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February 2015

Restoring Britain's City States:

*Devolution, Public Service Reform
and Local Economic Growth*

Executive Summary

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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.



1. Introduction

"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."

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; the 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.

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.*

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

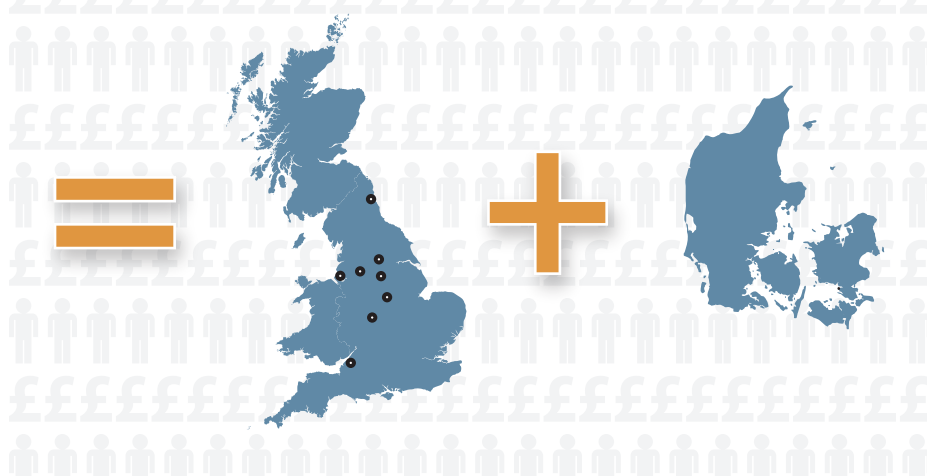
their mental and physical health to the business support and infrastructure that local businesses need to grow. By creating, for example, an economic ecosystem that will allow the cities, working with their local companies and manufacturers, to re-domesticate the supply chains that these leading business 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

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

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.

2 Oxford Economics forecast for Core Cities (2013), 'Competitive Cities, Prosperous People: A Core Cities Prospectus for Growth'. Manchester: Core Cities Group, p6.

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.



2. 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.”

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.

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

£bn per annum *

12
10
8
6
4
2
0

6.0

Labour Pledge

*For each of the next 5 years



11.7

**Combined value if
GM deal extrapolated**

*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*

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.

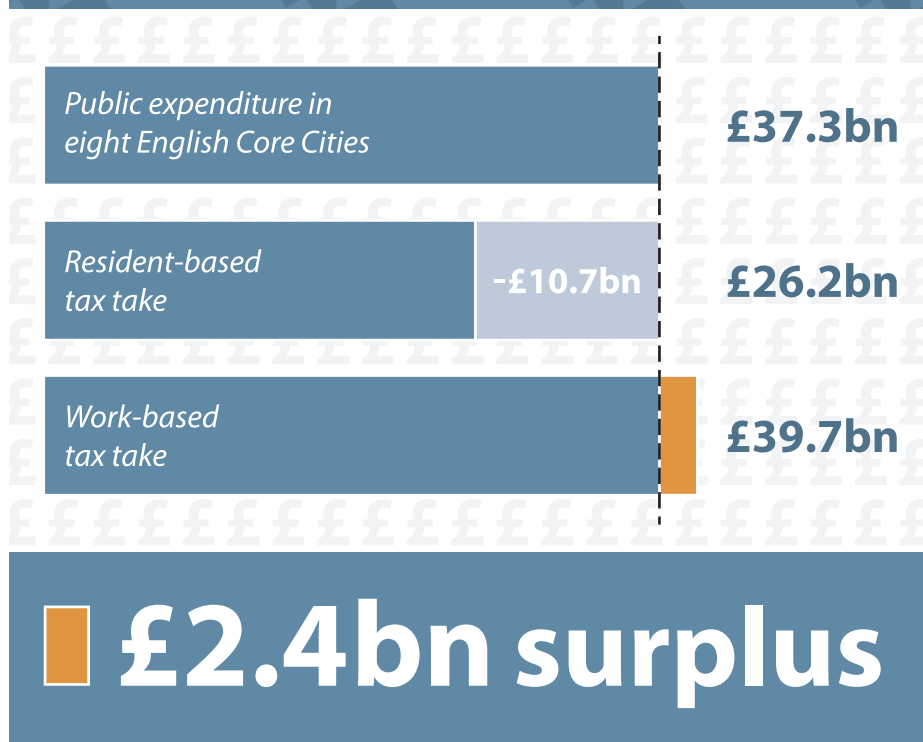
City deals

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).

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



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 is 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 for which we are arguing.

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.

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 Commission for 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 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 John Seddon (2003), 'Freedom from Command and Control: a better way to make the work work'. Buckingham: Vanguard Press.



3. The Pathway 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 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, 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 Devolution 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.



4. The Timeline for Action

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

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.

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

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

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.



5. Recommendations

"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."

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 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 body should examine the case for such a model
- The 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, with the encouragement of the Devolution Agency, to come forward and 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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