

## City Deals Core Package

**February 2013**

The introduction of City Deals presents cities across the UK with a real opportunity to take greater control of policies that influence the growth of their economies.

The Deals are bespoke arrangements designed to devolve power and responsibility to the city level on the basis of ‘licensed exceptions’ which respond to individual city circumstances. To date City Deals have been struck with England’s eight Core Cities. In October 2012, the Government invited a further 20 cities to submit a bid for a Deal.

A key feature of bids from the Core Cities was the breadth of policies that they covered. Each city specialised in a distinctive policy area, but a number of cities identified similar issues as barriers to economic growth. In response to this the Government has proposed two elements to the next wave of City Deals: a bespoke element, reflecting specific city needs, backed up with a ‘Core Package’ of powers that will be offered to every city in recognition of the common challenges that most cities face when trying to support economic growth.

Debates are ongoing about what will be included in a Core Package and who it will be available to. This discussion piece aims to stimulate debate about how the Core Package can most effectively enable economic growth by setting out a range of policies that would support the growth of our local economies.

Since the Core Package is primarily designed to identify shared barriers to economic growth, this paper advocates an inclusive approach. This would mean the Core Package would be available to all areas, not just Wave 1 and 2 cities, providing they can demonstrate, in the same way that Wave 1 and 2 cities have done, that they have the governance and organisational capacity to manage the Core Package successfully, i.e. deliver more or better jobs and growth than is currently being delivered.

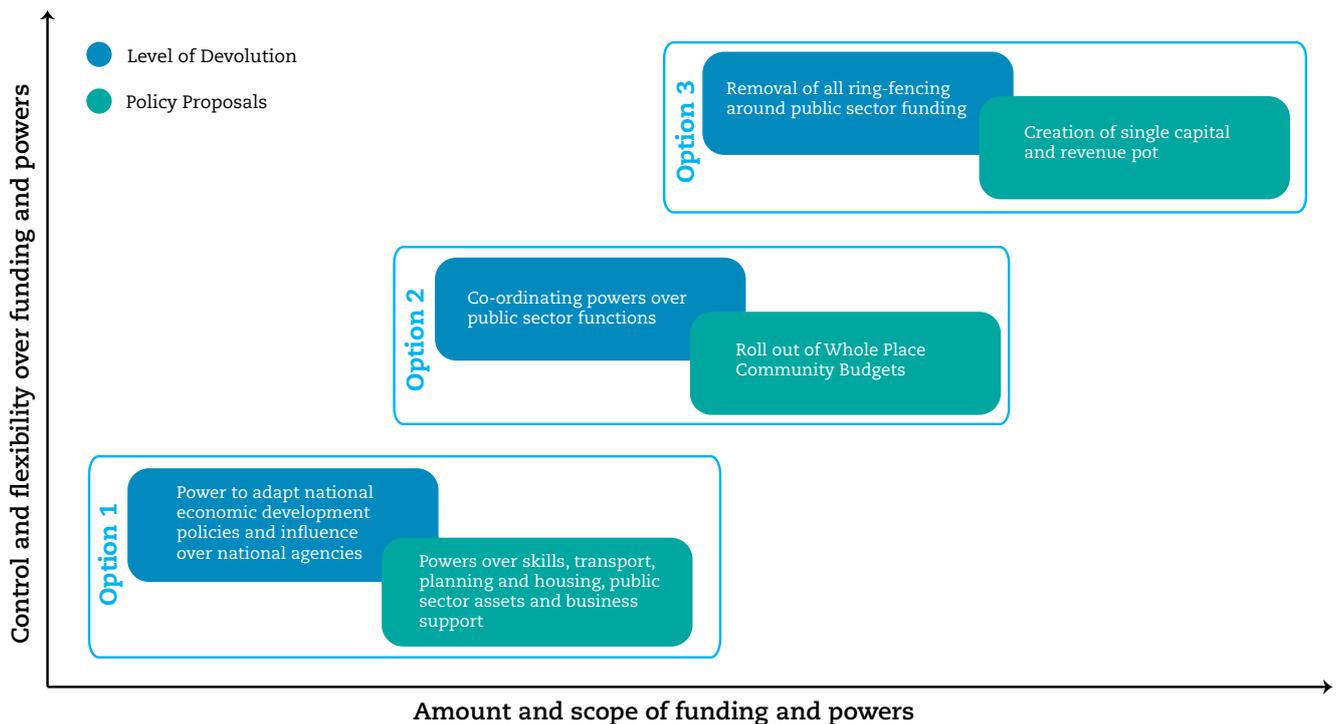
The paper is also based on the premise that, at this stage at least, the main aim of City Deals is to encourage economic growth and job creation. So while process and policy design is important, both local and national government need to continue to focus on the overall aim of boosting jobs and growth when agreeing the terms of the Core Package that will underpin individual deals.

## Core Package: a spectrum of options

At a time when local government is being asked to be both radical and ambitious in its vision for devolution, but also pragmatic about what can be delivered with limited public money, this paper sets out a **spectrum of options for a Core Package**.

This spectrum is illustrated by setting out three broad ‘levels’ of package, ranging from a ‘basic’ package, which sets out how places could gain greater influence over ring-fenced funding, through to a more radical ‘deluxe’ package, which proposes that places gain control over single capital and revenue pots in order to tailor powers and public sector spending to support economic growth. Figure 1 summarises the proposals.

**Figure 1: Spectrum of options for Core Package**



The key principles both differentiating and binding the three options is the degree and scope of control and flexibility over public sector funding and powers afforded to the place.

- **Option 1** is focused on providing greater control and flexibility over the funding, policies and institutions that most directly relate to economic development, e.g. planning, skills, property, etc.
- **Option 2** includes all of the measures above, but expands on them to include other public services and funding that is being spent in an area to tackle issues such as crime, health, welfare and families at risk, which indirectly support economic development.
- **Option 3** builds on both options 1 and 2 to offer places greatest control and flexibility over all of the capital investment and revenue spending currently being spent in their areas that directly and indirectly supports economic development.

In this regard, the three options should be thought of as a continuum rather than a set of three distinct options, with each option building upon the previous. So a place accessing an Option 2 Core Package would also get all the flexibilities associated with Option 1.

If government decides to offer ‘options’ either within the first iteration of the Core Package, or to work towards future iterations, this continuum could provide a useful framework against which to assess proposals.

## Recycling the proceeds of growth

Across all three options, **places should be able to retain a proportion of any financial savings resulting from the co-ordination and consolidation of funds and programmes at the local level**, and reinvest them on local priorities, rather than seeing them siphoned back to Whitehall spending departments.

Whilst business rate retention and additional fees and charges will provide an incentive for growth, income from business rate growth will not be sufficient to provide many places with the upfront money to allow major investment in housing renewal and urban improvement projects.

To help places address this ‘growth finance shortfall’, local authorities with government and the private sector should explore ways of introducing Tax Increment Financing (TIF) type schemes, learning lessons from the implementation of TIF in Scotland, that enable places to keep more of the additional growth that their investments produce.

### Option 1: Basic Core Package

The basic package would aim to provide places with greater power over the key drivers of business growth in city economies, namely: planning and housing; skills; transport; public sector assets; and business support. While money remains ring-fenced, places are given greater influence to tailor these policy areas to the specific needs of their economies.

#### Single Economic Development Fund

As the Heseltine Report identified: *“Local places will never be sufficiently empowered to drive the growth we need unless we share the Government’s most important lever – funding.”* The Report goes on to set out the need to devolve more responsibility and accountability for deciding how funding is spent from central government to the local level. Powers and incentives to invest in economic development have been a key element of the majority of Wave 1 and Wave 2 City Deals.

The Core Package should fast-track the proposals set out in the Heseltine Report for a **Single Economic Development Fund** for each area. The Fund would include proportions of the skills, infrastructure, employment support, housing, regeneration and business support budgets held by central government. Local areas would have flexibility to spend the budgets on priorities relevant to local economic development circumstances as agreed with central government based on the offer to achieve better outcomes on jobs and growth.

#### Planning and housing

Enabling and encouraging physical development is one of the most obvious ways that places can help to support economic growth in their area, as it allows businesses to expand and increase their economic output. As such the Core Package should look to:

- Remove the restrictions on councils’ **ability to borrow money against their existing housing assets** in order to invest in new housing, and align the housing borrowing cap with the Treasury’s ‘normal’ prudential borrowing rules.
- Provide greater discretion and flexibility for authorities to **deliver and charge for planning and development related services**, including removing the limits on charges for services such as planning.
- Create a **new partnership protocol with statutory agencies and consultees** (for example English Heritage, the Environment Agency, Natural England and Sport England) where they would commit to taking full account of an area’s growth priorities when giving their views on relevant development proposals, and to agreeing new ‘fast-track’ response targets to speed up the consideration of major planning applications.
- Give places the **freedom from national planning policy requirements** to prefer brownfield sites and allow them to build on the Greenbelt and greenfield land as appropriate for that local area. Whilst

this is possible at the moment the steps and timescales involved are prohibitive to areas trying to pursue development (commercial or residential).

- **Remove the need to obtain permission from the Secretary of State** in order to borrow against the Community Infrastructure Levy.

## Skills

Skills needs differ greatly between places, and a basic Core Package should at least aim to increase the powers and resources available at city level to shape skills policies to meet place-specific challenges.

In particular, places should be given greater involvement and influence over the following areas of skills provision:

- **Work Programme** - to ensure alignment between local employment support programmes and other unemployment support activities and the Work Programme and through the sharing of data on employment outcomes.
- **Creation of a formal partnership between the city and Job Centre Plus (JCP)** - to better coordinate the actions of JCP, employers and Further Education providers.
- **Vocational skills budgets for 16-19 year olds and 19 plus** - particularly that of the Skills Funding Agency, in order to be able to alter the funding incentives for local providers to deliver skills provision that matches the needs of local employers (for example using payment by results models).
- **Commissioning of programmes for 16-24 year olds** - to engage them more effectively in work and learning.
- **Allow for local variation from national cost structures** - to help meet employers' needs - allow places to incentivise skills provision by paying skills providers the full national cost of courses with skills shortages, and less for others where a shortage of skills is less acute.<sup>1</sup>

In addition to a greater level of involvement and influence, a **proportion of the central skills budget could be devolved** to city level to fund:

- **Support for on the job training** - partial subsidy for on-the-job training, linked to further education courses at city colleges.
- **Support for continued professional development** - partial subsidy for continued professional development courses linked to both local further education colleges and universities.
- **City work experience funds** to give young people in particular access to placements in businesses across the city.

### Box 1: Skills asks in Wave 1 of City Deals

Requests for greater power over skills were a popular ask in the City Deals of Core Cities, with many asking for the devolution of elements of central skills funding to local level.

- In Birmingham, the Greater Birmingham & Solihull LEP will be managing, through its Employment & Skills Board, a 'Skills for Growth' Compact. This aims to fill the local skills gap by bringing together providers, employers, DfE and BIS to match education and training to work opportunities. This will include **devolution of the LEP area's proportionate share of Apprenticeship Grant for Employers payments.**
- In Leeds, the LEP will lead on linking employer needs to training with support from BIS, SFA and other agencies that includes data sharing, funding to setup Apprenticeship Hubs, and **local commissioning for DWP youth contract support services.**

1. The recent Heseltine Report on growth highlighted for example that at a national level there were five people training for a qualification in hair and beauty for every vacancy, whereas there was just one person training for a construction job for every two vacancies. See pg169, Heseltine M (2012), *No Stone Unturned: In the Pursuit of Growth*, London: The Stationery Office

## Transport

A well-functioning and integrated transport system is an important prerequisite for an economically successful city, reducing transaction costs and travel time costs for both workers and businesses.<sup>2</sup> To support transport improvements the Core Package could give places greater influence and involvement over:

- Highways Agency's and Network Rail's non-national investment priorities and programmes.
- Deciding future rail franchises with government. This would enable franchises to be specified, awarded and managed to help achieve growth and job outcomes.
- National organisations such as Infrastructure UK and the Green Investment Bank, to consider new funding mechanisms for urban transport infrastructure.
- Transfer of all non-national trunk roads based on the model of Transport for London.

### Box 2: Transport asks in Wave 1 of City Deals

A 10-year allocation of Major Transport Scheme Funding has already been agreed across the Wave 1 cities, and in some cities devolution has been taken further. In Leeds, the DfT will approve a new local appraisal framework that **prioritises schemes based on their contribution to GVA**. Over time, further devolution of powers will be agreed to allow a Combined Authority for transport to be set up.

## Public sector assets

The book value of the entire public estate is about £354 billion, of which £230 billion is owned by local authorities. Most local authorities have begun to rationalise their assets, but co-ordination with other public sector asset holders (mostly central government and its agencies) is patchy. Building on the Making Assets Count (MAC) programme, the Core Package should allow places to:

- Establish a Single Property Board for their area with control over local public sector assets and national government – for example, National Health Service (NHS), Ministry of Defence (MoD) and Ministry of Justice (MoJ) – assets and land holdings.
- Combining local and national public sector assets under a single board and strategy would allow them to be pooled and their contribution to the local economy to be maximised more effectively than at present.

### Box 3: Public sector property asks in Wave 1 of City Deals

- The **Bristol Public Property Board**, including government departments and the City Council, will manage council and government assets and those owned by various other public sector partners to unlock more land for economic growth or housing, using assets as levers for further investment, and to co-locate services.
- In Birmingham, the Greater Birmingham & Solihull LEP and the Homes and Communities Agency (HCA) will produce a joint pan-LEP Investment Plan for development. The HCA will then **reinvest receipts from selling assets within Birmingham to support the plan**.
- The HCA has agreed to invest its land into the Greater Manchester Housing Investment Board on the basis of **deferred equity for 10 years**, so receipts can be recycled over the period.

2. See for example: Eddington R (2006) *The Eddington Transport Study The Case for Action: Sir Rod Eddington's Advice to Government* London: The Stationery Office.

## Business Support

Successful businesses make a successful economy. While Business Link, UKTI & Technology Strategy Board (TSB) now operate primarily at the national level, this has constrained the ability for places to engage and influence these national bodies and to tailor national programmes to the specifics of their place, e.g. working with businesses on helping them access programmes and support to export their goods and services, and raise awareness amongst potential inward investors on investment opportunities and available sites in their places.

Reflecting this, the Core Package should build on the Memoranda of Understanding (MoU) signed between Wave 1 cities and UKTI:

- Each place should enter into a MoU with UKTI, submitting information about available sites and transport infrastructure in their places. In return UKTI should allocate up to three places to each of their relationship managers to work with.
- Establish Business Growth Hubs to co-ordinate and broker the range of business support services available within a place. Growth Hubs were part of Bristol's and Manchester's City Deals.
- Devolve future rounds of Regional Growth Fund (RGF) using the same approach adopted to distributing Growth Places Fund.

This will ensure firstly that UKTI, Business Link and TSB have a good understanding of opportunities across the UK when talking to potential inward investors, and secondly will help to provide sufficient information to businesses in a place to support any export ambitions they may have.

## Option 2: Intermediate Core Package

In addition to the Basic Package offer, the Intermediate Package would include the freedoms and flexibilities currently associated with the **Whole Place Community Budgets pilots**.

The **Whole Place Community Budget pilots** have shown that there are strong efficiency and effectiveness benefits that can be realised from more closely aligning budgets and delivery of the local public sector – local government, education, health, police, and fire. Total 'Departmental Expenditure Limits' for local government, education, health, police and fire services in England in 2012/13 amounted to over £250 billion.<sup>3</sup> If budgets could be fully aligned and jointly planned, then the Whole Place pilots have shown that substantial savings could be made.

Empowering places to prioritise efficiency savings will allow for better service provision at a reduced cost to the public purse. **Places should then be allowed to keep a proportion of these savings to reinvest in their economies, with the rest of the savings being returned to central government as part of the Core Package deal. For example, this could operate on a 50:50 split.**

### Box 4: Greater Manchester's Whole Place Community Budget Pilot

The pilot has worked with Whitehall to break down the barriers that hold back reform. The main progress has been in five areas – work and skills, health and social care, troubled families, transforming justice, and early years. In each of these areas the pilot has developed new investment models for the situation where one partner invests but another agency benefits. This means partners investing across organisational boundaries, on the basis of evidence and best-in-class economic modelling. As savings are cashed through decommissioning, partners realise a return, and agree to jointly reinvest some of the savings in further scaling up and prevention.

3. Tony Travers (2012) *Local Government's role in promoting economic growth* Local Government Association, London.

### Option 3: Deluxe Core Package

Whilst both the Basic and Intermediate Core Packages would offer places significant benefits they both still have, to varying degrees, elements of ring-fencing within them. Ultimately this ring-fencing of funds and powers, however relaxed it becomes, constrains the policy choices and actions that places can take to boost their economy.

Accordingly the Deluxe Core Package advocates creating **Integrated Place Budgets** which would remove the ring-fencing from all of the key non-national capital and revenue funding streams entering a local area. This would give places the power and freedom to identify and pursue their own priorities and manage competing policy objectives provided that broad outcomes are achieved such as growing the local economy, delivering high standards of public services and delivery of local democracy.

This approach, in addition to encouraging local innovation and increasing local accountability, would sharpen the incentive for places to choose the mix of policies that make the best use of public money both in terms of outcomes such as economic growth and cost effectiveness given the particular local circumstances they face.

**Integrated Place Budgets would be negotiated by places with central government and would cover a period of at least five years.** This would provide a more stable and integrated investment environment, reducing the need for local government (and central government) to engage in often costly and uncertain bidding processes for funding.

Removing ring-fencing from departmental budgets at a local level would also necessitate places to ensure **collaborative working relationships** with neighbouring authorities and with government agencies and departments to deliver more effective and efficient local outcomes.

Moving towards an Integrated Place Budget would require places to produce an overarching **Growth and Investment Strategy** that would provide the framework for the revenue and capital investment priorities and decisions to be made. In addition the Growth and Investment Strategy would have to be given due regard by other organisations, including for example UKTI, Highways Agency, Work Programme Prime Contractors, when making their own investment decisions that affect a place.

An Integrated Place Budget would also provide the opportunity for places to create a **Local Investment Fund with a Single Assessment Framework**. Examples of this approach include Manchester and Leeds, as part of Wave 1 City Deals. Not only would this allow places to focus investment on their key priorities, it would also provide them with a much better opportunity to leverage additional finance, either through borrowing or through match funding private investment.

#### Box 5: Single capital pot asks in Wave 1 of City Deals

As part of the creation of a City Region Investment Fund, Leeds has asked government to look into creating a single capital pot to give maximum flexibility over investment decisions. The single pot would combine department funding streams at LEP scale with further funding sources such as the Regional Growth Fund and European funds, with the stated aims of improving outcomes on GVA, jobs and carbon reduction.

## Agreeing a Core Package

Whilst the government should adopt an inclusive approach to rolling out the core package, any place aiming to secure a Core Package will still need to pass a number of ‘tests’ in order to demonstrate to government that they’re committed and able to deliver. These tests should be similar to those that Wave 1 and 2 cities have had to pass, namely:

- **Be “genuine transactions”** – with both parties willing to offer up and demand things in return. This means that the Government will only devolve significant powers in exchange for an evidenced commitment to delivering services cheaper and more effectively.
- **Be “offers that government cannot refuse”** – to persuade Whitehall departments to devolve powers and funding, cities need to set out clearly and specifically that devolution will deliver better results, for example how many additional jobs or apprenticeships might be delivered.
- **Be about exchange, not partnership** – specific powers are only on offer if cities are prepared to accept risks and responsibilities in return. More abstract commitments to improve ways of working are not on the agenda.
- **Provide “assurances of visible and accountable leadership”** – although the Government has said that it will be up to local people to decide which governance mechanism suits them best, government has repeatedly emphasised the need for “strong leadership” as collateral for City Deal Waves 1 and 2.

## Scale and Governance

**Making decisions at the right scale is important for economic growth**, and that administrative boundaries can hinder growth by preventing the implementation of policies across the real economic footprint of places. Irrespective of which Core Package is chosen, **all three options require places to work together across their ‘Functional Economic Area’ (FEA)** – the scale at which the economy (skills, housing, transport, etc.) tends to operate.

The Autumn Statement identifies LEPs as the vehicle of choice for delivering economic development, and puts more money into building their capability. Their role has been further strengthened by the recent Local Majors transport funding announcement. However it is important to note that the City Deals Waves 1 and 2 are based on a range of governance models.

Rather than prescribe a particular institutional structure which should be a matter of local choice or be too prescriptive about geography (not all LEPs are FEAs), **central and local government should work together to put in place effective local economic governance structures**. In some instances this might be a Combined Authority, in others it might be the LEP, and in others it might be an Economic Prosperity Board.

The test of effectiveness should be that, whichever governance structure is adopted, it is sufficiently robust to, first, take challenging decisions about where to allocate limited investment and resources, and, second, to survive any changes of leadership (even if the detail of decisions taken changes).

## Delivery

In order to deliver anything more than a very limited version of the Core Package, places are likely to require additional capacity. However, the scale of a Core Package should not necessarily be **dictated by the existing resources and capacity available within different tiers of government** to manage and implement the process, but rather by the optimum combination of measures to help places drive local economic growth. Government should aim to agree the components of a Core Package first, and then supply the additional resources to deliver it if they are required.

It is important that the Core Package remains part of the **continuing process of culture change and decentralisation** set out by the Deputy Prime Minister. There is a risk that Whitehall departments will see the Core Package as their contribution to the process, and draw the line at further changes in exchange for

their buy-in. The Core Package, whatever the agreed version contains, is simply a mechanism for rolling out devolution measures faster, more efficiently, and to more places than would otherwise be possible. It should not be the high water mark in the City Deals process.

## Conclusion

City Deals offer places the potential to take on greater powers to tailor policies to their specific economic circumstances. Here we have set out three options of what a Core Package that would devolve greater powers down to all places from Whitehall could look like.

While no doubt there will be robust debate between different parts of government as to what should ultimately be included in the Core Package, it is important for the negotiators not to lose sight of what the City Deals process is trying to achieve. Although process and policy design is important, both local and national government need to continue to focus on the overall aim of boosting jobs and growth when agreeing the terms of the Core Package.

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