Communities and Local Government Committee

Oral evidence: Fiscal devolution to cities and city regions, HC 1018

Monday 3 February 2014

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Written evidence from witnesses:

Panel 1 (Questions 66-121)

County Councils Network

Core Cities Group

Centre for Urban and Regional Development Studies, Newcastle University

Panel 2 (Questions 122-158)

Key Cities Group

IPPR North

British Property Federation

Watch the meeting

Members present: Mr Clive Betts (Chair); Bob Blackman; Simon Danczuk; Mrs Mary Glindon; David Heyes; James Morris; Mark Pawsey; John Pugh; Heather Wheeler and Chris Williamson

Panel 1 Questions [66-121]

Witnesses: **Councillor David Hodge**, Chair, County Councils Network, **Tom Riordan**, Chief Executive, Leeds City Council, Core Cities Group, and **Professor Andy Pike**, Director, Centre for Urban and Regional Development Studies, Newcastle University.

Q66 Chair: Welcome to our second evidence session on the fiscal devolution to cities and city regions. For the sake of our records, could you just say who you are and the organisation that you represent?

Cllr Hodge: My name is David Hodge. I am the leader of Surrey County Council and the Chairman of the County Councils Network.

Professor Pike: I am Professor Pike. I am Professor of Local and Regional Development from the Centre for Urban and Regional Development Studies at Newcastle University.

Tom Riordan: I am Tom Riordan. I am Chief Executive of Leeds City Council.

Chair: Okay. You are all very welcome. Before we go on and take evidence, could I just ask members to put their declarations of interest on the record? I am a Vice President of the Local Government Association.

Mrs Glindon: My husband is a councillor in North Tyneside, as is one of my members of staff.

David Heyes: I have two members of staff who are local councillors.

Chris Williamson: I also have two members of staff who are elected members.

Simon Danczuk: My wife and father-in-law are councillors, and two members of staff are also councillors.

John Pugh: I have one member of staff who is a local councillor.

Heather Wheeler: I am also a Vice Chairman of the LGA and my husband is a leader of a council.

Mark Pawsey: I have a member of staff who is a councillor.

Q67 Chair: Right, so that is our interests on the record. To begin with, you have clearly given us slightly different evidence about how we should be looking at devolution. In terms of devolution of fiscal responsibilities, what level of local government should they be devolved down to in England?

Cllr Hodge: The key thing here is not so much the level, but that the level is appropriate. The whole idea of fiscal devolution is so that you can get the best value for money from that. I think it is very simple. It is about the residents first, then we have to invest to grow, then we create growth that will create the opportunities, and then the receipt of those funds to the Exchequer will allow us to rebalance the economy. I believe that the counties can play a role in doing that. We represent 50% of the GVA outside London, and we do not see this as a zero-sum game between the counties and the cities. I am totally against that idea. I think we should all be in this together. When the government bakes a cake, it should want to see the whole cake come up and not just half of it. That is where we are at the moment. We have got a policy that is driving economic growth and opportunities through cities, and you have 50% of GVA opportunities being left aside.

Tom Riordan: As councillor Hodge said, this is not about pitching cities and counties against each other. The current situation is that there is simply not enough ability for us at a local level to shape our own destiny, particularly economically. We have control over less than 5% of funding locally. Often that has strings attached to the centre, so the key issue is that we need to devolve more. In terms of which level, that depends on the significance of the devolution and the nature of the powers and resources that have been devolved. One option is to give it to the existing structures. That works perfectly well in situations like the current City Deal for us, where we have taken on the youth contract with other districts in West Yorkshire. We are now achieving twice the outputs that the national schemes are.

More significantly, the idea of combined authorities in the Core Cities and their city regions does give us an ability to devolve down to a level that could take on significant fiscal devolution and public policy devolution as well. That is what is suggested in the Core Cities submission to the inquiry.

Professor Pike: The key thing to say is that we have an extremely centralised system in the UK currently. If we look at the proportion of tax set at the sub-national level, comparing ourselves to other large, advanced, industrial countries, the UK is amongst the lowest at 1.7% of GDP in 2011. That is three times lower than France, even, which is another very centralised and large country in Western Europe, so we have a long way to go. We have a lot of complexities in a long-standing system that has been tinkered with and tweaked over the decades. The important thing is to recognise that there is not a one-size-fits-all model of decentralisation. It is very important to recognise that it comes in different shapes and sizes. It needs to be appropriate. I think both the other witnesses have made this point. It has to be able to balance a degree of tailoring to the particular circumstances of a county council, or a city, or a smaller city, with the need for consistency and fairness in terms of an overall approach. I think that is very important.

We are starting to see some particular sets of arrangements emerging now. London has a particular set of fiscally-devolved powers. The Manchester model is touted, too, as another version, and I think Leeds is as well. We have got some interesting things going on in the counties and the smaller cities as well. To coin a phrase, it is important to recognise that it is a process, not an event. You have to understand that it comes in different shapes and sizes. Maybe from our view, in research terms, finding that appropriate form of fiscal devolution might be about trying to find a form of assessment where we can understand better, against some kind of yardstick, what sort of fiscal capacity places have. Do they have a vision and strategy? Do they have an ability to manage and assess risk properly and to borrow prudentially? Then we can start to make decisions about what kind of powers could be devolved.

Q68 Chair: I want to pick up on what you just said in two respects. You said that it will not happen the same way everywhere, which I think is a fairly common element to evidence we have had. Does that also mean it might happen more quickly in some places than others, and that some places may have to watch others get ahead in the hope that eventually they can catch up?

Professor Pike: Yes. If we look again at the UK in its international context, our kind of devolution and constitutional change settlement has happened in a very uneven or—in the jargon—"asymmetrical" form. We are like Spain, in the sense that we have a whole series of different territories with different powers, responsibilities and financial settlements. We have Scotland at the top, Wales and Northern Ireland somewhere beneath that, then you have the London model and then you have got the English regions trailing behind. What we are trying to do is address that unresolved area about devolution and decentralisation within England itself. If our constitutional and devolution settlement has proceeded in this very uneven way then I would imagine that the fiscal decentralisation process would unfold in a similarly uneven pattern.

Q69 Chair: Can I ask the two representatives from the counties and the Core Cities: if the situation was to develop where, as with City Deals, it was pretty clear that some movement might happen in terms of further devolution but there was no way that government was going to buy wholesale devolution across the whole of local government, would you be prepared for something to happen in some areas? For the counties, would you be prepared to see the Core Cities get some extra powers, with the hope that you might get them eventually? For the Core Cities, would you be prepared to see London get some extra powers in the hope that the Core Cities would eventually get them, on the understanding that your own members did not get them initially?

Cllr Hodge: That is a bit like asking me what I would like for Christmas. You might want a whole load of stuff, but you are not necessarily going to get it. I think it is really important to think about who has got the ambition to drive growth. That is really key to what we are doing here. It is trying to put our case that there is a real case for counties to drive that growth. I can give you an example. In Surrey, we have been working with one of our district and borough partners on how to regenerate the whole of the town centre. Because we are working in partnership and we are helping to drive that through funding, we are able to create a complete new shopping centre, a new four star hotel, two tower blocks of flats that are much needed, regeneration of the road system, and regeneration of the railway line. That is the sort of thing that I think that we can bring to the table.

Q70 Chair: Right, but it did not answer the question really, did it? You told me why it is a good idea for Surrey to have more devolved powers and more fiscal responsibilities, but if the option were put to you, would you object to the Core Cities getting the powers they are currently asking for if Surrey had to wait a bit longer to get similar powers? Would you simply prefer everyone to wait until something happened for everyone?

Cllr Hodge: No. So long as we were given that assurance that we were going to get those powers then I think I would be quite happy with that.

Q71 Chair: What happens if the assurance was not given? Where would you stand then?

Cllr Hodge: I do not see our game as a zero-sum game here.

Q72 Chair: No, but what happens if Ministers do? What happens if Ministers are only prepared to go so far, and prepared to allow so much devolution to some areas and no commitment to others, to see how it works? What would your position be then?

Cllr Hodge: I think it would be unfortunate if that ever happened.

Q73 Chair: Would you object to it?

Cllr Hodge: No, I would not object to it because I do not see it as my role, as the leader of the county council and Chairman of the County Councils Network, to stop cities growing. It is just as important that every area has that same opportunity to grow. Why should a young person in a county area not get the same opportunities for skills training as they do in a city?

Q74 Chair: Tom Riordan, as to the question there about if London was going to be given the powers the London Finance Commission asked for, but the Core Cities were not initially, what would the Core Cities' position be?

Tom Riordan: I think we are already in that position. We did a piece of work looking at the future of local government and we talked to our counterparts in Glasgow and Cardiff. We are very jealous of them. They are treated in a completely different way to the way we are treated in this structure, because they are significant players in all major decisions, when they happen, around a population of 5 million and 2.5 million in Scotland and Wales respectively. London already has devolved powers. We have not objected to that; we think it is right that that should happen. However, what we have done is put forward a very powerful case with London and with the other Core Cities that half the population and half the economy could be benefitting by all of this.

Q75 Chair: We hear the argument that you are making for the Core Cities, but you did not answer the question again. If the decision was just to give London the powers they were asking for, and the Core Cities were told, "Wait your turn; it may or may not come in due course," what would your reaction to that be?

Tom Riordan: Our reaction first of all would be that that is again doing what has happened already. We are in this situation already. We have not objected before. I cannot speak for the political leaders because I have not asked that question directly, but I would expect them to say that it is good news that we are getting more devolution out of Whitehall, and we would be pressing strongly for ourselves to get it as well. I do not think there would be a formal objection to that. It is quite unique that London and the Core Cities have come together in this submission that has been made. That has never happened before. I think that is powerful in its own right.

Q76 Mark Pawsey: We have heard the use of the word "appropriate" on several occasions. You have been asked how far should devolution go and you have all said it should go as far as is appropriate. Of course, particularly for Mr Hodge and Mr Riordan, you are representing authorities where the carrot, for want of a better expression, of more devolution is being dangled, and you are saying, "Yeah, fantastic, give it to me." Why would you not? What I am interested in is how you are going to make an argument to government to go further than they have gone already. What is in it for government? Why should they do it?

Tom Riordan: Well, perhaps if I could go first. Newcastle has already shown that they can save 15% from the health and social care budget by local community budget working. Manchester has done the same. The biggest problem, and opportunity, facing us in public policy, is almost this demographic time bomb in health and social care, and not being able to afford the levels of care that we are trying to put in at the moment. Number one, it could solve a very major problem in public policy. Number two, we do not have the economic growth that we should have in a country our size that we do have in Europe and in other places. Again, we have demonstrated that with the right capacity and with the right resources in place, we could help not just our own areas but UK PLC as a whole and the UK taxpayer as a whole.

Q77 Mark Pawsey: Okay. So the Newcastle example that you just gave us is work that has been done that is documented and that we can give to government. Why are they not doing it?

Tom Riordan: What we are talking about is a fundamental change in the way that Whitehall and Parliament votes money and accounts for that money. It is such a fundamental change that I think civil servants and Ministers, and even select committees are concerned about how that fits with this current system of working. That is why it has not been done. We have to rethink the way that that financial accountability works and come up with new ways of working, because at the moment we have 30 different funding streams for housing alone. That is not sustainable.

Q78 Mark Pawsey: Mr Hodge, are county councils able to show Government that they could save 15% in Government projects, in the way that Mr Riordan tells us the cities can?

Cllr Hodge: I am a passionate believer in return on capital employed.

Q79 Mark Pawsey: Is there evidence, though?

Cllr Hodge: Yes.

Q80 Mark Pawsey: Have you done the work in the way that the Core Cities have?

Cllr Hodge: We are in the process of doing that with the County APPG. A number of Members of Parliament have agreed to join, and we are setting up an inquiry called, "What should ambitious growth deals for counties look like?" We think it is important we get the evidence first and then bring that forward. There is a lot of evidence out there.

Q81 Mark Pawsey: So the evidence does not yet exist.

Cllr Hodge: Some of the evidence does exist, Mr Pawsey. In Essex we know that they put forward a case for community budgets, where they wanted—and I cannot remember the exact number—about 25,500 houses and 60,000 jobs. That has not actually happened. That is the sort of thing that I think we can do. Certainly in my own county I know we are quite ambitious about developing the area around the A3, which is hugely congested. It is holding up investment. When I look at the GVA figures for the country and I see Surrey with 8.8% in 2012, the highest in the country, I ask myself the question: "Why would you not invest in Surrey? Why would you not invest in the South East, and why would you not invest in York?" When I really analysed the figures, I noticed that Stoke-on-Trent have a really good return. That is because they are working with Staffordshire County Council on regenerating. There is a case that we can work together and provide a really strong return.

Q82 Mark Pawsey: Perhaps we can come back to you and ask you whether Surrey is benefitting from the London effect, because you are a shire county that happens to be next to the great engine of growth in the country, which is London. However, perhaps I could come to Professor Pike first. What is the academic effort? Why should government take what these two gentlemen would like to happen seriously?

Professor Pike: There are three main arguments for decentralisation, I suppose. The first one is this idea that you can actually have a policy mix better matched to local preferences. The second one is that you are closer to the local knowledge and growth potential. The third one is that you bring the democratic institutions closer to the people voting for them for accountability. You can see some elements of those decentralisation arguments in what the government has been doing. Certainly in the CLGC evidence to this inquiry, they have claimed that they have made significant shifts and that these are bedding in. In reality, as we have described, it is an extremely centralised system. We also have—and you can think about what the relationships are between this—a very centralised system of funding and governance alongside some of the highest levels of economic and social disparities internationally. The nature of the relationship between those two is an interesting one to reflect on.

The academic evidence is very mixed and inconclusive on the impacts of decentralisation, both on economic growth and on public service reform and change. It often depends on the conditions and the context, which again goes back to this point about the shape and size of the decentralisation. How much is it? What is it worth? How does it work? What sort of institutional structures has it actually developed and designed? That makes a big difference to whether it impacts positively or negatively on growth or on savings in public service delivery, for example.

Q83 Mark Pawsey: In practical terms, is the problem here not that the Treasury is a massively powerful Government Department, and they do not want to cede any control in the way that the members representing counties and cities would like? As long as Treasury is as powerful as they are, is the problem going to be insurmountable?

Professor Pike: I would agree with that. What is very interesting and telling is the way in which the four tests were put forward in the CLG Departmental evidence. These are reasonable in the main, apart from two. One is the deficit reduction priority, because of course one of the easiest ways to reduce the deficit is not to borrow at all, but where does that leave the counties and the cities in terms of investing and putting in place the future conditions for growth? That is one of the key points. The second is this idea of evidence. Because it is so mixed and inconclusive, it is hard to make the case that decentralisation has a lot of positive impact, particularly when many of these reforms are bedding in, and I think the Department has it right in this sense. They are long term changes about multi-year budgets and about freedoms and flexibilities in the medium term. We have not seen their effects to date.

Q84 Mark Pawsey: Right, so it is not as clear cut as regional politicians would have us believe.

Professor Pike: No, not at all.

Q85 James Morris: If you accept the principle that fiscal devolution is a good idea, how would it work from a practical point of view, if in 2015 there was a Government that was committed to fiscal devolution?

Tom Riordan: One thing that has been suggested by the Core Cities submission is that we could replace what the cities and London currently get in grant with the fiscal replacement. On the example that has been given, this would be property taxes. Effectively, the difference would be that the Cities, through the combined authorities, and London through their mayoral arrangement, would have the freedom and flexibility to utilise those resources in a way that fitted their priorities in terms of either the economy or social policy.

I will just give one example. I can understand completely why you are asking for evidence about why it should be changed. One of the things I would say is that we not in an ideal situation now. Take Help to Buy as an example, if we had the system that we are proposing at the moment, you could implement Help to Buy in a different way so that those parts of the country that do need a housing boost will get one. Those that do not—i.e. London—could use that resource in a different way, perhaps by putting in the infrastructure funding that they think is needed, rather than a boost to house prices that is not particularly needed.

Q86 James Morris: That is an interesting example. Is one of the problems not that we have a whole variety of different structures in local government: combined authorities, district councils, cities that have some matured governance relationships, and some cities that have not? Do we not need a more comprehensive reform of local government before we can successfully fiscally devolve? I am looking at you Mr Riordan, but not necessarily.

Cllr Hodge: The problem we have at the moment is that structures and organisation boundaries get in the way of trying to get on with this stuff. That is one of the reasons why the transformation agenda that the government is pushing through, which I am leading for Surrey, is really key. How I see it working in future is that, in future, if Government was to make devolution funding available for projects and things like that, there could be a very simple governance system put in place—because there needs to be a governance system in place—whereby BIS and the Treasury could sign off specific plans and sign the money off, and make sure that the money that was going to be allocated for something could be clearly delivered.

Q87 James Morris: Is that not similar to what you have just described as what is happening right now with the City and Growth Deals? Professor Pike, you said, and I am just going to quote because it is quite an interesting quote, "The problem with the current City and Growth Deals model required local leadership teams to prove each individual proposition in a demonstration of their abilities to haggle with an oligarchic patron." Can you just explain what you meant by that? Are you suggesting the City Minister is an oligarchic patron?

Cllr Hodge: I am talking about a much lighter touch. There has to be clarity. You cannot just keep giving money away for the sake of giving it away, hoping you are going to get a return on that capital. If the government actually started to look and ask, "Well, what is the return this project going to give?" for argument's sake, then it is quite easy to look at that. I do not think you need a very complex system at all. It wants to be very light touch, with clarity that the money is going to be spent right, and that there is a return to the Exchequer.

Q88 James Morris: Professor Pike, I will just give you an opportunity to describe what you meant.

Professor Pike: Indeed. Going back to this issue, what we are really talking about is the nature of centre-local relationships in terms of government and governance, and how the financing system works within that. Some of the work we have been doing as part of this iBUILD research centre, which is looking at infrastructure financing, is a review across those 28 City Deals. Certainly, they have had some positive elements in there. They have enabled a degree of tailoring of bespoke engagement between the centre and the local level. There has been some innovation, negotiation and agreement. On the negative side, though, they have been quite burdensome for the central government departments. The idea of negotiating 28 deals individually with each local unit has been costly. You have lost some economies of scale in policy-making at the centre, and there is this issue of consistency and fairness.

How do you go about ensuring that some places are not given some kind of beneficial patronage or largesse from the centre, if they have close relationships with Ministers, for example, or if are doing the kinds of things that central government want to see, versus other places that perhaps do not have that close relationship and perhaps are not playing along with the central agenda as closely? There is some unevenness, which I think we are now potentially going to see multiplying with the emergence of 39 negotiations about Growth Deals.

Q89 James Morris: I understand the critique. Mr Riordan, I think the Core Cities have argued that there needs to be a kind of constitutional settlement between central and local government before we can advance towards fiscal devolution. The prospects of that happening in a short time scale are pretty limited, are they not? Do you think that is a precondition for getting successful fiscal devolution in the UK or in England?

Tom Riordan: I do not think so. I do not think that is what we are saying. We have recognised the piece of work that Graham Allen has done in terms of constitutional reform and codification. However, we think that we could go further quicker if we looked at the Work Programme and the Better Care Fund, and if we looked at business rates and a more significant devolution. All those things could happen under the current structures.

Q90 James Morris: You made the point earlier that you thought that the way in which Parliament votes and allocates resources needed to fundamentally change in order to have successful fiscal devolution. Is the prerequisite of that not some kind of codification of the relationship? Whereas what you are suggesting is a continued piecemeal approach that might lead to oligarchs making inappropriate funding allocations.

Tom Riordan: We need to be pragmatic, and we would not want to hold everything back just for that. There are ways that you could look at the current accountability structure. For example, accounting officers, rather than being in Whitehall, could be identified locally. The structure of the way that Whitehall votes that money could be looked at. Those things would not have to wait for a big constitutional convention to happen. You could do them without too much change, and you would not necessarily have to do it with the whole system.

Q91 James Morris: Would that not be just a slightly more sophisticated system than the one we currently have with City and Growth Deal proposals? I know that you were quoting something to do with the contracts that exist in France, which are slightly more sophisticated examples, but they are not the sort of full-bodied fiscal devolution you are arguing for here.

Tom Riordan: No, they are not. The City Deals are welcome, and they are a welcome first step, but if I am being honest it does not feel like devolution. It does not feel like decentralisation, given the amount of bureaucracy that has been around it, and the fact that we have not got exactly what we thought we had agreed in the deals. So I think something more significant is needed. The combined authority level, we think, provides an ability to have much more of a significant and more radical block grant approach to what we are seeking to achieve.

Professor Pike: This is a key point. The thing that blights centre-local relationships in the UK is that very high degree of centralisation and, since 2010, the lack of even a degree of certainty and predictability about the direction of travel in this regard. The hardest thing for county councils, smaller cities, or the Core Cities, is trying to work out what the finances and the structures look like in two, three, or five years from now. There is a lack of vision about where the UK state is heading towards in terms of centre-local relationships, their structures, financing arrangements and funding arrangements. Where is it actually heading towards as a means of trying to give a degree more certainty and predictability?

Q92 James Morris: You seem to be arguing that it would not be correct for us to move towards fiscal devolution until we have the whole of the landscape sorted out in reform terms. Again, that seems that we need to do a lot of work before we have—

Professor Pike: As Tom was saying, there is a degree of pragmatism needed. What prevents any decentralisation in the UK context is a lack of trust in the central Government Departments, fundamentally. Therefore, there is a strong reason in the particular context of the UK state and its centre-local relationships to have what are almost demonstration projects or pioneers that will experiment with a piece of fiscal decentralisation—for example, you earn back experience in Manchester—to show that then can deliver on increasing growth within that area. Then it can be something that might be adapted and used in other places. Maybe that is the only way to prove to a sceptical Treasury, going back to your point, and sceptical civil servants in the mainline Departments, that it does work and it is delivering to our bottom line in terms of growth and savings.

Q93 John Pugh: Can I follow through on one of Mr Morris's earlier questions. You mentioned the idea of constitutional settlements. You will probably be aware that the Political and Constitutional Reform Select Committee proposed a constitutional settlement between central government and devolved administrations. Clearly, we do not have one, do we? Can I ask you to comment on that proposal, before we start? I know we are not supposed to talk about other Select Committees, but it is entirely relevant. I am actually surprised it is not referred to in our questions.

Professor Pike: I think you will find in the work of the LGA, which I am sure members will be familiar with, there has been a call for a more constitutionally embedded set of centre-local relationships, that would bring a degree of stability and coherence to the structures. However, you are starting to get into big stuff then about why we do not have a written constitution in the UK and these sorts of things, which I am sure that Select Committee has addressed too.

Q94 John Pugh: I do not know if you were aware that there was an earth-shattering 10 minute rule Bill introduced by yours truly some time ago, where I actually suggested the very least the government could do at the start of its term was to state what exactly the powers of local government as opposed to central Government. We have this strange scenario at the moment where the Secretary of State regards it as his business to tell local authorities how to empty their bins. That is not exactly localism or devolution, is it? Do you have no appetite for a constitutional settlement or are you just sceptical about it ever occurring?

Professor Pike: No, I am personally very positive about it. However, going back to your point about what could actually be achieved in the short term, I think that is where it becomes more problematic. To wait to that big bang reform before doing anything in terms of fiscal devolution again would be putting it in the long grass, would it not?

Tom Riordan: I would agree. It is this chicken and egg between going for the radical and having to wait or doing something pragmatic straight away. Everybody looks down to the local, but needs to look at Whitehall. It needs to look at the way that we organise ourselves now and the way England is represented—or not—in the current structures, whether in the Cabinet or the Whitehall Departments. I do not think it is enough at the moment, so that codification could help make that happen.

Q95 John Pugh: In the last Government there were Ministers for various bits of the countries, were there not? I think there was a Minister for the North West and a Minister for the North East. I cannot remember who they were, but I am sure we had one.

Tom Riordan: They did not have a Government Department behind them and they were not part of the formal paid responsibilities of those Ministers. It was tinkered with. I do not think the fundamental change you are talking about was actually implemented at that time.

Q96 John Pugh: Can we go back over this toying around between the distinction between fiscal devolution and devolution of power? Obviously if you get dollops of money, whether from transport, welfare, health, education, and they are all put in one pot, the decisions as to how those are spent are often decided centrally back at Whitehall, so it does not feel like one pot. You made that point already. Is public service decentralisation a necessary precondition of meaningful, effective fiscal devolution? Can you have fiscal devolution without the devolution of public service powers?

Tom Riordan: My personal view is that it needs to go hand-in-hand. Again, I do not think it should stop fiscal devolution happening because you could straight away devolve much more control over the business rates than currently happens. The current arrangement, which is welcome, again, only gives 50% of any growth on a baseline from the business rates. One thing that could happen straight away is that the whole of that flexibility could be devolved. However, without a hand-in-hand effort to move public policy, one example of which is the Work Programme getting people into work with health and social care integration, what would that money be spent on? I do not think Ministers would be particularly happy just giving the money away with no outcomes associated.

The Troubled Families initiative is one example of a good model that could be utilised, and could be looked at in terms of how that happens. Louise Casey has led in making sure there was a very firm framework from Ministers that everybody had to operate under. The "what" was clear, but the "how," in terms of how we implemented that locally, was up to us. That provides a possible model for how you would integrate public service reform with more flexibility around money, and make the changes that we are looking for.

Q97 John Pugh: That is a relatively defined project and relatively small scale insofar as there are not so many troubled families, is it not? If you talk about something big like regeneration, you would imagine that the local authority would bring something to the feast and the Department of Work and Pensions would bring something to the feast.

Then if it does not go to plan, the issue of who is accountable and whose failure it is is another problem. This might add to the complexity for people to see what is happening.

Professor Pike: There is great potential to better integrate and co-ordinate between public policies and funding streams. It is almost a precondition and a stimulus to try and get new things emerging. Having the powers and the actual money together really, obviously, enables the local partners and actors on the ground to do interesting things. The pilots around the Community Budget things as well, which you will have come across, are very interesting ways in which unforeseen synergies can exploited as a result of looking across different policy areas and budget streams. The crucial thing is trying to find some ways of creating incentives and frameworks to get the local authorities to co-operate and pool resources so that they can actually accrue lots of the benefits, rather than them working together and pooling resources for a lot of those benefits then to be hoovered up by the Whitehall Departments. That is one of the crucial things in terms of that kind of reform.

Q98 John Pugh: Normally, when projects are successful, it is quite easy for everybody to say, "We all did our bit and everything worked fine." When things go wrong, though, would it not be more problematic to identify who did not do their bit?

Cllr Hodge: The key question here is about leadership at the local government level. Have we got the right leadership? It is not just about local government. It is a mistake for us to think that all of our conversations should be about local government. It should be about public services right across the piece. I do not see any need or any reason why we should not be looking at the whole of public services, and how we actually make sure that we provide the best services to the residents on the ground. I do worry at times that there is a tendency for those in different places in Westminster and Whitehall to want to put in place structures and processes, when actually it gets in the way of getting on with the job.

I have noted in the last nine months, while we have been doing as part of the public sector transformation project with the health service, the ambulance service, police and fire services, and other partners, how much room there is and how much good will there is. There is a determination that we will work better. We have already put £10 million savings into our budget for next year, and that is before we have even gone down to the detail. We know we can put more. A lot more of that can be done.

There are two things. First, it is how we create the best efficiencies for local government and public service as a whole. That means working together as one team rather than just in isolation of each other. Second, it is how we grow our economies. That is the big question now. How do we grow our economies? It worries me consistently. It is probably the only thing that keeps me awake at night. How can I grow my economy, and how can my other fellow leaders in the county councils grow their economies if we are not on a level playing field with the cities and the Core Cities? It is really important that all of local government should be at the table, helping to make sure that the cake we make is a whole cake and not half a cake. At the end of the day, the Treasury needs money, and the only way it is going to get any more money is if we increase the productivity and the return on capital that is employed at a local level.

Q99 John Pugh: If I was from the Treasury, what you have just said would be music to my ears, because I would be saying, "Yes, I am quite keen to devolve power as long as you can do the job for less than we are currently doing it." The whole history of local government is that normally, when powers are devolved, the amount of money that is given to deliver those powers is reduced. The question I wanted ask you is, for this all to be a success, does it need to be detached from any process of public service funding reduction?

Cllr Hodge: No. I think it is about trust in local government and local government leaders, and other public sector leaders, to work together to actually change the whole concept and the culture of providing local services to people. At the end of the day, people do not turn round and ask, "Who is running this and who is running that?" They just want the service run efficiently at the lowest cost. What we have done, Chairman, in Surrey County Council, is we have now analysed the unit cost of every single service that we deliver to the people. We have been able to identify and prove that we can reduce our unit costs year-on-year, despite increasing demands. The only two places we have not been able to do that is in adult social care, because of the continually growing population, and school places. For every other service I am able to produce a booklet that shows every single service has been reduced. I have produced it to all of my MPs. If we were to do that across local government and central Government, I think you would find that there would be huge savings to make right across the board.

Q100 John Pugh: Councillor Riordan, do you agree that you could pool budgets and reduce budgets at the same time, and deliver with success?

Tom Riordan: Just to say, I am not a councillor.

John Pugh: I am sorry.

Tom Riordan: No, that is okay. My members would kill me if I let that get out. I completely agree with what Councillor Hodge has just said. Local government is actually the best delivery mechanism the Treasury has at the moment. We are delivering on reducing the deficit. Our pay bill has gone down by 12%, while Whitehall's pay bill has gone up by 6%. If the Treasury needs deficit reduction and economic growth, then this is a definite option for that to happen. Unfortunately, we are used to taking reductions in funding over the last few years and we could make this work again.

Q101 James Morris: Mr Riordan, you cited the Troubled Families programme as being a bit of a model for how fiscal devolution could happen. I am quite intrigued by that, because is the Troubled Families, however successful it has been, not another example of this kind of oligarchic approach that Professor Pike was criticising? The parameters are set centrally; you can raise funds, but the actual parameters of the programme are very centralised, are they not?

Tom Riordan: Again, what I am trying to say is that I would put that in the pragmatic box, as an option. If you did not want to go as far as we want you to go in terms of the fiscal devolution, then Troubled Families is an option that has worked. You are right in the sense that it is giving firm parameters nationally, but then letting local government get on with it locally. Many other initiatives that come down from Whitehall have both strings attached to what needs to happen and strings attached to how it should happen. That is the point I was trying to make.

Q102 Mrs Glindon: Would fiscal devolution mean the end of equalisation of the redistribution of resources to match need across England?

Cllr Hodge: I do not believe it would. The more money that is generated locally by increasing opportunities for young people to get jobs, through apprenticeships, through skills, through better deals for businesses locally, the more money is created for the Exchequer. There is no doubt of that. I know you might find it hard believe me as a Conservative to say that we do need to create money for the Exchequer for those places that have deprivation. There are areas of the country, not just in the cities but in the rural areas, where there is deprivation, and it is really important that all of us in local government and central Government, or any department for public services, should be working to make sure we get the maximum return to help those other areas.

Professor Pike: This is an extremely important point. There is always a risk, if we look internationally at moves towards decentralisation, that it heightens this unevenness and inequality between places. Places are different; they have different growth potential, different needs, different institutional capacity amongst local partnerships, and under a decentralised system it might be that the strong places that have more growth potential, greater institutional capacity and fewer needs might be the ones that really benefit most. It might be vice versa for the weaker places. This is always one of the risks.

The international systems that work best in terms of decentralisation have robust equalisation and redistribution measures to make sure that there is a degree of fairness and equity within the broader system. That is part of what binds a country together in terms of a political settlement. They have an efficiency gain too, because higher costs are not then spent on those weaker economies with more needs that are left behind. It is very important to be clear that in any moves towards further fiscal decentralisation, its impact on the system in the round—even when it is messy and difficult and uneven—has to be assessed. In fact, that is one of the positive things about that London Finance Commission report; it was very clear on needing to understand its impact upon the whole of the UK system, rather than just thinking it is about London trying to claim back more of the money that it contributes to the national Exchequer. That is very important.

Again, it goes back to this point about needing some degree of predictability and more certainty in terms of the arrangements for those kinds of equalisation and redistribution measures, rather than uncertainty and flux about, "You can retain this much in business rates if you do this, maybe not that much if you do that, maybe a load if you do this." It is a fragmented, uncertain system at the minute that needs to be a lot clearer and more certain in terms of its future rollout.

Tom Riordan: As Andy has said, you would still need to address this issue. It is worth the Committee looking at what has happened over the last few years in terms of equalisation, because it has been eroded as a principle anyway. We would see a need for that generally, and I think the proposals put forward by London and the Core Cities are that you would need to make sure that there were no losers when the baseline was set. Once it had been set though, people would be able to benefit from the growth that happened afterwards. You may also need local arrangements for equalisation as well. Just as an example, in our city region—our combined authority equivalent—we have got a system of business rate pooling at the moment, whereby the ones who make more than the average redistribute back to the ones who do not. That is across political parties and it is across county, district and city unitaries as well. We have a system at the moment that is working in Leeds that shows that you can come to agreement locally.

Q103 Mrs Glindon: The Core Cities and the Mayor of London argue that devolution will put more tax revenue into the system. What guarantee is there that this will be used to direct resources towards areas of need?

Cllr Hodge: There are different areas of need apart from just deprivation. There are areas of need, particularly in the rural areas, where we know that in education, up and down the east coast and the south east, the rural schools are suffering; they need some support. We also know that the elderly population is growing. It will continue to grow. Everybody in this room will probably live 10 or 20 years longer than your predecessors did. That puts a huge burden onto counties and other authorities that have adult social care responsibilities. There is a Care Bill coming up, and we know that in many of the county areas there are up to 80% self-funders. If those self-funders decide not to be self-funders in future, that is going to create a huge burden on the taxpayer in the end. We have to be careful how we look at that. There are different areas with different pressures. However, I do believe that the areas that can produce the wealth, like Surrey, Essex and Kent, should be allowed to help to produce the wealth. They should be encouraged to produce wealth, so that the Government can then help other areas that need that.

Q104 Mrs Glindon: In relation to directing the resources, you have identified what different kinds of needs there are. If there is this extra revenue, what is the guarantee that it is actually going to be used to support needs, however they are defined in an area and what level they are at?

Cllr Hodge: Give us the responsibility and we will make sure it is done, instead of letting the Treasury do it.

Professor Pike: You used the term "guarantee." This goes back to the bigger point about having a constitutionally-embedded set of centre-local relationships between central government and local government. It goes back to the points we have made about having a degree more predictability and certainty in the vision and plan for what local government is about, and its funding arrangements. These are the kinds of things that would provide some clarity. This may be a way of trying to shift away from the very centralised system we have got now, and the very big spatial disparities in economic and social conditions, to something better.

Tom Riordan: I was just going to say that it is effectively a political decision and that would need to happen. It is a case of whether it happens nationally, locally or both. One thing that could happen is that you could only get the powers and resources if you can come to some agreement locally about that distribution. That would be an inbuilt way of making sure that you had perhaps a balance between different geographical areas that exist in the combined authorities or in the counties.

Q105 Mrs Glindon: Can I ask you, Professor Pike—you say that business rate retention schemes risk entrenching inequality. Would you say that the schemes do nothing really fundamental that would address underlying inequality, and what would be your alternative?

Professor Pike: It goes back to this point about the risks in it. When you have these decentralised or localised systems that are clearly a strong incentive to growth and to investment for growth, particularly in those stronger and more prosperous areas as well as elsewhere, the possibilities are that if you do not have the systems for equalisation in place, then those stronger areas grow their economies, their business rate income grows; they are able to invest more for more growth and it is a virtuous circle that they experience. Similarly, in other places at the other end of the scale, if you have places that are losing skilled workers, losing investment, losing firms, then their business rate tax base contracts and it is a vicious circle in the other direction. There needs to be some kind of equalisation and balancing mechanism to deal with that.

Government has in place some levies from those stronger areas. They have a safety net of a top up for those weaker areas. There is an attempt to try and put that equalisation in place. The point we were trying to make is that the arrangements need to be a lot clearer and more predictable over the longer term to enable those places to invest for growth into the future.

Q106 Mrs Glindon: Mr Riordan, the London Finance Commission called for a Barnett formula-style ring-fence around London's grants to ensure the government does not adjust it according to any growth or contraction in London's tax base. What impact would such a ring-fence have on other English cities?

Tom Riordan: I know you have had evidence from Tony Travers. He is probably better answering that question than me. What I would say is that, taking the Barnett formula as a whole, our view would be that it is an outdated formula and it needs to change. It plays against the English cities quite considerably. We would encourage any reform of that to happen as soon as possible. The impact of how that then happens within England is inextricably linked to the wider Barnett formula. We would see that going hand-in-hand.

Q107 Chris Williamson: Tom, you put forward a very cogent argument. You talked about the greater efficiency of local government, which is much better at deficient reduction in terms of the efficiencies that you talked about. Local government has been making this case for some years now, but it seems to me it has been singularly unsuccessful in actually persuading Ministers of whatever political stripe to do what seems to be a very sensible action in actually devolving fiscal powers to local government. Have you got a sentence that might be usefully incorporated into the report that might be a bit more persuasive than we have hitherto been in persuading Ministers of the sense of the argument you are putting forward?

Tom Riordan: The argument, which we have had echoed in the points that have been made so far, is that local growth is national growth. If we can find ways to empower the local actors and partnerships through the powers that they have, their wider freedoms and flexibilities, and to back that up with meaningful devolution in fiscal terms, then you are enabling those areas better to engage with and to stimulate growth in their local areas. The addition of greater stimulation of growth in all those local areas adds up to greater national growth.

Q108 Chris Williamson: Why has there been ministerial resistance and Whitehall resistance then?

Professor Pike: That centralised system has been in place for decades and decades. It is extremely difficult to shift it. It is like a huge oil tanker; it has been moving along a centralised course and it is very difficult to try and move from a centralised course towards a decentralised course. Government would argue, as they have done in the CLG evidence, that they are starting to do that currently with some relatively modest and limited reforms currently, but they want to see where they end up, rather than making wholesale, big, radical changes. That is the problem.

Q109 Chair: Do you want to say something, Tom?

Cllr Hodge: I was just going to say, very simply, that if they could take the blinkers off we would have a different ball game. Then everybody could work better for every single resident in this country.

Q110 Chris Williamson: How we get them off is the question.

Cllr Hodge: We cannot do that, unfortunately. You are asking us a question that Ministers—it does not matter what Government it is; it has been like that for years—have to actually say, "We are in this with local government and we should be using local government." The statistics are quite clear; local government is the most efficient form of government at this moment in this country. Out of all the public services we come out top every time when you talk to residents and when you do the figures. What I feel is that we need to be rewarded and trusted more, to be able to do more for the local people, to regenerate the economy and build a better future for everyone in this country.

Tom Riordan: Local government is more trusted, efficient and effective than Whitehall. There is evidence to prove all of those things. I think that Whitehall—and I have worked in Whitehall myself—sometimes has an illusion of control and power over policy. They think that when it is written down it is going to happen and of course it does not. So I go back to this point that local government can deliver more effectively. In the past, there were too many places to devolve to, like the 39 Growth Deals. If we can get structures whereby combined authorities can come together, and London can come together, that is nine separate arrangements that cover half of the population and half of the economy. If we can come up with something for the counties in a similar way, then you actually have an opportunity to do something that is practically doable. That has not been there in the past.

Q111 Chair: Councillor Hodge and Tom Riordan, you both come from areas that are relatively prosperous with a capacity, you believe, to grow more quickly given those freedoms that you have talked about. However, a condition on the business rate is to let authorities get more of the returns from development in their areas, but with a reset every so often to make sure that the poor areas can be helped once again if they have not generated as much activity as the more developing areas. Now, can we really see a political situation where this could apply to lots of different property taxes, and every so often Government has to step in and do a reset, basically saying to areas, "The more successful you have been, the more we are now going to take off you"? Does that sound like a political scenario that is going to work?

Tom Riordan: That happens already in the current system, but it is hidden in the way that the Treasury works at the moment. At a local level, we have accepted that redistribution needs to be inbuilt in the way that we work, as long as you are clear about that from the start. I also think it is the only way that you are going to give a chance to those places in the country that have do not the strong economic reason for being that they used to have, like the shipbuilding industry, the coal industry, etc. You have got to have some form of link that allows that to happen. That is what I mean when I say the current system is unsustainable. If you do not do something, those places are not going to have the tax base in future that they need.

Cllr Hodge: If you imagine a place that is well-to-do, with good income and good things, and suddenly three or four major businesses leave within a four or five year period, that would actually have a huge effect on those areas. You have got to be very careful how you set the parameters.

Chair: I was asking the question not because of any concerns about local government, but central Government's record of dealing with revaluations of things is not exactly great when it has to face these difficulties. Anyway, let us move on.

Q112 Bob Blackman: Moving on to the issues of governance, which I think are very important in this whole process. In London there is clearly a position. Everyone knows who the Mayor of London is. Everyone knows about the way that decisions are made in London. How important is it, then, in devolved cities, or alternative arrangements, to have a directly elected mayor or some other individual along those lines?

Cllr Hodge: As the politician on the panel, I am not too fussed what I am called, to be honest—whether I am called the leader of the council or whether I am called the mayor of Surrey. I am not the mayor of Surrey; you should appreciate that. The reality is what do the people want from me to deliver? As a leader of a country council, am I delivering what the people of Surrey want? That is economic prosperity, opportunities for young people to go on apprenticeship courses and higher standards in our schools. When I look back on what we are doing in Surrey, I think there is no doubt that people know I am the leader. I do not mean that from a big-headed point of view or anything like that. People do know who the leader of the county council is. You are right; it is important that the leader steps up and is seen to be actually accountable for what goes on in their own area.

Q113 Bob Blackman: However, the key would be that a resident or a voter does not vote for you. They vote for their local representative, and their local representatives then vote you for the leadership. There is not a direct connection between you as the leader and the resident who wants something done, and their priorities that may be different to yours.

Cllr Hodge: That is no different to the Prime Minister of the country, by the way. The simple fact is that when you become the leader of the county council you take on that responsibility. I believe your first and foremost duty is to the wider population that county. The 1.2 million people in Surrey are my responsibility, same as any other leader in any other county. That is our responsibility. How do we make sure that we do the best job for the people of that area? I do not worry too much about titles.

Professor Pike: We do not have a great record outside London or within England, in terms of directly elected mayors. That kind of model has been rejected in many places. I guess from that you have to take that it is not seen as a popular kind of solution.

Q114 Bob Blackman: Yes, but if a decision was said that you can have fiscal and further devolution, but you have to have a directly elected mayor that goes with it so there is proper governance, would that be a precondition that should be applied?

Professor Pike: Yes. Often it is the case that trying to solve this decentralisation and devolution riddle within England means finding a way of communicating it to voters, residents, and people on the ground that this is not just a technocratic structure and financing formula-type deal. It is a political thing, it is a leadership thing, and it is even a vision and inspiration thing for a local area. We have not been very good though at presenting a package that says, "No, this is meaningful; your vote means something locally." If I go back to the point I made earlier, one of the rationales for having decentralisation is to bring government closer to the people. You re-engage institutions with the people voting for it, but you do it in ways where they have got meaningful powers and responsibilities, so it is a package of things worth voting for. Perhaps that is where the connection has been made in London. People see that they vote for a mayor directly, as you have described, and that has meaningful implications then on what happens on the buses, Tube, and all the rest.

Tom Riordan: It is a valid point to say that that is the case nationally. It is indirect election nationally. Local authorities can alter tax levels at the moment in terms of council tax, although that is getting tighter and tighter in terms of the freeze and everything else. Lille, Paris, Barcelona and Berlin, all have indirectly elected mayors, so I think the system can work outside. In our own city region area, we have had three votes that emphatically rejected directly elected mayors, so it would not be something that would be supported in my part of the world by the leaders. You can ask one of the leaders next about that. I would just make this point that it probably is important, in the new structures, to have a single, indirectly elected politician who is accountable; that is perfectly doable, and we do that at the moment; and to have a civil servant—a public servant—who is accountable as well, in the same way a Permanent Secretary would be accountable. We could make that work.

Q115 Bob Blackman: One of the clear concerns is going to be how the resident influences the decision-making that takes place, and what ownership is there? As you quite rightly say, turnout in local elections has been falling gradually. Up and down the country, attendance at meetings of councils or committees is virtually nonexistent, whereas in the past it used to be very apparent that people would turn up because they would see decisions being taken. Now it is more remote, it is more difficult for people to understand. One of the issues here is how does the resident influence what happens? That is a clear concern. With the devolution comes that responsibility.

Tom Riordan: What I would say is that it is an opportunity to reinvigorate local government, and to do what we have been talking about before; there is a bit of an image problem, and there is a bit of a problem in terms of turnout, and this would be one way of reinjecting that energy into the system. It could be done locally. It could be done indirectly and in those local elections, with people being accountable not just for the local decisions on levels of council tax, but also the decisions that are made about transport, jobs, and skills that would be taken at that combined authority level.

Q116 Bob Blackman: Could I ask everyone on the panel about the governance arrangements for LEPs? At the moment, they are seen to be quite remote. Councillors get involved, business gets involved; residents probably have not got a clue what decisions are being made for the economic future of their area. Does the governance arrangement need to change for that?

Professor Pike: In CURDS we undertook the first national survey across all 39 LEPs, as part of some work that was funded by the ESRC, CLG and BIS. What we found was that the LEPs operated in a much more accountable manner when they were seeded and embedded in existing structures. They tended to find a place that was accountable and could deal with some of those issues. However, there quite a bit of concern, even in those structures, that the LEPs did not just morph into almost private sector advisory-type groups that would just feed into those broader and established governance structures, in the way in which London now has a Local Enterprise Panel, rather than Partnership.

One of the other things we found, of course, was that when you have a private-sector led board for a LEP and private-sector Chair, to what extent are they then representative and accountable in terms of their input into decision-making? There is quite a degree of nervousness about accountability-type issues, with the greater funding and responsibilities being pushed down to LEPs.

Cllr Hodge: I would like to echo what Andy said. I have deep reservations about the current LEP system. I do not think the governance is right: a businessman suddenly pops up and he is the chair of the business group. He has not faced an electorate. At least I do have the decency to go out and knock on doors and get myself elected. I have been doing that for years. I am sure they do not understand you have to put a tick. Anyway, it is really important that the LEPs governance is sorted out once and for all. I have deep concerns that it is not really tight enough. I know a number of counties are now working quite hard to try and embed some proper, real governance in the whole issue. I do worry, though, that it was a rushed programme and it was not thought out very cleverly. As a consequence it is not really working.

I would like to see what Michael Heseltine talked about having another look at the LEPs and actually realigning them with proper governance. If my memory serves me right, I believe Boris, the Mayor of London, is actually the chairman of the LEP in London. I would like to see the leaders of the major unitary authorities and the major cities being chairmen of the LEPs, with co-chairmen from the business community. I think that would work 10 times better.

Q117 Bob Blackman: Finally from me, Councillor Hodge, one of the issues here is that if we are going to devolve power—we talk about the major cities and clearly there is evidence for that—to counties and districts, with the power to raise council tax, business rates, other streams of taxations, possibly, and also make decisions on expenditure, how is that going to be governed? You have the county saying one thing and the district saying another. How do we make sure there is a coherent process that people understand and that is fair to all parts of local authorities?

Cllr Hodge: You are right: districts have one role to play and counties have another role to play. They are very much complementary. What you have seen with the flooding has shown that actually they work really well together. The work the Local Government Association and the work local government has done around the country with the flooding has shown how well we work together.

In Surrey we have what we call the Surrey Leaders Group. We meet on a regular basis; we discuss issues across the whole of the county, whether they affect the district or borough, and we work on those issues together. We are currently working on a litter campaign. It is not the county doing it; it is all 12 partners doing it together. That is how you get it. You have to be able to talk together, work together and put plans into action that have the support of the leadership of all of those councils.

Q118 David Heyes: We touched on a number of ways in which areas might raise and invest money locally. Is there a role in this for municipal bonds or do we just look to the Public Works Loan Board?

Professor Pike: We have just started a new research centre, iBUILD, which is funded by EPSRC and ESRC. It looks at these new forms of innovative funding and financing mechanisms. Certainly, what is interesting, in our focus, is our City Deals and the way in which local authorities have been encouraged/forced to innovate, but again, that is in a very centrally defined and determined framework. There are some new initiatives emerging—and DCLG will point to these—around tax increment financing, new development deals, enterprise zones and these types of things.

The bonds one is an interesting one. These are very long-established things that are used in a much more decentralised federal system in the United States. In the English context, it would be a very steep learning curve. The process would be potentially risky, long and complex. The issue is really about trying to get the size, scale and attractiveness in a bond from a particular place that would attract external investors over the longer term. These kinds of innovative mechanisms might have some potential, but there probably needs to be a lot stronger support from HMG. At the end of the day, the credit rating and the balance sheet, or the track record, of HMG means it can access capital much more cheaply than local authorities and other actors. However, because of its focus on deficit reduction, it does not want to look at that way of reducing the cost of borrowing to invest and put in place future conditions for growth. It is a national macroeconomic strategy and policy objective that is critical there.

Cllr Hodge: Basically, I agree with that. What we have done in Surrey and one or two other counties is set up revolving infrastructure funds of X million, which allow us to borrow up to £300-400 million for specific projects that will help grow our long-term revenue base, because I see our funding continually disappearing. When you are sitting in the situation where you are the lowest-funded county council in the country, you have to start planning long term. My plans are for 2021, not for 2015. I am planning how we make sure we start bringing in income streams 8-10 years ahead.

One of the problems we have found is there has been a real reluctance from the Treasury. We go and see Ministers, who say, "Yes, that sounds like a good idea" and then somebody puts the kibosh on it and says, "No, you cannot do this." It is stopping us being more proactive and ambitious in our growth plans for actually trying to do things. I know Northamptonshire wants to do things; I know Essex wants to do things. A lot of other county councils want to have much more ability to borrow, to create income in the long term and to grow the economy locally.

Tom Riordan: I would agree with what has been said. Bonds are another way of borrowing and borrowing is not the problem for us; it is the revenue stream to pay back the borrowing. A longer-term approach to that is needed. We are at 3 February and we still do not know what our exact finding settlement is for the next financial year. We need that long-term certainty and we also need to find ways of benefitting from the proceeds that come out of that borrowing—particularly investment in infrastructure. The sort of things we need to look at are the Manchester earn back model and the work that has gone on in places like Cambridge and Leeds to try and see whether we can get the benefits of transport investment ploughed back in to local infrastructure, which is a bit like the revolving investment fund idea.

Q119 David Heyes: Could there be some impact from of the smaller options, such as tourism, environmental, alcohol and betting taxes? These sorts of things have been speculated about; is there a role for them?

Professor Pike: These have been mentioned. They can be relatively small scale and quite volatile. Then there is the whole political popularity and unpopularity of raising local taxes, and the issue of how much you are allowed to raise local taxes in the context of this centralised national system. They are not a silver bullet at all.

Cllr Hodge: We have to be very careful—certainly, we are in Surrey, from the county's point of view. We are looking to increase tourism at every opportunity; it is really important. Somebody has also raised the question with me about whether we should have a tourist tax. I am not sure about that in the current economic climate. You have to have a much stronger economic climate before you start to consider those things.

Q120 David Heyes: Should Leeds consider a tourist tax?

Tom Riordan: I would rather have flexibility on business rates. We have the Tour de France coming to Leeds and we would not get the benefit back from it that we might do with something like a tourist tax. However, a better way of doing it with local businesses would be a voluntary approach to business improvement districts and putting more incentives into that, because they would want to see the direct benefit of what was being taken off them.

Q121 Chris Williamson: Tom, you talked about having long-term certainty that would then enable greater borrowing and so on. In response to the Chair's comment earlier on about resetting, you did not feel that would be a problem. I am wondering how you squared that circle. If you base your borrowing on a certain income stream that could then be undermined somewhat by a subsequent reset, how would you square that circle?

Tom Riordan: As I said, this I where I look to Tony Travers—and he is not here. I do appreciate the impact of revaluation and how important that is. That needs to go hand-in-hand with any arrangement that you come to. That would need to be part of the same deal. You could not have both because you would get that uncertainty. If you had it in the system, it would get keyed into the level of risk and the interest rate that you were able to borrow at, so it would be taken care of, but to get the lower borrowing rate that we all want you would probably have to do something about revaluation from the start and be clear about that.

Chair: Thank you all very much for coming and giving evidence this afternoon. Thank you very much.

Examination of Witnesses

Witnesses: **Councillor Peter Box**, Chair, Key Cities Group, **Ed Cox**, Director, IPPR North, and **Liz Peace**, Chief Executive, British Property Federation.

Q122 Chair: Welcome to our second panel this afternoon. Thank you very much for coming. For the sake of our records, at the beginning could you say who you are and the organisation you represent? Just go down the table, thank you.

Cllr Box: Peter Box, Leader of Wakefield Council. I represent the Key Cities Group on devolution.

Ed Cox: I am Ed Cox. I am Director of IPPR North, the Institute for Public Policy Research in the North of England

Liz Peace: I am Liz Peace. I am Chief Executive of the British Property Federation. We represent primarily the commercial property industry, though we do have a number of residential members as well.

Q123 Chair: I will begin with one of the questions I put to the witnesses earlier. If devolution is something that every single part of the country says they want and they want it now, are we in danger of actually stopping anything from happening at all? The Treasury will just take one look, take flight and that will be the end of it.

Ed Cox: My view is that we should not let the best become the enemy of the good. We need to be inventive and visionary about the kind of devolutionary settlement we want in England. That starts with you as parliamentarians having something of a vision for what decentralisation needs to look like. We then need to be programmatic about it rather than piecemeal, as we have been historically. If you have a vision and if we can set out a programme that will work in different places, in different areas and in slightly different ways—I am happy to talk some more about what that might look like—there is a way in which we can, as a nation, not let the best become the enemy of the good.

Cllr Box: I would agree with what Ed says. The fact that there will be differences across the country in terms of the cities and in terms of some of the more rural areas, perhaps through county arrangements, should not stop us from going ahead. If you look at what has been happening in the country over the last few years with devolution for Scotland and Wales, it has not been the same across the piece. There is a great appetite right across local government for greater devolution and for us to be able to do things in a different and more cost-effective way.

Q124 Chair: Before I come onto Liz, as I asked the previous witnesses, if in the end the Treasury was so moved to say, "We are persuaded of the case and we are going to allow the London Finance Commission packages to go ahead for London and the Core Cities, but that is as far as we would be prepared to go," without any commitment to go further at this stage, what would your reaction be? Would you say, "Okay, that is at least some movement" or, "We are against it until we can have it as well"?

Cllr Box: Those who know me will know the answer is no. We would not accept that.

Chair: You would say, "We do not want anything, if we cannot have it as well."

Cllr Box: I would say, "We will not accept that." It is not acceptable to say that it would happen in certain areas and not the rest. It is just not acceptable. The genie is out of the bottle in terms of devolution; you cannot put it back in. If that were to be the case, there would continue to be this pressure for greater devolution from the key cities. We are not in competition with the Core Cities, but to say only the Core Cities would get it would seem, to us, to be perverse.

Ed Cox: What interests me about the question is the premise that Treasury is somehow some kind of divine authority outwith the control of parliamentarians like yourselves to set a vision and say, "This is way in which we would like decentralisation to happen; Treasury, please would you find a way in which that will work?"

Q125 Chair: We are thinking for a new role for the Treasury, then.

Ed Cox: The Treasury absolutely does need to work differently and it is down to you as parliamentarians to hold it to account, and ask it to do the things that are within your vision for decentralisation.

Liz Peace: I do not have a lot to add to that, because I am not really in the business of trying to design a devolved financial structure. I am much more interested in this in the context of what needs to happen to facilitate the sort of growth we want to see in the regions.

Q126 Chair: What would business be looking for out of it?

Liz Peace: Business very quickly wants three things. It does want a degree of devolved financial power, because that way you actually make the whole role of local government different and it starts to attract better leaders—and the one thing we are all agreed that we need in local government is high-quality leaders. Currently, of course, some places already have good quality leadership, but we need more of that. It has been shown that where you have good leaders you get more growth and better-planned, more effective development. That is the first thing.

The second thing we need is a greater degree of relocation of the business rate—not necessarily the setting but the collection of it—because we need to show people that there is some reward for accepting growth and development. If local areas do not get back as much as they think they deserve, they will not encourage development in the future. They will not accept development.

The third and slightly more specialist area, which some of the previous panel touched on, is we need to see a greater degree of devolution to allow for investment in infrastructure, which in turn facilitates development. This is back to tax increment finance. I can talk at great length on how Government has rather given with one hand and immediately pulled it all back with the other. It has not been a real devolution at all. Those three things would actually encourage the sort of development that encourages growth.

Q127 Chair: Councillor Box, I have one point. You are here from a key city. You are also part of the Leeds city region. Do you really want to have your cake and eat it here? You have two demands; you can hardly lose, can you? Speaking a few minutes ago, Tom Riordan hardly spoke about Leeds as a city; he was speaking about Leeds as a city region. He was speaking for Wakefield as well, was he not, about the powers devolved to Leeds? They will go to you as well.

Cllr Box: The demands where you cannot lose are the best kind of demands. No, we work very well with Leeds and the other West Yorkshire authorities at a combined authority level. Indeed, I chair the West Yorkshire Combined Authority. There will be devolution down to individual cities. There will be devolution to some county areas, depending on the arrangements that they arrange for themselves. However, there will also be devolution down to a combined authority level. In terms of transport, for example, the ask of Government was to help us create a £1 billion transport fund, because to do it individually almost does not make sense. We came together to do that. Over time, that may expand to look at other regeneration issues, but there is no problem in terms of devolution to individual cities and, at the same time, authorities coming together to get a better deal if it suits a particular area.

Q128 Chris Williamson: If we assume then that London and the Core Cities are going to achieve fiscal devolution, what will the knock-on effect of that be? Will it be positive or negative?

Ed Cox: I would be delighted to see some devolution to London and the Core Cities. Immediately, you have the indirect benefits of more prosperous Core Cities and a more prosperous London spilling out. Let us be careful about trickle-down effects, but, generally speaking, that might well be beneficial. I can see a more prosperous Leeds benefiting Wakefield, for example, as Councillor Box has just explained. That is an immediate positive. We already have evidence from places like Glasgow and Cardiff that devolution in those places has benefited their wider economies and those cities themselves. As the evidence grows that devolution is better for the country—whether it is in terms of economic growth, public service reform or democratic accountability, for that matter—so it will benefit other areas as central Government realises this is a good thing to do for all places and not just for a few. You will then be able to see the benefit to these key or second-tier cities—whatever you want to call them—building on that same premise and potential.

Once again, I go back to the fundamental point, which is that until central Government recognises that some of those benefits are there—it is implied in your question is that you do—we will not see this steady programme of decentralisation that needs to happen.

Q129 Chris Williamson: If I could come back on that, before I ask Peter and Liz to come in, were the Key Cities Group wrong when they said that a selective approach to devolution would lead to increased inequality within the regions and reduced outcomes overall?

Ed Cox: For a start, what is interesting to me about this meeting as a whole is the way in which all of you constantly seem to want to divide and rule a little bit. That is quite interesting as an observation in itself, but, to answer your question, if we did decentralisation badly, in what I would call a non-programmatic or piecemeal way, some of the dangers the Key Cities Group highlights are real dangers. Even the Core Cities would agree they are real dangers. If you decentralise in very narrow ways to very narrow local authorities, there are some risks in that. However, it is not beyond our wit, as central and local government working together, to be able to find a programme of decentralisation that enables both prosperity and rapid growth in those Core Cities where that might happen, but at the same time decentralisation so that key cities can benefit as well. You talked earlier about equalisation. With good and transparent equalisation processes in place, I do not think the levels of inequality that parliamentarians like to fear will be as great as some people suggest.

Q130 Chris Williamson: Peter, in terms of whether London and the Core Cities achieve that fiscal devolution, do you have any thoughts on the wider point about whether the surrounding areas will get a positive or a negative impact from that? You could maybe then follow on to that supplementary point.

Cllr Box: It is not tenable to say you will only devolve to the Core Cities. In fact, I do not think the Core Cities are saying that.

Q131 Chris Williamson: Assuming you did, though, Peter, would the benefits be positive or negative to the surrounding areas?

Cllr Box: I cannot say. It may well be different in different areas. Effectively, what is being said is that we should rely on trickle-down economics, because if everything goes to a core city, everybody within the city area would benefit. That is not necessarily the case. There might some benefit over the long term, but the problem with that is the long term might not be sufficient to enable those other cities to survive. Speaking on behalf of the Key Cities Group, there should be devolution to the key cities as well and, at the same time, that is not going to stop Wakefield, Kirklees and Bradford working very closely with Leeds through the combined authority. We do not see it as a problem to do both.

Liz Peace: There is a bit more about what sort of places have a vision and will then be able to take advantage of this degree of devolution. We have done some work with the Local Government Association; we have looked at a number of local authorities who have worked with us on how to promote public-private partnerships. Two of those—I am not sure whether they are in your key cities or not; I lose track of the definitions, but they were not Core Cities; they are probably just towns, in fact—had plans to do great things and were actually held back by not having the ability to get into a partnership with the private sector and take advantage of a degree of borrowing to put in the sort of infrastructure that would unlock development. Somehow, it seems inherently unfair to only give this degree of devolution to the handful of Core Cities that have made the best argument or even to the next layer down of key cities. It is more to do with who has a visionary plan to be able to benefit from that devolution. Fundamentally, you are looking for places that have shown the right degree of strategic vision and have shown they can actually use this devolution.

Q132 Chris Williamson: What would you say to those who say that smaller cities should focus on locally pooled resources and decision-making rather than full devolution? Would that not achieve some of the benefits you have identified?

Liz Peace: Yes, but they still cannot do it. The particular example I have in mind is a particular town in the south east midlands, which could not do the sort of fiscal innovation that they needed. They could not do the borrowing because they could not securitize their future income, even though they had an extraordinarily good case. I do not see why they should not have been able to do that.

Cllr Box: As I said, we are not competitive. The population of the key cities is 8.9 million. In terms of jobs in manufacturing, in the key cities it is 11%; in the Core Cities it is 9%. That perhaps gives a sense of perspective. The idea we are in competition is not true. We are not. We are not in competition with Core Cities; we have the same aim. We work closely together through our combined authority.

Q133 Chris Williamson: What would be your response to those who say that smaller cities should simply focus on locally pooled resources and decision-making, rather than full fiscal devolution? Do you think that would be acceptable?

Cllr Box: It is perhaps to misread the local situations. For example, there is nothing wrong with the three big metropolitan areas in West Yorkshire—Bradford, Kirklees and Wakefield—having powers devolved to them and, at the same time, working very close with Leeds, which is a core city, on transport, for example. There is no divide in the way that perhaps is being suggested.

Ed Cox: This is where we need to look at what a programme of decentralisation looks like, rather than there being one power, to decide to whom something goes, to what level it goes and whether it is appropriate for it to go a level below. I would look at it over a period of two Parliaments. If you look at Japan or France, they have taken this kind of approach, where they have looked at it over a 10-year period and they have said, "What kind of powers would be devolved to which levels at which points during this 10-year process?"

IPPR is currently working on a nine-month project to do exactly that: to look at the different Government Departments and the different fiscal areas that we would want to see decentralised, which level they would go to and what timeframe would be best to do that over. You come up with a programme then that enables you to say, "Yes, at the beginning there will perhaps be a big-bang approach for the Core Cities, counties and those who have the capacity and the democratic accountability to get on with it." Over a period of time though, we can see what is coming down the line for smaller places, how that relates to those Core Cities—because of course there are overlapping territories, as Peter has suggested—and then those things that are standard things that need to be decentralised everywhere to local authority level, particularly around public services.

It is perfectly feasible, if there is a will. I put it back to you: is there really a will centrally to do this? If there is a will, we have the expertise within central and local government, and amongst the think tanks, to be able to find a way through this.

Q134 Chris Williamson: I have one final question in relation to York's suggestion, which you may have heard about, that we should remove bureaucratic restrictions to enable combined authorities to evolve on a basis of economic markets, rather than geographic links.

Liz Peace: It sounds perfectly feasible. That is what my members operate in. They do not operate in geographic boundaries; they operate in economic areas. The first thing is that the property industry will go where they think there is demand for their product. They will also be influenced to some extent by the reception and the sort of support they will get from the local government in the area in whatever shape or form that is. If there is a strong need for some form of infrastructure to support the development, they will want to look for somewhere that will either help them access that infrastructure and help get it built, or help them find other means of financing that.

Q135 Chris Williamson: Local people do relate to geographic areas, do they not, though?

Liz Peace: The distinction between a geographic and an economic area is interesting. From the perspective of the property industry, you would be looking at what your catchment area was for a particular development. If it was a shopping centre, it is where your shoppers are going to come from. That is both economic and geographic to some extent. For my industry, it would be a slightly false distinction.

Cllr Box: We built a new art gallery two years ago, the Hepworth Gallery, and we get people from all over the world. Somebody from Australia was the one millionth visitor just before Christmas. By and large, people tend to stay in hotels in Leeds. When they drive down the motorway, they do not get to the boundary with Wakefield and say, "Thank God we are going in to Wakefield and leaving Leeds behind." People are more interested in the product and they are not overly fussed about whether a particular destination like the Hepworth is in my borough or in Tom Riordan's.

Ed Cox: For me, the question that the York issue raises is the extent to which we try to design a programme or model of decentralisation top-down or bottom-up. For Whitehall officials, it is a huge problem to think that York might be sitting out there somehow linked to Leeds, but not geographically. What do people do? Do they use a helicopter to get in and out to make decisions? I do not know. Do you see what I mean? You can see, from a top-down perspective, it is not very neat and tidy.

However, I would advocate, as the Government has done to a degree with Local Enterprise Partnerships, for better or worse, that what we actually need are bottom-up arrangements where local authorities working together come forward and say, "These are what we would propose to be the arrangements that we would like to see." Central Government then has to say, "You need to get your acts together in order to do this," because the question that then comes back is, "What if local authorities cannot get their acts together?" Then they get left behind a little bit and it is up to them to sort themselves out in order to be able to get the benefits of decentralisation.

Q136 Simon Danczuk: There has been far too much talk about Yorkshire for my liking, so we will move on. I will start with you, Peter, but, Ed, you started touching upon this a few minutes ago. The Key Cities Group said that, "Government should develop a menu of devolved fiscal and other powers for all tiers of local government." What other powers might be on that menu, Peter?

Cllr Box: If you look at the submission, we have talked about having different stages of fiscal devolution. You can have a localisation of the work programme to cities, for example, or sustainable communities and the localisation of probation services. That is what the Key Cities Group is calling for in the first 12 months. Over a period of time, we are saying that might be different and rolled out to gain the trust of

Government that this can be different, but also it can be effective and it can save money.

If I can give you one example, because I know that the evidence is there, we estimate that there are 33 different funding schemes in local government for re-engaging people and helping them get back into work. Nationally, that costs about £15 billion. It has been estimated that if that were devolved to a local level, it could save £1.25 billion a year and cut youth unemployment by 20% over three years. That is evidence that has been produced by local government. It has been sent to Government and it shows the scale of what can be achieved at a local level and still achieving some huge savings.

Q137 Simon Danczuk: If we can stick with that as an example, the previous Labour Government did not devolve the new deal for the unemployed down to local authorities; they devolved it down to Jobcentre Plus. One argument was they did that because they did not trust—I will try to say it politely—local government to deliver it smartly. Irrespective of party politics, the reality is that there is—whether it be in Whitehall amongst civil servants or amongst national politicians in ministerial positions—a fear that local government cannot deliver on that sort of thing.

Cllr Box: Sadly, there is, yes. Before every election, political parties campaign on devolution. When they get in power, they sadly disappoint us. That is the truth and the question is why that is the case. You talk about trust; the reality of what local government has achieved—not on its own, but working very closely with the private sector—is second to none. If you actually called into aid the Prime Minister, who said publically that local government is the most efficient part of Government, then on this occasion I would agree with him. Perhaps not on every occasion, but on that one I would agree with him.

Ed Cox: On the menu question, we are systematically working through every Government Department and every funding stream at the moment at IPPR to address that. I have 40-45 different areas of Government where we were looking at what needs go on the menu. If you want me to, I will break them into three big categories.

Simon Danczuk: Yes, please do.

Ed Cox: One is around economic development powers, which are absolutely fundamental. Another is around public services, i.e. schools, police, health and those kinds of things. The third is around fiscal powers that we think need to be decentralised. We are working through each of those and we are looking very systematically at where they currently lie and where they might be more effective, if they were to lie there, and what a programme of change looks like around that.

That is the menu question. The way we would then perhaps do that—we have not finalised our thoughts about this—is that different parts of the menu would be put into different packages. We cannot be doing this city deal process with 450 local authorities or more, or 39 LEP areas, for that matter. It is too bureaucratically cumbersome, but we would put different parts of the menu into different packages and then we would look at a waved rollout of different packages for different areas over a period of time. That is roughly how we think the process might work.

On the trust question, it is a very important question. It is fair to say that, as Parliamentarians, you have not trusted local government enough. A number of panellists have explained that you should and given evidence as to why you should. The problem is that we are in a vicious cycle here. Let us remember the abolition of the Regional Development Agencies. It is not that I want to stand up for the Regional Development Agencies, but they did cause a greater centralisation of economic development powers again. The more you have taken powers away from the local level, the more you have infantilised local government and therefore reduced the public's trust in local authorities. It is quite incredible that the level of public trust in local authorities is still much higher than it is in you Parliamentarians, even to this day, despite the fact that so many powers have been taken from local authorities. The way to restore trust is to give those powers back again. People will then come clamouring for more accountability and so on.

Q138 Simon Danczuk: Liz, your members are lobbying hard for local authorities to have even more powers than they have already. What are they asking for?

Liz Peace: There is a little ambivalence here, because to some extent you will find the business community, and certainly, the people I represent in the business community, still have this degree of nervousness of what local authorities might do with a huge amount of power—for instance, a rate-setting one. If you asked my members or, indeed, CBI members whether they want local authorities to set the business rate, there would be shock and horror. No, they do not want that. However, they do want to see a greater degree of ability in local authorities to do the sorts of things that will influence the way their area can grow. That is the important area. In a way, it is not just giving power; it is giving power that will produce something else that is of benefit to that local authority. After a while, you can judge whether that has been successful and, indeed, judge whether you were right to have given that degree of fiscal devolution.

Q139 Bob Blackman: Looking at governance arrangements, London's governance arrangements are an elected Mayor of London, an Assembly and London boroughs, which have different arrangements. How applicable is that type of structure for governance outside of London?

Cllr Box: There was actually a vote in Wakefield in 2012 and the people of Wakefield voted for me, because the question was, "Do you want to retain a leader and cabinet?" It was not, "Do you want a mayor?" There was a big majority in favour of retaining a leader and a cabinet. I am personally against elected mayors. Most of the city leaders in the Key Cities Group are against elected mayors. It is about power, not position. That is what it is about. In one sense, it does not matter what the head of a place is called. It is about the powers that he or she has. That is the crucial thing. There could be an elected mayor over an area that has no power, in which case it is simply a title. I am not overly fussed about the title; I am more bothered about the power that I have in my city to make a difference.

Q140 Bob Blackman: If you or others were challenged to have the elected mayor or directly-elected-leader model and have more power and responsibility, what would you say to that?

Cllr Box: I would say there are people who are still obsessed with an elected mayor and the title, rather than the power. That is simply my view. There are people who are looking at the title and the elected mayor—it happens in London; I am not saying it should not happen in London—and they are forgetting what is really important. What is really important is the power that any local authority or any city has.

Ed Cox: As a simple answer to the question, London does represent a very good model, for precisely the reasons that are evident all around us. Central Government does trust London's Government very well and consequently invests in it very heavily, to a much greater degree than any other place in the country. To that extent, it is a good model. I would go slightly further, though, and say there are a range of conditions that need to be satisfied between central and local government. Be very careful of the language here: these are not conditions that central Government is imposing on local government; this is not earned autonomy and that kind of thing. This is about an arrangement between two adult partners trying to sort out what the power relations need to be between the two of them. There needs to be a number of conditions that need to be satisfied in order for fiscal decentralisation to take place in the way in which I hope you are imagining. This would be things like, "What does the functional economic area need to look like? Can the local area define that and how that works? What information and transparency arrangements are in place?" Democratic accountability is fundamental.

Q141 Bob Blackman: On that issue, what is the role of LEPs?

Ed Cox: LEPs have a part in to play. Across the cities, there are various partnership arrangements. Each city has different partnership arrangements and the LEP is one of those fundamentally important partners to business communities. However, it needs to be part of a set of partnership arrangements, at that combined authority level, which are transparent and clear. It will slightly different from place-to-place.

Democratic accountability is a fundamental condition. The more we want to decentralise fiscal powers, the greater levels of direct representation we need to see. We have made a case, for example, for a proportion of income tax to be assigned to combined authority areas. If you are going to do that, you need a directly-elected mayor in order to give the visibility and accountability. It is a little bit of horses-for-courses in this programme I am talking about. If you want different levels of decentralisation, you need different types of democratic accountability.

Liz Peace: The whole discussion around elected mayors is a distraction. It is perfectly feasible to have exceedingly good leadership without a directly elected mayor, following the normal processes we have to elect members of a council and for the majority party to elect a leader. I am sure you have been told many times already by your witnesses that one of the most successful local authorities does not have a mayor; it has a leader who works in perfect harmony with the chief executive of the council. I am talking about Manchester; that is a place where you will find that most of my members are absolutely delighted to go and discuss investment and development, because they trust this dynamic duo implicitly to deliver. You do not need an elected mayor to do that.

Q142 Bob Blackman: That is despite the fact that Manchester has a whole number of different authorities and the leader and chief executive only control the city centre.

Liz Peace: Indeed, they do. Of course, by dint of their own skills they have managed to pull together the Greater Manchester group, which again seems to work extremely effectively and leads this to be the sort of place where the private sector are willing to go and discuss investment.

Q143 Bob Blackman: However, there is no democratic accountability to the residents outside of the immediate city centre area for that purpose.

Liz Peace: The Greater Manchester group comprises representatives of councils that have indeed been elected. For the purposes of delivering the best services to their members, they have come together with others and, between them, they have acknowledged a leader. Not everybody can be a leader.

Ed Cox: As a resident of Manchester, it is just important to note that Greater Manchester Combined Authority has just announced a fundamental root-and-branch review of its accountability and its partnership arrangements, because it has half an eye to the fact that a degree more direct election might be suitable if it wants the kind of powers that perhaps Treasury is considering for a place like Manchester. That is notwithstanding the comments Liz has made, because the current arrangement has been very effective. To some extent, however, it does have a time limit and, therefore, we need to look at how works.

Liz Peace: We have to be very careful we do not get rather distracted by it and it takes attention away from the economic achievements.

Q144 Bob Blackman: I have one last question before we move on. One of the issues in London, for example, as a London MP, is that if I challenge Ministers on travel, police or anything else I am told, "That is a power devolved to the Mayor." MPs in London are effectively divorced from decision-making. What role do you see MPs in these new devolved areas playing over the Government's arrangements, if any?

Ed Cox: It sounds to me like an ideal situation where we have seen genuine power decentralised. Then the public and the parliamentarians themselves have to go to the people that hold the power, namely in this case the cities, in order to discuss the way in which that power is exercised. That sounds like a very mature democracy.

Q145 Bob Blackman: Do you not see a role for MPs in holding local authorities to account for the services that are being provided?

Cllr Box: No.

Bob Blackman: You do not, that is fine.

Cllr Box: Of course not, no. There are different roles. I went to Westminster to explain to MPs what a combined authority was about and what it meant. I will not name the person involved who turned around and said, "What is in it for my constituency?" When you are working at a combined authority level, it is about more than the individual constituency. We make decisions that we think are best for the combined authority economic area. That might mean on occasions that my area is disadvantaged in that investment goes elsewhere sooner, but that is what you have to do when you are working at that level. There is a clear role for MP colleagues, of course, but to say that they would somehow be on the combined authority would not work at all. By the by, we have the Chair of the LEP on our combined authority. There is a very strong link with the private sector on the combined authority.

Q146 John Pugh: Liz, you said that Manchester was a very efficient arrangement that worked very well—and I would tend to concur with that. Ed, you said nonetheless they are considering this. They were not thinking of changing because it was not efficient, but because it might be a precondition of further devolution of powers—i.e. for no other reason than somebody who is devolving powers wants it to happen. Is that right?

Ed Cox: No. We would all have to go away and look at the terms of reference of the radical root-and-branch review of the Greater Manchester Combined Authority. One of the best things that Greater Manchester does, as with other cities, is do things on its own terms and not only do them because Government is seeking for them to be done. However, one consideration Greater Manchester Combined Authority is making at the present time is, "If we were to change our arrangements a little bit, would that make it easier for Treasury to let go?"

Q147 John Pugh: That is absolutely the point, is it not? The Treasury—or, rather the Government—is setting a precondition that has nothing to do with efficiency; it is to do with preference for particular modes of governance. They have not given any other reason; the only reason Greater Manchester Combined Authority are reviewing their governance is because they sense the Treasury's feelings about devolution.

Ed Cox: It would be a wonderful day if Treasury did set some preconditions for the kind of decentralisation we are talking about.

John Pugh: You mean if these were based on evidence.

Ed Cox: It would be even better if they were based on evidence.

John Pugh: The evidence is that Manchester works fine as it is.

Liz Peace: I am looking at one particular relatively narrow area of the private sector, which is development. Certainly, from my perspective, Manchester is a place you can go and actually get a good, sensible hearing. You do not get it all your own way; you have a good tussle. My members have always said they count their fingers before they go in and when they come out, when they have seen the Greater Manchester group. That is fine: you want equals with whom you can have a negotiation.

Chair: We will test that next week. We are in Manchester, so we will wait and see.

Liz Peace: Be careful.

Q148 Mark Pawsey: We have heard some arguments in favour of fiscal devolution and in earlier evidence we have heard ways in which local authorities might finance these new powers. We have heard about tourism tax and local tax. Can we first of all take it that everybody agrees that a property-based tax is the only way it can be done?

Ed Cox: No. Property-based taxes are very important as part of the mix of those fiscal powers we want to decentralise, but in a recent report that we have published we name five or six other things. To start off with, let us keep it simple. The kind of place-based budgets that Michael Heseltine recommended to the tune of £49 billion over four years would be a fantastic start; the Government has currently committed £2 billion to that kind of process.

The kind of earn-back model we have seen in Greater Manchester around transport funding could be run across welfare-to-work programmes and many other Government funding streams that are going in at the moment. That will be another step. We have recommended the assignment of 10% of income tax, for example, to local authorities.

Mark Pawsey: You are actively lobbying in favour of income tax going to local authorities.

Ed Cox: All of these things should be on the table. Let me go back to first principles: you, as Parliamentarians, need to have a vision for what decentralisation needs to look like. If we look at fiscal decentralisation in other countries, in Sweden and Germany over 50% of revenue is raised and spent at the local level. If you are very generous in the way you consider council tax, we are at just about 12%.

It is up to us as a nation to ask the question, "Do we really want to be with Romania and Bulgaria and those other countries at that bottom end of the decentralisation league or would we rather be with the prosperous and developed nations at the other end?" Once we have set that vision—and I would argue that 50% should be what we aim for—we then have to ask the question, “What are the fiscal measures to get us there?” You have to put income tax into the equation.

Q149 Mark Pawsey: Peter, if we are going to give you all of these new powers, how are you going to raise the money?

Cllr Box: You mentioned tourism tax; that is one thing that can be done. The Local Government Association is looking at municipal bonds. In fact, I had a letter today from a local authority that is looking at, and intending to lobby the Secretary of State for, a local levy of up to 8.5% on large supermarkets, which has to be used specifically to improve local communities. That is on those supermarkets that have a rateable value above £500,000.

I am not endorsing any of those schemes; all I am saying is that there are schemes around that different local authorities think are suitable for their area. To say there are no schemes is wrong; there are some. Some might not be palatable, but that is part of localism.

Q150 Mark Pawsey: Liz, the two other people on the panel are suggesting some weird and wonderful schemes for raising tax, but the only game in town, frankly, is the localisation of business rates. What are your members’ views of the localisation of business rates?

Liz Peace: Our membership is quite excited by the proposals for the localisation of business rates. I will not say that members actually started reading into the subject, because it was all far too complicated, but, as with that old scheme of several years ago, whose name I cannot remember—

Chris Williamson: Is it LABGI?

Liz Peace: That is right, LABGI. However, the localisation of business rates has become so fiendishly complicated. The whole rebasing at the 10-year point has limited the perceived value of it from my members’ perspective. What they were looking for was for local authorities to be able to have the ability to borrow against future business rates streams. That largely dissipated in the light of this reset point.

Mark Pawsey: You spoke earlier of the concern of your members at what local authorities might do with these extra tax-raising powers.

Liz Peace: They are trying to balance one thing against the other: a degree of nervousness in case a local authority went mad and whacked up the business rates phenomenally, if they had rate-setting powers, compared with the wish to see local authorities having a degree of freedom to borrow.

Q151 Mark Pawsey: Mr Cox, despite what you have just said, you proposed a power to control the amount of increase that a local authority can have on its business rate to RPI plus half the size of any council-tax increase. Would you like to rationalise that? Where did that come from?

Ed Cox: One of the things businesses fear is that they do not have a direct vote in local elections. The reason we would suggest decentralising council tax properly and business rates is because we think local authorities should be held accountable for the tax they raise.

Q152 Mark Pawsey: Could they go and do something absolutely barmy?

Ed Cox: If a local authority wants to raise council tax, it will be held democratically accountable by its local population. Linking business rates to that—we are saying it should be half the amount—gives businesses a greater level of confidence that a local authority is not going to run off and put business rates up to any level without there being a democratic process.

Q153 Mark Pawsey: That is quite a fetter on the power of local authorities to raise revenue. Peter, how would you feel if Ed's idea was implemented?

Cllr Box: It is an interesting point that you raise. What if, because of devolved powers, a local authority did something outrageous? That is the gist of the question. Of course, I would turn it around and say, "What if Parliament ever did anything outrageous?" I am making the general point that if you are serious about devolution and localism, sometimes local government will take decisions that parliamentarians do not like. That is the nature of it. As Ed says, we are accountable. I cannot see how any sensible local government—with all due modesty, I say most of us are sensible—is going to take a decision that is going to mean that we have outrage and business and every individual constituent complaining. It does not work like that. Sometimes there might be the odd case where a decision is taken that is not the norm, but that is what happens when you have genuine devolution.

Mark Pawsey: Are you arguing that the risk of an authority taking leave of its senses and putting up a business rate massively is a price worth paying for more decentralisation? Is that what you are saying?

Cllr Box: If you are serious about devolution and localism, clearly that can happen. In any country in the world where there is devolution and decentralisation, by its very nature that is a remote possibility.

However, at local level we are like you are at parliamentary level, in that we are accountable to the electorate and we are accountable to business, who quite rightly have an increasingly large voice in what we do at a local level. We do not do things and succeed by ourselves; we do it in partnership. For us to do that without consulting and without thinking about all the ramifications is not likely to happen at all, but I obviously cannot give you a cast-iron guarantee.

Q154 Mark Pawsey: For all of you, presumably, the current business rate retention scheme does not go far enough; you would like to see that go further. However, if they were going to have a system based on property taxes, we would need a revaluation of property values. How long do you see the current system running for and how often would you like to see a revaluation taking place?

Liz Peace: Are you talking about a revaluation for the purposes of rebasing or a simple revaluation of business rates?

Mark Pawsey: A property-based tax has to be based on current valuations.

Liz Peace: Absolutely, yes. We are in chaos at the moment, because, of course, it is based on the values just prior to the recession, which is what is causing the problem. I see no reason, with modern technology, why you could not move to a far more frequent revaluation of property.

Q155 Mark Pawsey: What would be a sensible frequency from the BPF's point of view?

Liz Peace: We have talked about two years.

Mark Pawsey: You want to keep the valuers in business, do you?

Liz Peace: We have to make it easier, we have to use technology; and we have to be able deal with disputes rather more easily. Of course, if it changed more frequently there would probably be fewer arguments, because you would know that it is actually going to get reconsidered in a shorter space of time. At the moment, there is such a long pause in between.

Mark Pawsey: Presumably a two-yearly valuation would be simply an RPI-based valuation.

Liz Peace: Yes.

Mark Pawsey: And your members would be happy with that.

Liz Peace: Yes.

Ed Cox: If we are talking specifically about business rates, there is a very rational case, which Liz is making. If we are talking about a revaluation and a rebasing across a number of decentralised fiscal measures—

Chair: You mean a resetting.

Ed Cox: Yes, a resetting. You need a longer period of time to make sure the incentives are there built within the system.

Mark Pawsey: So you would have a 10-year—

Ed Cox: Possibly. Can I make another very important point on this? There are two things here. First of all, the basis on which this is being done needs to be very clear. It needs to be transparent. At the moment, most of our funding formulas around decentralised finances are completely incoherent and you cannot understand how exactly how they have been done.

Secondly, I would suggest we consider an independent body to undertake some of this work, rather than it being left within the hands of politicians. That is a debatable one and it is not IPPR's position as things stand, but it needs to be part of the conversation as to the role of an independent body.

Chair: You want something like the Office for Budget Responsibility for local finance.

Ed Cox: Yes, but one would hope that it was slightly better than the OBR.

Q156 Mark Pawsey: The benefit of the property-based tax is that it is pretty certain, is it not? Property is immobile. It is not going to move around; that is the evidence we have received so far. How often would you like to see the business rate revaluation take place?

Cllr Box: Could I rewind slightly, if you do not mind? The question was raised earlier as to why devolution has not happened sooner when apparently politicians from all the main parties support it. I would suggest that is because of civil servants, who are a brake on innovation in many cases.

Mark Pawsey: Did you call that the "blob sphere"?

Cllr Box: That is what I think: there can be a block on innovation. The real issue is to make sure the question you ask does not delay devolution. You can get lots of questions asked about why this, why that and why the other, and that can delay things. There is a real appetite. It will not go away. The sooner it happens, the better it will be for local government, business and national Government.

Rather than give a specific answer—I am sorry about that—I would say that this should be one of the things that is talked about once the principle of devolution has been agreed, because yet again it will be an excuse for months and months, if not years, of delay about why nothing happens.

Q157 Mrs Glindon: We have talked about equalisation a little bit. How will equalisation and redistribution work if only Core Cities achieve fiscal devolution?

Ed Cox: My point would be that we would hope that it is not just Core Cities that receive it. That is the simple answer to the question. The deeper point is about how we create a system that allows for a degree of equalisation. There were some very good answers in the previous session. However, as I said, there are some important principles for me: it needs to be done in a very clear and transparent way, as opposed to how it is now; there needs to be a reset process every 10 years to allow the system to run for a decent length of time and build up certain incentives; and I would suggest that we consider some kind of independent body, rather than expect that it is in any political party's interest to actually revalue or reset equalisation measures at any given point in time. Those would be some of the principles you would need to set down to enable that to happen.

Cllr Box: There has to be equalisation to make sure that those areas that are particularly deprived do not have a situation that is worsening. That is my view. You do also need incentives for those areas that are growing. Those areas that perhaps do suffer deprivation now, once the equalisation has taken place, can move forward and try to engender the growth they actually want but in some areas is difficult, so I would agree with the comments that Ed and the previous panel made—particularly Tom, from the Leeds City Region perspective.

Liz Peace: I have nothing to add to that.

Q158 Mrs Glindon: If there were mass devolution, if devolved areas fail under fiscal devolution they will be penalised. Will the key cities and the counties be better off remaining outside of fiscal devolution in order to keep money coming in from Whitehall? Is it worth the risk?

Cllr Box: If you look at some of the key cities, in most of the key cities we are working extremely hard in terms of our local economies. In many of them we are proving successful, working with business colleagues and making a difference. I do not accept the premise you are putting forward: that there should only be Core Cities and not the key cities. At the same time, working at a combined authority level, there are opportunities there for money to be pooled as well.

Ed Cox: I agree with what Peter said. The Key Cities submission sets out precisely the fact that some of the key cities are growing just as fast if not faster than some of the Core Cities. Therefore, the proceeds of that growth should be retained locally; there is no reason why they should necessarily get left behind. I am not suggesting for a moment there are not some very challenging areas, which is why you do need some kind of equalisation or redistributive formula. That is true, but we should not work on the assumption, as we currently do nationally, of investing everything in London and bailing the rest of the country out in that way. We should not work on the assumption that you just take that one tier down and the Core Cities bail out everywhere else. No, that is not the way in which our economy should work. We need to ensure that every area has the potential to grow, and have a redistributive mechanism to allow those areas that do fall behind to catch up from time to time.

Liz Peace: I do not have anything new to say, but I just say how much I agree with that point. We should not lose sight of the fact that we are talking about allowing those people who are growing their business rate base to keep what they make. If they are growing, we want them to keep it, so that, wherever and whoever they are, it is in their hands to encourage a greater degree of investment and development, and they then get the proceeds from that.

Of course there are some that will need to be bailed out; there will always need to be a safety net for those who have not quite got into that positive process. I do not see why those who have, who could be anywhere, should not be allowed to keep the proceeds of that growth.

Chair: Thank you all very much for coming and giving evidence to us. It is appreciated.