City Growth Commission: Open Call for Evidence

Submission written by Leeds City Council

Introduction

Leeds City Council is pleased to make this response to the *in full (*RSA) commission into city growth. The Commission is both timely and important, with city growth and devolution of powers the subject of active discussions across the national political spectrum, and at the individual city and regional levels.

Through our involvement with the Core Cities Group, we have already seen progress being made towards greater opportunities for cities to drive their own fortunes, with the launch of the Prospectus for Growth at the Core Cities Summit, our cooperation with London Councils and the Mayor of London on the 'City Centred' campaign, and our response to the Communities and Local Government Select Committee inquiry into fiscal devolution; all evidence of a concerted drive to unlock the growth potential of our great English cities. And at this point it is very much potential. To see that potential translated into reality requires a fundamental change to the political system in England, and particularly the centralised system that sees local authorities control only 5% of the taxes raised in their locality.

It may be helpful, before turning to our substantive response, to note the principles on which Leeds City Council has approached both the RSA's questions, but also our approach to governance more generally. In July 2012, in reaction to the uniquely challenging social and economic circumstances local government has faced in recent times, but also the welcome moves by the Coalition Government to devolve further powers through City Deals, , Leeds City Council led a Commission to consider the future of Local Government (document attached). This drew on the outcomes of the Commission on 2020 Public Services drawn together by the RSA[1] and, framed around the concept of civic enterprise, set out five roles and propositions for Local Government going forward:

1) **Becoming Civic Entrepreneurs**
   We need a whole place leadership approach which encourages civic enterprise and focuses on results based accountability.
2) **Stimulating jobs, homes and good growth**
   Local government can create the conditions for enterprise to thrive and become a vital part of micro-economic policy, especially to create and support good growth with socially responsible approaches.
3) **Establishing 21st Century infrastructure**
   Commissioning ultra-fast broadband, low carbon energy and modern transport systems that will respond to our 21st Century economies.
4) **Devising a new social contract**
   Change the nature of the relationship between the citizens and the state, rebuilding trust and ensuring local integration between health, social care and other services.
5) **Solving the English question**

[1] http://www.rsa2020publicservices.org.uk/

Devolving greater power in England from Whitehall to communities who have a stake in the success of places, reflecting the way local economies and markets work.

These propositions, and the view of the role local government should play in society, are very much still relevant and even fundamental to the questions outlined for this Commission, particularly around the role of cities in terms of growth and the reform of service provision.

Underpinning the propositions is a recognition that local government needs to do things differently than it has done in the past. But there are things that central government needs to do differently too. Government can help cities and city regions achieve better growth by giving them the powers and resources necessary to create local solutions to local problems, and to effect change based on local needs and priorities. Fiscal devolution is a key part of this process, and a positive affirmation of local people and their ability to produce growth; it should not be seen as the giving up of centralised power, but the empowering of cities to achieve mutually beneficial outcomes. If we are determined to support city led growth, helping to rebalance the economy and drive our international competitiveness, then we need to supply cities with the tools they require to unlock and maximise their future potential. We hope that the Commission will champion this objective.

Our submission does not focus on the academic literature on city growth as we believe that the evidence that cities in England require greater devolution to become stronger drivers of growth is irrefutable. What is necessary however is to underline the potential of cities and to give strong proposals for what powers and resources should be given to cities to realise that potential. That is what this submission intends to do.

On the questions:

What are the key benefits – for the economy, investment, innovation, productivity and public finances – of shifting to a multi-polar growth model, in which our major cities are key players in the nation's economy?

Currently our national economy is attempting to recover from a world-wide recession that has had major implications on our finances and growth. Critical though London is to the national economy, recovery cannot be led alone from the capital and the potential for growth exists to the greatest degree in our major cities. The eight Core Cities, including Leeds, account for 27% of England's wealth despite only one (Bristol) performing above the national average. Even if all the Core Cities urban areas could only perform at the national economic average, £1.3 billion would be put into the economy every year. Our major cities are already significant but underweight contributors to the nation's economy, with untapped potential due to the capital centric model that currently restrains their potential.

The aim of the Core Cities Growth Prospectus, which we support, is to set the direction in terms of the devolution of powers to the Core Cities in order to outperform the national economy and become financially self-sustaining (raising more taxes in them than is spent on public services) by 2030. Independent forecasts for the Core Cities by Oxford Economics suggest this would deliver an additional 1.16 million jobs and £222 billion into the economy by 2030 – the equivalent of adding the entire economy of Denmark to the UK. This will only be achieved by shifting to a multi-polar growth model, giving cities greater fiscal powers and freedoms to drive growth in their labour market area, thereby benefiting more from the financial returns of that growth, thus alleviating spending pressures and providing greater freedom to invest in the local economy.

Evidence that innovation is stimulated by a devolved and multi-polar model is clear from the success of City Deals in the Core Cities. By clearing the way for cities to innovate in service delivery, providing a more locally tailored product, projects that had under-delivered at the national level have delivered substantially better and more efficient outcomes. One example of this is the Youth Contract. Where national providers are delivering the Youth Contract, 27% of young people have been placed into training or employment. Where councils have been given the freedom to innovate in service delivery, better informed by local knowledge, up to twice as many young people have benefited (57% Leeds, Bradford and Wakefield, 47% Newcastle and Gateshead). In the case of Leeds, Bradford and Wakefield this was not just an example of innovation, but of three large local authorities working together to deliver meaningful change in their shared labour market. To build upon this, and achieve more effective outcomes for local people across the widest range of services, cities need to be given greater freedom to be innovative and the potential to work together in functional economic areas, something that will not be achieved in our current centralistic model of governance.

In terms of public finances the key benefit would be cities that absorb less and contribute more. Evidence suggests that overall public spending has not declined as cuts in preventative and coordinating services are offset by increases in spending on welfare, care and health. Conversely, by switching to a multi-polar growth model Cities will be better able to drive growth in employment and business density, providing additional revenue and cutting the amount spent on welfare services such as employment benefits.

What is the relationship between public service reform and economic growth at city level? How can more effective demand management – through public service reconfiguration and integration for instance – help to drive social and economic productivity? Can this enable our cities to become more financially sustainable?

Investment in the levers of economic growth – infrastructure, housing, skills and support for businesses – will enable Core Cities to create more and better jobs, compete internationally and increase GVA, and drive economic productivity. But growth alone, without connecting people to that growth so they can contribute and share in its rewards, will perpetuate the economic, health and social inequalities which remain features of big cities. As overall public spending has not decreased despite the cuts to local authority budgets, there needs to be a different approach to public services which is focused on local labour markets and improving people's access to the benefits of growth.

Local Government has already recognised this fact and through the Commission on the Future of Local Government has begun to look at how we can reinvent and reconfigure our services to produce sustainable and inclusive economic growth. In Leeds, for example, we have been working hard to align our economic growth ambitions and functions with our tackling poverty agenda, and we are working in collaboration with the Joseph Rowntree Foundation on a project that will look at how our employment and economic policies can provide better and more equitable outcomes for residents across the city.

Reform of the public sector - making services that support people and places more efficient and effective - is essential to the success of cities as economic and population hubs. Demand for some services like health and social care is rising as the available funds to deal with them are reducing. We must make services sustainable for the long term, to ensure that they support a high quality of local life and environment which are important to business growth, and that cities are able to continue to invest in their economic development.

As national led policies have not succeeded in this regard, Core Cities have put forward the following proposals:

(a) A 'Place Based Settlement' should be made with each Core City (based on Community Budget-style models, effectively a single way of budgeting across all public services), allowing issues like 'troubled families', health and social care, welfare, unemployment, crime, to be dealt with in a holistic and joined up way, breaking down the silos of national departments and their agencies.

(b) Devolving commissioning of the Work Programme to cities to secure genuine and sustainable reductions in the numbers of people on benefits and increases in the number of people moving into employment, education or training. Genuine welfare reform requires greater local capacity and responsibility to deal with the consequences for individuals, particularly in the interactions between housing, health services and welfare systems. Early success for the "troubled family" programme illustrates the potential for locally-led approaches based on the needs of individuals, their families and communities.

(ii) Core Cities should lead on the integration and delivery of Health and Social Care services as the approach to national government spending has to change. We need an approach that understands the links between different services and how can they work together more effectively. A number of studies indicate that taking an integrated approach to Health and Social Care for the frail and elderly could save up to 15% on delivery costs. This is equivalent to Newcastle saving £44m and £29.5m per year on its Health and Social Care expenditure respectively. Based on the Troubled Families Community Budget pilots, Core Cities could potentially avoid costs of between £62.0m and £75.0m per annum for every 1,000 troubled families successfully worked with. Leeds is already working hard in this area and has been chosen as one of fourteen 'Pioneer' sites for piloting integrated care, with the aim to create a single care co-ordinator for each patient.

How can decision making and responsibility for public policy and public services be better aligned with the reality of local labour markets? How can policies around employment support, childcare, skills policy, welfare strategy and economic development better reflect the needs of local people and businesses?

Decision making in England is highly centralised. England's cities control only 5% of the taxes raised in their areas and decisions over the majority of public services are made at the national level. The most simple way to better align policy and services with the reality of local labour markets is to rectify these deficits and transfer greater decision making power to authorities that oversee, and understand, those labour markets.

The best way to achieve this generally would be to create 'Place Based Settlements' with each Core City, as explained in response to the previous question. Having a combined approach to service delivery at the local level will only be a possibility when cities control the resources necessary to make this effective.

For decision making and responsibility for public policy to be better aligned with local labour markets the fiscal governance of these policies should be in the hands of Combined Authorities. In our view, Combined Authorities, with precepting powers as well as devolved mandates, are the most appropriate model for devolution. With democratic representation from all parts of an area of governance, they offer the essential democratic legitimacy and local knowledge to control fiscal powers for local needs. Fiscal devolution increases local choice and would encourage greater interest in local democracy, instilling meaningful accountability for how taxes raised in a place are spent in that place. Additionally, it would be for each combined authority to establish a productive and collaborative relationship with their Local Enterprise Partnerships, whose role would include articulating the case for investment at the local level and taking responsibility for some aspects of local funding, particularly around infrastructure and business growth.

A second part of transferring responsibility would be to change the relationship between Departmental Permanent Secretaries and lead Chief Executives for a Combined Authority area. Delegating Accounting Officer responsibilities to a devolved level would allow Whitehall to retain oversight of devolved funding, but empower Combined Authorities to exercise their judgment on how best to allocate support to local priorities. These Accounting Officers could be provided with place based settlements for revenue funds, which could include Health and Social Care Integration and Skills and Labour Market Agreements.

In terms of employment and skills, Core Cities have proposed a shift from the current top down and underperforming approach to a more locally tailored system, through five year Skills and Labour Market Agreements between Government and each Core City as a means of better reflecting the needs of local people and businesses. The supply of skills within a local labour market needs to reflect more closely the demands of that labour market and its employers, and the largely nationally controlled delivery model for employment and skills is currently failing to meet the specific needs of cities, businesses and individuals. For example in Leeds City Region , 9% of under-19s are enrolling in Creative and Digital Media courses, but this sector only employs 3% in the Leeds City region and around 4% nationally. Meanwhile recent commentaries have highlighted that delivery of the HS2 project is in danger as we currently do not have the number of skilled employees necessary in our labour market.

Innovation and Growth Hubs, which are currently being negotiated between Core Cities and BIS, are aimed at providing more efficient and effectives responses to the needs of businesses in our cities. Again, by providing a bespoke response which draws on national products and shapes them to local needs, cities will be able to give the best possible assistance to SMEs and business start-ups – thus enabling them to generate growth in income and employment. This kind of approach, that responds to the needs of business in a more efficient and effective way, is an example which should guide all public services.

How can growth in other English cities complement London's economic success? What should be the interrelationship between devolution, growth and reform strategies in London and in our other major cities?

There is no desire on the part of the Core Cities to distribute funding away from London wholsesale and the capital remains a vital engine of growth for the UK as a whole. National economic growth is not a zero sum game - both London and the Core Cities can prosper and generate additional growth if powers are devolved to local Government.

However, it is noted that the current levels of funding in London as compared to the Core Cities are not compatible in the long term with sustainable economic growth. For instance, transport spending in London is £644 per head compared with £243 per head for the West Midlands and the North of England combined. Research on European cities has evidenced that continuing overinvestment in capital cities and underinvestment in second tier cities in the long run will be unsustainable and lead to economic underperformance[2]. Therefore it is vital that any further devolution to London is complemented by devolution to our other major cities.

What needs to change between Whitehall and our cities to multi-polar growth a reality? What does the Centre need to do to enable this and what economic and revenue levers do cities require?

Set cities free to drive growth and jobs
Cities will deliver better results if they have the power to make sure that services, products and spending reflected more accurately local needs. To achieve this a much greater proportion of responsibility (and reward) needs to be given to cities themselves. If they also had the freedom to join up plans for growing business and jobs with those for reducing reliance on public services, they could bring more people into work and reduce costs to the taxpayer.

Make spending and plans a lot simpler
Public money spent across a city for a specific purpose should be put into one Single Fund and spent according to one Single Local Plan based on local needs, with both the plan and its outcomes agreed between cities and the Government. This single fund would then be allocated to Combined Authorities or other functioning area governance structures so that local priorities could be addressed sufficiently, and to provide the requisite level of democratic accountability

At the moment there are 36 separate funds just for housing, and in other areas it is even more complex. By joining up funds and plans locally more housing can be built and the benefits bill reduced. Currently the government spends £90billion on Housing Benefits but only £6.5billion on social housing. Cities need more direct influence over national housing policy and resources that they are genuinely free for cities to utilise.

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[2] Parkinson, M. (2012) *Second tier cities: In an age of austerity, why invest beyond the capitals?* Liverpool John Moores University: Liverpool.

Skills, jobs, investment

To reach growth targets in the next 20 years, Core Cities have to find more investment and more people with the right skills. They need better support for local businesses, improved transport, more and better housing, faster broadband, and to meet rising energy demands.

In total, we estimate our cities will need to find an additional £104 billion of capital investment to achieve their growth targets. Core Cities are not just asking the Government for extra money; we are asking for the freedom to use the funds that do exist more flexibly to raise investment. The centralised system we have will not deliver the change we need and tends to favour the south east. Greater local control will help use money more efficiently, raise investment and get the right skills for local business.

Backing local leadership

Local public services are crucial to growth. They create the quality of life and the environment that supports business and builds successful cities for the long term. However, decreasing public expenditure means that, as well as driving economic growth, cities need to reform the way public services work, giving local leaders more control to join things up. If we don't make public finances in cities more sustainable, cities will be restrained from achieving long-term economic growth and the costs to the Government of social and economic under-performance will not be reduced.

Core Cities are convinced that the time is ripe for radical devolution to ensure sustainable economic growth and meaningful public sector reform. Previous national Governments have accepted the principles of urban devolution and have recognised the importance of local leadership in securing the best possible outcomes for local communities. This has resulted in progress such as the legislation permitting Combined Authorities and more recently the roll out of City Deals. However, a step change in devolution is required to address the current economic climate and ensure the UK can produce sustainable growth in the years and decades to come.

According to the OECD, compared to English figures the level of taxes controlled at the local or regional level is about 10 times greater in Canada, 7.5 in the US, 7 in Sweden, almost 6 in Germany, and over 5 times greater across the OECD on average. This means English cities have nothing like the level of local financial control enjoyed by cities abroad and are not competing on a level playing field.

We recommend the following economic and revenue levers to be given to Core Cities:

Council Tax

We call for the immediate removal of Council Tax referendum limits. Local authorities know the needs of their areas and should be free to determine their own Council Tax levels having regard to their existing democratic mandates. The new controls over levies that are limiting the capacity of Combined Authorities to raise funding for infrastructure developments should also be removed and in the longer term successful Combined Authorities should be given precepting powers.

Council Tax itself is in need of urgent reform. The current property bandings are more than twenty years out of date and arrangements need to be put in place now for general revaluation. The structure and number of Council Tax bands should be reviewed at the same time. Our ambition is that Council Tax be developed as a fully localised tax and that the setting and adjustment of bandings should be done by Combined Authorities. We acknowledge that there will be complications in the first instance in this regard, but we would be willing to work with Government to make this change. The offer in return for this devolution is that retained Council Tax will be used to drive growth and increase prosperity and wellbeing in local areas, better matching the needs of local citizens and setting bands that more accurately reflect local communities.

Business Rates

Leeds has welcomed the retention of 50% of business rates beyond an agreed baseline, but believes that local authorities should be able to retain 100% of rates collected. This would further incentivise authorities to support businesses in their area and would balance out the extra work authorities are being asked to do to support businesses and business start-ups. Under the current arrangements there was little by way of a tax incentive for Leeds to push for the acclaimed Trinity Shopping Centre, which opened in 2013. If authorities were to keep 100% of business rates this would entice other areas to invest and support in such projects and enterprises.

It would also be appropriate for cities to set their own business rates, as was the case prior to 1990. Even within city regions there are diverse and complex economies which would be better managed by combined or local authorities controlling the business rates. This would eliminate the problems arising in relation to a nationally set multiplier and encourage cities to come up with innovative approaches to attract and support businesses.

Employment Tax

Cities are being asked to work hard to support jobs and skills in order to boost the economy and reduce benefit bills. And yet despite this, and the costs incurred by local authorities in attempting to improve this situation, authorities are offered no part of the benefits that come from their success in making improvements. A small percentage of devolved finance from either National Insurance or Income Tax would provide local authorities with greater expendable finance to improve employment conditions and meet the needs of their communities that result from greater numbers of jobs i.e. in terms of infrastructure.

Changes to borrowing and new funding

In terms of borrowing there is not a great deal that we would desire that is not available already. The bigger issue remains that cities lack the revenue streams to repay borrowing, something that fiscal devolution can help to address. One adjustment which would be welcomed would be to change the interest rates for Public Works Loan Board loans, allowing authorities to borrow more to fund infrastructure projects. If borrowing rates for Combined Authorities were equalised with those available to LEPs then there would be less demand placed on those LEPs for them to borrow on their behalf, freeing LEPs to concentrate on other priorities.

There is less of a need for new funding, with yields on bonds low and crowd sourcing carrying risks as yet unevaluated, and more of a need to reorganise current arrangements. Capital funds would be much better organised into a single pot for each authority, utilising a new accounting officer function at the Combined Authority level (see question 3) to ensure accountability. The current system of funds, which includes 36 streams for housing alone, is cumbersome and inefficient.

There could also be more done to relieve the need for borrowing by relaxing the rules around commercial returns on fees and charges. For example the current arrangements ring fencing car parking charges inhibits local councils from removing pressures to close schools and essential services because this revenue is non-transferable. If there is a genuine partnership between Whitehall and local authorities over funding then both parties will benefit and so will the general public.

In addition there is further work to be done regarding the Housing Revenue Account borrowing cap, despite the adjustments made in the Autumn Statement. If authorities are able to demonstrate affordability and reliability of revenue they should not be limited by an arbitrary figure and need to apply through LEPs for additional borrowing. There is a desperate need to build new affordable homes across the country, not just in the South East, and lifting the cap on HRA borrowing would give us a much greater ability to meet that need. Leeds has committed to build 70,000 new homes already and would welcome the prospect of greater borrowing capabilities to match the city's ambition.

One concern is the redistributive effect of recent government finance settlements which some authorities perceive to be unfair, particularly as the system no longer directly reflects need. This could be addressed by ministers retaining powers to set the *quantum* of funding, but appointing an independent commission to distribute that funding between local authorities.

What other practical, organisational, cultural and systemic barriers stand in the way of a fundamental shift in economic power to our cities and how can these be overcome?

It has been commonly accepted that there are cultural barriers within government that hinder a fundamental shift in powers to a more devolved level. While we recognise that there is certainly more that cities and local authorities can do to improve this situation, not least by demonstrating their ability to take on greater responsibility; Government must also do more to give our cities the opportunities to make significant changes.

Some of this work has already begun through the Local Growth Committee chaired by Nick Clegg and through the City Deals. Welcome though these developments are, they represent only minor changes in the overall direction of travel. These good intentions need to be matched by genuine and lasting concessions to the 95% of tax control which is held by government. If Government is genuinely determined to put more economic power in the hands of cities then they must trust that local or combined authorities can be mandated with devolved property taxes and single capital pots, for example, to be spent as they deem best for their labour market.

Cities welcome the opportunity to be judged on performance in these matters and to be held accountable by Government. Local government has acknowledged that it too has to remove barriers in order to be ready to receive greater economic freedoms and powers. However through the Commission on the Future of Local Government and the developments of the Core Cities Group, we have developed tangible proposals for how economic powers can be used at the city level and what it can offer in terms of growth and innovation. It is now for central government to respond to these proposals, not least by starting to remove some of the organisational and cultural barriers that are still preventing the move to greater economic power residing in our major cities.