



Communities and Local Government Committee

Oral evidence: [Fiscal devolution to cities and city regions](#), HC 1018

Monday 10 March 2014

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Written evidence from witnesses:

Panel 1 (Questions 320-363)

[Wolverhampton City Council](#)

[Core Cities Group](#)

[Birmingham City Council](#)

Watch the session

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

Panel 1 Questions [320-363]

Witnesses: **Councillor Roger Lawrence**, Leader, Wolverhampton City Council, **Councillor Nick Forbes**, Core Cities Group and **Stephen Hughes**, Former Chief Executive, Birmingham City Council, gave evidence.

Chair: Welcome to the fifth evidence session of the inquiry on fiscal devolution to cities and city regions. Just before we move to questions, perhaps the Members of the Committee, as usual, can give a declaration of their interests. I am Vice President of the Local Government Association.

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

David Heyes: Two members of my staff team are councillors.

Chris Williamson: Two members of my team are councillors as well.

Simon Danczuk: My wife and father-in-law are councillors and three members of my staff are councillors.

Mark Pawsey: One member of my staff is a councillor.

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

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

Q320 Chair: Just for the sake of our records, could you just say who you are and the name of the organisation you represent today?

Cllr Nick Forbes: I am Nick Forbes, the leader of Newcastle City Council, and I am appearing here on behalf of the Core Cities Cabinet, of which I am Vice Chair.

Stephen Hughes: I am Stephen Hughes, former Chief Executive of Birmingham City Council, called back to represent Birmingham and Core Cities.

Cllr Roger Lawrence: I am Roger Lawrence, leader of Wolverhampton City Council. I am also Chair of the Black Country Consortium and currently Chair of the West Midlands Joint Committee.

Chair: Thank you very much. You are all most welcome. Nick Forbes, there was a paper from Sheffield City Council, who I think take the lead on fiscal matters at the Core Cities. I know Julie Dore sends her apologies for not being present today. If anything particularly related to Sheffield comes up and you cannot deal with it, we will have to put it in writing to Sheffield afterwards. We understand, however, that you are here for the Core Cities as a whole. Thank you very much.

I suppose some people might say, "The English cities are not doing too badly, are they? They have pretty good public services and their infrastructure has been improving over the years." Why is all this devolution, fiscal or otherwise, necessary?

Cllr Nick Forbes: Because centralisation is holding us back as a country. The lack of financial powers available to local government is hampering growth in the major cities of the UK outside of London, and, as a result, the overall country is not doing as well as it could do.

In Newcastle, we have just one relatively small example of what can be achieved with modest financial reform, which is our accelerated development zone, funded through tax-incremental financing. That was a product of our City Deal with Government. We have managed to stimulate development activities on a number of key sites in the city as a result of those new powers, which would not have happened otherwise.

At the moment, however, those powers are the exception, rather than the rule. Our case is that we could do so much more as a country and so much more as major cities if we had greater financial autonomy at a city level.

Stephen Hughes: I entirely agree with that. There are three broad reasons. First of all, it is about financial sustainability. The devolution of financial powers to local authorities is a really important thing, if local authorities are going to continue as a going concern.

Secondly, there is the point that has just been made about incentivising growth. Equally, I can give an example of, within our own enterprise zone, a project that would not have happened if we had not had the ability to capture business rates from that area. It was about £60 million of public investment for £400 million of private investment in Paradise Circus. That is a good example of what can be done when we do have that authority.

Thirdly, it is about more effective delivery of services by enabling there to be better collaborations between different public agencies in a local place. Without that kind of connectivity in a locality, it will be very difficult to get proper joined-up services locally, which is very important, because otherwise you will never be able to deliver the savings people are looking for.

Cllr Roger Lawrence: First of all, I challenge the assumption that we have a decent infrastructure. Anyone who has driven through the West Midlands on the M6 would question that. If we had such wonderful infrastructure, my council and Staffordshire County Council, who I know have spoken to you already, would not be spending £20 million each on building the first local-authority-funded motorway junction.

Secondly, if we are looking at devolution and the challenges of devolution, whatever happens in the referendum in Scotland we know there will be further devolution both to Scotland and Wales. London has its Assembly and its Mayor. The rest of England, frankly, is sadly neglected, and I think will increasingly make its voice heard about that neglect. So I challenge those assumptions.

Fiscal devolution will help us, but it is only part of the package we will be looking for. We actually want a whole change in the attitude from the centre to the periphery. Anyone who has gone through any of the funding regimes that all Governments have produced over the last 30 years—I am speaking as someone with 30 years' experience of local government—would know that getting money from central Government to support local initiatives is incredibly difficult, very time-consuming and immensely bureaucratic.

A change of attitude, along with a clearer, long-term financial-planning horizon would help us. Those of us who have just set the council tax did not know what amount we could put up our council tax up by until two or three weeks before our budget debates. We did not know how much our final settlement was going to be until a few days before Christmas, when we had to have a budget debate in March. That does not make for good long-term financial planning; certainty, independence and a degree of autonomy do. We know we have to be responsive and accountable for central funding.

Q321 Chair: Is what you are saying to us that fiscal devolution may be where this inquiry started, but it is only part of the game-change you want to see? You also want a package of reforms about powers and the ability to invest. You see it as a total devolution package. If you have the powers and the ability to deal with infrastructure, would the fiscal devolution really matter?

Cllr Nick Forbes: There are three different strands of this that need to be woven together. One is the fiscal devolution that you started off looking at. Between us, we can provide lots of examples of what is working at the moment and where there is further opportunity.

Secondly, regarding public-sector reform more broadly, there is a role for local government to have better coordination of local services at a local level. We talk about community budgeting and Total Place pilots; there is much more efficiency we can get out of public-sector funding by having better coordination.

The third element to it, which is the bit that is often overlooked, is the fairness of the overall settlement we have for local areas. Without the principle of resource equalisation, the whole system will fall over quite quickly.

All three of those strands need to be woven together into a new devolutionary offer to local government—although not necessarily all at the same time. What I am saying on behalf of the Core Cities, however, is that we are expressing an appetite for seriously discussing with Government how we can proceed, sooner rather than later.

Chair: We will pick up the third bit specifically a little bit later. Are there any other points about the total package?

Stephen Hughes: There are two distinctive things that are included in that and they sometimes get confused. One is the bit about the access to the benefits of growth that the Treasury gets—whether that is by increasing their tax base or reducing their benefits bill—in order to ensure we have the appropriate incentives to work on growth in our own areas and, by getting the rewards from that, are able to do more than we otherwise are able to now. That is the example we have given in terms of enterprise zones and accelerated zones.

The second part is about a greater local influence over the totality of spend that is taken in one place. That is about enabling local agencies to work more effectively together by having a more common approach to commissioning across different public agencies. You can get those two things confused, but they are both important in terms of enabling local areas to deliver better services and better value in services going forward.

Cllr Roger Lawrence: I do not want to add anything to what I said before.

Q322 Chair: I want to come back to the West Midlands for a second. In the North East, and we had a visit to Greater Manchester, there is a good deal of agreement about what the boundaries should be for development. Manchester has the combined authority. The North East is moving there, as is the case, from the evidence, in Sheffield and Leeds as well. West Midlands seems to be one area where there does not seem to be agreement between all the parties on having some combined-authority approach to cover the whole area. Is there something particular about the West Midlands that means you cannot sit down and agree with each other?

Stephen Hughes: There are two elements that are important. Roger, I am sure, will contradict me, but there are two things that I think are important. One is that the Birmingham Local Enterprise Partnership includes a number of the South Staffordshire districts and North Worcestershire districts, which do not fit into the combined-authority model because of the way in which combined authorities are written in legislation. They have to be transport authorities, which includes shire areas, which means the county as opposed to the district. What is a genuine economic area does not work in combined authorities. That is one difficulty.

The second one is about the size of Birmingham as a local authority compared with its neighbours. Birmingham, as a whole, is

about the same size as the Black Country put together. In those circumstances, it becomes more difficult to get a form of governance working compared to other areas. That goes right back to even when there was a West Midlands County Council, which was a strategic authority that oversaw the whole of the area. There was no love lost between the individual component parts and the County Council. Roger probably remembers those days.

Cllr Roger Lawrence: I am not quite that old, Stephen. First of all, neither I nor Sir Albert Bore were the leaders of our respective authorities when the LEP geographies were agreed, although both of us had been former members of the RDA board, so we did have a view about the wider West Midlands.

Joint work has improved markedly over recent years, and indeed over recent months. We are now looking at rejigging the transport governance arrangements for our ITA to focus that on the leaders' group across the seven metropolitan authorities. We do see that as being the area for a combined authority. That is why the Black Country has decided to have the Black Country Executive Joint Committee rather than a combined authority, because it does not want to preclude that option of a wider combined authority. Our aspirations would lead us down that particular route.

I would also say that, as with probably most of the other regions, it is not a case of one size fitting all. You cannot just have something that deals with your seven metropolitan areas. Just as the Birmingham LEP clearly has to engage with Lichfield, Redditch, Bromsgrove, and other parts of Staffordshire, Worcestershire and Warwickshire, which are effectively part of the Birmingham commuter area even though they fall outside the metropolitan areas, so somewhere like Wolverhampton, as has already been mentioned, has worked very closely with Staffordshire County and South Staffordshire District Council on the i54 development.

We are anxious to develop our close working with Telford and Wrekin, which is geographically separate. We understand that there are discussions going on about the relationship of York to the West Yorkshire LEP, and that may have a knock-on impact on our relationship with Telford and Wrekin. Telford and Wrekin has a huge amount of employment land. An awful lot of people who live in the new town area of Telford moved out of the Black Country. It is barely 10 minutes by motorway from Wolverhampton and we have a very similar, overlapping labour market, so there is a lot of work we have to do to work together. That is one of the reasons why I feel that, if we get stuck in structures and governance, we sometimes miss the fact that there are all kinds of other areas of cooperation that can go on—

often on a voluntary or fairly informal basis—that can actually deliver huge economic benefits.

Q323 Chair: Stephen, should the principle be that, in the end, areas should be able to determine their own way forward? There is this issue about districts who, because the county is not a transport authority, are not allowed to be part of a combined authority. Is that something we ought to tackle and deal with as part of this process, if that is what those districts want to do?

Stephen Hughes: That is an issue. It has come up in other city regions as well. They have all come to slightly different arrangements for how they have managed to include their districts. Clearly, the geographical patterns that were set up in 1972 or 1973 are not necessarily the most relevant for today. There has to be some flexibility around that.

Q324 Simon Danczuk: Starting with you, Roger, when might your area be ready to take on fiscal devolution?

Cllr Roger Lawrence: If we were looking at fiscal devolution simply to the Black Country, we would be ready within a fairly short period of time. We are already working very closely with our colleagues around joint European-funding issues and joint economic development. We are trying to work towards a virtual single economic development team so we would be ready more quickly.

The issue around the combined authority for the West Midlands may well be a year or two down the track.

Simon Danczuk: What would you put on the first one and on the second one? Would the first one be within 12 months?

Cllr Roger Lawrence: Yes, it would be within 12 months for the Black Country.

Simon Danczuk: How long would it be for the West Midlands?

Cllr Roger Lawrence: It would be perhaps two or three years. It could be less; it depends on what happens.

Q325 Simon Danczuk: What about Birmingham, Stephen?

Stephen Hughes: The generality of the question is that different places have different capabilities and capacities. Birmingham is certainly capable of taking fiscal devolution now, both in terms of local services and in terms of economic activity.

Simon Danczuk: It could be done quickly, then.

Stephen Hughes: Yes, it could.

Simon Danczuk: Within 12 months.

Stephen Hughes: Knowing that you were probably going to ask the question, I thought about whether there were some generalised principles you might want to apply.

Simon Danczuk: We might come back to that, but I am just after some timescales. Nick, what about Newcastle?

Cllr Nick Forbes: 1 April this year.

Simon Danczuk: You are really ready.

Cllr Nick Forbes: That is when our combined authority comes into effect. The significance of that is that you need a bigger governance structure than simply an individual local authority—with possibly the exception of Birmingham, which is a very big local authority. The combined-authority model and structure gives you sufficient weight and resilience in order to be able to do it effectively. We will have one, with South Yorkshire, West Yorkshire and Merseyside, from 1 April.

Q326 Simon Danczuk: My worry is that there have been lots of warm words around local growth and the ability to achieve growth from these changes. Added to that, there is one hell of a risk in terms of how this could go wrong. You are taking on a lot of financial responsibility. If it goes wrong, if money is not collected or if taxes are not paid, local people are going to have to put up with the consequences of that. Should readiness for fiscal devolution involve some sort of assessment of capacity to grow and to manage risk? Should there be some sort of assessment of that before you are given those powers?

Cllr Nick Forbes: We already have a lot of that framework in place. We already have recognised prudential borrowing limits. We already have external audit. We already have active scrutiny within our own authorities.

Q327 Simon Danczuk: That is all risk, is it not? There is no proof of growth. Should there not be an assessment of whether the devolution will achieve growth in Greater Newcastle or wherever?

Cllr Nick Forbes: We are proving it already through our tax-incremental financing and our accelerated development zone. We have already created several hundred construction jobs on a number of sites that would not have existed otherwise. There is very clear evidence, not just from the cranes on the skyline, but in terms of the

numbers of people getting into work and the confidence of the business sector. One of the things we still find in the Core Cities is that, although there is a general sense of economic recovery, many of the Core Cities are still behind the curve when it comes to coming out of the recession. We do not want to have that lag; we want to be ahead of the game.

Through things like the piloting work we are doing around the youth contract, we can prove that we can achieve significantly improved outcomes working at a local level than can be delivered by the national programme. We are delivering a 47% overall success rate on the youth contract; Leeds-Bradford is delivering 57% on the youth contract; the national average is 27%. There is a lot we can do at a local level, because we know our communities better.

Q328 Simon Danczuk: Stephen, in terms of the assessment, do you have a view as to whether it should go ahead in particular areas?

Stephen Hughes: You put your finger on it in the way you asked the question the first time, which is that this is a kind of compact between a local area and central Government. Local authorities are asking to be set free in some sense, but the price for that is they need to take the consequences of what happens if it does not quite go as planned.

A critical part of this is for the local authority areas themselves to do that risk assessment and ask the question, "Is this a risk we are prepared to take?" That is part of coming to a conclusion about whether an area is ready or not. Unless there is a risk, everyone would want to do it and there would be no consequences. There has to be a consequence of going down this route. Local authorities should take a risk assessment. If they believe they are able to deal with the negative aspects of that, they should be allowed to go ahead.

There are one or two other points: they need to have proper governance in place; they need to have a proper plan; and there ought to be local consensus among stakeholders. However, the critical test is whether they are willing to take the risk.

Q329 Simon Danczuk: Roger, do you think the Black Country is ready to take the risk?

Cllr Roger Lawrence: In 2006, we produced the Black Country plan. We have a single joint core strategy between the four different authorities already in place. We have a very clear vision for the area and we know what is required within our area in terms of transport, retail, training, skills, housing and environment.

As individual authorities, we have also had a lot of experience with things like local area agreements, which, for all their weaknesses, were actually quite an interesting change in the relationship between the centre and the locality. There were agreements made to meet certain outputs and targets. If you met those outputs, you received funding for doing that.

Simon Danczuk: Is that a yes?

Cllr Roger Lawrence: Yes. More recently, there was the City Deal.

Simon Danczuk: You are ready, then.

Cllr Roger Lawrence: We have spent a lot of time around the City Deal. We have done a lot of forensics around what the issues are.

Q330 Simon Danczuk: Finally, should the first tranche be limited in number in terms of those authority areas that get the opportunity to have fiscal devolution? Should they be limited in number or should anybody and everybody get it, if they are prepared to take the risk? Should it be limited to the Core Cities and London, or should some of the counties get an opportunity as well?

Cllr Nick Forbes: The position of the Core Cities has always been that the Core Cities are the areas of the country that have the greatest economic growth potential. Therefore, it makes sense to start with them first, in terms of financial and fiscal reform. That is why the Core Cities were in the first—

Simon Danczuk: The LGA do not say that. Oxfordshire would say they are ready as well. Why should they not be able to have fiscal devolution?

Cllr Nick Forbes: The answer depends very much on what it is you want to achieve. We are coming very much from the perspective of wanting to see more and better jobs, and better, faster economic growth, because that is good for the overall economy. Other people have different rationales for wanting to take additional powers.

The Government could simply offer the prospect of growth deals, and turn the question on its head. Rather than a slightly theoretical dance around what the issues are that people want to have devolutionary reform around, they could say to local areas, in the same way as they did on City Deals for us, "What would make the biggest difference to your area? Who are you prepared to work with in order to make it happen? How do you want to show you are proving successful?"

If you offered areas that, people would come up with all sorts of different things, but that is the beauty of local government: we do come up with tailored solutions for our local communities.

Q331 Simon Danczuk: You are not saying it should be limited to Core Cities?

Cllr Nick Forbes: No. The first wave of City Deals was, because the Government was piloting it. Generally, however, the offer should be open to whoever can show the most appetite.

Stephen Hughes: It is inevitable that, if this is going to happen, it is going to happen in a relatively small number of areas to begin with, simply because it is quite a radical step. It is likely that the larger cities are going to be better placed to do that initially. I would not limit it to Core Cities or even Key Cities. It is about those who have the appetite to do it and can put forward a good plan to demonstrate that it will add value. There is some benefit in having a variety, apart from anything else, to see whether or not it makes a difference in different places.

Simon Danczuk: Roger, have you got anything to add?

Cllr Roger Lawrence: I support Stephen's point there. As a member of the Key Cities, we have just had a new member join, Cambridge, which is one of the great success stories of cities outside London. You might argue that it is in London's orbit, but there are certainly cities there within the Key Cities membership, like Southampton and Plymouth, who play a different role to others because of their relationships to surrounding areas.

If it were to be phased in, there is a very strong case to say it should be piloted in areas that represent the variety of the city offer, rather than simply be done according to size in a top-down way. I certainly agree that we ought to have a degree of flexibility to ensure that it does not have to be a single solution for everybody, because that does not fit everybody's needs.

Q332 Mrs Glendon: Nick, you have already touched on the importance of equalisation, so I just want to ask a question or two about equalisation and redistribution. Would you all expect the national redistribution of property-tax yields to continue under fiscal devolution and, if so, how would that be?

Cllr Nick Forbes: It is absolutely essential, if it is to work effectively. We do not want to have fiscal devolution that simply puts a ring-fence around an existing broken system. My concern is, in local government financing, that we have lost the principle of resource

equalisation. We have to have that re-established as a fundamental principle of any new system before we move forward. That does not mean you would not then build in a review process over a period of seven or 10 years, perhaps, to examine constantly whether the system is working. I cannot stress enough, however, that the system is broken at the moment. Re-establishing it has to be a principle of any new financial settlement.

Stephen Hughes: I agree with that, at least the part that says the current system does not work. We have lost connection between the distribution of grant and any underlying logical basis. Assuming you fix it and you have the basic grant distribution at the start of the system right, you are then going to have some authorities in some areas actually having devolution. A consequence of that is you do not then go back and constantly readjust, because that undermines the principles you have set up and the incentives you have put in place.

Going back to the point I made earlier about the risk assessment, if a local authority believes that, if its growth strategy fails, it is unable to attract growth and it is going to continue to decline and be put under pressure, central Government will come along and redistribute grant back to them, what has the local authority given up?

Fundamentally, there is a tension between continued and reviewed equalisation of needs and resources and fiscal devolution. That is part of the choice that the local authority needs to make at the point at which it says, "I want to go down the fiscal-devolution route". If it wants to stay a cosy family where money is redistributed whenever things go wrong, it does not have the same claim on fiscal devolution.

That is a slightly controversial point of view, but it seems logical that, if you are going to put in place incentives, you do not remove those incentives by continually reviewing the system, which is what we did in the past. When we had full equalisation, people could build council houses, but they would not get the council tax benefit, because grant would go away. Equally, with business rates, there was no point in growing a business base, because the money was taken off you. If we are going to have a system of incentivising growth, there has to be long-term stability in the finances as well, and with that comes a risk that you might lose some money.

Cllr Roger Lawrence: There is a really interesting balance here. There clearly needs to be an element of equalisation, certainly to kick-start the development. I believe that does then need to be reviewed on a periodic basis, but not necessarily on an annual basis, because that takes away the stability we have spoken about.

Certainly, there needs to be some form of incentivisation so that people can keep some or most of the benefits that they drive forward. This is about trying to drive the performance of the laggards in our communities up to a higher level. It has to be a way of closing that GDP gap. The GDP gap is very substantial between the Black Country and the rest of the West Midlands, just as it is between the West Midlands and the rest of England. It is bringing everybody up to that level and trying to encourage that kick-starting when there are major macroeconomic forces working against that.

Q333 Mrs Glendon: Nick, are the Core Cities advocating a top-up and tariff scheme post-devolution or, like the capital, would they want to swap over central grants from the Government for the devolved property tax yield?

Cllr Nick Forbes: It is both. Certainly, a swapping of property taxes for revenue-formula grants, so that gradually over time we have greater control over our local resources, is a key plank of what we are trying to achieve. That is very similar to the London Finance Commission proposal, as was promoted by the Mayor of London last week when he gave evidence.

However, we cannot get away from this point about resource equalisation. If we simply ring-fence existing property taxes within an area, that does not take any account of historic circumstances, of what has gone on before or of how we got to where we are now. What we need is an independent review of the allocation process, which would kick-start this whole thing off and re-establish that principle of resource equalisation. Without that, it would not work; the risk would be too great for us.

In fact, one of the things that would mitigate the risk—both my colleagues have alluded to it—is longer timescales for settlements. Just to relate it directly back to our example in Newcastle around tax-incremental financing, we have taken quite a significant risk of borrowing upfront to stimulate the investment, but the quid pro quo for us is 25 years of retention of business rates. It is the length of the period of time that we can retain the business rates that allows us to mitigate the risk.

We need to think about broader timescales here. As Roger said in his opening remarks, when we have an annual settlement from Government for our revenue-formula settlement, it creates a lot of instability in the system because it mitigates against long-term planning.

Q334 Mrs Glindon: What central Government grants would be withdrawn in return for local retention of property-tax yields?

Stephen Hughes: My position would be that you could effectively give up all of the grants if you have access to suitable levels of income. We talked about property taxes, although in my mind they are not necessarily the most suitable for this purpose. In Birmingham's submissions, there is a reference to apportioning a part of the VAT that is collected in an area, which in some ways is a much better incentivised model, because VAT is much more directly related to value added. It is not dependent on a particular type of growth. Business rates are very much about property-based growth, and there are a lots of other different forms in which it can take place.

The grants are kind of unlimited. You could even talk about things like a schools grant being taken away as long as the obligation stayed on the local authority to continue to make the payments. All of the grants could be given up. You have to recognise, of course, that the incidence of property taxes, in particular, is very different in different parts of the country, which goes back to the point Nick made in the beginning: you have to have a baseline that everyone broadly agrees—no one is ever going to agree about the distribution of grants—and says, "This is about right. That is the starting point for the system; kick it off." You then put in place the devolved financial arrangements, and the subsequent risk of whether that works or not falls on the local area. That is how I would see it working.

Cllr Roger Lawrence: I was tempted to say I agree with Nick, but I am not sure whether we are allowed to use that phrase anymore.

The great advantage of property taxes, of course, is they are relatively easy to collect. You cannot exactly hide your properties offshore in the same way as you can move profits from your coffee shop into a different country for the purposes of taxation. It has certain attractions. A proportion of VAT has an attraction too, if only because VAT was of course increased by 2.5% when the poll tax was abolished and replaced with council tax. Effectively, there is an element of VAT funding local authorities. Whether you would want variable purchase taxes on the American model I doubt, because the distances in the UK do not make that feasible or amenable. However, we do need to look at ways of doing that.

In terms of removal of specific grants, we have always argued against ring-fenced grants. They are very comfortable and they enable you to do certain things. However, ring-fencing has proved a double-edged sword, as we saw when things like the Supporting People grants and the Early Intervention Grant were cut. Effectively, you were faced with very little option but to cut the very services the ring-fenced

grants were intended to provide. I fear very much that the public health grant may suffer a similar sort of erosion as time goes on.

There are issues around trying to move to an area of funding. Like it or not, Government will always want to see what they get for whatever money they put in. In many ways, that is right, but, also, Ministers like coming around to open things, if they are providing you with money. If they are providing you with money to open children's centres, do various other things or put money into business parks, they are going to want to come and open them. They are going to want to prove it is their money that has done it.

Q335 John Stevenson: Can I clarify one point on the view of the Core Cities? If the baseline is agreed and the new fiscal devolution kicks in, are the Core Cities saying that they just accept there could be winners and losers, or are they saying that they actually want them to be reviewed five years hence and readjusted? What is the position of the Core Cities?

Cllr Nick Forbes: The position of the Core Cities is that it would be sensible to build in a review process over a longer period of time. The rationale for that would be that if we were having this debate 40 years ago, I would be snapping at your heels to have the settlement for my area, because we had a huge manufacturing industry in a whole range of different ways. Yet that has changed, because the economy has changed over the last 40 years. We need something that takes account of the bigger forces at play above and beyond local determination. We have seen industries move overseas; we have seen industries—

John Stevenson: That is fine. I understand your point.

Cllr Nick Forbes: There is a clear rationale for why you need to have some kind of longer-term review process built in.

John Stevenson: Stephen, is that your position?

Stephen Hughes: That probably is the Core Cities' position. I am giving more of a personal view, which is that, if we are serious about wanting devolution and the independence that goes along with that, you have to take a view about long-term risks.

My counterexample to the one that Nick has given would be a place like Pittsburgh in the United States, where the industry virtually vanished. What happened was a very inspirational mayor, Tom Murphy, turned the place around. He did not do it singlehandedly, but they did turn the place around by changing the nature of why it was

there. That was all done locally. It is possible to do these things in a local context.

Q336 John Stevenson: If you are central Government, the obvious thing is to say, "Why devolve fiscal powers to a local area, when 10 years down the line you are going to have to step in and sort the problem out in a particular part of the country?" An area of a country that has done extremely well under fiscal devolution is going to say, "Hang on. We do not want to give up what we have worked hard to achieve."

Stephen Hughes: Absolutely. That is exactly the dilemma that is at the heart of the debate.

John Stevenson: My point is: what is the Core Cities' view on that?

Stephen Hughes: The Core Cities' view is the one Nick has given.

Q337 John Stevenson: I just wanted to clarify that point; that is all I needed.

Moving on, we have been talking about fiscal devolution, but, in addition to that, quite clearly there has to be potential structural change to governance and accountability. We have touched on this already slightly, but I would be interested to know what your views are on a restructured arrangement in your particular localities.

Cllr Nick Forbes: The combined-authority model offers a really sensible and pragmatic way forward. What it does is give you the accounting area and footprint bigger than an individual local authority, while recognising functioning economic areas. It provides the level of assurance and the ability to share risk across a bigger area that will be needed in order to take decisions over a long period of time. For me, combined authorities are the way forward.

Stephen Hughes: A combined authority has a certain strength to it, but they do not fit everywhere, and we have already had a debate about what we are doing in the West Midlands. The governance model we put in place around our LEP, our supervisory board, is an equally practical way of managing those things.

There is a risk in all of these things. We have been down this route a number of different times under a number of different Governments, where we focus heavily on getting the governance right before we start talking about what it is we are governing. What that turns into is a sterile debate that rarely resolves anything. What you need to do is think about what the thing is that is on offer and build

the governance around a practical proposition, rather than doing these two things in isolation. That has been the problem in the past. Quite rightly, there has been an understandable concern from Government about how it is all going to work on a practical level, but without anything real for this governance to get a grip on. You have to do the two in parallel.

Cllr Roger Lawrence: It comes back to Simon's point about timescales. If you want this to happen quickly, you have to have a governance structure that can be done quickly by mutual agreement and not impose a great new gothic structure on top of whatever you are trying to create. If you want to say, "We will do it in four or five years' time", you will have plenty of time to build those sorts of structures, but we do not have that sort of luxury.

I certainly agree with Stephen's point: there is nothing politicians like more than talking about governance and those sorts of structural issues. The people we are there to serve, however, want to see some results on the ground.

Q338 John Stevenson: Following that on then, there is a degree of accountability to the electorate, the voter. In the combined authority, where is the accountability to the voter?

Cllr Nick Forbes: It is several-fold. It is through the normal processes of democratic accountability, in terms of open meetings and public accountability through local media attendance and so on. It is through the combined authority scrutiny arrangements, which need to be put in place for each combined authority. It is also through people like myself taking into the combined authority the views of the people that we work with on a daily basis.

Q339 John Stevenson: If I am a voter in that area and a combined authority has the power to levy a tax on me, why should I not be allowed to vote directly for a representative on that combined authority?

Cllr Nick Forbes: At the moment, apart from people living in his constituency, nobody has the ability to vote for the Prime Minister. He is able to levy taxes on people. It is the same principle, really: the combined authority is a representative body, which is seeking to exercise a number of particular functions. People like myself, who will form the boards of combined authorities, are very acutely aware of what people in our local area are saying. We do not have a great appetite for additional taxes. We want to get better efficiency out of existing public services.

Q340 John Stevenson: Stephen, do you think the London model would work?

Stephen Hughes: That is an interesting question, because it has always been portrayed that the London mayoral model works really well, but when I was working for a London Borough it did not seem quite as benign. There are tensions. That is the point I would make. The point about a combined-authority model or a joint committee or whatever is that, by bringing together the constituent parts that are directly elected, you have a better chance of getting consensus of decision-making. On the other hand, you do not have the same kind of transparency around accountability. There is always a tension.

If you have different levels of accountability, different directly elected tiers of governance, there is always tension between them, because they both think they have the mandate to take a decision. That is the circle you have to square in this instance: how do you get consensual decision-making if you have different tiers of governance?

Cllr Roger Lawrence: I have always been a supporter of elected regional assemblies, but that is so far off the agenda; there is no real demand in the electorate for extra elected layers of Government and extra elected officials. We are where we are. Joint working and joint-working structures are the way forward. We are effectively combining some of our existing functions voluntarily, like economic development, transport planning or whatever. These are functions we still have and will still exercise at a local level; we will just exercise them collectively, rather than individually.

Q341 John Stevenson: If fiscal devolution is on the table, should it be endorsed by the local electorate in a referendum?

Cllr Roger Lawrence: At the moment, it would be difficult. I think back to the Police Commissioner elections and the dreadful turnout there. I do not know how you could whip up people's enthusiasm for something as exciting as fiscal devolution. I may be wrong and there may be some sort of magic bullet we can find to make it exciting, but somehow I think we would end up with a rather odd result to the referenda. I am not a great supporter of referenda anyway, but that one would be a really hard sell.

John Stevenson: Given the North East position on referenda, regional Government and elected mayors, where would you stand?

Cllr Nick Forbes: I long for the day when people will stop me in the street and ask me about fiscal devolution to local government.

They tend to ask me about things like jobs, the environment and transport.

John Stevenson: We still live in a democracy. We still have to decide how powers are to be devolved and how it should be agreed or supported.

Cllr Nick Forbes: Indeed. The signals I am reading from all the mainstream political parties are that there is an increased appetite for devolution, and we are likely to see significant commitments in all of the parties' manifestos at the next election. What we need to work through are the nuts and bolts of how it would operate. We can clearly demonstrate that better jobs, better-quality public transport and better economic growth potential are on offer if there is a willingness to work collaboratively between local government and central Government to do it.

Stephen Hughes: The problem with referenda is that people are innately conservative in their approach. They are likely to stick with what they have, rather than something else. That will limit the choices people are prepared to make.

John Stevenson: Is the Core Cities' view that there should be a referendum or should central Government just get on with it?

Cllr Nick Forbes: Our view is that central Government should just get on with it.

Q342 John Pugh: This has been torturing me all long. There are two concepts of fiscal devolution, are there not? There is Graham Allen's visionary stuff—the new constitutional settlement and local authorities permanently having powers—and there are the local growth deals you are talking about, which are negotiated over a period, presumably have to be renegotiated at some later period and have to be administered by some body or other.

Do the two concepts of what fiscal devolution could look like imply different governance models? If there is a permanent constitutional element—I assume you would favour that; I do not know whether that is true—you would then need appropriate bodies to make sure that goes properly. If, on the other hand, it is more ad hoc and earned autonomy, involving negotiations with central Government all the time and ring-fenced grants, you can have a more informal governance structure.

Cllr Nick Forbes: That is a very interesting question. My view is that it would work on two levels. One is the combined-authority level, in terms of being able to share risk around things like the devolution of property taxes and so on, because you would need that greater

footprint in order to be able to manage risk over a period of time between different areas.

There is nothing stopping a different but parallel conversation around devolution to local authority areas for public sector reform. Most local authority areas are the footprint by which public services more generally operate. There is more value that could be got out of existing public sector arrangements within local authority footprints. It is both, from my point of view: combined-authority level for devolution of some financial responsibilities, and local-authority level for the public sector reform. Of course, the two would need to work in parallel when it came to things like integration of welfare reform.

Q343 John Pugh: You would accept that if you have City Deals, or local growth deals, which essentially are time-limited funding mechanisms in that they will need to be renegotiated at some point in time, it raises a question mark about what kind of organisation you want or need to set up. Quite clearly, the Government, particularly earlier, could be rather harder to negotiate with, if I can put it like that, and the benefits of having that overarching structure would be less evident; is that fair?

Stephen Hughes: I certainly go back to the point I made earlier, which is that we need to build the governance and the devolution packages together. If local areas are made an offer around radical devolution, they would be quite capable of coming up with a solution about how resources should be allocated and managed. There are examples of that happening already. If you think about things like rates pools, local authorities have come together voluntarily to form those and have come together without any centralised guidance on how they are going to allocate the resources that are collected collectively. It is quite possible and plausible for them to do that, but you have to do the two things together. Something that is a short-term, tactical deal is a different proposition, as you say, to something that is long-term and radical, and you need to put more effort in to the latter.

Q344 Chair: I would like to follow up on that point and on what John Stevenson was asking about before. If you are after a really radical package of both fiscal devolution and public service reform, and you are going to transfer some of those powers to an unelected body that is pooling resources and powers from a number of elected bodies, and you want something that is going to last for a long time, which the next Government is not simply going to unravel in two or three years, why are you all frightened of convincing your electorates to support you in a referendum?

Cllr Nick Forbes: As my colleagues have said, the difficulty with a referendum on this is that it is such a relatively arcane subject matter that—

Chair: The Scots managed to do it and the London electorate managed to do it on the Mayor of London.

Stephen Hughes: The London situation is interesting, is it not? Without reliving the politics, what happened is that the GLC was abolished at the height of its popularity and—

Chair: I am not sure about that.

Stephen Hughes: It is probably true, actually. They had attempted to cut the tube fares and things like that; they were overturned from doing that, and then they were abolished. There was a real vacuum in London at that strategic level, and that was why it was recreated. If we could put the devolution in place, run it for 10 years and then have a referendum, it would be a sellable proposition.

Cllr Nick Forbes: There is also a risk for Government here, too. If we go down the referendum route—fair enough; we might do it the first time around, but we could actually then build up a head of steam and want to run our own referendum for additional responsibilities or additional powers that we want from Government.

Chair: It is very radical, this, is it not?

Cllr Nick Forbes: If we were then to win a referendum on that basis, it would put the Government in quite an awkward spot, because they would then have to concede the powers. Actually, I am starting to be persuaded of the idea.

Cllr Roger Lawrence: Particularly as we have touched on the possibility of running various forms of pilot and, indeed, offering different models, it would be rather difficult to attach those. The argument is that once you get beyond those, and once you identify what works and does not work and have a package you can put together, that is plausible. However, my view is that, at the moment, we are looking at something that is going to be evolutionary. If we are looking at something that is going to be a more fundamental reform, you immediately start putting two or three-year time delays in, and you go beyond periods of general elections, and then all sorts of further issues start emerging beyond that.

The issue is that there are some things we have done in the past that we can demonstrate have worked, but we need to corral those together with some new initiatives we also believe will work and put

them into different packages, which may not be the same for every area.

The other point I would remind people about is that however successful you are, the economic success of Westminster may be marginally less to do with the competence of its council—although I have no doubt as to the competence of its council—than the fact of its geographic location.

All of us are facing these same sorts of issues: there are other economic forces at work as we bring forward growth proposals, and it is about what we can do to mitigate the impact of those issues. We have seen what can happen with the threats and damage to a major industry in a major city. Bombardier in Derby is a classic example of an industry that is really under the cosh. Obviously it was very dependent on that industry. Had that industry not survived, the impact on the business-rate base in Derby would have been quite catastrophic.

Q345 Heather Wheeler: I am interested in how resources might be allocated in this brave new world of fiscal devolution. This is really more of a Birmingham question than a Black Country question, but maybe with the transition arrangements—with their combined area, Greater Manchester have gone along with the idea of fiscal devolution literally as spending for the greater good of specific areas, rather than everybody divvying up and it being equal all the way across. How do you feel that that would work in your area?

Cllr Nick Forbes: Greater Manchester have an established process for agreeing how they would seek to invest in the different local authorities over a particular period of time. They develop what we call a pipeline of development opportunities, which enables collective buy-in from the local authorities, because no single local authority feels it is being overlooked or bypassed. Everybody gets a share in the proceeds of growth. That is a strong and important principle around fairness.

Take my area: if it was simply about growth in Newcastle without much opportunity for the other local authorities, there would not be the collective buy-in, but that is not what we want. The reason for moving forward with the other six local authorities in my area is exactly so that we can establish principles of fairness around the development pipeline, ensure that everybody has a fair chance of investment and make sure that we close some of the inequality gaps we see in our area.

There is a really strong evidence base in Greater Manchester that has been trialled over the last few years, which we and other combined authorities are looking to as a way of doing things. Of course, it is not without political negotiation between the different local authorities, but

it is a better process than simply adding together the individual plans of individual local authorities, because what you then get is often less than the sum of its parts, and what we want is something greater than the sum of its parts.

Q346 Heather Wheeler: Stephen, perhaps you could drag your mind to this one. If the point of the principle is to encourage growth, why did Birmingham Chamber of Commerce say it would stymie growth?

Stephen Hughes: I did not think it had. I thought it was fully support of devolution. I will have to have a word with Jerry when I see him. He is only down the corridor. The point about looking across a wider area is to avoid the problem you sometimes get where individual local authorities in the same effective economic entity are having arguments amongst themselves about where things should be located, rather than thinking, "Where is it best to locate it? Where is it therefore going to make the biggest contribution?" That is the argument for why you would want to do things on a wider footprint.

In the context of the rates pool, I mentioned earlier that we worked out a mechanism for allocating the resources back. A certain proportion went back to the individual authorities that generated it; a certain proportion was held collectively as a risk against the falling-off of business rates; and the rest was there to help support generalised economic development across the piece. That had been worked out. It was in the context of a relatively small sum of money. For a bigger sum of money, you would have to work out different mechanisms for dealing with it, but you have to balance the fact that each of the local authorities has some statutory obligations of its own that it needs to meet, so it would have to have some acknowledgement of that, plus the fact that there is some collective benefit of working together on a certain number of programmes.

Local authorities could work it out and work out how to do this. They do not need an overly complicated interventionist approach to solve these problems. It might be slightly different in an area like, say, London, where you have 35 authorities involved and it is slightly more complicated, but for most areas that is not the case. It is within the capability of people working it through together.

Q347 Heather Wheeler: Roger, if you would be kind enough to turn your mind to this, you are going for a slightly different model, but you are basically still taking money off businesses. Where is the business voice in helping you say where the priorities are? If it is about growth, businesses are the growth makers, not councils.

Cllr Roger Lawrence: Through things like business improvement districts, almost all of us have examples of where we have made levies around businesses to deliver certain elements of work. All of us have local enterprise partnerships, which have representation from the business community and other partners in the area. As individual local authorities, all of us have an extensive background in working with our local businesses and trying to identify the voice of business so that we can respond to that. There is a big track record there.

To come back to the point Stephen was making around local authorities working together, people would be amazed at how effective local authorities can be when you put them in a room without the press there and tell them to get on and cooperate. They are actually very good at cooperating in that close environment and coming up with solutions. In the Black Country, when we set up the Black Country enterprise zone, each of the four areas put forward some sites for consideration. Sites were only taken in from two of those areas, not all four. That was agreed and that was a consensus decision.

Time and time again, both at the joint-committee level and at the Association of Black Country Local Authorities, that sort of experience has been replicated and we have been able to come to those sorts of mature decisions.

Q348 Heather Wheeler: This is the final question from me. How do you genuinely scrutinise the decisions that have been made? Nick, you alluded to it at the very beginning. I wonder whether you could flesh out any of that.

Cllr Nick Forbes: Do you mean specifically within the combined-authority model?

Heather Wheeler: That is right, yes.

Cllr Nick Forbes: Within the combined-authority level, there is a requirement for a scrutiny process in the same way as you have executive scrutiny arrangements within local authorities. There would be a political scrutiny process with opposition and majority group representation on it. However, greater scrutiny and accountability comes from operating within an environment where people have expectations about what you are going to deliver.

The whole reason for going through the process of developing a combined authority in my area was for more and better jobs, to make sure we had better-quality public transport infrastructure, to make sure we have the right business support in place to enable businesses to grow and to make sure we are increasing the qualifications of children

leaving school, so that they are able to stay within the area to do good-quality jobs.

For me, accountability comes in terms of what we achieve, and what we achieve is measured on a day-to-day basis by the conversations I have with business, the way our local media portrays what is happening and the conversations we have about the confidence in our area. Accountability is not just a formal process; for me, it is about the way in which we develop and live what we are seeking to create.

Q349 Heather Wheeler: Ultimately, the voters can decide, notwithstanding scrutiny committee reports. What happens if you have a change in one council but the other four decide to carry on? You just carry on.

Cllr Nick Forbes: There are all sorts of checks and balances built into the constitution of the combined authority—ours is not unique in this respect—to make sure that there is unanimity on a range of issues that we would be taking decisions about. Any one council could effectively veto the decisions. That puts an emphasis on consensus and a requirement on us to work issues through until we come to a satisfactory conclusion.

Heather Wheeler: What did we hear last week? It was something about Brussels, was it not?

Q350 Mark Pawsey: Can I turn to the tax-raising powers you might be looking for? We heard something fanciful about retaining a proportion of VAT. Can we accept that that is fanciful and that the Government is unlikely to concede that?

Stephen Hughes: Personally, I do not think it is fanciful. I know it is radical, but it seems to be a perfectly plausible way of funding local government—for a share of the VAT raised in the local area to go to the local authority to fund it. That is at least as plausible as businesses paying rates on their property and that going to a local government. It is just a question of thinking outside the box. It is a better tax for lots of reasons: it has built-in buoyancy; you do not have to put it up every year; it is based on value added.

Mark Pawsey: I think we can agree it is unlikely to happen.

Stephen Hughes: I would like to persuade you to think about it seriously, because, certainly, if you say, “No, it is never going to happen”, and Government say it is far too difficult for them to think about, then it will not happen. However, if you want a way of incentivising growth at a local level, you need to find a mechanism

whereby, when local government and other local agencies put in place initiatives that drive growth, they need to be able to capture some of that growth back as part of the justification for doing it. VAT is as good a way as any of doing it. Business rates is actually a very poor way of building growth, because, as I said, it is based on a particular element of—

Q351 Mark Pawsey: If we accept that the Government is going to be more sympathetic to a property-based tax, whether it is business rates or council tax, who should determine what that new tax level should be? Within a combined authority, presumably the combined authority is going to agree on a common level.

Cllr Nick Forbes: What you would not want is for different local authorities in the immediate vicinity to be competing with each other on business rates.

Mark Pawsey: Hold that, because I want to come back to the issue between Birmingham and the Black Country. That is a contiguous built-up area. Are we saying there could be a different business rate in Birmingham from the Black Country? What would the consequences of that be? Would one body then try to tempt business to move from one area to another? Is that a danger of this proposal?

Stephen Hughes: There is a danger of that, because business rates used to be different in every part of the country, and that was ended. My argument is not about the tax-rating and the variation in the tax power; it is about the impact you could have on the tax base. That is where the buoyancy should come from: it should come from building the tax base, not necessarily by changing the tax rate.

Q352 Mark Pawsey: Roger, can I ask you about how you might feel about Birmingham setting a different business rate and attempting to encourage business that might otherwise locate in the Black Country to migrate into Birmingham?

Cllr Roger Lawrence: Back in the days of the RDA, of course, we experienced this with our colleagues in Wales. They were frequently able to offer incentives to businesses that we were unable to operate through DTI or BIS in this country; we are familiar with those sorts of things. Historically, we know it used to happen. It was a dreadful waste of everyone's time and effort, chasing that around. Clearly, we need to have measures in place to prevent that.

However, I come back again to this Business Improvement District model, where a small supplement on the business rate in small areas is used very explicitly for particular activities to help those

businesses and those businesses have a share in driving that forward. That sort of model across something like a combined authority is a stronger model than one based around competing authorities. People would be absolutely transparent about what any surplus is used for and could be held to account for that, because they would want to demonstrate they have used that extra money for the agreed purposes around economic growth, and there would be some mechanism for ensuring that all parts of that combined authority benefit from it.

Q353 Mark Pawsey: Are you making a case for a West Midlands combined authority? Is there a case for a West Midlands combined authority?

Cllr Roger Lawrence: There is certainly a case for a West Midland combined authority, which is why, as I said in my initial statement, we, at a Black Country level, have adopted a joint committee—because we do not want to foreclose that combined-authority model, and we believe there may be an opportunity in the next six or 12 months to pursue that even more, once we have got the Integrated Transport Authority governance arrangements adapted.

Q354 Bob Blackman: You may have covered this earlier; I apologise for being slightly late. Is your view that VAT would be variable by local-authority area?

Stephen Hughes: No, it is apportionment of VAT to the local area.

Bob Blackman: Is your position the same with business rates? Should they be variable by local authority?

Stephen Hughes: Personally, I would keep it at a national multiplier for the very reasons that have just been stated. Business rates are slightly different, because what tended to happen was that varying the business rate had an impact on the underlying rental values. The market ultimately equalised things out, although it took a bit of time to do that.

Of course, it was complicated by the fact that there was no business rate revaluation from about 1972 until 1989. The underlying business rates were all distorted anyway, but now they have more regular revaluations those kinds of problems disappear. We are too small a country, really, to have lots of different variable tax rates. It does not do any good.

Cllr Nick Forbes: I will be absolutely clear: the Core Cities are not advocating any kind of localisation of VAT. We are setting forward

a modest proposal to increase the retention of taxes raised at a local level from 5% to 12%. The issue about business rates in particular is not so much about the difference between local authorities; actually, it is within a local-authority area where you might want to have some marginal variation of business rates. We already have that; Roger has alluded to Business Improvement Districts. However, I can see areas of Newcastle—I have no doubt everybody else can see areas of their own areas—where you might want to give a discount to allow the development of businesses, which would then increase your overall take over a period of time.

Q355 Bob Blackman: At the moment, the position is that supplemental levies can be levied with the consent of business, effectively.

Cllr Nick Forbes: Indeed, yes.

Bob Blackman: Business says, “We can see a purpose behind this and it is going to be invested in us. It is reasonable for us to agree to this.” You are suggesting something more radical.

Cllr Nick Forbes: I am suggesting that we would like to be able to offer tax breaks to stimulate business growth in particular areas within local authorities.

Cllr Roger Lawrence: Having enterprise zones anyway.

Q356 Bob Blackman: The key, then, is who determines what those breaks would be. Is it combined authorities or is it local authorities separately?

Cllr Nick Forbes: It would depend on whether you had a combined authority or not.

Bob Blackman: Yes, but, on the basis of a combined authority, would it be the combined authority that determined that or would it be each individual local authority?

Cllr Nick Forbes: It would have to be the combined authority, because you would not, for example, want to do something in Walker that would have an impact on Wallsend. You would need to make sure there was a consistent approach, but that it was tied into an overall plan for growing the business base of the entire area, stimulating the areas that needed to see growth and making sure that areas such as those covered by Business Improvement Districts felt they had the support they needed to continue.

Q357 Chris Williamson: There is obviously a huge disparity between property tax yields in London and the rest of the country. That is a given. How will fiscal devolution resolve or help to resolve the regional imbalance in the economy?

Stephen Hughes: Of course, one of the interesting things about the situation in London and the rest of the country is that, because land values are so high in London, deals and projects can go ahead that cannot progress elsewhere, because you can capture the public-investment part of it out of the additional capital value. I go back to the point that both of us made at the beginning: our redevelopment of Paradise Circus, which required about £60 million of public investment for it to go ahead in terms of infrastructure improvements of one form or another, generated £400 million of private investment. If that location was in London, you could pay for it out of development profits and it would go ahead. Without the devolution of business rates to the enterprise zone, the capture of the 25 years, it would not happen.

Therefore, what the devolution of fiscal powers gives to areas outside of London is the ability to bring forward and develop projects that otherwise would not happen. That will go some way to closing the differential in growth rates between London and the rest of the country. That seems to be a really important part of this. You can argue that we should put all our eggs into London and say, "It is the greatest thing and it will bail out the rest of the country". However, it seems to me that it cannot be good for the country in the long run that one part of the country is carrying the rest of it on its back. It is much better that we raise productivity across the country as a whole. If you look at other countries, like Germany, for example, all of its cities are making a big contribution; it is not all focused in one place.

Q358 Chris Williamson: What would any of you say in relation to those who might say that the support of the Core Cities for this fiscal devolution agenda actually reinforces the advantage of London, and that they are using you as a cover and taking you for a ride, because it is going to reinforce their advantage by this fiscal devolution to London and the fact that you have your support, in that sense? It still puts you at a disadvantage, but it gives them an even greater advantage over the rest of the country. How would you react to that?

Cllr Nick Forbes: It was the Mayor last week who was talking about a happy coincidence of interests here. We would not want to see devolution to London and nowhere else, yet that is what we are seeing at the moment; we are seeing a concentration of powers in London. We are arguing that we could increase the growth in our major cities

and their surrounding areas at a faster rate than is happening at the moment if we had these additional powers and responsibilities.

That would not only significantly transform our cities, but it would add GVA to UK plc. Our argument is that this is not an either/or argument; it is not an argument about London versus the rest. If we are able to tackle the problem about fiscal devolution at the same time as a fair funding settlement, we could actually all benefit from that. It is not an either/or question.

Q359 Chris Williamson: Are you assuming perpetual growth? Obviously, London is in a much better position to withstand a downturn in terms of its income. How would you manage in a downturn or a slump in the yields?

Cllr Nick Forbes: I want to build up our resilience at a local level to deal with it. At the moment, what has happened is that we have been absolutely ravaged by the recession. We were faster into it than any other part of the country and we are slower coming out of it than any other part of the country. Clearly, the current setup does not work; the current setup is disadvantageous to us. I want to see a much more sustainable arrangement at a local level, so we could weather these storms more effectively by ourselves.

From the Core Cities' point of view, the long-term goal is greater financial sustainability for cities overall, because, if we can achieve that, we can actually have a greater focus on what we can do to make our economies sustainable and therefore build in a level of resilience to the recession that we have seen. We have seen how London-centric the recession was; it was the collapse of the banking system that tipped us over the edge into it. We would not have that if we had a better settlement around the rest of the country and greater resilience and sustainability in our cities.

Chris Williamson: Roger, what would you say about this from the Core Cities' perspective?

Cllr Roger Lawrence: May I just say that I am very fond of London? I spent 15 years here before I finally managed to get under the wire and through the searchlights.

It comes back to that macroeconomic issue I was talking about. We are looking at ways to try to challenge what is a reality: we have a world city in what is a relatively small country. If you had New York in Italy, it would have the same sort of impact as London has in the UK. One of the reasons German cities perform better, apart from the fact that they have very different governance arrangements, is this greater equality of investment and development.

However, we are where we are; we have to manage what we have. The truth of the matter is that the very sustainability of London is something that is an issue. I understand that it is really rather hard for people on average incomes to get into the property market in London. There are all kinds of issues around the labour market in London and so on, which are specific to a city of that kind. We face very different problems and issues, but we do face those issues. The last thing we want is a collapse of non-London England, which would mean people having to drift at an even greater rate into London and the South East for employment and opportunities. That means we have to challenge some of the distributional issues that we know exist.

We know where the Arts Council funding goes, for example: for every £10 spent in London, they spend 4p in Birmingham, or something like that. It is scandalous, and there are other distribution issues that would certainly be able to help us. This applies equally to the airport debate: there is a scandalous disregard in the airport debate around the contribution of regional airports like Manchester and Birmingham in actually relieving the problems that London has. It is remarkable.

We do need to get a balance between London and the South East and the rest of our economy. If there is a way of getting that balance that means we do not have overfull hospitals and schools in the South East and empty hospitals and schools in the West Midlands, we need to do that—not that we do have empty hospitals and schools, because our population is now recovering quite markedly. Again, that is setting us various problems. However, it is about finding that level of balance. We need to find a way of doing that that will benefit both London and the South East and the rest of the country.

Q360 Chris Williamson: Could you achieve that, and perhaps, much more, by tackling the distributional issues you identified there—the London-centric nature of the funding, as you see it? If that were a fairer funding settlement, would that get you as far or further? Do we need both, would you argue?

Cllr Roger Lawrence: In the area of transport funding and some of the other areas where there is a very marked and damaging bias, yes, we do need to look at the distributional issues. However, we also need to look at ensuring that people have the sorts of things available outside London that attract people into London. That might be a strong cultural offer, a strong educational offer, good training bases or plenty of opportunities for people to move around in employment markets, because that sectoral area of employment is equally important.

Q361 Chris Williamson: Roger, you mentioned the property market down here. Obviously, one of the pitches from London is about having control of the stamp duty. According to the figures I have, stamp duty in London is equivalent to 33% of the UK total, which is some £2.86 billion, compared to Newcastle's £22 million, Birmingham's £50 million and Wolverhampton, Sandwell, Dudley and Walsall's £25 million. Do you see a benefit in having stamp duty retained at a local level? If you do, what specific grant would you swap for it?

Stephen Hughes: Obviously, the scale of stamp duty in London versus the rest of the country is very different. Any devolution is welcome. As I said, there are plenty of grants to give up and swap out. For areas outside of London, property-based taxes are ultimately limiting and you do need to look beyond them if you are going to get some proper devolution. I hesitate to mention the letters "VAT" again, but that is why, if you are going to make this really work radically, you do have to think about that.

Q362 Chris Williamson: Are you talking in terms of giving a combined authority control over VAT or some kind of sales tax?

Stephen Hughes: You say that as if it is a very radical proposition, but it is not. We are saying that a proportion of the taxation that is raised should be allocated to that local authority or that combined area. It then has a really clear incentive to grow its economy, because that will grow its tax base. It is not as if local authorities are going out and setting VAT rates or collecting VAT. It is about an apportionment of it. All you are doing is substituting one calculation of grant to a local authority with another one. It does not actually have to be the VAT; it can just be the way the grant is calculated and allocated to a local-authority area. That is the proposition.

The other thing that I wanted to say is that one of the things devolution will do is make the allocation of resources much more transparent. Where you have a situation where most major projects across the country are effectively assessed and allocated by central Government Departments, one of the difficulties is that you do not get a proper sense of how much is being spent in different areas. Transportation is one of those things where you can pick that up, and you can see an enormous disparity, which is likely to grow. We understand why that is: it is to do with the fact that if you took away the tube system in London, it would grind to a halt; therefore, there is a need to continually invest in it.

The point we have been making is you can grow the economy of other major cities if you put in the kind of connectivity investments you have in London. That is where we lag behind. That is why our

productivity is below other areas, and that is part of the rebalancing that needs to take place.

Cllr Nick Forbes: Crucially, we can grow them more quickly, because London has reached the point where it requires such a huge investment of additional resources to gain additional capacity, whereas particularly the Core Cities do not need that. In effect, we are a much more efficient and effective place to grow the UK's economy than London is, on the current model.

Q363 Chris Williamson: Fiscal devolution will potentially give London considerably more, will it not?

Cllr Nick Forbes: It gives us all more flexibilities.

Chris Williamson: Proportionately it gives London—

Cllr Nick Forbes: It would not if we had a proper rebalancing and a proper rebasing, according to a new formula or funding settlement. The one caveat to all of this is the statutory requirements that are placed on local authorities, which have not been altered, despite the fact the Secretary of State talked about the revenue-formula settlement from a begging-bowl or needs-based approach to one that is about incentivising growth. We have less money to provide the same statutory responsibilities. That is why I keep saying that having a funding settlement that is seen as fair and one that is linked to public sector reform is crucial to making this work in the long term.

Chair: Thank you all very much for coming to give evidence this afternoon. We appreciate it; thank you.