from the political and governing powers that rests with local government.

The history and tradition of centralisation and the long-standing tendency of the centre to micro-manage presents the case for a new constitutional and legislative settlement. One that can address the statutory relationship that exists between local and central government, and enshrine in law the independence of local authorities as sovereign entities, protected from an autocratic central state. This would ensure that no government department or minister can act on local government issues without at the very least meaningful consultation between the centre and local government, bringing the UK's constitutional practice in line with many other major democracies.

The adoption by the Core Cities of the clauses from the draft Local Government (Independence) Bill will help in building the case for the constitutional protection and freedom of local government in England, while maintaining the Local Government Acts to provide the operational details of local government. The purpose of this action is to debunk the idea that local government is a creature of statute and an agent of central government, and to allow a significant rebalancing of power where local government is accountable downwards to their citizens, not upwards to ministers and civil servants. This enhanced constitutional status, which could come from the implementation of the Local Government (Independence) Bill but also from the devolution of primary legislative powers

to councils along the lines of that to the Scottish and Welsh bodies, would allow city authorities to fix the legal framework within which they operate, across a range of policy areas.

However, the draft Bill for Local Government Independence does not address elected councils in the devolved nations; nor does it explicitly address or make provision for the devolution of powers. The clauses of particular significance relate to territorial integrity – no power for the centre to reorganise local government; inter-municipal co-operation; and financial integrity – but unless new powers and freedoms are enacted there will be little to protect. In this sense the detail of the Bill becomes increasingly important following the devolution of powers.

The Labour Party has pledged to pass an English Devolution Act which will enable powers to be devolved to England's cities and counties and introduce a 'presumption in favour' of devolution, which seeks to pass down decision-making over service delivery to local areas as a default rather than on an ad hoc basis via centrally-managed local agencies. Devolution will need to be underpinned by new legislation to strengthen the constitutional status of local government and sub-national arrangements and to provide a more democratically accountable system of local governance. Similar legislation will be required across all nations in the UK.

A number of the arguments for devolution have centred on how political decentralisation in particular can act as a democratising force, helping to close the democratic gap and rejuvenating local democracy. If this is to be realised suitable models for local governance and accountability need to be deployed at the appropriate level. These need to be decided locally but as we have discussed there are a number of conflicts and tensions, not least amongst local politicians and the electorate. The most common form of executive for local and combined authorities is the cabinet-style majority decision making process. Few city authorities have directly elected mayors and until recently no city-region, outside London, had indicated any enthusiasm for 'Metro Mayors'.

Models for city governance

The directly-elected mayor is most commonly associated with the American political system, where for more than 100 years it has been the dominant model of city governance. However, most of the world's major cities, across all continents, now have mayors, although these city leadership models vary greatly depending on history and political culture. Over the course of the past 30 years many countries in Western Europe have increasingly moved towards different forms of mayoral leadership for municipal government.⁶⁹

In the UK, the question of mayors remains unresolved. The system had been considered by John Major's government, and the former Environment Secretary Michael Heseltine had long been a proponent of it. But it was not until 2000 that the country returned its first elected Mayor, in London. Changes to the Local Government Act (2000) required local authorities in England and Wales to review their executive arrangements including options to elect Mayors, but subsequent referendums in 2002 returned only eleven directly elected mayors. Two more mayoralities were created in 2005, another in 2010.

The Localism Act 2011 permitted central government to trigger further referendums for elected mayors and 10 were subsequently held in English cities. Only one, Bristol, voted for a mayoral system. Ahead of this, Leicester City Council in 2011 and Liverpool City Council in 2012 exercised their option to have a directly elected mayor without a referendum, while in September 2011 citizens of Salford collected the required number of signatures to force a referendum, which was successful. Presently there are 16 directly elected mayors in England, including London. Two councils have chosen to remove the post of mayor. Of the Core City authorities only Liverpool and Bristol are represented by the mayoral model. Only one Welsh authority (Ceredigion in 2014) has held a referendum on elected mayors, rejecting the proposal by over 70%, while the Scottish Parliament has chosen not to act on the issue.

The need to strengthen local accountability, as we have discussed, has become the condition for decentralising reforms. Yet central government's repeated plans for

cities to adopt more powerful elected mayors have not been fully realised. The arguments for elected mayors, over the council leader-cabinet style, are based on notions that mayors will introduce greater democratic transparency and accountability, which will help to boost democratic engagement, strengthen political leadership and provide greater stability, better decision making and a more outward-looking approach to city growth.

However, in many places both the electorate and local politicians have remained unconvinced. The general public's antipathy to the prospect of more layers of government and more powerful politicians is a significant factor. The perceived costs of elected mayors, including additional bureaucracy and mayoral salaries, combined with concerns over power being vested in one individual dominated the debate in the run-up to the 2012 referendums. But the facts are that the earlier concerns which have been expressed in the UK have not been typical of elected Mayoral administrations around the world.

A recent literature review examining the international evidence about how mayors can make a positive impact on urban policy and outcomes concluded that the proof is thin and often contradictory.⁷⁰ This may be a function of different research methods delivering different results but also the different forms of mayoral systems and powers. But there are relevant case studies describing effective leadership styles that:

- Skilfully deploy 'soft powers', where the mayor acts as an enabler and focal point in networks of key economic and political actors, co-ordinating decision-making and focusing attention on key goals.
- Effectively position a city on the international stage appears, where the mayor is personally committing to weaving a narrative that fits the locality and is supported by key constituents in the local polity.
- Enhance the democratic mandate, where citizen satisfaction is positively correlated with a more visible leadership.

These are findings which are generally supported in the emerging evidence from the UK.

Evaluation of Liverpool's Mayoral Model

Liverpool was the first Core City to adopt the model of an Elected Mayor when Mayor Joe Anderson was directly elected on 3 May 2012. The aim of the Mayoral governance approach is to deliver change and create growth by strengthening leadership, providing a clearer and more targeted long-term vision, and enabling sharper, quicker decision making.

A recent evaluation of Liverpool's Mayoral model concludes that the model of governance 'is still in development but is beginning, in difficult circumstances, to be associated with significant changes, both in the way the City Council interacts with other key agencies and interests which are important to the future of the city and the city-region, and in the way the city is perceived.'⁷¹ The report finds that the creation of an elected Mayor has helped:

- Increase access to Government ministers, senior civil servants and European Commission officials
- Raise the profile and prominence of Liverpool's political leadership whereby the Mayor is perceived as achieving national influence to the benefit of Liverpool and the broader city-region.
- Establish greater convening power through the Mayoral Commissions and the Mayoral Development Corporation securing access to significant external expertise and enthusiasm for engagement with the city. The Health and Fairness Commissions, in particular, are viewed as having produced impressive digests of evidence and to have led in the creation of mechanisms which codify and facilitate inter-organisational collaboration and the implementation of agreed actions and aspirations.
- Provide important functions for generating and testing ideas, captured in clear objectives, and linked firmly to delivery among partners, including Mayoral leads and officers within the City Council.
- Play a critical role in the move to create a Combined Authority for the Liverpool City Region, which positions the City-Region well in the emerging policy environment.

GMCA's Mayoral Model

Greater Manchester's adoption of a directly elected city region Mayor will form part of future legislation to strengthen governance in return for additional powers while protecting the integrity of Local Authorities.

The Mayor will hold the ultimate responsibility over new devolved powers to be exercised autonomously, though working with the existing GMCA cabinet model. All GMCA leaders will have a clear portfolio of responsibilities and will act as a supporting and advisory function to the Mayor and GMCA in respective policy areas. Both Mayor and Cabinet will be held to account by the current 'Scrutiny Pool' arrangements.

The Mayor will be required to consult the GMCA Cabinet about their strategies, which the cabinet may reject if two-thirds of the members agree to do so. The GMCA Cabinet will also examine the Mayor's spending plans and will be able to amend plans, again if two-thirds of the members agree to do so. The Statutory Spatial Framework should be approved by a unanimous vote of the Mayor's Cabinet.

On public service issues, the GMCA members and the Mayor would each have one vote, and policy would be agreed by a majority vote.

Yet the mayoral experience of Liverpool and Bristol are notable exceptions in what has so far proven to be a failed attempt to strengthen direct accountability at the city level. It is for this reason that the Chancellor has intervened, accepting that neither local politicians or the electorate are likely to support change without being clear about new functions and powers, many of which - relating to local economic growth, including planning and transport - will need to extend beyond the city authority level to the wider Metro areas.

The agreement between the government and Greater Manchester to devolve significant powers and budgets has been reached on condition that the combined authority adopts a model of a directly-elected City Region mayor.

The appointment of a 'Metro Mayor' in Greater Manchester will represent another model for city leadership, with increased powers similar to London but with different governance arrangements. In London we have seen the introduction of a new structure of government, with an elected Mayor and Assembly, and a new voting system (with a form of proportional representation) which has been situated alongside although not integrated with existing arrangements for local government across the capital. The mayoral proposals for Greater Manchester are arguably less transparent and less accountable to the electorate than the London model but the combined authority and cabinet approach presents a distinct advantage in terms of responsibility and additional powers for certain parts of public service reform which the London system is currently unable to provide.

Clearly there are different models for mayors and for city governance more generally. Sheffield City Region has agreed a deal that is not conditional on the appointment of a Metro Mayor. The combined authority has secured additional powers that build on its implementation of both its City Deal (agreed in 2012) and its Growth Deal (agreed in 2014) and which do not require additional legislation at this stage. Sheffield has not yet negotiated any fiscal powers such as earn-back or payment by result mechanisms. However, as part of this deal Sheffield City Region has stated that it will consider different options for improving local governance and accountability,

including the possibility of a directly elected mayor, that will allow further powers and funding (including fiscal devolution) to be transferred over time.

Places have choices to make but if it is not currently possible for authorities to agree upon a Metro Mayor it will be necessary for them to bring forward credible alternatives. This could include the directly-elected Cabinet or Senate model or other democratically elected governance models not currently on the statute books. As both the GM and Sheffield agreements makes clear, strengthened governance is an essential pre-requisite to any further devolution of powers to any city region. Maintaining the status quo will not be sufficient to secure place-based devolution while combined authorities and existing cabinet style governance are less likely to unlock the conditions for increased powers – beyond those already negotiated in Sheffield.

The scope of the GM agreement has demonstrated the relative gains of a Metro Mayor, where the 'upside' in terms of the new powers offered offset the perceived 'downside' of a Mayor and prepares the way for securing further powers beyond those already negotiated. The strengthening of governance and accountability at the Metro level also presents opportunities to streamline existing layers of decision making and influence currently diffused across Combined Authorities, Local Economic Partnerships, Police and Crime Commissioners, Economic Prosperity Boards, and Health and Wellbeing Boards. A Devo-Max proposition for Metro-cities is implausible without integrating these functions as part of a single and directly accountable leadership and executive model.

Local accountability

Local public servants operate in a complex environment requiring them to give an account of their actions in a range of different forums. Place-based devolution especially across existing local authority and institutional boundaries will require new systems of accountability that are transparent to local people and which operate effectively at the local level. The Innovation Task Force have recommended Local Public Accounts Committees⁷², which Labour has pledged to introduce should

they be elected, to have independent oversight over all public expenditure in the local area.

We agree with this innovation. Local Public Accounts Committees would provide crucial assurance to central government and the local electorate that public funding can be safely devolved. For us though we believe their role should be expanded from a simplistic though necessary audit function to advocates and agents of public service integration. Since the evidence shows that place based integration is the best way to get both value for money and the outcomes from public services that everybody wants. We believe the best role for these new Committees would be to assess the value for money achieved by combining budgets from all holders of public funds at the local level. In addition we think a crucial function for these new local audit and transformation entities would be to ensure that the planned outcomes of public expenditure in the devolved area are not in conflict and are mutually supportive. We can't have a situation where one part of the public estate is pursuing an outcome that is in direct conflict with another part. The local harmonisation of matrices used to judge and allocate public expenditure would be a genuine and transformative advance both in public audit and for the devolved areas themselves. But we believe this role could go further.

Duty to collaborate

Devolution will require a far greater degree of co-ordination and cooperation between cities and all the other bodies that act in these locales than we realise. It necessitates as we have just argued that common city and city region-wide outcome measurements are developed such that all the performance indices for public expenditure meet and match in terms of the outcomes pursued. In order to establish the appropriate economic and social ecosystem for further growth and public service transformation, it makes sense to strengthen local commitment to collaborate beyond the constituent boroughs of a city region and beyond the existent patterns of consultation and daily practice.

We believe that all actors operating within a city region will need to work together to

develop the most integrated and holistic services. We would argue that all bodies in receipt of public money and operative in the devolved area should be required to collaborate or engage with city region authorities. The best city authorities have learnt that they need to work together but they often struggle to attract other bodies and actors to the table. It is self-evident that authorities and bodies should co-operate from Local Enterprise Partnerships (LEPs) to Welfare to Work providers to government quangos, to schools and to hospitals, all in many ways are engaged in producing the same outcome using public money. We believe therefore that there should be a requirement to at least engage or collaborate with one another to discern and pursue common goals for the common good. This should not just be restricted to public actors, some external private agencies like the utilities companies or large successful local enterprises should also be asked to engage in an active and collaborative way, as they are also vital for the success of the evolved regions.

To facilitate the goal of both common outcome measurements and common working, Local Public Accounts Committees aided by the Devolutionary Agency should be set up by Parliament. And they should be responsible, in consultation with all parties, for drafting a 'Duty to Collaborate' on a city region basis and compiling the list of those who should be subject to this Duty. This should be locally led by the Local Public Accounts Committee who should be best placed to discern who should come to the table.

However this should not prevent the freedom of authorities to associate across boundaries of their own choosing, indeed the recent announcement to form a collaborative working relationship between the cities of Bristol, Cardiff and Newport is a good example of these freedoms.

Cross-border cooperation between cities (such as that agreed recently by Bristol, Cardiff and Newport) will test existing legislation should they desire to create more formal governance and accountability structures. One could imagine however that the Local Public Accounts Committees could also collaborate across devolved areas to help facilitate exactly what has begun in the South West. However, future plans

to develop joint economic strategies for the Severn region may need to depend on a looser association that a duty to collaborate may help to advance. In conclusion for those cities committed to building relationships that will help their residents, the ability to bring all partners to the table would be a powerful and enabling tool.

Beyond municipalism – the hyper-local

Cities recognise that the process of decentralisation must not stop at the city hall, that a model for city-based devolution must enable communities and citizens to be more fully involved in local decision-making. Many local authorities adopted Area Committee structures in the wake of New Labour's modernisation agenda for local government. But attempts to engage and empower local communities through the process of 'double-devolution' has been criticised for its centrally-driven and overly-bureaucratised processes and preoccupations with the standardising architecture of multi-level governance.

The Localism Act has allowed – at least in principle - more fluid forms and genuinely bottom-up expressions of community action. However, in practice the Act has proven to be complex, often contradictory, and strictly conditional; local authorities retain rights to block the community's rights to challenge, while the Secretary of State has increased powers to veto and intervene in local government.

Birmingham is one of a number of cities to have maintained and developed the District Committee structure. Other cities continue to incorporate various area-based and neighbourhood structures into their formal and constitutional decision making processes, although Birmingham has arguably gone further in building on this model to devolve powers and resources to the neighbourhood level.

Other localist approaches have also been advanced over the current parliament. A number of councils in the UK, Glasgow and Newcastle included, have joined a new framework which promises to reinvent the traditional model of the council as a tool of social empowerment. The 'co-operative' council is a new and evolving approach to public service that draws on the ethos and

Birmingham's neighbourhood model

In 2004 Birmingham moved beyond the influencing remit of Area Committees to establish District Committees to which it delegated over £100 million of funding responsibilities for services including neighbourhood management, advice services and local highways. Birmingham has continued to invest in this approach and in 2012 instituted a range of constitutional, policy and structural changes to breathe new life into its devolved structures by:

- Devolving new services to District Committees including housing management, tenant engagement, adult education, youth services and local employment programmes
- Enabling District Committees to identify under-performing neighbourhoods, devolving spending powers and responsibilities for defining local policy statements to District Committee chairs
- Introducing greater transparency on local decision making with live video streaming of District Committees and a more defined relationship between the Council's Ward and District Committees.
- Bringing chief officers and heads of service into the front line to champion, support and problem solve locality issues outside of their day to day professional and service responsibilities

In May 2014 through the Leaders Localisation Board (bringing together district chairs, relevant cabinet members and the relevant scrutiny committee chair) a further wave of policy development has been initiated with the aim of advancing devolution. Six policy action work streams supported by the University of Birmingham will inform a green paper to be published in December 2014. These include:

1. **Transforming Place** - drawing on partners best practice in neighbourhood management
2. **Engagement and co-production** - an Empowering Birmingham plan setting out a cross organisational and community change programme
3. **Community Governance Review** - triggered by petitioners in Sutton Coldfield a whole city review of governance at all levels will be undertaken, starting with a Governance Convention at Highbury. This is the largest review of governance in a decade.
4. **Leadership and culture** - defining and moving towards an organisational culture that supports and make devolution real at all levels within the Council, its partners and communities
5. **Resourcing** - looking at devolved budgets, community budgeting and new social finance models for investing in place
6. **Technology and Innovation** - looking how we can use technology to advance devolution.

principles of the co-operative movement to better engage and work with citizens and communities as an equal partnership. In Newcastle the emphasis is on a spectrum of co-operative activity and behaviours that can build on co-operative values to actively engage citizens in decision-making, the co-production and where appropriate the co-delivery of services through co-operative models.

In many respects the challenges faced in devolving to communities mirrors the obstacles that need to be overcome in transferring powers from the centre to local government. The approach requires a complete transformation in philosophy and approach to change the culture of how things are done and having the confidence to let go. This will require a long-term commitment, recognising that the process will be difficult for all stakeholders and that local governance structures and delivery models will need to evolve in response to local experience, building on existing strengths as well as the potential for future opportunities.

New governance arrangements are required to allow central government to devolve to cities and for cities to devolve more effectively to local communities. There are a number of different hybrid models operating in the Core Cities. But if the process of devolution to local government is to be enshrined and protected in law then consideration needs to be given to formalising the engagement of local

Newcastle's spectrum of cooperation

Cooperative approach ←————→ **Cooperative services**

Working in line with co-operative values and principles	Residents actively informing decision making	Co-producing services with communities	Services delivered through co-operatives and mutuals
Identify required skills approaches and attitudes for what working cooperatively means and develop approaches that reward and recognise such ways of working Review some key procedures e.g. how we trade and how we buy	Test appetite and approaches to devolving decision making powers. Explore governance structures to support cooperative neighbourhoods and city	U-Decide experience of co-production	Learn form experience and approaches Support the development of social enterprises, CICs, and Co-op models

Source: Newcastle City Council

communities in city governance. Local authorities should be given a duty to involve, empower and work with communities. Legislation should be introduced to enable the formation of neighbourhood councils and to enshrine their rights to draw down responsibilities and resources. This would

need to build on the spirit of the Localism Act, which aims not to restrict but actively encourages the potential for legitimate bottom up community action, by allowing for greater cooperation and collaboration between partners.

59 In responding to IPPR North's Decentralisation Decade (2014)
 60 Off-flow rates have remained relatively stable with over 90% of JSA claimants entering employment with 52 weeks. DWP Transparency Data, November 2014
 61 Vince Cable, Solace Annual Convention, York, 2013
 62 The future of local government: has it one? George Jones Emeritus Professor of Government London School of Economics and Political Science, May 2008
 63 A 2011 poll found that only 5% of Londoners wanted to abolish the Mayor and Assembly, when choosing from a list of possible reforms
 64 Priorities for reforming British politics (survey data) 2013
 65 Online <https://www.ipsos-mori.com/researchpublications/researcharchive/3184/Trust-in-MPs-poll.aspx>
 66 LGA Polling on resident satisfaction with councils Full report: January 2014
 67 LGA survey 2014
 68 Centre Forum – Devolution Dialogue
 69 Many city mayors in Europe are in fact political leaders appointed by and from councillors elected by popular vote, as is the case in Spain, France, Portugal and Greece. In some nations city mayors are appointed by central government including Belgium, Luxembourg and the Netherlands. Other countries like Germany and Austria have mayors that are both directly elected and indirectly appointed depending on the constitution of each individual state.
 70 Harding A, An initial assessment and evaluation strategy for Liverpool's Mayoral model of governance, Heseltine Institute for Public Policy and Practice. Univ. of Liverpool, July 2014
 71 The University of Liverpool's Heseltine Institute for Public Policy and Practice has produced an independent report, compiled by Professor Alan Harding, examining Liverpool's mayoral model of governance.
 72 The case had been made earlier by the Centre for Public Scrutiny in their think piece 'Local Public Accounts Committees in Every Place' December 2013.



5. The Way Ahead

“City-based devolution should not be delayed by government re-organisation of central departments or sub-national bodies or by constitutional debates.”

This chapter outlines the principles and conditions for full place-based devolution to the Core Cities. It provides a step-by-step guide to realising the vision and its transformative potential, the roadmap to devolution, and the timeline for actions by both Government and cities.

5.1 The principles of devolution

There are a number of broad principles which must apply to a programme of devolution, recognising the variance between cities in terms of their current positions but at the same time identifying the conditions by which all cities can move along an agreed spectrum of devolved powers towards full place-based devolution.

Presumption to devolve: A commitment towards full devolution must cross parties and successive parliaments. There should be a presumption in favour of devolution and government must commit to a process which recognises that in principle everything is in play, and nothing is out of scope. Cities will in turn accept that significant and radical changes will take time and will commit to a joint process that recognises the capacity of both parties to move forward.

Differential and incremental: Core cities will start from different positions and some will be able to devolve further and faster.

The process for devolution should, therefore, be both differential and incremental. This principle should allow for phased devolution that gives places what they need whilst operating at the pace of the fastest, not the slowest. In this regard it is recognised that devolution to cities will be asymmetric.

Whole-system integration: Place-based settlements should be linked to a whole system approach – this highlights the unique possibilities of settlements to cities in drawing together services effectively and efficiently. Devolved departmental budgets should be free from ring-fencing and pooled, where appropriate, at the city level with local discretion to spend according to need and without the necessity to report along departmental lines.

Multi-year budgets: Place-based settlements should encompass multi-year budgets in order to encourage longer-term investment and planning for reform. Ideally this means having the same level of certainty of funding as Government departments.

Readiness: All cities seeking devolved powers should have a single evidence-based economic growth and public service reform plan that clearly demonstrates their state of readiness for devolved powers. This should identify the local priorities for ‘whole service’ devolution, the spatial level at which this will take place and the timescales for action. This should include fully-costed

proposals for how public funding and fiscal devolution will be managed, models for strengthening local accountability, monitoring arrangements, and risk assessments.

Territorial autonomy: Cities must demonstrate the coherence of proposed geographical boundaries at which level new devolved powers will operate. This will need to consider a locally recognised sense of place; the functional economic geography of cities and city regions; the administrative relationships between cities and neighbouring authorities as well as alignment with other local partnerships. Authorities should have the freedom to make their own joint-working arrangements – not imposed from the centre – and where necessary the powers and responsibilities of such freedoms to associate should be prescribed by statute.

Governance: In return for greater powers cities will commit to strengthening local governance and accountability for decision making and public spending. This will include consideration of city mayors and assemblies, Local Public Accounts Committees, and local Accounting Officers. However, governance models should be locally defined and may therefore vary in character and structure between cities. The systems concerned - whether a directly elected mayor and cabinet, cabinet and leader, committee system, or any other political decision-making arrangement – should be decided by the local electorate.

Multi-dimensional: Devolution must result in greater integration of public services at the local level. However, a degree of variance in the concentration of powers may be necessary. The devolution of economic powers to LEPs may in some territories exceed the boundaries for the devolution of public services at local authority level. Robust and integrated governance across the different spatial levels, will be required to achieve more integrated delivery and improved outcomes in specific geographies and policy areas. Nor should devolution stop at City Hall. The principle of subsidiarity should extend devolved powers, where appropriate, to the neighbourhood level.

Shared responsibilities: Cities should share proportional 'risks and rewards' with Government to retain an agreed share of future savings for investment but at the same time fund any shortfalls from its own resources. In addition, local and central government should establish joint outcome frameworks and inspection regimes to set and monitor the standards of services supplied or secured by them as well as how potential 'fiscal shocks' will be identified and managed under more radical packages.

5.2 The roadmap

The shared ambition of the Core Cities Group is to achieve, in time, full place-based devolution for all cities. In setting out the roadmap we seek to identify an agreed set of freedoms and flexibilities that can form the starting position for negotiations between the Core Cities and central government, enabling each place to innovate their own public policy solutions to the challenges they face. This must build on the emerging consensus for city-based devolution while defining the way ahead and what this should look like on a phased basis, identifying what can be done now and following the next general election.

5.2.1 Preparing for devolution: Pre-2015 Election

The devolution deals reached in Greater Manchester and Sheffield represent two very different agreements, as we have previously described. As they stand they provide a precedent for other city regions to follow, if they so choose; and which could be enacted during the remainder of the current parliament.

Roll out first wave devolution deals

On this basis Government should roll out the first wave of differential city-region devolution deals. These should be subject to what cities can deliver; evidence of cross boundary collaboration; and commitments to strengthening local accountability and governance. All cities should bring forward their plans for the formation of new combined authorities,

or other arrangements, alongside their business cases for new devolved powers that can be immediately enacted without new legislation including e.g. wholesale devolution of skills and business support; co-commissioning of Work Programme Plus and other employment initiatives; and housing funding.

In addition, plans to repatriate funding to cities should be considered as part of this process. This should include public health spend, the re-localisation of all Business Rates, and the removal of 'ring-fenced' funding such as the Dedicated Schools Grant. Government should include, as part of Business Rates Review, how fiscal devolution can be quickly enacted.

Combined Authorities

The argument has been made for economic powers that extend beyond city authorities to wider metro-regions and which include functions such as transport, spatial planning, skills and labour market initiatives that rightly connect with wider economic geographies. The deals in Greater Manchester and Sheffield have allowed for this, in different ways, enabled by their status as combined authorities. The Government's plans to take forward legislative reform of the Local Democracy, Economic Development and Construction Act 2009, will allow local authorities in England greater flexibility in establishing a combined authority or economic prosperity boards to work across functional economic areas. This will more easily permit authorities that do not share contiguous boundaries to work across functional economic areas and to enable a county council in a two-tier area to become a member of a combined authority with respect to a defined part of its area (e.g. one or more districts) and to undertake different functions in different parts of its area.

Cities in England will need to bring forward plans for collaborating across Metro areas including the formation of new combined authorities or where necessary suggest credible alternatives for joint working. Devolved nations will need to commit to an equivalent legislative process to those proposed in England to allow cities to work beyond existing boundaries, where this is desired.

Draft Devolution Enabling Bill

As has been suggested by the Deputy Prime Minister, the Coalition Government should, during the remainder of the current Parliament, publish draft clauses of a 'Devolution Enabling Bill' to introduce new legal rights for local authorities and city regions to demand powers – so-called "devolution on demand" – including a statutory presumption in favour of decentralisation. This strong localist assumption should be taken forward and, with cognisance of the draft Local Government (Independence) Bill and the need to codify the relations of central and local government, grant constitutional protection to councils, so that powers and functions devolved to cities can not be so easily taken away.

Devolved nations should commit to an equivalent process to enable city-based devolution and protect the sovereignty of local government. In Scotland this should match the deadline for draft legislation on devolution to Holyrood.

Cross-party support

The main parties have already made specific commitments to devolution, as we have discussed, and will continue to shape their proposals in the run up to the General Election. There is a great deal of consensus between parties in their ambition for cities and city regions, although there are inevitably some differences including how this should be taken forward. For example, there is a broad acceptance that cities should determine for themselves the collaborative arrangements for working across boundaries as well as the governance and accountability models that should be adopted locally. However, the prospect of some reorganisation of geographical boundaries including a review of LEPs (which Labour have proposed) and a Constitutional Convention (which Labour and the Liberal Democrats support) represent political differences that could affect what can be enacted from day one of a new administration.

The work of the Core Cities Group seeks to inform the manifestos of all major parties in setting out a radical programme of devolution to our cities, and promote recognition that the UK's Core Cities are at the heart of the economic, social, fiscal and

political challenges facing the nation and the first place where a new approach to improved economic growth and decreased social inequality can be realised. Cross-party support for both the principles and the processes of devolution – of what needs to be done and how to get there – is essential to build on the momentum that has already been achieved and to move this agenda forward with the urgency that is required. We have identified a process and timetable for a comprehensive package of powers to be devolved to the UK's Core Cities, including what can be implemented with immediate effect and what can follow on a differential and incremental basis. From this position the Core Cities will be encouraged to formulate their detailed propositions for how devolution might work in their areas over the course of the next parliament.

5.2.2 Joint framework for devolution: The first 100 days

Within the first 100 days of a new parliament we would expect Government to establish the mechanisms for devolution. The structure of central government must, in time, be reconfigured to enable the necessary shift in local-central relations and to allow central government to become a direct agent of devolution to cities, to provide local freedom and self-determination. But reforms must initially proceed from within existing structures and should not be delayed by complex constitutional debates and reorganisation. For this reason the Core Cities Group supports the immediate formation of an independent body, **The Devolution Agency**, to oversee the process of city devolution in the UK.⁷³

The Devolution Agency

This should be a standing body for the duration of the next parliament, independent of Whitehall and the devolved administrations in Scotland and Wales. With clearly defined terms of reference, its purpose will be to:

- (i) Set out the principles and parameters of devolution – what should be devolved to places and what should continue to be driven at a national level – based on the role of the Smith Commission in Scotland.

- (ii) Take forward the devolution commitments, assessing and evaluating the readiness of each city to receive new devolved functions and powers, reviewing the conditions as well the pace and scale of devolution, facilitating negotiations between cities, individual departments and devolved administrations, and recommending to Government(s) the scope of each devolved settlement for individual cities, including incremental deals for cities to receive greater powers and freedoms.

This body should inform and ideally direct any other Government commissions or committees relevant to this agenda, including any proposals to review:

- Current funding arrangements between central/devolved government and local government
- Geographical boundaries for Local Government, LEPs and economic coherence with city authorities
- The powers of existing combined authorities or equivalent arrangements in devolved nations
- Local accountability and governance arrangements
- Implementation of fiscal devolution.

We would expect seconded expertise from both local and central government to be made available to the Devolution Agency to provide technical assistance and secretariat functions and to work with the Core Cities Group and Government to agree a joint framework for devolution to be enacted by Parliament. This framework will be shaped by the work that Core Cities have already undertaken and will consider different aspects of economic geography, and governance models. It will outline the commitment of Cities to demonstrate their strategic approach to planning and investment, how devolution will better address need and provide incentives for economic growth, how benefits will be shared across devolved geographies, and how overall proposals will contribute to deficit reduction.

The Devolution Agency should work with cities to develop a cross-departmental menu of significant funding streams and

functions that they could devolve to form place-based budgets. The process should make provision for local control over spending on a wider range of services and agree a single shared outcomes and inspection framework. This should include plans for devolution within the first 12 months of government but with scope to expand or change the range of services decentralised over time.

The Devolution Agency should commit to evaluate full business cases to deliver the first level of devolution proposed in each city. The aim should be to complete this business case review within 30 days. This will provide the mechanism for agreeing, between cities and Government, the differential and incremental steps to achieving a staged (and where appropriate) full place-based settlement for cities including fiscal devolution and devolved spend over the course of the next Parliament. In addition and where necessary the framework should provide for continued commitment to future devolution setting out what powers could be available to cities beyond the course of the next Parliament and over the next 10 years.

Reorganisation of central government

An Independent Commission will still struggle to gain the necessary traction without political commitment at the centre of government. To this end some reform of structures will be necessary. The new government must set out its ambition – that devolution to cities is the highest level priority for change, aligning constitutional reform with deficit reduction and economic growth – and outline a clear and independent process for ensuring its delivery. In England leadership and direction will be needed from the top either through the Prime Ministers Delivery Unit or a powerful Deputy Prime Minister based in the Cabinet Office and with the mandate to work across departments and to a non-departmental brief that can effectively overcome internal resistance and promote a new culture across Whitehall, Parliament and Cabinet in its central-local relations.

This restructuring could more closely correspond to the requirement to devolve integrated services, organised around three 'themed' government committees, as follows:

- Public service reform: children and families, education, health and social care, Early Years etc.
- Growth: Transport, business support, housing, planning, employment and skills
- Fiscal devolution: including the devolved taxes, earn back mechanisms and borrowing caps.

Similar or equivalent structures could be followed in the devolved nations led by the First Minister in Scotland and Wales.

Legislative programme – Queen's Speech⁷⁴

The new Government will need to move quickly to take forward its first legislative programme and advance new laws, as well as the reform of existing legislation (Localism Act 2011, Local Democracy, Economic Development and Construction Act 2009, Local Government Acts) where they are not sufficient for comprehensive devolution. The Queen's Speech should, in outlining the Government's policies and proposed legislation for the new Parliamentary session, make clear the priorities to reduce the deficit and rebalance economic growth and how greater freedoms for our largest cities will enable this.

A **Devolution Enabling Bill** should form the central plank of the Government's legislative programme – to enable the transfer of powers and functions to devolved institutions, including local and combined authorities, which they may take as right, and which may not be unreasonably or 'unlawfully' withheld. The Devolution Enabling Bill should establish the conditions and legislative path to deliver fiscal devolution. It should also encompass or where necessary be supplemented by supporting legislation to enhance the constitutional status of local government to:

- Codify the relationship between central and local government
- Devolve primary legislative powers (along the lines of the Scottish and Welsh bodies)

- Strengthen local governance and accountability with the facility to create Metro Mayors and Local Public Accounts Committees, where desired
- Protect the freedom of cities to associate and collaborate across boundaries including the formation of new combined authorities, where desired by cities
- Streamline and simplify relationships currently defined by statute (e.g. between local / combined authorities, LEPs and Health and Wellbeing Boards etc.) and allow ultimate control of these bodies to be assigned to an agreed city region authority
- Enable local authorities to devolve powers and responsibilities to the neighbourhood level and where necessary to create neighbourhood councils
- Create 'School Commissioners' and devolve responsibilities for school performance
- Create a single outcome framework for all devolved spend, so that measurements are simplified and unified such that they are mutually supporting rather than conflicting.

White paper

Government will need to set out, in a White Paper, the details of its policy commitments to place-based devolution in England. This will assist in the pre-legislative scrutiny of the Devolution Enabling Bill and outline the Government's plans for the restructuring of central-local relations including the formation of a Devolution Agency to oversee process. The paper should outline the Government's position on the inter-related functions of combined authorities, LEPs and other partnership arrangements while allowing cities to determine these relations as well as local governance and accountability arrangements in advance of substantial devolved powers. This could usefully include a review and analysis of the international experience for the different models and varying scales of devolved powers and how central-local relationships have been codified across the globe. To draw out the lessons appropriate for changes in the UK.

5.2.3 The first year of Government: 2015-16

We anticipate the new Government's first Comprehensive Spending Review within the first six months of Government. Devolution to cities should be central to this review, with five-year funding settlements agreed with local and combined authorities as well as other sub-national agencies.

Devolved economic powers

The case for growth – and greater devolution of economic powers to localities – is further advanced, in policy and practice, than other aspects of fiscal devolution and the decentralisation of public services. Combined Authorities already possess greater powers of economic development including transport and planning, with increased influence over the investment of skills funding. And all the major parties have committed to a continued role for Local Enterprise Partnerships (LEPs) although the Labour Party has expressed a wish to review and where necessary reorganise boundaries.

Building on the progression of City, Growth, and newly agreed Devolution Deals – scaling up these first differentiated steps towards greater devolution within and across cities – would provide important 'quick wins' to build confidence amongst partners, and demonstrate government's commitment to the process.

In terms of larger scale devolution of economic powers – and regardless of a potential review of LEPs – all Core Cities should progress at a very similar pace and scale. As a minimum this should be in line with the deals already agreed in Greater Manchester and Sheffield City Region to include the devolution of public spend to the Core Cities for those policy levers with the greatest impact on local economic growth such as connectivity, strategic planning, key infrastructure and investment, competitiveness and labour market performance:

Transport: Significant progress could be made to fully devolve transport budgets and decision making for cities, alongside the small number of additional powers (including bus re-regulation and the exemption of some regional rail

services that are essential to cities from national franchising). This will allow city regions to deliver an integrated model along the lines of Transport for London. Provision for earn-back deals to finance investment in major local transport infrastructure should be included as part of this settlement. Cities should also take on the responsibilities for strategic roads, highways management, footways and other local transport issues which currently reside with Whitehall and the Highways Authority and which have no beneficial need to be done centrally.

Housing: Local and combined authorities should be able to take control of all public spending on housing in their area to establish multi-year affordable housing funds. This should include housing capital budgets but also the ability to:

- Determine the level of housing benefit (to be included as part of Universal Credit) available in the private rented sector
- Vary broad rental market areas (BRMAs) to prevent landlords overcharging the taxpayer in low-cost areas.
- Borrowing on Housing Revenue Account subject to Debt Deals with individual Cities and city regions.

Planning: This is an urgent priority, where work can begin immediately. Resources should be devolved in relation to a strategic spatial plan which draws together a number of key spatial and economic components into a coherent whole. Cities / city regions should take on strategic sub-regional planning, so that resources can be including:

- Responsibility for strategic applications that are currently determined by the Secretary of State for Communities and Local Government – only very major planning matters and schemes should require the involvement of the Secretary of State.

- Sub-regional housing development, up to and including the ability to take on the budget and functions of the HCA for the City Region, within the context of a strategic spatial plan, with an economic component.
- New powers to unblock stalled sites and designate land as a development area including Brownfield Development Zones, providing additional powers where required to acquire land, develop infrastructure, including 'new home zones' and access financial assistance to deliver regeneration.

Employment and skills: The devolution of national employment programmes, including the Work Programme and Youth Contract from DWP and the Fit for Work programmes from the Department of Health could be enabled with immediate effect. Alongside this a new relationship with the Skills Funding Agency would allow cities to use the adult skills budgets from BIS (including Further Education and Apprenticeships) to create a demand-led system, responsive to local priorities, and integrated with employment programmes to secure better labour market outcomes.

Some cities may be satisfied to exert greater influence of employment and skills programmes, to co-design, align and where appropriate co-commission these services at the local level. The Core Cities Group had proposed a joint 'Procurement and Commissioning Hub' to provide a pre-procurement framework, with access to pooled advice and expertise across the Core Cities, for local commissioning, or co-commissioning with agencies and departments, of employment and skills provision. This is a function that might usefully be revisited by the Devolution Agency.

Others cities may want to go much further; for example some areas may want, over the course of the next Parliament, to devolve the totality of DWP (and DoH) funds available for employment initiatives and programmes into a single budget and to develop the Skills Funding Agency into a local service, to manage the fully

integrated funding of employment and skills at the local level. This could include responsibility for 16-19 careers advice with devolved funding from the Education Funding Agency / DfE. And at some future point this could include the employment advisory role currently provided through Jobcentre Plus (possibly from 2020 onwards).

Business support and inward investment:

Government should devolve all business support budgets and begin to devolve a proportion of UKTI budgets and functions to LEPs / combined authorities to enable cities and city regions to take a more direct and proactive role to local trade and investment opportunities. The facility to promote locality and place should sit within an overarching UK plc approach to Foreign Direct Investment and national priorities for business support.

Local energy markets: Opportunities for local developers to generate and sell their energy are currently limited while energy efficiency measures available to households are fragmented and piecemeal. Full place-based devolution of budgets that are otherwise controlled by Government or via the energy companies would allow local authorities to raise capital for investments in local energy production, control existing energy efficiency budgets. In the long term this could generate significant income as well as local jobs and economic growth.

We believe that the devolution of the above economic powers to Core Cities could and should be expedited quickly, following the spending review and within the first year of a new parliament. But the process must allow for differences between localities. The issue of geography – contiguous boundaries between local authorities and between Core Cities, Combined Authorities and LEPs – should be resolved during this period by cities themselves.

Devolution of public services

The case for wider devolution and thereby greater integration and reform of public services is less clear in terms of a pan-city approach. Public Service Reform is an urgent issue that requires immediate action

and the rationale for devolved funding to connect Growth and Reform is widely understood.

The roll out of the Troubled Families programme, across all cities, has provided a valuable testing ground for pooling of budgets and service integration, albeit on a narrow and relatively small scale. Building on this approach, and the experience of the Whole Place Community Budget Pilots, we would expect all Core Cities to progress at an accelerated pace and scale in devolving wider public spending – subject to local evidence, the development of robust business cases and the merits of each locality.

But some cities will be further advanced than others in formulating their differentiated propositions, and agreeing their own route map for devolution. It is therefore recognised that the full package of reform that all cities believe is necessary may take the full course of the next parliament to achieve.

This having been said, there are a number of service areas where we believe work can begin immediately for implementation in 2016/17. With multi-year budgets and place-based settlements for a number of agreed public services.

Welfare benefits and health care are the two largest areas of public spend and where the need to address dependency is greatest.

Health and social care: Integration at the local level will require a single, ring-fenced budget for health and social care, and a single local commissioner. A place-based settlement would require greater democratic accountability for Health and Wellbeing Boards – at the level of Local or Combined Authorities – in order for them to become place-based commissioners across the city or city region. The integration of health and social care at the local level is central to the wider arguments for economic growth and public service reform. Economic inactivity can be both a consequence and a determinant of poor health. Therefore, a critical component of reducing the public funding gap will be to create a virtuous circle of health and employment by driving down costs through

better health outcomes and freeing people from institutional reliance on entitlements.

The aim should be to create a whole-system reform to integrate out-of-hospital and in-hospital care including primary care, community care and social care; but also, in managing these services at a City Region or other locally defined level, to ensure integration across the full range of public services to achieve maximum impact in outcomes across health care, employment, skills, justice and other areas.

Welfare benefits: Welfare benefits are set at a single level across the UK and administered centrally. The extent to which all cities would want a devolved and locally determined benefits system is not clear at this stage. However cities should agree their own welfare earn-back mechanisms to incentivise city regions with reducing the benefit bill. This should provide cities with a share of any reductions to the welfare bill allowing an agreed proportion of the savings to be retained and reinvested locally for the purposes of economic growth, employment and skills initiatives.

Other areas of service integration that could be enabled through a place-based funding settlement include:

Early years: Full devolution and integration of the currently differentiated funding streams should be supported by integrating commissioning, overseen by strengthened Health and Wellbeing Boards, for all community children's services. This would allow the reallocation of funding to design improved universal, preventative services, early identification and targeting of evidence based interventions for children at risk of poor outcomes.

Education: Cities should take responsibility for driving up performance in schools, with the creation of 'School Commissioners' to provide a localised version of OFSTED. Authorities should be enabled to reverse the trend which has seen

diminishing local control of funding for compulsory education. Devolving EFA (16-19) spend to local / combined authorities would help to align resources with local priorities and ensure that education is embedded in the local labour market where all agencies dealing with young people are accountable for their progression into sustainable education, training or employment.

Blue light services: Devolved and integrated budgets for emergency services including Fire Rescue and Ambulance organised on a defined city or city-region footprint would help to achieve interoperability, increasing levels of collaboration, co-responding and co-location between blue-light services. This would deliver efficiencies through consolidating public sector assets as well as wider service outcomes around prevention, troubled families or those at risk in the community.

Neighbourhood panels: Plans to further devolve responsibilities to local neighbourhoods should be facilitated through the next government's legislative programme, with the facility for cities to create sub-local panels and neighbourhood councils with the powers to manage devolved budgets, where appropriate, and other decision-making powers as they pertain to local planning and neighbourhood justice.

Within the first year of a new government we would expect all the Core Cities to have agreed the principle of multi-year budgets and the first devolved packages for public services, to include elements and in some cases all of the above.

Fiscal devolution - part 1

As part of a phased programme for fiscal devolution we have suggested, above, that a number of measures should be enacted within the first year of the next parliament, including:

- Removal of controls on levels of council tax
- Extension of full business rates flexibility and retention to local authorities

- Allowed borrowing on Housing Revenue Accounts
- Earn-back deals for investment in transport and housing

5.2.4 The remaining years of Government: 2016-20

Cities recognise that there are some relatively early wins to be gained in devolving greater powers from central government to localities. However, as a general rule cities would prefer to proceed from a real commitment by Government to a radical and ambitious programme of devolution towards full place-based settlements.

What is needed is a coherent long-term approach that can effectively implement decentralised functions and devolved funding in a way that suits the requirements of each locality. We would see the remainder of the next Parliament as a period for some cities to consolidate and enhance their deals, increasing the scope of their devolved settlements. This phase should see the first cities to *pilot 'whole service' devolution* packages, fully integrating growth and reform programmes across city region territories.

For others this period will offer the opportunity to catch up with different approaches and what may have been trailblazed in particular service areas. This could in effect offer a second-mover advantage to those that follow while not impeding the pace and scale of those in a position to move first.

Fiscal devolution - part 2

By the second year of the next Parliament we would expect some Core Cities to begin receiving the *full devolution of the remaining property taxes* which, in addition to business rates and council tax, would include stamp duty land tax, annual tax on enveloped dwellings, and capital gains property development tax. In line with the recommendations of the London Finance Committee, all cities should follow suit during the course of the next Parliament, along with the devolution of other locally determined taxes (e.g. hotel bed tax).

Fiscal devolution should proceed after the devolution of public spending. Cities will need to clearly demonstrate the economic case for fiscal devolution and enhanced borrowing powers and present a clear purpose for:

- Improving infrastructure, investment, jobs and skills – tailored to the needs of each locality
- Equitable disbursement of tax yields within the devolved area
- Sharing the proceeds of growth generated by fiscal devolution – within city regions and between Cities and Treasury – and including an agreed approach to offset increases in tax revenue against reductions in public spend.

There are a number of concerns that continue to be expressed about fiscal devolution. The first relates to the risk of 'fiscal failure' and the fear that cities will not exercise rigorous financial control. Cities should therefore set out clear plans to strengthen local governance and accountability as a condition for greater fiscal powers. We have proposed that legislation should enable the formation of Local Public Accounts Committees as recommended by the Local Government Innovation Taskforce to improve local scrutiny and safeguard against financial mismanagement.

A second concern is that financial autonomy will have disproportionate benefits leaving less prosperous areas even more disadvantaged, struggling to raise revenues to provide basic services. We propose that the mechanisms of equalisation and redistribution continue to be managed and organised at the national level, to ensure that local areas receive funding and tax raising powers according to their relative needs and abilities, and without affecting financial settlements in other parts of the country. We support the proposals of the CLG Committee and the London Finance Commission that fiscal devolution should be revenue neutral to Treasury.

A third concern is that fiscal devolution may increase the tax burden at the local level and the risks that this may present to macroeconomic stability. But if cities are to realise their democratic right to govern then tax-raising powers must play an essential part in their ability to be self-sustaining. We suggest that with improved local accountability and national oversight of equalisation harmonisation between different areas can be achieved, as is the case in many other developed nations.

It is clear that a full programme of devolution can not be achieved without a comprehensive review of central-local funding settlements. Building on the proposals of the CLG select committee we suggest that this includes: reassessment of local needs, financial probity, growth incentives for borrowing and investment – including earn-back and existing TIF arrangements – equalisation and distribution mechanisms, and negotiations of devolved settlements.

This review should be undertaken early within the next Parliament under the auspices of the proposed Devolution Agency and set in train the enabling legislative so that significant and early progress can be made.

We propose that Government should introduce the retention of income tax for all qualifying local authorities in city regions with the level of income tax retention to be decided through a process of research, discussion and negotiation mediated through and run by the Devolution Agency. Additionally, Government should plan and pilot the devolution of income and corporation tax variation, in one City Region, over the course of the next Parliament. This should be rolled out to all cities from 2020 onwards, judged in the basis of the pilot evidence. This incremental approach to fiscal devolution should provide reassurance to Treasury whilst allowing cities to move at their own pace.

Further powers

Dialogue between some Core Cities and Central Government could follow with a view to implementing further powers by 2020. These should be broadly commensurate with the freedoms that have already been agreed in the devolved nations, including:

- A share of VAT receipts
- Fully devolved Air Passenger Duty
- Welfare powers over a limited number of benefits including those for carers, disabled people and those who are ill
- Benefits which currently comprise the Regulated Social Fund and Discretionary Housing Payments
- Adjustment of the Block Grant equivalent to the revenue forgone by the UK Government.



5.3 The timetable for action

Pre-2015 Election

- Government to take forward legislative reform of the Local Democracy, Economic Development and Construction Act 2009, to give local authorities greater flexibility in working across functional economic areas.
- Government to publish draft clauses of a 'Devolution Enabling Bill' to introduce new legal rights for local authorities and city regions to demand powers – a statutory presumption in favour of decentralisation.
- Government to include, as part of Business Rates Review, suggestions as to how fiscal devolution can be quickly enacted
- Devolved nations to commit to equivalent legislative process proposed in England to enable city-based devolution in those nations
- All cities to bring forward:
 1. Plans for collaborating across Metro areas – including the formation of new combined authorities
 2. Business cases for new devolved powers that can be immediately enacted without new legislation including e.g. wholesale devolution of skills and business support; co-commissioning of Work Programme Plus and other employment initiatives; and housing funding
 3. Plans to repatriate funding to cities including public health spend, re-localisation of all business rates, and removal of ring-fencing on funding to cities such as the Dedicated Schools Grant.
- Government to roll out **first wave** of differential city region devolution deals – in line with depth and breadth of agreements in Sheffield and Greater Manchester – subject to what cities can deliver, evidence of cross-Metro collaboration including combined authority status, and strengthening of local accountability and governance
- All political parties to outline radical and ambitious manifesto commitments to city-based devolution

1st 100 days of next Parliament

- Government to set up an independent body – The Devolution Agency to oversee city devolution in the UK and inform or direct other activity (see below) relevant to this agenda
- Government to review central-local funding and set up a joint commission (led by the Devolution Agency) to deliver fiscal devolution – establishing conditions, timescales and legislative path
- Government to enable a new wave of combined authorities
- Government to review cross-boundary working to include Local Enterprise Partnerships and combined authorities
- Government to continue roll out of first wave city-devolution deals to meet readiness of city regions
- Cities to continue review local governance arrangements and develop new models of local accountability at the combined / local authority level in preparation for further devolved powers

(1st 100 days of next Parliament)

1st Legislative programme:

Queen's Speech to outline a Devolution Enabling Bill to allow full range of city-based devolution and to include or be supported by supplementary legislation to:

- Codify the relationship between central and local government
- Devolve primary legislative powers (along the lines of the Scottish and Welsh bodies)
- Strengthen local governance and accountability with the facility to create Metro Mayors and Local Public Accounts Committees, where desired
- Protect the freedom of cities to associate and collaborate across boundaries including the formation of new combined authorities, where desired by cities
- Streamline and simplify relationships currently defined by statute (e.g. between local / combined authorities, LEPs and Health and Wellbeing Boards etc.) and allow ultimate control of these bodies to be assigned to an agreed city region authority
- Enable local authorities to devolve powers and responsibilities to the neighbourhood level and where necessary to create neighbourhood councils
- Create 'School Commissioners' and devolve responsibilities for school performance to combined / local authorities
- Create a single outcome framework for all devolved spend, so that measurements are simplified and unified such that they are mutually supporting rather than conflicting

Post Spending Review 2015-16

Government to set out five-year funding settlements with cities for wider devolution package to include:

- DfT – devolve local transport funds, decentralise bus and regional rail regulation to combined / local authorities, and allow earn-back deals for major local transport funding
- DWP – devolve responsibilities and budgets for employment programmes (e.g. Work Programme, Youth Contract) to combined authorities / LEPs
- BIS – devolve Adult Skills budgets (FE and Apprenticeships) and business support budgets to combined authorities / LEPs
- DfE – devolve all 16–19 Education Funding Agency (EFA) funding and responsibility for careers advice
- CLG – devolve housing capital budgets to combined/local authorities and enable housing earn-back deals/variation in broad rental market areas (BRMAs)
- UKTI – devolve a proportion of inward investment budgets and functions to combined authorities/LEPs
- DECC – devolve responsibilities for energy efficiency and decentralisation of energy market to create local energy companies
- DoH – co-commissioning function for integrated health and social with oversight by Health and Wellbeing Boards
- CLG/DO/DfE – integration and devolution of current differentiated funds for Early Years to local / combined authorities and Health and Wellbeing Boards

(Post Spending Review 2015-16)

- CLG/HO/DoH – review and rationalisation of emergency services, with community policing and ambulance services devolved to the local authority level
- MOJ – devolved custody and probation services budget to local / combined authorities as appropriate
- HMT/CLG – devolve fiscal powers to:
 - Allow borrowing on Housing Revenue Account subject to Debt Deals with individual Cities and city regions
 - Remove controls on levels of council tax
 - Extend full business rates flexibility and retention to local authorities
 - Enable earn-back deals for investment in transport and housing

2016-2020

- First cities to pilot 'whole service' devolution packages
- Government to allow retention and then full fiscal devolution of all property taxes and other locally determined taxes (e.g. hotel bed tax) subject to support from businesses and the stabilisation of the local government finance system
- Government to allow welfare earn-back to incentivise city regions to reduce welfare benefits
- Roll out of 'whole service' pilots and fiscal devolution across all core cities
- Devolved income and corporation tax variation to be planned and piloted in one city region
- Retention of income tax for all qualifying local authorities in city regions

2020-2025

- HMT: introduce local income and corporation tax variation – in line with powers in devolved nations – on the basis of the piloted area to all city regions
- DWP: Devolve Jobcentre Plus

73 The City Growth Commission recommended an Independent Committee in its final report (Unleashing Metro Growth). The DCLG Select Committee on Fiscal Devolution and IPPR (Decentralisation Decade) have both recommended an Independent Committee for the management of fiscal devolution.

74 There may be a requirement for a number of Devolution Bills, for England and each devolved nation. In Scotland the approach will enable cities to acquire devolved powers within the delivery framework of the Smith Commission.



6. Recommendations

1. All major political parties should set out their commitment to a radical programme of devolution to the UK's Core Cities in their 2015 General Election manifestos.

This should prioritise Core Cities in a stepped process towards devolved status, recognising their importance to future economic growth but also the limitations of central government in negotiating different deals with many different places.

The commitment should include:

- A statutory presumption in favour of devolution, where cities will have the legislative freedom to put forward plans for greater powers – on a differential and incremental basis, according to their own wishes, at the pace and scale to match their ambitions – and where central government will need to meet much higher thresholds for refusal.

All parties should identify a comprehensive package of powers and legislative timetable for cities in line with the enactment of the Smith Commission in Scotland. This should include the commitment to:

- Protect the freedom of cities to associate and collaborate across boundaries including the formation of new combined authorities, where desired by cities
- An early approval of a 'core offer' or new devolution deals commensurate with those already agreed in Greater Manchester and Sheffield City Region
- Multi-year budgets and the first devolved packages.

From this position all Core Cities will be encouraged to formulate their detailed propositions for how further devolution might work in their areas.

Such commitments should be contained in all political manifestos of the major parties in all nations of the UK.

2.

The next UK Government should establish an independent body, the Devolution Agency, to take forward the process of devolution for all the UK's cities and regions in general and England's in particular.

This should be a standing body for the duration of the next Parliament, independent of Whitehall and the devolved administrations in Scotland and Wales. In England it should have a stipulative, regulatory, research and advisory role. In Scotland, Wales and Northern Ireland it could play an advisory and liaison role until adopted by the home parliaments should they consider its English role worth copying. The Devolution Agency should not be encumbered or delayed by any re-organisation of departmental structures or constitutional arrangements and it should inform and ideally oversee any potential reviews and committees relevant to this agenda (including any proposals to review LEP boundaries, city governance models, or the implementation of fiscal devolution).

This body should:

- Set out the principles and parameters of intra-national devolution, that is, devolution within, not between, the home nations
- Establish a joint framework between English cities and central government for achieving a staged (and eventual) full place-based settlement for English cities including the stabilisation of local government funding, fiscal devolution and devolved spend over the course of the next Parliament

- Take forward the devolution commitments, assessing devolution plans and facilitating the process for full place based devolution of public services between English cities and individual departments and administrations
- In collaboration with the Department for Local Government and Communities, the Devolution Agency should examine the case for professionalising local politics in England. In the light of the new asks being made of devolved cities, examination of the merits and demerits of continuing with the system of part-time politicians is long overdue. If we are serious about the potential of city regions and combined authorities, we need to consider whether staffing them with part-time local politicians, rather than fulltime and properly paid ones, is the right way forward. Given the oft-mentioned concerns about the quality and the importance of local government leadership, we believe that successful city regions may well need full-time, properly paid politicians and that the new body should examine the case for such a model
- This independent body will require the personal commitment and leadership of the Prime Minister to provide the necessary political weight to place-based devolution as the primary vehicle for economic growth and public service reform.

3.

The next UK Government should commit to extending the legislative framework for city-based devolution.

The first legislative programme of the new Parliament will need to bring forward statutory measures or The UK Devolution Enabling Act for cities, towns and counties, to include:

- The current powers and responsibilities of local government, combined authorities and LEPs – and where necessary the powers and responsibilities of such territories that should be prescribed by statute
- Establishment of **Local Public Accounts Committees** (see recommendation 7)
- Legislation permitting different forms of city governance, including provision for directly

elected Metro Mayors and other forms of locally determined accountability

- A review of the constitutional and statutory instruments necessary to transfer full devolutionary powers and enact new laws where necessary to support the practical financial arrangements needed for devolution and place-based accountability.

The same legislative possibilities should be explored and hopefully taken forward in the devolved nations, and the Devolution Agency can serve a similar purpose there should its services be requested.

4.

The next UK Government should achieve full place-based devolution and avoid siloed decentralisation.

While the current growth deals in Manchester and Sheffield are to be warmly welcomed, they still look very much like devolution of departmental budgets along the siloed lines of current Whitehall structures. But this will not build on the whole-place/total-place pilots which were very successful, nor will it achieve the full place-based settlement of public sector spend which is where the real merits and gains from devolution are to be found. It is vital that the new Devolution Agency tackle this from both the perspective of central government and the local city region or combined authority.

The new Devolution Agency should ask central government to create cross-departmental and silo breaking civil service teams to administer and co-ordinate different departments in delivering all their localised spend to a city regions. This may well take a culture change programme across Whitehall but backed by the Chancellor or the Prime Minister this has a chance of succeeding. The Agency should ask government to truly deliver on the potential of place-based pilots and integrate the devolution offer they will make and avoid the farming out of single funding streams.

Similarly, the Devolution Agency should encourage local authorities to be innovative and ambitious in their plans and proposals, and they in turn should encourage integrated asks and place-based proposals from cities and their environs. As part of a staged approach towards achieving a fully devolved and whole-system settlement, cities should be encouraged by the Devolution Agency to bring forward their propositions for service integration across departmental budgets and policy areas, based on their identified needs and priorities.

This process should be differential, based on the merits of each city's progress and achievements to date. Full devolution should allow for a whole-system approach to public service integration. This would see departmental budgets devolved to city region or combined authority level, be free from ring-fencing, and pooled, where appropriate, at the city level with local discretion to spend according to need and without the necessity to report along departmental lines.

5.

The next UK Government should deliver fiscal devolution to the Core Cities by the end of the next Parliament.

This should include:

- The devolution of the five property taxes, in line with the recommendations of the London Finance Committee. This should allow the flexibility to vary business and council tax rates
- Freedoms to introduce new local taxes including for example recycling and tourism/hotel room/traffic taxes, subject to local consultation with affected stakeholders
- The introduction of the retention of income tax for all qualifying local authorities in city region relationships. The level of income tax retention should be a process of research discussion and negotiation mediated through, and run by, the Devolution Agency
- Asking the Devolution Agency to study the possible benefits of, and make recommendations about, local income and

corporation tax variation on the basis of place. We would welcome a city region coming forward to pilot these possibilities.

- The composition of income will change with significantly more devolved spending in cities coming from taxes raised. To balance this increased financial responsibility, cities should be given increased borrowing powers, to be agreed with the UK Government, to support capital investment and ensure budgetary stability.

6.

The next UK Government should enact a 'Duty to Collaborate', to commit all city authorities to collaborate with neighbouring authorities and all other public and private sector partners at the trans-city level to form combined authorities or other models of collaborative working and association.

While this should not threaten the autonomy of individual authorities, it should at the very least establish joint working around common problems that affect the city regions. We believe that this duty should be enforced locally rather than centrally by the Local Public Accounts Committee. This will help cities to demonstrate the coherence of proposed geographical boundaries where new devolved powers will operate and where collaboration over functional economic areas could bring clear benefits. Authorities should explore opportunities at the trans-city level to pool funding and resources and organise whole-system approaches to public service delivery. This duty to collaborate should also apply to any significant budget holder of public money in the city region, from national

agencies to welfare to work providers to LEPs to hospitals and schools. Since all would see the benefits from place based interventions, all should at the least attempt to collaborate and produce the best outcomes. We also believe that significant private sector actors should also be brought to the table, such as large local businesses or the public utilities companies.

7.

Cities should commit to new levels of accountability and governance.

Combined authorities and other agreed forms of local collaboration should work with local partners, and government, to implement new levels of shared accountability and governance commensurate to the level of devolved responsibilities and powers. This should include consideration of:

- **City leadership:** In the form of a cabinet-style qualified-majority decision making process, a directly elected mayor and assembly, or another democratically elected governance model not currently on the statute books but which cities may bring forward. Cities must agree to enhance democratic accountability across agreed territories before receiving any additional powers to raise and spend tax revenues at the city-region level
- **Public scrutiny:** Government should enact, and combined authorities should agree to, the creation and implementation of **Local**

Public Accounts Committees to consider and advise on how money is spent, but also to scrutinise, intervene and where appropriate discipline. Crucially these Committees should also oversee the implementation of single outcome measurements for the whole city region so that public funding is not supporting conflicting outcomes. Similarly they should help facilitate and police the duty to collaborate to bring about the best co-ordinated use of public money in a place-based devolutionary environment

- **Accountability to Parliament:** This should provide the mechanism for combined authority members and central government to jointly hold officers to account for progress against agreed priorities. This could include an official or local accounting officer empowered to mediate between government and city regions.

8.

Cities should commit to a model for devolving still further to localities.

In accordance with the principles of subsidiarity, any city-based settlement should be further devolved to enable communities and citizens to be more fully involved in local decision-making. Local governance structures and delivery models will need to evolve in response to local experience and central government needs to give consideration to formalising the engagement of local communities in city governance. Local authorities should be given a duty to involve, empower and work with communities.





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Society

The UK has one of the most centralised states in the developed world and one of the most disaffected and politically passive populations in Europe. We hold our leaders in contempt, but despair of doing anything for ourselves or our community. The dysfunction at the highest level of society stems from the collapse of our social and personal foundation. There is little doubt that we are becoming an increasingly fragmented and individualist society and this has deep and damaging consequences for our families, our communities and our nation state.

Starting from the bottom up, the collapse of the extended family and the ongoing break-up of its nuclear foundation impacts on all, but disproportionately so on the poor and on their offspring. Too many children at the bottom of our society are effectively un-parented as too much is carried by lone parents who are trying to do more and more with less and less. We know that the poorer you are, the less connected with your wider society you tend to be. Lacking in both bridging and bonding capital and bereft of the institutions and structures that could help them, too many poorer families and communities are facing seemingly insurmountable problems alone, unadvised and without proper aid.

Based on the principle of subsidiarity, we believe that power should be devolved to the lowest appropriate level. Public services and neighbourhoods should be governed and shaped from the 'bottom up', by families and the communities. These neighbourhoods need to be served by a range of providers that incorporate and empower communities. Moving away from a top-down siloed approach to service delivery, such activity should be driven by a holistic vision, which integrates need in order to ascertain and address the most consequent factors that limit and prevent human flourishing. Local and social value must play a central role in meeting the growing, complex and unaddressed needs of communities across the UK.

The needs of the bottom should shape provision and decision at the top. To deliver on this, we need a renewal and reform of our major governing institutions. We need acknowledgement of the fact that the state is not an end in itself, but only one means by which to achieve a greater end: a flourishing society. Civil society and intermediary institutions, such as schools, faith groups and businesses, are also crucial means to achieving this outcome. We also need new purpose and new vision to create new institutions which restore the organic and shared society that has served Britain so well over the centuries.

About Core Cities

The core cities include the city authorities of Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield. Situated at the centre of wider urban conglomerations, these core city regions represent the ten most populated areas in Britain and the largest economies, outside of London. They account for over a quarter of the total population for the UK and 24.4% of total GVA.

Society

Society

Society

The debate on devolution, not only between parliaments, but for cities and other places across the whole of the UK, has never been more important to the future of our country. As the General Election approaches, all major parties have committed to devolution in some form and it will be a key issue in manifestos.

This new report from ResPublica, is part of a major initiative to advance devolution across the UK's Core Cities. It examines how city-based devolution can deliver a more robust, rebalanced economy for the whole of the UK, and how it might also be used to drive growth, create jobs, and radically transform public services.

The research identifies the constitutional and departmental barriers to devolution and integration, and outlines a way ahead to ensure that the administrative and legislative barriers to full area devolution are identified and removed.



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