Submission from the Chief Economic Development Officers Society (CEDOS) and the Association of directors of Environment, Economy, Planning and Transport (ADEPT)(36)

Summary of evidence

A devolved approach is essential for driving forward economic growth but if it is to be successful we need to unlock the potential of all areas and sub-regions.

We support devolution to London and the core cities but our other cities, counties and rural areas are equally important to achieving national economic growth. There is a strong case for fiscal devolution to apply to city, unitary and county councils throughout the country.

If fiscal devolution excludes areas outside London and the core cities there will be a considerable risk of increased inequality between local areas and increased regional imbalance, which could hold back economic growth both locally and nationally.

The need for fiscal devolution accompanied by the necessary freedoms and flexibilities is underlined by the current period of fiscal austerity in which by the end of the current Parliament local government funding will have fallen by 43%.

The identification of functional economic areas is important to defining 'devolved' areas. Local Enterprise Partnership areas offer a starting point but there can be no one-size-fits-all approach; in some areas the current LEP geography on its own will not provide a realistic solution.

Devolution allows for innovative approaches and local solutions to be designed to meet local and sub-regional needs and circumstances in a way that nationally designed programmes cannot do.

There should be no prescriptive approach to how public services are organised at the local level. At the national level there must be a coordinated approach across Government with consistent support and engagement across Departments.

Fiscal devolution will require robust and transparent local governance and accountability with clear and unequivocal democratic legitimacy, which can only be provided by elected local government. It will be important for governance arrangements to be inclusive and recognise the important role of business and other key stakeholders and partnerships.

Local government needs to have freedom to explore alternative means of raising finance to enable it to play its full part in renewing and improving Britain's infrastructure, including greater flexibility on borrowing for example through tax increment financing and the use of bond finance.

Introduction

1. This Memorandum of evidence is submitted jointly by the Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning and Transportation (ADEPT). In preparing the evidence we have consulted with our members from across the country.

2. The Association of Directors of Environment, Economy, Planning & Transport (ADEPT) represents local authority Strategic Directors who manage some of the most pressing issues facing the UK today. ADEPT membership is drawn from all four corners of the United Kingdom. The expertise of ADEPT members and their vision and drive is fundamental in the

handling of issues that affect all our lives. Operating at the strategic tier of local government they are responsible for delivering public services that relate to the physical environment and the economy.

3. The Chief Economic Development Officers Society (CEDOS) provides a forum for Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary councils in non-metropolitan areas, which together represent over 47% of the population of England and provide services across over 84% of its land area. The Society carries out research, develops and disseminates best practice and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

4. CEDOS and ADEPT welcome the Committee's decision to hold an Inquiry into fiscal devolution to which we are pleased to put our views forward. However we consider that the focus on examining whether and how fiscal and financial powers could be devolved to London and English cities is too restrictive. In our view, a devolved approach is essential for driving forward economic growth but if it is to be both successful and fair it must embrace all parts of the country. If we are to make the most of England's economic opportunities and narrow the gap in regional performance, we need to unlock the potential of all areas and sub-regions. We are therefore taking the opportunity to address the main themes of the Inquiry in this broader context.

How 'devolved' areas would be defined geographically and set up

5. In this country the sub-region is a key economic layer below the national level but for too long the focus of devolutionary approaches has been too narrowly on London and the core cities. Whilst we strongly support devolution to London and the core cities, our other cities, counties and rural areas are equally important to achieving national economic growth. In our view it is essential that sub-regional areas across the country have, as far as possible, a level playing field on which to pursue economic action, something which the Government emphasised in the Local Growth White Paper[1]: "Our ambition is to foster prosperity in all parts of the country, harnessing the great potential across the range of industries in the UK. Opportunity must not be confined to particular postcodes, and hardworking and talented individuals must not be denied the chance to succeed. Instead we must rebalance our economy, ensuring that growth is spread and prosperity shared".

6. In our judgment, decentralisation is essential to this. Lord Heseltine, in his wide ranging review of economic growth[2], made a powerful case for reversing the high degree of centralisation of power and funding in this country which has increasingly disempowered local government. The need for fiscal devolution accompanied by the necessary freedoms and flexibilities to explore alternative approaches to raising finance is underlined by the current period of fiscal austerity in which, by the end of the current Parliament local government funding will have fallen by £20 billion, a cut of 43% and with the expectation that "the next 2 years will be the toughest yet for local public services"[3].

7. In terms of sub-regions, the announcement of the Committee's Inquiry made specific reference to city regions. However, whilst they are important functional economic areas, as research by CEDOS and ADEPT[4] has shown the city region is only one of a range of types

[1] *Local growth: realising every place's potential* HM Government October 2010
[2] *No Stone Unturned* Lord Heseltine October 2012
[3] *Provisional local government finance settlement 2014-15 & 2015-16* Local Government Association Briefing 18 December 2013
[4] *Making the most of our economic potential – Looking beyond the core cities* CEDOS/ADEPT 2007

of economic sub-regions, which make equally important contributions to economic growth in England. These include county regions, whose economic importance has been underlined in recent research for the County Councils Network[5]. In our view, the opportunity for fiscal devolution must not be limited to cities and city regions but must be available to all areas. There is a strong case for fiscal devolution to apply to city, unitary and county councils throughout the country. A selective approach will risk intensifying regional economic imbalances, increasing inequality between areas and limiting national economic growth and innovation.

8. The identification of functional economic areas is important to defining ‘devolved’ areas geographically but there is no single definition of what constitutes a functional economic area. For practical purposes, Local Enterprise Partnership (LEP) areas offer a starting point but there are complications in a number of areas as a result of overlapping LEP boundaries and the size of some LEPs, which cover more than one identifiable functional area. Across England, 37 local authorities (11%) are covered by two LEPs with, in some areas, a significant degree of overlap. In two LEP areas, which cover several county and unitary local authority areas, the South East LEP and the Derby & Derbyshire and Nottingham & Nottinghamshire LEP (D2N2), consideration is being given to partial delegation of local growth and EU-SIF funding to subsidiary functional economic areas.

9. Thus there can be no one-size-fits-all approach to the definition of devolved areas and in some areas the current LEP geography on its own will not provide a realistic solution.

January 2014

[5] *Counties & Economic Growth* Shared Intelligence for the County Councils Network 2013

Organising public services, including employment, skills and welfare, to complement devolution

10. There should also be no prescriptive approach as to how public services are organised at the local level. There must be scope for local areas to provide solutions that meet their particular needs and circumstances. At the national level, there must be a coordinated approach across Government with consistent support and engagement across Departments. Currently this is not the case as has been illustrated in the differential contributions to the Local Growth Fund.

11. The National Audit Office (NAO) has raised concerns about a lack of coordination within Government of its various local growth initiatives, each of which has its own governance arrangements involving several Departments. Whilst a local growth cabinet committee has now been established, the NAO reports that it has seen no evidence that Departments take a collective programme approach to investment decisions across the range of initiatives and that, as a consequence "local bodies have to coordinate a range of individual initiatives with different objectives, funding arrangements, timetables and reporting requirements"[6].

Governance and accountability

12. Fiscal devolution will require robust and transparent local governance and accountability. There must be clear and unequivocal democratic legitimacy and accountability, which can only be provided by elected local government. At a sub-regional level, there will need to be scope for variation in arrangements for collective local authority decision-making, for example combined authorities, economic prosperity boards and joint leaders boards/committees.

13. At the same time it will be important for governance arrangements to be inclusive and recognise the important role of other key stakeholders and partnerships. The role of business will be an essential component, which underlines the importance of Local Enterprise Partnerships. The governance structure will need to provide for the involvement not only of LEPs but also of other key bodies, including Local Transport Bodies, Health and Wellbeing Boards and Local Nature Partnerships. This overall governance model, which is both democratically based and inclusive, will meet the requirements to provide accountability to local tax payers and be able to demonstrate to Government both financial probity and value for money.

Devolution, economic growth and local improvement

14. Devolution allows for innovative approaches and local solutions to be designed to meet local and sub-regional needs and circumstances in a way that nationally designed programmes cannot do. For example, as we said in our assessment of the Government's Work Programme in April 2013, local partnerships are better able to work with businesses to develop effective routes into work. Local authorities and LEPs have excellent track records in delivering employment related provision and are well placed to coordinate and deliver effective back to work programmes linked to locally needed skills provision[7]. Around the same time the London Councils reported that their assessment showed that some national models of employment support were delivering in the region of 4% success, whilst locally designed programmes were achieving levels of 25% or more[8].

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[6] *Funding & Structures for Local Economic Growth* National Audit Office December 2013
[7] Evidence by ADEPT and CEDOS to the Inquiry into Local Growth & the Skills System by the All Party Parliamentary Group on Local Enterprise Partnerships & Enterprise Zones
[8] *Getting London Working* - London Councils April 2013

15. Local Enterprise Partnerships, with significant support from their local authorities in terms of investments and staff/elected member time and expertise, are making progress. This is despite the fact that the Government's approach to them has been one of incremental, often piecemeal policy development that suggests the lack of a fully thought through and coherent approach. As the National Audit Office has found, the Government has failed to meet its undertaking to achieve "an orderly transition from the Regional Development Agencies to the new delivery landscape"[9].

16. A key element of progress being made is the result of major investments by strategic local authorities in infrastructure as for example:

- *Greater Cambridge/Greater Peterborough LEP* – where Cambridgeshire County Council is leading on infrastructure projects including a £30 million investment in Cambridge Science Park station;

- *Dorset LEP* – where Dorset County Council and the county's district and borough councils are investing £10.7 million to bring high-speed fibre optic broadband to 97% of premises in the county within three and a half years;

- *Stoke on Trent & Staffordshire and Black Country LEPs* – where Staffordshire County Council and Wolverhampton City Council have agreed to put in £40 million to fund and deliver infrastructure works on the i54 business park and a motorway link to the M54 to enable the site to be developed and secure an investment by Jaguar Land Rover of more than £500 million with the creation of more than 1400 jobs.

17. Local authorities and their partners have a key role in enabling, investing in and supporting investment to develop and improve this country's infrastructure to underpin economic growth and meet environmental pressures and the demands of demographic change. The Local Growth White Paper emphasised the critical role of local authorities and LEPs in supporting economic growth including local infrastructure and regeneration. The city, county and unitary local authorities have a strong track record in doing this. The CEDOS/ADEPT Recession report[10] highlighted examples from across the country of member authorities maintaining and bringing forward infrastructure schemes, unblocking stalled schemes and investing in new infrastructure to help local economies emerge from recession. Recognising the likely impact of the public expenditure squeeze to come, the report called for "freedom for local government to explore alternative means of raising finance to enable it to play its full part in renewing and improving Britain's infrastructure". The reality of the cuts to local government funding in the current Parliament underlines this even more.

The impact on areas not included in any new devolution arrangements including those on cities' borders

18. If fiscal devolution excludes areas outside London and the core cities, there will be a considerable risk of increased inequality between local areas and increased regional imbalance, which could hold back economic growth both locally and nationally. In adjoining areas, differential treatment in terms of fiscal powers and funding is already creating uncertainty for the business community. An example provided by one of our members is from Nottinghamshire, where Nottingham City Council was able to negotiate a Wave One City Deal, elements of which are available to businesses at different spatial levels - some restricted to the unitary city; others available to the wider conurbation; and some available

[9] *Funding & Structures for Local Economic Growth* National Audit Office December 2013
[10] *Recession and post-recession – taking forward economic development & regeneration* CEDOS & ADEPT July 2010

across the City and County area. Whilst the City and County Councils, other public sector partners and the D2N2 LEP share common objectives, the variability of the tools to deliver growth could risk undermining the shared agenda.

19. This underlines the importance of all areas and local authorities being included in moves to achieve fiscal devolution in England. In this context, it will be important that both city and county areas are treated fairly and with proper recognition of their important economic contributions. Devolution must extend beyond London and the core cities, vitally important as they are, to cover this country's mid-size cities and its county areas.

20. Research by the Centre for Cities[11] has shown that in 2011, England's 26 mid-sized cities with populations between 250,000 – 500,000 have a combined population of 8.9 million, compared to 8.8 million people in the Core Cities and 9.4 million people living in Greater London and that between 2001 - 2011 their total populations grew by more than half a million people. In 2011, their combined Gross Value Added amounted to 14% of England's total.

21. Equally, the areas covered by England's county councils must be recognised for their economic importance and not seen as just hinterlands of city economies. Research for the County Council's Network[12] has shown that they contain 43% of England's jobs and generate over 50% of this country's Gross Value Added outside London. An example of the current unequal treatment is provided by Nottinghamshire, where the Ashfield-Mansfield conurbation has a greater combined population than the unitary City of Nottingham and a complementary offer in terms of growth potential, yet the local authorities collectively lack the powers and resources unlocked through the City Deal process to maximise this potential.

[11] *Mid-sized cities: Their role in England's economy* Centre for Cities June 2013
[12] Counties & Economic Growth Shared Intelligence for the County Councils Network 2013

Fiscal devolution and what it should involve

22. There are a number of opportunities that clearly need to be considered including allowing local authorities greater flexibility on borrowing to invest in infrastructure for growth for example through tax increment financing and the use of bond finance – in connection with which we have called on Government to support the Local Government Association initiative in developing plans for the creation of an independent body to raise bonds from the commercial market.

23. It will be equally important for local growth deals to result in a genuine devolution of funding streams with buy-in across Government Departments and for the Local Growth Fund to be developed to become a truly devolved single pot without internal ring fences for local decision–making and spending on locally determined priorities.

24. Fiscal devolution is an area on which work continues to proceed. The London Finance Commission has recommended that London Government should have the freedom to make appropriate investments in its own infrastructure by relaxing restrictions on borrowing for capital investment within prudential rules accompanied by devolving revenue streams[13] – something which has wider applicability across local government. Meanwhile, the Local Government Association and the Chartered Institute of Public Finance & Accountancy have announced they intend to create an independent commission to examine the future of local government finance, including how to secure economic growth and investment in infrastructure and housing, as well as how to integrate the health and social care systems.

[13] *Raising the capital* – report of the London Finance Commission May 2013