HOUSE OF COMMONS

Communities and Local Government Committee

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

Monday 31 March 2014

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Written evidence from witnesses:

Panel 1 (Questions 443-514)

Department for Communities and Local Government

Watch the session

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

Panel 1 Questions [443-514]

Witnesses: **Rt Hon Greg Clark MP**, Minister of State for Cities and Constitution, Cabinet Office, and **Brandon Lewis MP**, Parliamentary Under-Secretary of State for Communities and Local Government, gave evidence.

Chair: We start our seventh evidence session into fiscal devolution to cities and city regions. Welcome to everyone, particularly to the Ministers who have joined us to give evidence this afternoon. At the beginning, if I could just ask all members of the Committee to put on record their interests. I am a Vice-President of the Local Government Association.

Mrs Glindon: My husband is a councillor, and one of my members of staff.

Chris Williamson: I have two members of staff who are elected members on Derby City Council.

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

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

Heather Wheeler: I am a Vice-President of the LGA as well, and I employ a councillor as well. Sorry, my husband is leader of a council as well. I forgot about that.

Q443 Chair: It is a good job the Clerk remembered your husband. Back to the serious business, thank you both for coming, Ministers. Just an easy starter question: do you both believe in the principle of fiscal devolution?

Greg Clark: Yes, Chairman, if I could start. It is good to be back before this Committee. I do think that it is important that we reverse what has been a many-decades-long centralisation of power in Westminster and Whitehall from places. It is undoubtedly the case that the fiscal side—the financial side—has been one of the things that has been centralised.

Brandon Lewis: I absolutely agree with that. We get very caught up in the fiscal devolution, and I understand why, but it is also about having the power to do things locally. One of the things I am really proud of that this Government has done is moving that kind of power not just into local government but right into communities as well, which, as Minister Clark just said, the Localism Act itself went right to the heart of. There has been a really big step forward. Some of it is still bedding in, and it is really important that we get that working, get it through the system and see the benefit of it in our communities.

Q444 Chair: Yes. They are about powers, and I think we would all agree that they go hand in hand together, but we are trying to focus on the fiscal devolution. It seemed the response from certainly CLG was not, shall we say, particularly enthusiastic about the prospects of anything happening anytime soon.

Brandon Lewis: Having said that, I think it is fair to say we have done a lot. If you look at the new homes bonus, the business rates retention scheme, the transformation network and community budgets, all of those bring not just powers but fiscal support with them, and quite big fiscal changes, particularly if you look at where the community budgets and the transformation network are working. We have devolved a huge amount. The business rates retention scheme is only just gone a year old now, and local authorities are still getting used to that and how that takes things forward, let alone the new homes bonus as well. That is the big move. We have now moved from roughly 56% of income being derived locally to getting on for an average of about 70% with the business rates retention scheme. It is a big shift for local government, and the future for local government on that scheme means that if they get that growth in business and they have got a real focus locally then they get the benefit of it, something that was not there before.

Q445 Chair: That is only a start, is it not? Has the Government got an agenda to take things forward?

Greg Clark: It has. What I would say, Chairman, is that we have turned the direction around. The fact that you are having this inquiry as to what further powers on the fiscal side should be devolved to local government is symptomatic of the times. For most of the last 100 years the powers have been taken centrally. It has gone in the direction, exactly as Brandon says, through all of the steps that have been taken; that is the direction that we are on and we should go further.

Q446 Chair: Right. Further in what way? What are the particular things that you think we might go further with?

Greg Clark: Let me point you to the examples of some of the City Deals we have concluded recently. The Manchester City Deal is a ground-breaking deal. What it says is that if the local authorities together in Manchester invest in their area through local resources and borrowing, if this is going to raise the rate of growth of the Greater Manchester economy, then it should be possible to have some sort of dividend from that from the tax revenue that flows to the nation. This is exactly what was agreed in the City Deal. It was called an "earn back" model. It means that that earn back is there and it has provided the ability to finance that investment in the first place. The Chancellor in the Budget recently announced a similar scheme for Cambridge. It is important not to underestimate the significance of this. If you and your predecessors over the last 50 or 60 years were to consider that the Treasury in successive administrations has taken the view that all growth is national and almost the possibility of local growth is a contradiction in terms—it is all about squeezing the balloon—that has been departed from in a very significant way, and I think this has been recognised as being as significant as it is.

Q447 Chair: I can accept that there are some very positive moves in the right direction, but on the other hand it is quite easy to look at what is now being proposed for Scotland and Wales in terms of fiscal devolution and compare Greater Manchester, which has a GVA higher than Wales, and say the earn-back deal and the business rates retention scheme are not quite on the same level as the fiscal devolution being offered to Wales. Are any of the proposals in the London Finance Commission report attractive to Ministers?

Greg Clark: They are attractive in the round. It is fantastic that the London Finance Commission report has been brought together; it is part of this debate, which, as I say, is in the direction of how we can devolve more. The first thing I would say about it is that there is a lot of spending that takes place within cities in this context that is controlled from central Government and should be controlled locally. In the first and the second waves of City Deals, my objective was to say, "Look at this money that is being spent already. Before you start thinking about raising extra taxes, just let us see whether it needs to be spent nationally or whether it can be spent locally." Starting from a degree of quite broad scepticism as to the possibilities of this, we have had, in various cities across the country, starting with the eight biggest cities outside London—Sheffield being a case in point—far more influence on what is spent locally than was the case otherwise. That is the first major change. There is more that can be done on that in London, for example. Although I dare say the terms of reference that the Finance Commission gave itself were about taxes, it would be useful to complement that with a review of spending in London; there is further that can be approached there.

The second thing is—I know that Tony Travers in his evidence session to you touched on this, and I have probably mentioned it to this Committee before—the approach that I have taken is that you can make more progress if you get into specific instances of devolution with particular places especially for particular sources of work or investments, and all of the deals are examples of that. There is a danger that if you just keep it at a theological and constitutional level, then it stays there and you do not get to talking about it. Where I think that the London Finance Commission could usefully go a bit further is to turn their high-level analysis of which taxes they think London should have under its control to think about which particular investments and which areas of policy they could, like Greater Manchester—and Greater Manchester was for infrastructure investment—make a proposal to the Government saying, "If you do this, we will do that". A good example of this is Crossrail; as you know, the supplement on the business rates in London has helped finance Crossrail.

Q448 Chair: Is that effectively saying that there is no way the Treasury is going to buy widespread fiscal devolution in one big bang but might be persuaded to go incrementally to adopt proposals in particular areas to see how they work, with a view to moving them on?

Greg Clark: Yes, but that is to put a slightly unfair spin on it from the point of view of the Treasury. One of the things that I believe has held back the agenda of decentralisation and devolution—which you know that I am personally very committed to—in the past has been this observation that, "It is fine for some places, but is everyone ready to take on these powers?" You can get bogged down in that. I would say that if you can identify a place and an area of policy in which the counterparty to the deal is ready, willing and able and you can have confidence in their ability to discharge their responsibilities, then get on with it; do not wait for a great constitutional settlement that devolves these powers on every place in the country at the same time. That is my practical observation, and I think it was shared in the evidence that Tony Travers gave to you, which I was interested to see.

Brandon Lewis: One of the key things that flows from that is if any Government were to wait until it felt every part of the country could go ahead with a particular area, what you would end up doing is slowing down the areas that can go forward further, faster and quicker. You have only got to look at what is happening with what was the community budget pilots and has now grown to be the transformation network, where you have got specific areas that have been able to come together with proposals to do something in a different way across the public sector. That is going to free up their fiscal position locally. It is primarily aimed at getting better outcomes, but by getting rid of duplication and working more efficiently it brings a fiscal benefit that frees them up to do more locally. It is not just about having somebody in the centre say, "You have got another power to raise a tax" or whatever; it is about how they have got the power to do something locally that can have a fiscal benefit as well but ultimately is about having better outcomes for the local residents. For me, it is not just about moving it into local authorities. There is sometimes a misnomer that devolution from the centre means we are giving something more to a given primary authority, whether it is a unitary, a met, a county or even a district, when quite a lot of what is in the Localism Act is moving it right into the community through the parishes and the neighbourhoods themselves directly. That is really quite important. I appreciate that we are looking and talking primarily here about fiscal devolution, but we have got to make sure that the real key is about getting better outcomes for people, otherwise the fiscal devolution becomes a totem that does not deliver anything. It has got to be about a better service for residents.

Q449 Chair: I can entirely accept that, but you are right in saying that the terms of reference were specifically about fiscal devolution. I just want to come back to Wales before I pass over to Chris Williamson. It seems that local government is going to have to work very hard and be justifying every single step and move along the way to get any further fiscal devolution, yet Wales, with a GVA less than Greater Manchester, and Scotland, Wales and Northern Ireland, with combined GVAs less than London, are being offered, almost with enthusiasm by the Government, massive fiscal devolution. There is a difference, is there not, in approach to Wales and Scotland, and to local government in England?

Greg Clark: There is a difference, in the sense that with Scotland, Wales and Northern Ireland it is a constitutional settlement that has to be negotiated. That is not the case with the cities and the places in England. There is not the same requirement. When you have the devolution settlement, you have got to take a view on these things; that is how it is. In the case of the other places, you do it not because there is a required big bang constitutional settlement; you do it because it is in the interests of both the nation and the place. That has been the principle behind the City Deals. But the deals are there to be done. Greater Manchester shows that, and what we have done in Greater Manchester and Cambridge and, in fact, all of the cities shows that there is an appetite—an increasing appetite—on the part of Government, and certainly Ministers in Government, having reversed this direction, to go much further down that road.

Q450 Chris Williamson: We have had quite extensive evidence, as you will probably appreciate already, and fairly persuasive evidence, from a range of different witnesses. The Mayor of London said, "It is in the interests of central Government to recognise that this is the way to get growth going". Tom Riordan, appearing on behalf of the Core Cities, said, "Local growth is national growth". Greater Manchester Combined Authority said that their analysis showed that "if empowered to take control over the levers and resources which impact on our ability to deliver economic growth and to improve the quality of life for local residents, by 2020-21, tax take in Greater Manchester will have risen to £21.5 billion and public expenditure will have fallen to £20.9 billion", therefore securing self-sustainability. There have been a range of other comments as well. In the light of that, does the Government have a long-term strategy for fiscal devolution? Where do you think we will be in 10 years' time with your policy?

Greg Clark: First of all, to take the importance of local growth, you are absolutely right: clearly, the nation can be conducive or can put impediments to growth, and a lot of the debates we have in the House are around that. But it seems to me that it is the case for each individual place as well. Growth always and everywhere happens in a particular place. When an employer expands their production or when an overseas investor locates, they do not locate in the abstract; they choose a particular place. For many years now—as I say, for decades—the national economic debate ought to have had this component about whether places are suitable for it. That has not happened. Over the last three or four years, we have succeeded in having that recognition built into policymaking, so that is a step in the right direction.

I agree with you, Chris, that it is possible to recognise that the local interest is the national interest. Let me take a recent case in point, Cambridge, which was mentioned in the Budget. Cambridge is a place where you can literally name employers who say they will come and locate in the city of Cambridge and its surrounding areas if the transport system is a bit better or if there is more housing, but if it is not better then they cannot because they cannot house their workforce and all the rest of it. That proves, it seems to me, beyond doubt that by investing in the road infrastructure in Cambridge you can grow the national cake. These people will go to another country—another place—if they cannot be accommodated. That principle applies right across the country. It is the basis for the City Deals and now the Growth Deals that I am negotiating, and it says to each place, "If you can demonstrate that what is needed to grow the local economy is not at the expense of but actually helps the national economy, then we should be able to do a deal with you to make sure you get the investment that you need, whether it is in skills, whether it is in transport—whatever—to accommodate that growth". That is what we are doing in each and every case.

Q451 Chris Williamson: To come back to my original question, then, where do you think we will be as a country in 10 years' time?

Greg Clark: I think we will continue in the direction that we have embarked on, which is a much more powerful set of places in which differences between places reflecting their local needs have the ability to be expressed in decisions that are made locally. I think you will have a more powerful set of leaders—both business and civic leaders—locally, with the greater self-confidence that comes from that. If you look at what has happened in London, for example, over recent years—and you have taken evidence from the Mayor and other people from London over time; you benefit from some London members of your Committee—the self-confidence of London has increased as it has taken on powers and it has been able to speak for itself. The other cities and the other areas are some way behind that, but I do not know whether you have taken evidence from the Mayor of Liverpool or the Mayor of Bristol. When I was in the North West recently, in a completely different place, people were saying, "Liverpool is really on a roll now". Say what you like about the mayoralty; there is a visibility there and there is a self-confidence there. I see that in Bristol. I see it in other places that have negotiated these City Deals. They all started out, two or three years ago, incredibly timid. When I went to them and said, "Look, we want to do a deal with you", they wanted to know what our agenda was and what we were prepared to concede. Now, they are much more assertive. I know you have had evidence from Sir Richard Leese and other members of the Core Cities group, and I do not think you will have found them pretty shy and retiring violets.

Q452 Chris Williamson: What do you say, Brandon, to that?

Brandon Lewis: Greg has just hit on something. Liverpool is a good example of this; Bristol, with the mayor there, is a good example as well, where you also have got really good, strong local leadership. Whether the Government or any individual agrees with necessarily everything they do, there is no doubt there is somebody clearly leading for their area. That is one of the things that directly-elected mayors have given to those areas. Also, look back over the last two weeks, where we have had the debate in the Chamber where we have agreed now the combined authorities, for example. Going to your specific question, Chris, around where we will be 10 years from now, if you look at the development of the local enterprise partnerships, they will grow in their stature and their ability and their connections between business and local authorities, and bring local authorities together, in some cases where those local authorities previously just did not work across boundaries as well as they could have done; they will now be doing that through that. The combined authorities will bring authorities together and work in a more cohesive way with a particular focus around that economic growth. For me, 10 years from now we are going to look and see far more of those areas developing as they go forward and probably making the case for more powers and more opportunities. The mistake will be if we think that the power these areas can get and the way that they can deliver and change things is based on purely fiscal devolution. From all the evidence, it is pretty clear, although people want that, it is about how you deliver on the ground.

Chris Williamson: Do you think it is part of the—

Brandon Lewis: I do not doubt it is part of what flows through, but there is also a huge amount that these areas can do by working across the agencies, working between central and local government at various different levels and working together to deliver their outcomes, if you like, in a better way. That is what they are doing, whether it is through the community budget pilots, through the transformation network, using the local growth fund, through their LEPs or through combined authorities.

Q453 Chris Williamson: You would not argue that is a substitute, would you, though, for fiscal devolution? Do you think the two need to go in tandem?

Brandon Lewis: No, I am just saying, for me, there is a difference between that and entirely focusing on things can only work if central Government devolves more and more fiscally, although I have to say, as I said earlier, if you look at business rates retention and the new homes bonus, we are devolving more fiscally than ever before. It was made clear when we did business rates retention that it is a starting point, and there is a reset for that in 2020 within your 10-year gap as well. But actually it is about how we get things delivered, and how we get things delivered on the ground. If you are asking me, as you did, where I think we will be in 10 years from now, I think we will have far more empowered local authorities, probably working together far more. I have made no secret, nor has the Secretary of State, around the fact that there are a lot of small district authorities with budgets of £5 million to £15 million out there that are working in isolation. Economically, those days are over. They have got to come together and work together and we are incentivising that, so they can deliver more.

Q454 Chris Williamson: Okay, but as I understand it, France and Japan, for example, set out a formal roadmap—a 10-year plan. Do you think that would be something that would be beneficial to try to mitigate against policy drift? It is a great idea, you are saying, "We are all signed up", but there is a danger, is there not, of policy drift—that things may be not quite moving along as we would wish them to?

Brandon Lewis: No. You see, this is where there is a difference between where you may be arguing we go and where we are moving. This is between whether we centrally say, "This is the path we want everybody to be on. This is the timeline that we want you to do it to." There is a danger in that, for two reasons. One is it can become a tick-box and people will start trying to make sure they have ticked a box, whether it is a Ministry in central Government or somebody locally, to make sure that they have got that far down the path. It also means, if we are trying to keep everybody to a particular timescale, you run the risk, as I said in the opening remarks, of slowing people down because they are moving further ahead when we should let them move on further. That is why it is important that we have got a menu of options out there at the moment, whether it is the local Growth Deals, local enterprise partnerships, the community budget pilots, the transformation network or the business rates retention scheme. There is a range of different things there that any local area can look at and pick and choose what is right for them and at what speed they can move. That reflects the fact that different parts of our country are different. We will get differences in delivery speed.

Q455 Chris Williamson: So would you favour, then, a pilot approach? It would not be right, would it, to hold back the high-performing counties, say, and places like Greater Manchester and London and so on? Would you favour setting up pilots in that sense?

Greg Clark: The reason I bridle slightly at "pilots" is that "pilots" implies you start something and then you turn it off again.

Q456 Chris Williamson: Not necessarily. Sometimes when you switch the pilot light on, you use that to fire up the gas central heating system.

Greg Clark: It is like an experiment. You set it up and then you look at it. I want to get the furnace roaring and I want people to go further and faster.

Q457 Chris Williamson: In the winter, if you just rely on your pilot light, you are going to be pretty cold, are you not?

Greg Clark: Exactly. Precisely. One of the reasons why I would not be inclined to set out a 10-year blueprint for this is that if I set out what I would hope to achieve in 10 years, then people might not think that they are capable of getting there at this point.

Q458 Chris Williamson: Would you favour pilots, then, in that sense?

Greg Clark: Take the combined authorities that Brandon was talking about. It is very important. If someone said even five years ago that Leeds, Wakefield and Bradford, for example, as well as the other West Yorkshire authorities, would form enthusiastically into a single combined authority, you would never have believed it, and yet—you took evidence from Peter Box and others—they have done that, they have done it voluntarily and, as a result of coming together and working in that way, there are huge new possibilities for the Leeds City Region in terms of having powers devolved to them, because you have got the scale and over time you will build in the confidence and the demonstrated capacity to do more. 10 years is sufficiently long that the situation could be completely transformed in that time.

Q459 Chris Williamson: I am still not sure whether you are saying you favour a pilot approach or not.

Greg Clark: I want a pilot that you cannot turn the pilot light off. You can turn it up but not down.

Brandon Lewis: To give a direct answer to that, to an extent, in terms of the ethos you are talking about behind that—i.e. letting some areas get on with it and do this—we are doing that. The reason we are all a bit hesitant of pilots is in the past pilots have had a kind of connotation, whereas the reality is different areas are moving at different speeds and doing different things and devolving power and fiscally now. In the sense of, "Are areas already moving forward with this?" the answer is yes, they already are.

Q460 Chris Williamson: Okay, we will not call them pilots, then, but what you are saying is you support the notion that in some areas we can let them get on with it because they are further ahead, say, and more capable of cracking on and so on, so you would be happy with some form of fiscal devolution and other devolution of powers going to those areas. Do you think there would be any impact, though, on resource equalisation as a consequence of a two-speed approach, as it were? Some areas have gone and got these additional powers and got some fiscal devolution. Have you any thoughts about what impact that is going to have, then, on resource equalisation around the country?

Brandon Lewis: One of the issues about fiscal devolution is that the further you devolve that into localities, the more you move away from the equalisation, particularly needs-based. Bear in mind some of the debates we have been having in the House recently around the local government finance settlement. The business rates retention scheme is starting to move away from needs-based and becoming more rewards-based. If you go too far down that road too quickly of fiscal devolution, you move even further away, potentially, from being able to balance according to need. The system does have needs built into it in the four pillars, but if you took fiscal devolution to its ultimate position then you would move completely away from that. There is a balance there that any Government at any time will have to take a view on. At the moment, as I say, business rates retention is starting to move in a different direction because it comes reward-based and locally-based around what an authority does to drive business growth, jobs and its local economic growth, but you are then on that decision around which way you go with that resource equalisation.

Q461 Chris Williamson: Sure. This kind of debate, as you will appreciate—it is not a party-political point, this; it has been a problem of central versus local government. DCLG has traditionally been more enthusiastic about giving local authorities their head, so they can do things more. We have heard evidence from witnesses—and again, this is not new, but it is a problem—about a lack of real commitment from the likes of BIS, DWP, DfE and so on. Why is it you think DCLG have not really been able to get them on board? What are you doing to try to get them more on board? If this is going to work—if we are genuinely serious about fiscal devolution and devolved powers—it cannot just be about DCLG, can it? It has got to be right across the piece. It has got to be right across Government, has it not? From my own personal experience and what we have heard in evidence from witnesses, there does seem to be a lack of buy-in—a lack of enthusiasm—from these other Government Department areas.

Brandon Lewis: I appreciate the point you are making. I am talking to local authorities quite regularly through various different things and I have heard this before, but I would challenge that. Generally that is moving away somewhat from the fiscal point and moving back towards the issues that come up with the transformation network and community budget pilots, where we did have pilots and we called them pilots. They are now moving on to that next stage; they are not finishing. It would be nice to just lose the "pilots" bit, because they are kind of off and running; London and Manchester particularly are showing the way around what can be done. If you look at those and the transformation network, they are bringing different Departments together. Part of the work with that is local government proving that it can deliver. One of the things that comes out of the Better Care Fund is, if you go back a few years, it would have been very difficult for anybody to foresee local government having involvement with, let alone any control over, how the NHS spends money, yet the community budget pilots, particularly the work done in London, have led on to proving that local government can do this and play a really important part in it. The Better Care Fund, which is now £3.8 billion, although in pooled terms it is going to be a much bigger figure than that when we get to the final numbers now, is showing that local government has a really important part to play. We have been able to make that case by local government going out and doing this work and showing on the ground the difference they can make. Every time local government does this, it makes that case stronger and stronger. Other Departments are coming forward and have been really key partners. Norman Lamb is the Minister I work with on this, and obviously the two Secretaries of State across us and Health, and I have to say it has been an absolute partnership from start to finish. There is a real determination to see this devolved—fiscally as well—in genuine partnership across the Departments and across the agencies locally. It is happening, but it is a very new way of working. Central Government is not used to giving away this kind of power and autonomy and it is taking time to bed in, but if you look at how far we have moved in just on four years now, there has been a phenomenal speed of movement there, which is a credit to all of the Departments that have been involved.

Greg Clark: I am going to be terribly frank with you, Chris. There has been, over a long period of time, intense Whitehall resistance and, frankly, Whitehall snobbery towards local places, and it takes a long time to root out. The reason that my position as Minister for Cities was first created and still is in the Cabinet Office was to bring together the whole of Government Departments and to force through a different approach—sometimes literally to prise people's fingers off the levers of power here. It requires a central effort to do that, paradoxically. But I agree with Brandon; it is being recognised and it is working. We would not have concluded any of these City Deals without colleagues in other Departments—officials and Ministers—agreeing to give up the powers and to back a good deal with these places. You mentioned BIS. It is true that in different parts of different Departments and organisations you can find people who are resistant to it, but if you meet—and some of you I am sure know—the directors of BIS Local across the country, they are fantastically enthusiastic and very much engaged.

Q462 Chris Williamson: That is encouraging. More power to your elbow, certainly from my point of view, anyway. My final question, if I may, is directed mainly at you, Greg, but you might want to also comment, Brandon. In terms of fiscal devolution to cities, what benefit do you think would flow through to English counties if that went ahead? Is there any benefit?

Greg Clark: Just as some of the cities have shown themselves very capable, very mature and able to take responsibilities from central Government, so that is the case with counties. You have got some counties in the country that are very well organised, very capable organisations and it seems to me that there should be no bar in them having the same powers that cities have.

Q463 Chris Williamson: Perhaps I phrased my question rather poorly. What I am asking is: what benefits, if any, do you think would flow through to counties if fiscal devolution was given to city regions?

Greg Clark: City regions but not counties?

Chris Williamson: Yes.

Greg Clark: Some of them would want to have the same powers, and they should be able to make the case for them just as cities are, and they would have the same benefits that the cities would have to be able to make locally-informed decisions, to be able to bring people together and to bring resources together to invest in the economic potential of their county, just as the cities can for their cities. In terms of the 10 years ahead, it is not just cities; I would expect counties to have much more power than they have had in the past as well.

Brandon Lewis: I will say if you look at some of the work in the community budgets, Essex is a good example of a county that is really keen to show it can be an economic driver; so is Surrey. There are a few counties around the country that are pushing very hard on the door to argue for some of the work they are doing, whether in supporting City Deals or their own local growth that they are working on—Staffordshire is another really good example of this—and really pushing the envelope of how they can move forward and deliver economic growth for their areas.

Q464 Chris Williamson: And Government would not be resistant to that, then.

Brandon Lewis: At the moment, Government is already showing that we are working with them and devolving things to them. Essex is already part of the community budget pilots, and the work Greg is doing around the Growth Deals gives them another opportunity.

Chris Williamson: Yes, because a lot of the focus has been around cities, but that is great. Thanks very much indeed.

Q465 Heather Wheeler: Your last answer is most interesting, because the evidence we have had so far is that local councils do not think that you will trust them with fiscal devolution, but everybody agrees that we need these drivers of growth right the way across the country. How do you square that circle?

Greg Clark: We had the same scepticism when we started with the City Deals, as I mentioned to Chris earlier. I do not blame them, because over many years' experience—I was a local councillor myself—the prospect of being able to do things differently was always dangled before them and they were very disappointed in the past. But what, indubitably, each of the eight Core Cities that we did the deals with demonstrated was that you could do really substantial things—you could have significant devolution of power. That has been demonstrated, to the point that the Mayor of London when he gave evidence to you was making the case for some of these City Deal negotiations to apply to London. Certainly my experience of the counties is that when I have been to the LGA conference having negotiated these City Deals, I have been literally chased down the corridors by leaders of counties—I cannot remember whether your husband was one of the pursuing pack, Heather—saying, "We can organise ourselves and do the same. Please say 'yes'." Through the Growth Deals, which Michael Heseltine's report triggered, that is what we are doing. They are open to counties through the LEPs and they have the chance to do that in the same way.

Q466 Heather Wheeler: I guess, putting a negative, you are not really trusting them with real fiscal devolution because you are not letting them have prudential borrowing powers so that they can borrow in a sensible way for more housing or more infrastructure. You are not really giving them those powers, are you?

Greg Clark: Yes, that is available in the Growth Deals, just as in the City Deals we negotiated TIF powers to borrow more. If you go to Newcastle now, as Mary will know, you will see the buildings rising up from the ground at the Science Central site; what was derelict land is now being built on and regenerated, creating jobs, through that prudential borrowing power. Lots of local government finance can be lost in abstraction, but if you step outside Newcastle Central station and take a short walk, you can see it with your own eyes. That is now available through the Growth Deals to every local enterprise partnership in the country. I know, just having spent my time talking to each of the 39 LEPs in their own places over the last few weeks, that many of their proposals for Growth Deals include making use of those prudential borrowing powers.

Q467 Mark Pawsey: Gentlemen, we have heard about the change in the direction; we have had a century of centralisation and we are now looking to decentralise. The very first step on the ladder, if you like, is City Deals, Greg, and you and I were at the Coventry and Warwickshire City Deal just over a week or so ago. But is it not the case that City Deals are not proper devolution? It is simply giving a pot of money to a local area to do things differently. In Coventry and Warwickshire, we have brought together two authorities who had not worked together since the local government reorganisation of the 1970s. Is it real devolution?

Greg Clark: It is certainly real. We have just mentioned prudential borrowing powers; they are being used. The control over spending that was previously held nationally is absolutely there. When we were in Coventry the other day we were talking about investment in the skills system and in business support that previously was controlled from Victoria Street; we went in the building in Coventry where this is going to be run from for the whole of Coventry and Warwickshire. That goes back to the exchanges we had earlier. To talk about fiscal devolution is fine, but it perhaps should be financial and beyond. You are talking about finances generally and powers. To put in the hands of people locally the control over many millions and, cumulatively, billions of pounds spent nationally that has previously been under the control of civil servants and Ministers nationally is a big element of devolution.

Q468 Mark Pawsey: Sure, but the City Deal itself involved those local people getting together and then coming to a body—central Government—and saying, "Look what we have done. Please will you okay it?" Are we going to get to a stage where we move beyond that?

Greg Clark: I would not agree with that characterisation, in the sense that what each of the deals has done is said, "If we organise ourselves locally to make a difference—to do better than you could do nationally—and specifically if we bring in local resources, especially from the private sector, will you devolve some of the funding that takes place nationally?" We have been able to say "yes" to that. You are right in saying that we will go further. The local Growth Deals that are being negotiated involve a much bigger devolution of financial powers, and what we have seen in Manchester and in Cambridge is specifically fiscal devolution whereby you get a share of the national tax take going to these local places.

Q469 Mark Pawsey: So you take issue with the former city council chief executive who said that a City Deal required a local team "to 'haggle' with an oligarchic patron".

Greg Clark: Who is the oligarch? Am I the oligarch?

Q470 Mark Pawsey: Central Government is the oligarchic patron, and that deal still has to be done, because insufficient powers have been handed over.

Greg Clark: It is a deal. I have been very clear that these are deals. I chose the word advisedly right at the beginning, because it seems to me that the essence of a deal is that you just do it if there is something in it for both sides of a transaction: the local place and the national place. There is something about a deal that you do your due diligence, so that what is being said you do not just accept at face value—you do due diligence to make sure that this is credible and works out—and you negotiate. Whether you call it haggling or whether you call it negotiation, you get the best possible value out of it. That is what we have done in each of the City Deals and we will do in the Growth Deals. That is a better way of proceeding: to agree these deals with each place. Rather than just have a top-down statement that, "You are going to get this little sprinkling of powers", have a substantial, muscular negotiation that results in some of the deals we have done.

Brandon Lewis: I would add to that. It goes to the core of the point we have been covering and part of Chris's questions as well. The other way of doing it is this top-down flat devolution, which will always, by definition, be tending towards catering for the minority and the slowest in the opportunities. Doing it this way does allow areas that have got more adventurous ideas and the ability to deliver on them to make a case to push forward with that, which is what has been happening with the City Deals and no doubt will happen with the £2 billion through the local Growth Deals, so you do get something that is tailored to that area rather than this top-down approach. That is fundamental to this, and it ties into the issue that this Government came in needing to deal with a fiscal problem that the country had; therefore, there has to always be, at the moment, a very open and clear view around that public-sector borrowing requirement and the implications of how fiscal changes will affect that. But also, it is about making sure we do not let ourselves get distracted into believing that we empower local government to act in a new and different way purely because it has got the ability to raise tax or borrow money. That is a dangerous place to be. It has got to be about what it wants to deliver and how it can deliver it locally.

Q471 Mark Pawsey: In which case, my next question is: how far and how fast? If we accept that City Deals are the first step on that road, what is the next step, and how quickly can we do it? If we do do that, how do we know that there is a consensus for that direction and that a subsequent Government—because we are a year away from a General Election—will continue with that direction?

Brandon Lewis: That also comes back to Chris's question about where we will be 10 years from now. To an extent, that is out of our control. I mean that in a very positive way. Greg can talk more to the City Deals in a moment. The Prime Minister made it very clear not that long ago that areas that get on with this and do the work, working together across different areas and across different agencies—I have said, I think even in this Committee, that we have said to local authorities in some areas, "If you have got ideas of how to work, with the Localism Act you have got the general power of competence. Get on and do it. Do not wait for permission anymore. If you do something we do not like, by the time we find out you have already done it anyway."

Many areas are pushing on with this. If I look at the transformation network, we have nine areas in that that are doing things differently and delivering them differently locally, but they are not the limit. I am meeting local authorities and agencies all the time that are doing these things and are just getting on with it. If you think about some of the things in the South West and in places like Suffolk, they are delivering on the sorts of things that in the past would have had to be part of a community budget pilot or the transformation network. These areas are seeing these things happening and are saying, "We want a bit of that for our locality", and they are just getting on with it. My answer to where this goes after 2015 is: this is now becoming so well embedded that it is going to happen, and it is going to happen because localities are going to do this and run ahead of where central Government is. That is quite a positive thing.

Q472 Mark Pawsey: I am going to follow that up, then, by asking why it might not happen. We have taken evidence from lots of local authority leaders and we have said to them, "Would you like more powers?" Of course they say, "Yes, of course we would". That is a natural response from somebody in a local government situation. Why might it not happen? What could derail this? What could go wrong here? Could we end up with authorities wasting money and being profligate? What are the reasons for increasing centralisation over the last 100 years? Why are we not going to make the mistakes of the past?

Brandon Lewis: There are a couple of things. One is this key issue around letting areas that are ready move ahead and get going and going forward, and using them to show what can be done, whether it is Manchester, London or anywhere else. Some really good pieces of work are going on around the country. In Bournemouth, in the South West, they are doing some great work across the public sector.

But it is also about remembering that the power sits with them locally. It is not for us centrally to say all the time what can be done and what cannot be done; it is for somebody locally to work together and look at what they can do for their locality. One of the dangers behind this failing is that if somebody sitting in a suit in an office in Whitehall says, "I need to be able to sit in front of a Select Committee and prove that this is working, and the best way to prove to a Select Committee or anybody else that this is working is to be able to take my sheet out with my five tests and be able to tick that every one has been achieved", that becomes the tick-box culture. In a whole range of things across local government we have got to be really resistant to that, because that means we start trying to tick boxes rather than look at what is good for the locality.

Greg Clark: Hopefully not this Committee, but it is why this inquiry you are conducting is very welcome, because you need to keep the pressure on Ministers—and Opposition Members, for that matter—to commit to this agenda and go forward. The reason that over the past 100 years power has been centralised is very evident. People get elected to this place and they think they are national politicians and they did not get here to give power away to other people a long way from here. That is the instinct that needs to be battled against. Equally, to be blunt, if you become an official in Whitehall, then it is a very unusual official—I hope more common—that regards their mission as to give that power away. You cannot rely on that. You have to battle for it; you have to fight for it. It is really important that we should do that.

Richard Leese, the Labour Leader of Manchester—and I deal with a lot of leaders from different political complexions—said that we have managed to do more in terms of giving powers to cities in the last three years than the previous Government did in 13 years. It is important that you recognise that history has gone the other way and really fight for it. I know you are a cross-party committee, but that is why I say to Labour Members, "I would like the Government to be put under some greater sense of competition on this agenda". I think it would be good, whether it is from this Committee or whether it is from the Labour Party. I do not get as much of it as I would like. It would suit my purpose and Brandon's purpose very well to be urged from all sides to be going further.

Brandon Lewis: Just building on what Greg said, there has been a real shift in the last few years as well. I think quite a few of us around this room have been councillors and council leaders in the last 15 to 20 years. When I was a council leader, too many of our decisions were having to be made because an officer would say, "We have got to do this because this will keep the Audit Commission happy or the Government happy" or whatever. We had very limited areas in which we had real control. The Chairman of the Committee has made his views known that he thinks the last Government should have devolved further at the time. Simon and others have done the same thing, and Chris has been making the point here today. There has been a real culture shift across the lines. The Front Bench of the Labour Party have themselves been saying that localism is the way that people are thinking now. That has been one of the real successes of the work that Greg and others have done. The agenda has moved on. I do not think local government or the country would allow somebody to go and centralise again in the way that happened over the last 30 years.

Q473 Mark Pawsey: Can I just raise the issue of local accountability? We have done it through City Deals and we have done it through LEPs. Whilst there are democratically accountable people on those bodies, they are not directly elected to either the City Deal grouping or to the LEP. Are you comfortable that there is sufficient democratic accountability within these bodies?

Greg Clark: A directly-elected mayor can be a hugely galvanising force for a city, both in terms of the accountability and in terms of the ability to project that city forward in a competitive world. If you look at London under successive very different Mayors of London, there is no doubt that that has helped.

Q474 Mark Pawsey: But if we take other City Deals, do the voters in those areas have a clear understanding of who is pulling the strings, and are they able then to get rid of those people if they feel they are not doing a good job?

Greg Clark: You have got a better ability as a result of the City Deals. In each of the first wave of City Deals, we said there needed to be a strengthening in the governance arrangements. Some cities went for mayors, and I think the opinion in those cities is that they have benefitted from it. Others have brought together the previously disputatious authorities into combined authorities and they are pulling together; those individual leaders are elected. I am not going to hide my view from you that a clear, accountable, individual, directly-elected leader is the best possible model for it.

Q475 Mark Pawsey: This is about achieving local growth in local areas. One of the challenges right now is identifying where local growth occurs. I have got a feeling that in my constituency we are growing quite well locally, but I am unable to identify that and take it out of the broader statistics. Do you think that we should be measuring local performance more effectively?

Greg Clark: It is an interesting question. Clearly it is useful to have information to be able to base decisions on, but I would not wait for it. It goes to Chris's pilot point. I would just get on with it. There is enough evidence around the world that places are important. A place can be good for growth as an economy can be good for growth, so invest places with the ability to improve themselves and to transform themselves. I would take that on trust without needing the statistics to emerge.

Mark Pawsey: So measuring it is not a problem.

Brandon Lewis: Also, it is one of the important opportunities that local areas are getting from the local enterprise partnership, because you have, through that, got an ability for local authorities to have a relationship with local leading businesses and the business community in a way they have not had, in many areas, before at a different level to what they had before. These are the businesses that can be saying to that community and to those local authorities, "This is what we need in order to succeed, to survive, to develop and to grow".

You have got that conversation happening in a way it has not happened before in many areas. That can only be a good thing, because those businesses know what they need to do and what they need in order to develop, to grow and to be successful in the future. It is a good way of local authorities being able to tune into that and deliver for them.

Q476 Chair: Can I just follow up on one point there? Lord Heseltine said £50 billion should be devolved to the local growth fund and he warned that the mandarins in Whitehall would make sure it did not happen. He was right, was he not? What we got was £2 billion a year, some of it creamed off of money local government was going to get anyway.

Greg Clark: It is £20 billion over five years, and Michael's total was over five years as well. Michael Heseltine has been round with me to almost every one of the 39 local enterprise partnerships.

Q477 Chair: He was right, though, was he not?

Greg Clark: No.

Chair: The resistance was put up, was it not?

Greg Clark: Certainly resistance was there in Whitehall, but we negotiated, in what was publicly known to be a pretty tight spending round. It was the Chancellor's proposal—the Chancellor insisted that we should fund the local growth fund—and Michael Heseltine and I have spent the last two months on the road helping and advising each of the local enterprise partnerships on how they can put their plans together for this. He would not have been doing that were he not totally committed to and pleased with the settlement that has been given there, and it is something, as we just talked about in the answer to the last question, that I want to be able to build on during the years ahead. It is a minimum rather than a maximum.

Q478 Bob Blackman: Brandon, at the beginning of the session and in evidence that you gave to us in January you were talking about an incentive-based system rather than a grant-based system for funding local authorities. How far are you prepared to go on the whole process?

Brandon Lewis: If you have got suggestions that we are going to see as part of this report, I would be very interested to have a look at them. We have been very clear: what we want to do is move away from the "begging bowl" system—that is the phrase that has been used—and move to a system that is reward-based, so it incentivises growth, whether it is incentivising house-building or economic growth through business rates retention.

Even the Transformation Challenge Award that we set up—last year it was £6.9 million; this year it is £15 million; it is growing to over £100 million next year—has been structured in a way that it incentivises those very authorities that do need to be working together more to break down the barriers between them and to get together and work together. I had an experience just before Christmas of talking to a small number of authorities in a small geographic area—I will not say where to embarrass them—all of whom were saying that they were the sort of size that should be sharing chief executives and sharing management and wanted to do so but could not find a partner. Every single one of them pretty much named each other as a partner who would not work with each other but was willing to look for a partner. There was no logic to that.

I am not very keen on sticks because they just do not work. They become resentful and even if somebody does something, they are not really bought into it and therefore the sustainability of it is questionable. It is trying to find ways—and the Transformation Challenge is another way of doing that—to incentivise them so we get positive work happening for a positive reason that everybody is a beneficiary of. That is really what we are trying to drive. I have to say one of the things that will be very interesting for us as well will be to see what comes out of this report; it is interesting for Government to have a look at this. Sometimes you get reports from Select Committees of different types where the Government is waiting for the report to be able to respond to it. This is a report that could be quite informative for Government, around, "Okay, what other ideas are there for what next? Where can we go next, and what other ideas are out there about what we can do to take this further and faster as well?"

Q479 Bob Blackman: Do you accept there is a risk that, as some areas—London, Manchester and others—are full steam ahead in terms of devolution and getting on with things, there will be others that are laggards? As you say, you have met them and there seems to be this obstruction. You have still got this pillar of need in the awarding of money, so that people could say, "Well, actually, we cannot do all this, but we still need the money. Can you dole out the—". There is not the incentive then to shift in the way that we might want some of these authorities to do.

Brandon Lewis: There are a couple of ways in which we need to drive. I said to somebody earlier today that they had a particular fringe meeting around shared chief executives at the LGA conference last year, and there were the best part of 100 people in the room. During talking to them about some of the ideas and how we are moving forward—and I am really keen on this agenda; this is a really important way to move forward in terms of sustainability and good use of finance—I suddenly got quite depressed. I suddenly realised pretty much everybody in the room had already done it or was in the process of doing it. How do we get this message to the people who were not in the room, or who were not even at the conference, who need to be doing this? Part of the issue is exactly the reverse of the point some people make and goes to the core of your opening points around London and Manchester, or whoever it happens to be. Part of the way we get some of the local authorities to be more part of this that at the moment may not be as engaged in it as they should be is to see that places like London, Manchester, Bristol and Liverpool can fly ahead.

Greg makes a good point around the accountability, the transparency and the public coverage that a directly-elected mayor gets. Liverpool is a really good example of this. The Mayor of Liverpool and I might have disagreements around how they spend their money and how much money they have got as opposed to what they think they need, but what is really clear is Liverpool has got a very clear leader. Joe Anderson is the Mayor of Liverpool. People know that. They can rally to that, and it can make a really big statement for the area, the same as the Mayor of London does for London. If we have got areas like that that are moving forward with local growth funds and City Deals, what that does drive—and particularly the coverage it gets—is areas that have not got it starting to say to their elected representatives, "What about us? Why have we not got this yet?" and get it driven from the community about, "We want some of this". Then the local members start driving their leadership locally and they start driving their officers and we get this push from a very positive side, and we use the fact that areas can drive forward faster and quicker to encourage those others about, "Look what can be done". The best way to do that is to get it more and more up the public agenda so people can appreciate what the opportunities are. The more successful some areas are, I would hope we can drive other areas to want to be part of that as well.

Q480 Bob Blackman: Just turning to one or two other areas of the issues over incentives, the Mayor of London, when he came before us, made the point that as devolution of property-based taxes is given over to local authorities, grant is just withdrawn on a pound-for-pound basis and, knowing the way that the Department works, probably minus 10% just to encourage you to do more. How would you respond to that?

Brandon Lewis: Say that again. I am not sure I quite follow what we are being accused of this time.

Q481 Bob Blackman: As property-based taxes are devolved to local authorities, so they keep more of what they raise—whatever it may be—or, indeed, on business rates, then grant is withdrawn on a pound-for-pound basis. I would also say that the experience in other areas is that the Department then says, "Well, just to give you an incentive to do more and raise more, we will deduct 10% off that as well".

Brandon Lewis: I do not think that is a fair assessment of quite how we work. It comes back to this key point about looking at what the authority is driving to do, and trying to find more and more ways for local authorities to have more involvement in how they are delivering, what they are delivering and the way in which they deliver for their local communities. I do not know if every leader will necessarily agree with this, but I talk to council leaders about, "What do you want?" and "What more can you do?" I think back to my time as a leader and what I would have liked to have done: it was not about charging more taxes locally, whether that is through council tax or a local income tax or anything else; it was the ability to be freed up to get on with doing what I wanted to do for my residents. That is the key thing.

I know the core focus for your evidence at this point is fiscal devolution, but for me it is very secondary to the devolution of power, because you need the power to deliver things. That working across, whether it is through community budget pilots, the transformation network, a City Deal or a Growth Deal, is that ability to deliver something in a different way.

I think I used this phrase when we met about a year ago here, but one of the things we have fallen into a trap of in local government historically is doing what we do because we do it and we do it and therefore we have to keep doing it. Really good local authorities will sometimes, quite rightly, stop for a moment and think, "Can we do this quicker, better, faster?" That is great, but what we should be doing is starting from the beginning with a completely fresh approach and saying, "What is the outcome we want for our community and how do we best provide that?" That is what the transformation network is about; that is what the community budget pilot areas have been doing. That means you start breaking down the barriers between Whitehall Departments and local agencies in the public sector as well, so you get proper devolution and the local authority really directly involved in delivering for its community, whether that is through health, whether it is through skills or whether it is through any other part of the public sector. That is where the real prize is for local government. That is one of the really important features of the Better Care Fund and why that is such an important thing for local government to deliver on and to feel empowered to do something very, very different, because it starts to prove the case for a lot of other things.

Q482 Bob Blackman: One of the other considerations that the London Finance Commission has come up with is a range of different ways of raising revenue, which could then lead to more income for London—but it could be applied to other city areas as well. There is a concern that they raise that much more money and then the Department just says, "You do not need so much, so we will take more away from the grant", and, in similar ways, other local authorities will be saying, "How come London has got so much money? Why can we not have it?" There is an issue of fairness. If someone is raising the money and really steaming ahead in terms of producing the goods, they are going to get penalised in the long run by the Department saying, "We will give more money to those local authorities that are lagging behind". How do you respond to that?

Brandon Lewis: First of all, you have got to be very clear. There is no secret about the fact that the RSG—that part of the grant that we are really talking about—is on a downward trend. Central Government has got to spend less, and local government, as 25% of all public expenditure, has got a big part to play in that. That is why some of the powers we have moved out locally are so important. It is why the business rates retention scheme is so important; it gives local authorities an ability to do something about it. We do not claw back from that; they get that benefit of growth. That is locked in until 2020. Bearing in mind that part of it is reducing to be a smaller part of the percentage of what they get, this comes back in a way to a question Chris asked about where we will be 10 years from now. One thing I think is a very realistic possibility 10 years from now is that there will be local authorities that, because of their ability to do things locally, whether it is through building new homes and therefore increasing not just new homes bonus but long term their council tax, or through growing businesses and therefore growing their business rates scheme, will no longer need—I am not saying they will not want it—Government grant because they can grow and become in control of their own destiny. There are leaders out there who are already, when they come and see me, saying that is what they want to get to. They want to be able to deliver things locally without having to rely on Government grant, which is a small part of their overall spending power in the first place now. We have got to bear in mind it is not the biggest chunk of what local authorities spend now anyway.

Q483 Bob Blackman: Finally from me, with all the proposals that are on the table at the moment, the estimate is that, even if the

Government really goes ahead with this to areas and encourages them through devolution, still only 12% of taxation for those areas will be locally based; some 88% will still be central Government tax from that area. Do you agree with that estimate?

Brandon Lewis: No, I am not sure I quite follow that. With the business rates retention now being locally, on average we are at about 70% now locally.

Bob Blackman: But taking the normal share of taxation—income tax, VAT and so on.

Brandon Lewis: Right, okay. To an extent, that depends on what local authorities do around business rates. We were very clear when Baroness Hanham spoke in the House of Lords as well that where we are with business rates and that share of the growth is the starting point. As the fiscal pressures allow, we would all like to see that go further as well. That, to an extent, is partly in the hands of local government and where it goes and what it does around economic growth as well.

Q484 Chair: Just to follow up on one point there, if we are going to move at some point to greater fiscal devolution, do you accept the principle in the London Finance Commission report that, at the start of the process, if taxes were transferred that would raise a certain amount of money, then there should be an equivalent pound-for-pound reduction in grant as a starting point?

Greg Clark: That seems a reasonable starting point.

Q485 Chair: Okay. Just to follow the other point up, is it possible to have a system where there is greater incentive for authorities to raise their own money because of the things they are doing with a recognition that some authorities have less ability to raise finance? Through no fault of their own, it may be that Middlesbrough is not quite the same as Manchester, or Barnsley is not quite the same as Bristol. However hard some authorities try, through no fault of their own, they have still got the real needs of things like adult social care on their hands but they cannot always generate as much extra money as some other areas. Is there a recognition that there has to be a system for dealing with that sort of situation as well?

Greg Clark: That is why, as this Committee knows, local government finance is difficult and it is important to get right. You have got responsibilities to places in the country that do have a different ability to raise revenue and to deal with the needs that they will have in the future at the same time as wanting to give people the rewards and create a virtuous circle of reinvestment locally that can generate resources. That is why it is not straightforward. To be fair to the Commission, they recognise that, and I am sure you will be reflecting on this in your report.

Brandon Lewis: Also, there is sometimes a view, with the business rates retention, for example, that it can be better for certain areas because they are more affluent. But if you take an area like Westminster in London, which, on the face of it, has very successful businesses doing very well, the real benefit from business rates retention is in the growth, so Westminster could easily make the argument that there is a limited area for them to grow because Westminster is already full, whereas in areas like my own, for example—Great Yarmouth—where we have got an industry that is just taking off in terms of the energy industry, and we have got a retail and high-street sector that is starting to revitalise and grow, there is more capacity for them to be able to grow. Bear in mind the real benefit through business rates retention comes from the increase in business rates and the growth percentage from that. We underestimate just what an opportunity there is for areas that have traditionally not been able to fulfil their opportunities in the past.

Q486 Chair: But if we look back at the past 10 years of growth, you would probably find that Westminster, if that scheme had been brought in 10 years ago, would have done an awful lot better than perhaps your area.

Brandon Lewis: Maybe, but we are not 10 years ago. We are where we are, and it is looking now at going forward. I have to say one of the real benefits from the enterprise zones as well and that devolution is you have got opportunities there in other areas to really see a kind of growth they have not had a chance to see before and to have the benefit from that locally.

Q487 Simon Danczuk: We have been talking about combined authorities. Does the Government intend to remove the impediment preventing district councils from joining in with combined authorities? There is some issue around them not having responsibility for transport currently.

Brandon Lewis: At the moment, the combined authorities are around economic and transport infrastructure, so it is something that sits with the authorities who have that involvement.

Q488 Simon Danczuk: And there is no intention to change that, so district councils cannot really be part of that, then. Is that right?

Brandon Lewis: Not at the moment, no, but, as we have said with a whole range of different things, if areas come to us with a proposal of something they think can work and they have got a good case to make, I run an open-door policy and I know on the Growth Deals Greg is in a similar position. I am always willing to have a look at something like that and look at the case and see the merits of it on its individual basis. That comes back to looking at what is right for any given locality rather than having one-size-fits-all.

Q489 Simon Danczuk: That is good. We touched upon accountability earlier. You have got Greater London asking for fiscal devolution. They have already got assemblies and a fairly strong democratic structure there. Combined authorities are more indirectly elected and accountable. County councils; two-tiers. How would Government judge what governance structure is best and right for fiscal devolution, do you think?

Brandon Lewis: I will let Greg come in in a second on the fiscal side, but also bear in mind when you are looking at district authorities as opposed to the authorities that have so far come into combined authorities that there is a difference, in the sense that because they do not have quite the same economic or transport-infrastructure responsibilities. If district authorities are looking to come together, which I am very keen to encourage, from the locality, then what they are looking at generally bringing together is their management structure and their back-office structure—exactly the things we are trying to incentivise through the transformation network—and keeping that local democratic accountability and coming together in a way that in the old days somebody would have from the top said, "Right, we are going to bring in unitary authorities all over here", which we are not going to do. But if local authorities are coming to us saying, "We want to come together more and work together more", they can get on and do that now. They do not need permission from Whitehall to do it. If they are looking at coming together in a format not dissimilar to a combined authority, then, because they do not have that involvement in the economic growth and in the same way for the transport infrastructure, I am not quite sure how that differs from what they have already got power to do.

Q490 Simon Danczuk: But in terms of accountability and fiscal devolution, what is the ideal there? What do we expect?

Greg Clark: I do not think we should establish an ideal, because one of the features of the country is that every place is different, and you would not want to prescribe something that has to take place in every area. Take Greater Manchester, which you know very well, Simon. It works. We know that they have got a track record of very close working together; they can organise in such a way that they can take collective decisions. In other places, they have not got that experience. You have got to recognise what is there. My own view is that it helps to have a directly-elected mayor because you have got someone who is both visible and has the clear mandate of the entire population, but would I say that you should only be able to have powers devolved to you if you have an elected mayor? That would have prevented us doing a deal with Manchester. That would have been bad for Greater Manchester and bad for the nation, so I do not want to have a red line about it.

Q491 Simon Danczuk: But what has come up in previous sessions on this subject is this issue about accountability when you are collecting taxes. It is a big issue, is it not? If you are collecting taxes, surely we want some direct accountability to the people that are levying the taxes.

Brandon Lewis: On the combined authorities, there is, because you have got elected members on them who are accountable in their localities.

Simon Danczuk: Yes, but it is indirect.

Brandon Lewis: That is the ultimate tax-raising area. That is there through the combined authorities.

Q492 Simon Danczuk: Just finally, the Government refused to put up a Treasury Minister to this Select Committee to discuss this issue, yet it is about collecting taxes. Why would the Government refuse a Treasury Minister to come and give evidence to this Select Committee on this issue?

Greg Clark: I am sure it was because they felt that the two Ministers that you had were capable of representing the whole Government, as I hope you will conclude has been the case.

Brandon Lewis: I am not sure what you are suggesting. Also bear in mind, whether it is through the combined authorities and the side of it that DCLG deal with or the City Deals and the Growth Deals that Greg is negotiating, you have got the people who are doing that work, so—

Q493 Simon Danczuk: Just on the issue of a Treasury Minister not appearing, though, it does seem strange that, whilst we talk about accountability and scrutiny, this Government refused to put up a Treasury

Minister who is prepared to answer questions about devolving tax collection to combined and sub-regional authorities, etc.

Greg Clark: To be fair, Simon, I am the Minister for Cities. The purpose of the appointment was to bring together all the different Government Departments so that local authorities would not need to talk to the Transport Minister to talk about transport things, the Health Minister to talk about health things, and go all around the houses in Whitehall. I dare say the same applies to your Committee.

Q494 Simon Danczuk: So the Treasury would be completely happy with devolving fiscal responsibility, then, to sub-regional level.

Greg Clark: As you will know and this Committee will know, the Government can only ever take decisions when there is collective agreement based on collective responsibility. I do not think you should regard fiscal devolution as being a future thing. The Greater Manchester City Deal is a striking piece of fiscal decentralisation that would not have happened had not the Treasury agreed to it.

Q495 Simon Danczuk: Just to be clear, Greg, you are talking on behalf of the Government—that is what you just said—in the ministerial position that you have, and the view is that the Government is happy with fiscal devolution.

Greg Clark: Depending on the form of it, but the direction is absolutely the way we want to go, and we have demonstrated that. Brandon has talked about business rates and I have talked about the City Deals. We have turned the direction and we are now proceeding, I hope with increasing pace, in that direction.

Q496 John Pugh: Can I say first of all, in response to Simon's question, how pleased I am to see you are looking at the possibility of district councils being more closely involved in city-region deals? I have the particular case, which I have raised with the Minister before, of West Lancashire, where the transport footprint of the city region runs right out and though West Lancashire, including the Merseyside Passenger Transport Executive as-was—the new ITA, as-is, or whatever it is called.

Can I go back to something Greg said? He relished the concept of a deal. I can see how a Government Minister might relish the concept of a deal, because a deal is something done and it can be undone; it is essentially a time-limited thing. It is not the same, for example, as a constitutional settlement of the kind that was proposed by Graham Allen's Select Committee, where you have a proper sphere of influence for local government over here and a proper sphere for central Government and you have simply altered the boundaries permanently. You are not doing that; you are making a deal instead. If I can illustrate that by an example, the Secretary of State has a great interest in how the nation empties its bins, but he cannot decide how every local authority empties their bins because that is seen as their legitimate sphere of influence. It really is devolved, the emptying of bins. But every aspect of a City Deal is not really devolved, is it? It is given by the Government on sufferance or subject to good behaviour or conditions?

Greg Clark: No, with enthusiasm. As far as the longevity goes, if you take the Greater Manchester deal we have talked about, it is over 20 years. That is a binding deal. 20 years is a pretty substantial agreement—the agreement for TIFs in Newcastle, for example. I know it is not quite your city, but a bit further down the river. These are long-term agreements. I do not think the fact that it is a deal implies that it can be undone at all easily. In terms of the debate about whether this should be a constitutional recasting of the relationship between central Government and local government, I have given evidence to Graham's Committee before and I have participated in discussions with him and other members of the Committee; I am quite sympathetic to that way of thinking. My experience, not least over the last two years as a Minister, leads me to take a pragmatic view that you can get more done more quickly if you negotiate deals with particular places over particular instances rather than confine yourself to a constitutional discussion that might take years to resolve, and would presumably need some Act of Parliament that certainly is not going to be available in this Parliament.

Q497 John Pugh: So you do not think a deal as a concept has the risk that central Government will return to its old colours, as it were, and re-appropriate powers where it needs to, or where it feels it needs to.

Greg Clark: It goes back to our earlier conversation. The same with any so-called constitutional arrangement, any Parliament can change the decisions of a previous Parliament and a previous Government. What gives me optimism in thinking that these arrangements—these deals and the devolution that we have made—are not going to be reversed is the example of London. It would be technically possible but politically suicidal for any Government of any colour to come and say, "We have decided to abolish the mayoralty of London; we are going to take back some of these powers that we have given."

Q498 John Pugh: It happened with the business rates, did it not? Business rates were taken from the local scene to the national.

Greg Clark: That was during this period of the drift in the direction of which we are going in the opposite direction. The practical experience of it would be the same in Manchester and other places; you would have people rising up and saying, "Don't you dare take away what we have. This is intrinsic to the importance of this city and our economy." That, combined with the degree of political commitment that I hope will be there and be fought for, I hope will succeed in not just protecting but advancing this agenda.

Brandon Lewis: I will just add to that. One of the important things, as I said much earlier on this afternoon, is that the political agenda with devolution has moved on. Combined authorities are a really good example of this. The combined authorities had the unanimous agreement of the House a couple of weeks ago. Everybody was on the same page. If anything, as Greg said earlier on today, it is welcoming to have the challenge from people about how we go further and do more with this, whereas we have come from a position over the last decade or so when it has been about going the other way. The political agenda for this across parties has completely moved now, in the sense you have got people of all parties talking about how you further devolve—not about whether we devolve but about how much and how far we go. We are in a very different place in terms of the political footprint that we are walking towards now.

Q499 John Pugh: Even though my local city region cannot choose its own name.

Brandon Lewis: It can choose its own name.

John Pugh: Can it?

Brandon Lewis: Yes. This is the point I made on the floor of the House last week. All of the regions can choose their own name; that is the point. The reason we have put legal things in place is so they can go off, choose their own name, their own brand and their own logo and market in their own way. We have absolutely given them that power.

Q500 Chair: Before I pass over to Mary, just one point: you have mentioned, Greg, that London simply would not accept now a reversal back to where it was before the changes were made with the creation of the mayor, etc. That was underpinned by a referendum. Do you think there is some merit in using referenda to underpin other changes? Obviously they have underpinned the Scottish and Welsh changes as well.

Greg Clark: Certainly that makes it much more difficult to reverse; that is undoubtedly the case. Where you have, as in the case of the deals, a willingness on the part of the people of a particular place and the Government to do something, you should not wait to have to have a referendum. For example, the mayoralties of Liverpool and

Leicester were decided locally without there being any kind of national imposition of arrangements, and you should be able to negotiate them.

Q501 Chair: But you would not rule out a referendum in some cases to underpin a significant change.

Greg Clark: It is clearly available to you, but I am not drawn to it as a necessary condition for devolving power. I would not want to have that as a potential obstacle in the way to have to go through and delay things if there is consensus that can be demonstrated locally.

Q502 Chair: It might make it more difficult for central Government to reverse something in the future.

Greg Clark: I can see that; it would have that advantage. The combined authorities are a good example. You could apply that to them. You could have had a referendum in each of the places saying, "Do you want to create the Sheffield city region?"—or the Leeds one or the Manchester one, for that matter. I feel sufficiently able to judge from the unanimity of the councils there of all parties, the soundings that were taken—there was consultation on them—the fact businesses are strongly supportive and the fact local people almost unanimously, as far as I know, responded in favour. To have to say, "Well, nevertheless, you have got to have a referendum", would not really add much to it and would certainly delay it.

Q503 Mrs Glindon: I do apologise; I have been yawning a lot, but it is not because of the content of the discussion at all. It is just I am really tired.

Chair: Not tired of the Ministers.

Mrs Glindon: I am not bored, simply tired, so I do apologise. I had several questions for the Ministers, but you have said quite a lot about business rates retention and growth. The question I really want to ask is: the Mayor of London said to us that "no one has had the guts" to revalue council tax "and it is not going to be done at a national level, but it could be done" locally. In your political judgment, will any Government ever be able to rebase a tax that has been devolved?

Brandon Lewis: We have certainly got no plans to redo the council tax base. We have been very clear about that. All that would do is send up taxes for people. We are not in that ball game. From the point of view centrally, there are no plans or desire to do that whatsoever. Bear in mind this is coming from the position where we have been very keen to do, and the Government has put a lot of time and money into doing what we can to freeze council tax, and a revaluation would have the effect in a lot of places of just sending up people's tax bills, so there is no desire to do that.

Q504 Mrs Glindon: One of your colleagues did say that "a referendum on tax rises is absurd". Do you think that?

Brandon Lewis: No. You have got to put that in the context of where we have come from. There was a period under the last Government where there was capping, and not only was there capping but sometimes the Government did not even set the capping level until after local authorities had set their council tax. We take the view now that local authorities should have the freedom to do what they think is right for their area. We are encouraging and putting money into local areas to freeze the council tax—some are even cutting the council tax—which helps people with one of the largest bills in terms of their living costs that they have, and that has been a really good policy. Good authorities are doing that. If a local authority does feel—whether it is police, fire or local government—that they need to go further and put their council tax up, they have the freedom to do it. They have just got to go out and get the agreement of local people—put the case and make the case for doing so. There is nothing to stop them doing that, but it is also quite sensible for central Government to say, "Look, we think there is a reasonable level of protection for people out there in terms of not seeing their council taxes rise".

When I was a local government councillor—not when I was in control of the council—the local authority I was in had, back in the late 1990s and early 2000s, council tax rises of 19%, 18% and 16%; they were generally quite regularly in double figures. It is quite reasonable for central Government to say, "We think the highest it should be is around 2%. We want to try to help people with their bills." But if a local authority wants to put the council tax up, they can do it; they have just got to go out and get the agreement of the local people—make the case, get that local agreement and have the referendum. If they do it this year and next year, it is of minimal cost, because everybody in the country is voting anyway.

Q505 Mrs Glindon: How would you see what you are saying now fitting in with fiscal devolution and autonomy?

Brandon Lewis: It absolutely fits in with that.

Mrs Glindon: Councils do not feel that, Minister.

Brandon Lewis: It absolutely fits in with that. In the old days, the system meant you could not go above a capped level, and sometimes you did not know what the level was until after you had set your council tax. I have used this phrase in this Committee before. We have not taken a vow of silence. We are very clear about the journey of travel. We think council tax, after doubling over the last Government, should be held back. We want to see it frozen. We are delighted with councils who freeze it or even reduce it, which some are doing. London has had a net reduction overall this year, which is fantastic, thanks to the good work the Mayor is doing. But if councils want to put it up, they can do it. They have got the power locally. They have got the freedom to go out, have a referendum, make the case and get the agreement of their local residents to do it. They have just got to make their case. As I say, this year and next year, with everybody in the country voting in the European election and the General Election, is the cost-effective time to do it as well. That is real local devolution, giving the power to a local community.

Q506 Chair: Can you name one other tax where government at any level has to have a referendum to increase it?

Brandon Lewis: No. But it is about giving those local communities that real power—first of all giving the local authority the power to make a decision to do something different if they want to, and genuinely empowering the local community to have a say. When we talk about devolution, as I said earlier on, this is not just about central Government giving more powers to any given local council; it is about getting that power into the community. Also, as I say, you have got to bear in mind this is coming from the shadow of having no power whatsoever under the last Government.

Q507 Chair: I could ask, then: why do we not have a referendum for any other taxes, if it is such a good idea?

Brandon Lewis: You could ask that question. That is a very good question.

Q508 Chair: I think it is as well, yes. Again we see the difference in the way that devolution is being treated in different parts of the United Kingdom. Scotland and Wales are going to be looking at potentially full control over business rates and potentially control over income tax, with one referendum to give them the powers and that is it. Local government in this country will be able to keep 50% of the growth of any business rates but cannot control the actual rate of business rates, and its main tax, council tax, is based on over 20-year-old valuations, with a referendum for an increase beyond a level, which councils find out about a couple of months at the most before the start of the financial year, determined by the Secretary of State. Is there not a complete difference in how fiscal devolution is being treated in the United Kingdom?

Brandon Lewis: Firstly, in terms of the couple of months, let us be clear: we have been pretty open with local government, and local government across the country has known for some time now—and I can give them a heads-up here today—that the easy thing to do is not to worry about the referendum; it is to freeze the council tax. That is the easiest thing to do, because then they get a grant from central Government.

Q509 Chair: The Secretary of State lost his battle, did he not? That is what happened.

Brandon Lewis: We have got a similar percentage this year freezing to last year. That means large parts of this country have seen no increase in their council tax again. That is really good news. What we also have now got is something that is a big step from central Government, in the sense we had central Government in the past saying, "This is the maximum you can do. If you go over it, we are going to claw that back." We have given local government a power it has never had before and the freedom to do it.

Greg Clark: In terms of the fiscal devolution, you should not forget the spending side. Whether it is Scotland or whether it is Wales, the first thing that they did, before they really got into discussions about varying tax rates or having certain taxes remitted or earmarked for them, was to have reserved matters of competence, including the spending, so that they could make the decisions locally in Scotland or Wales on what was done there. We have endless exchanges on the floor of the House about the NHS in Wales, for example. That is about the spending and the decisions on the organisation of the NHS in Wales. What I have said is that, yes, there is a debate to be had, and I encourage the debate about fiscal devolution. I welcome the London Finance Commission's report and I look forward to your report. But there is, just as there was for the devolved administrations, a big set of questions as to whether you can take control of some of the spending that is spent in each place currently by Whitehall. Let us not forget the opportunities there.

Q510 Chair: Just one final point that was raised with us is that local government has a spending control total, which the Treasury has. If there was to be more fiscal devolution and it went to some councils and they decided to raise taxation at local level and therefore to increase spending, would that mean that other areas without the same fiscal devolution would have to cut back on their spending to keep within the overall control total?

Greg Clark: This is one of the difficulties of moving to a different approach, and it is why you need to proceed with caution. It is not just in terms of the taxes raised. I mentioned the city of Cambridge, for example, where you can clearly link investment in the infrastructure to creating more growth to expand the pie. The accounting rules, internationally set, assume that the UK is on a certain growth trajectory, and if Cambridge or Manchester or Liverpool or Newcastle grows faster than the average then it is at the expense of one of the other places. That is the wrong way of thinking about a world in which we know that places make a difference. One of the things you may reflect on when you are writing up this report is how the public-financing conventions do not recognise the possibility of growth and revenue being associated with place, because in aggregate that is a major constraint.

Q511 Chair: Do you know how we are going to deal with this problem of control totals in terms of more fiscal devolution to Scotland and Wales?

Greg Clark: They will have earmarked to them, as you were saying, the current level of spending in return for the taxes that will be devolved.

Q512 Chair: But if they want to increase spending and increase taxes, that will be open to them under the new settlement. How is that going to be kept within the Treasury control total, or is that not going to be a problem?

Greg Clark: It will have to be part of the Budget and the Autumn Statement assessments that are made.

Q513 Chair: So if Scotland decides to spend more, the rest of us are going to have to spend less.

Greg Clark: No. It will reflect in the forecasts and the decisions that the Treasury put in the Red Book.

Q514 Chair: So the amount could be expanded to take account of what Scotland decides.

Greg Clark: That will be a decision that the Government has to take: whether to expand it or whether to accommodate it within it.

Chair: Right. That is interesting. Ministers, thank you very much for coming and answering so many questions this afternoon. We appreciate it. Thank you.