

## ***English devolution: Devo-revolution?***

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Structure of the lecture:

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B – Background to LCR devolution

C – Context to wider devolution debate

D – Does this represent a fundamental change to the way in which England is governed?

E – Public engagement

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### **A. INTRODUCTION**

Good evening. Many thanks for inviting me here this evening to talk about one of the biggest challenges currently facing local government – devolution.

Despite ongoing uncertainty around the commitment to this agenda within Theresa May's cabinet, calls for greater devolution continue to grow.

We can see progress. The Cities and Local Government Devolution Act 2016 has received Royal Assent. Within the Core Cities Group, four of our city regions - West of England, West Midlands, Merseyside and Greater Manchester - will have an elected Metro Mayor from May this year.

The question for Council leaders like myself is: where do we go next?

The timing of these decisions is crucial. With national government preoccupied with the fallout from Brexit, it will be local government that drives innovation and economic growth in the coming years.

It will be local government that brings divided communities together, and reduces inequality by providing much needed jobs and training opportunities. We simply need the tools to get on and deliver change.

We must also remember that Brexit was in part a call for greater local self-determination. It was not a call for greater centralisation of power in Whitehall. The devolution agenda must step up a gear in 2017 to answer that challenge.

Looking to the long-term, devolution has the potential to save costs and grow the economy because it offers solutions tailored to localities.

If Government has the courage to move to a much more decentralised state, we know we can improve the lives of those we represent.

It is my intention to address three key issues tonight:

1. Do devolution deals actually represent a genuine and fundamental change to the way in which England is governed?
2. Levels of public engagement with the devolution agenda
3. The role of elected mayors

I also want to talk about our experience of devolution in Leeds and our regional ambitions to secure further devolution.

## **B. BACKGROUND TO DEVOLUTION**

For those of you who aren't familiar with our story in Leeds, let me start by giving you some background to our negotiations with government. Devolution to date has focussed on the Leeds City Region.

Leeds City Region:

- is the UK's largest city region economy outside London
- has a £60bn economy- 5% of England's economic output and bigger than 9 EU countries. It accounts for around 20% of the North's economy.
- has a population of 3m and a workforce of 1.5m, the fastest growing in the North
- is the largest financial and business services sector outside London
- has 133,000 manufacturing jobs, more than anywhere else in the country
- has the fastest year on year private sector job growth of any city in England
- By 2021, the LCR's LEP aims to generate 62,000 extra jobs, and an extra £5.2bn GVA to make the area a net contributor to the Exchequer.

What we also know in the Leeds City Region is that devolution works.

In 2012 we secured a wave 1 City Deal, which enabled us to set up the West Yorkshire Combined Authority. The Combined Authority is now a successful a collaboration of regional partners. Nine leaders sit on the governing board, alongside the chair of the LCR LEP.

In 2014 we secured the largest Growth Deal in the country, which included a £600m gainshare deal. The funding provided via this deal for much needed transport improvements has only recently been matched by other city regions.

Local people are beginning to see the benefits of this investment – whether it's

- new world-class college facilities to help young people achieve their potential
- better road and rail links so that people can travel to work more easily
- Or new affordable housing and development.

In December 2016 West Yorkshire Combined Authority approved a further £64m of local growth funding to deliver new infrastructure schemes across the Leeds City Region. That formed part of the largest package of Local Growth Deal investment anywhere in the country.

A further first stage devolution deal was agreed in March 2015. We were disappointed by the scale of the deal - particularly with regard to the lack of housing investment powers. However, it did not diminish our ambition.

The deal was only one of three agreed nationwide at the time. It gave us greater influence over measures to boost growth and jobs in Leeds City Region. It gave us a greater say in strategic transport decisions and new responsibilities for skills.

Crucially it left the door open for negotiations on further devolution of powers and funding. We are now actively pursuing further devolution with Government.

One of the strengths to Leeds' case for devolution is that we are already delivering better outcomes for local people than equivalent national schemes. I'd like to give you three examples of what that means in practice.

Firstly, **tackling unemployment**. Our Devolved Youth Contract has seen 2,000 young people move into education or employment. In recent years we have consistently delivered success for 7 out of 10 young people, as opposed to the Government Work Programme's 4 out of 10.

Secondly, **supporting businesses to grow**. Our Business Growth Programme has supported over 360 firms with over £23m funding. This has created over 3000 jobs across the City Region, including 800 jobs in Leeds. For every £1 of public money spent, £8 of private sector investment has been levered in.

Thirdly, we have **kickstarted development in our Enterprise Zone** – we've funded a new Park and Ride site and provided grants to businesses in our Enterprise Zone. As a result we now have over 300,000 square feet of modern manufacturing space under development. Businesses from sectors such as printing and packaging, manufacturing, and distribution are creating new jobs.

We are currently in negotiations with Government about a further devolution deal. We hope to conclude these discussions positively. However, our efforts to reconcile

an inflexible and often opaque Government process with our own regional geography have highlighted some of the flaws in the approach.

A disproportionate - and prescriptive - central focus on deal shape has created unnecessary complications and delay. Shape appears to have been prioritised rather than potential outcomes based on an economically coherent geography.

It has also re-emphasised that devolution in the UK is essentially a top-down process. It is central government – and usually the treasury - that ultimately determines what devolution looks like for localities.

### **C. CONTEXT TO DEVOLUTION DEBATE**

The UK remains one of the most centralised states in the western world. In recent years more of our public spending has come from central Government than any other OECD country except New Zealand and Albania.

Local authorities lack much needed control over the taxes that are generated in their area. On average, for every £1 generated locally in taxes, local authorities keep only 9p. The rest goes to the Exchequer.

If we are to meet the challenge of rebalancing our national economy we need to remove the shackles from local economies. As Chair of the Core Cities Group I believe the importance of cities to the future of the UK has never been more acute. The ten Core Cities alone deliver 25% of the UK economy and are home to 19 million people.

However, all our cities under-perform compared to their international rivals. Without giving cities more freedoms and powers that situation will continue.

Current devolution deals are not a silver bullet for our national economy. But they do represent long overdue movement in the right direction.

Devolution will enable us to deliver more inclusive growth, with more people able to share in the benefits of economic success. Only by giving places more power can we attempt to solve some of our most intractable social problems.

In order to drive inclusive growth in our region I would particularly like to see devolution of the education and skills budgets. That would assist us in developing a

high quality workforce that can benefit from opportunities in a growing economy and adapt to the challenges of the future.

As the Chair of the Core Cities Group I am proud we have commissioned the RSA's Inclusive Growth Commission. Its interim findings in the autumn underlined the need to better integrate economic and social policy. The Commission also reiterated that we need to prioritise prevention and early intervention.

Significantly the commission has found that a failure to address inclusive growth is actually hampering our country's economic growth. Initial work suggests addressing the 'inclusivity gap' could increase GVA by £192bn per year. That's not a prize the nation can afford to turn its back on.

As everyone in this room will know, following the last recession Government responded with unprecedented cuts to public spending. The depth and pace of those cuts went further than any other comparable economy. However, it is only now that many communities are seeing public services withdrawn as a result of the fiscal policies introduced by George Osborne.

Central Government has been forced to think about how to do things differently where public spending remains. One response to that has been to try and make public services more locally responsive.

Last year the CLG Committee reiterated its ambition that the Government and local authorities should reach the position of 'devolution by right.' The committee viewed the current deals as a starting point for even more ambitious and wide-ranging future deals.

They urged the Government to provide greater clarity about its policy objectives so a package of powers on offer to local government could be announced.

I agree with these ambitions. However, our experience suggests there is still resistance to devolution from many government departments. With the change of cabinet there is also greater ministerial resistance.

One example of where you can see evidence of a reluctance to pursue really radical change is in the degree of commonality between many of the deals agreed.

This is not due to a lack of ambition on the part of local authorities. Even Manchester – often seen to be in the vanguard of the devolution agenda – described their ambitions as “larger than the deal itself.”

I am not convinced there is currently the political will – or the public pressure – to entirely overcome that resistance in the near future.

Critics of this agenda have suggested that devolution to date has been window dressing. However, the reality we have experienced in Leeds is that real power and funding can be delivered to local areas.

If we get these deals right local areas can be empowered to respond to some of the biggest challenges facing our citizens. To illustrate that point I want to draw on the example of another Core City, Birmingham.

Like local authorities throughout the country Birmingham is facing huge pressures associated with the demand for adult social care and health services.

How we treat our vulnerable is a litmus test of how a society is judged. Our aim as a society must surely be to deliver locally shaped, high quality health and social care services tailored to local and individual needs.

However, this of course comes at a cost. In 2010-11 Birmingham spent £346 million on adult social care. Add on six years of inflation, and it would be necessary to spend £420 million now just to keep pace. In fact, the council will spend just £245 million on social care for adults this year – a budget cut of almost a half when cost pressures are growing dramatically.

Council tax increases alone cannot provide a solution to this challenge. In the long-term we need dedicated funding and closer integration between local government and the National Health Service. This is an approach that is delivering extremely positive results in Leeds, and is one we would like to take much further.

Health and social care must work together at the local level, and a truly place-based system is required to target investment at prevention, not just picking up the cost of crisis.

The Government's interim solution, the social care precept, is demonstrably unfair. It leaves many local authorities with the biggest burdens least able to raise funds because they have low council tax bases. It's also an unsustainable solution to what is fast becoming one of the biggest challenges facing our society.

To succeed, devolution must empower local politicians to deliver genuine change that improves lives. A clear risk in the current system is that a lack of accountability, combined with a lack of transparency, could leave services feeling just as remote as when they were directed by London. We must all work to make sure that isn't the case.

While devolution is a hugely important tool for city regions, it is also important that we do not lose sight of the bigger regional economies. For Leeds devolution to city regions has been complemented by the development of the Northern Powerhouse.

Together they have started to give us the levers we need to redress some of the profound regional imbalances embedded within the national economy – such as investment in transport infrastructure.

I, like other northern leaders, have been genuinely concerned about the shift away from the Northern Powerhouse by Theresa May.

I can assure you that as a northern Labour authority we'd certainly like May to distance herself from Osborne on lots of things - but the Northern Powerhouse isn't one!

Yes, much of Osborne's work on the Northern Powerhouse was rhetoric. But Northern Powerhouse branding is liked by business and has traction abroad. With the Brexit vote, it's important we don't inflict damage on something that is helping regions outside London to attract international investment.

Post EU London's role as a strong world-wide capital will be increasingly dependent on the UK also having strong regional economies. Theresa May has talked about building a "Better Britain". Well to make Britain better, in Leeds we believe we need a better North.

## **D. DOES THIS REPRESENT A FUNDAMENTAL CHANGE TO THE WAY IN WHICH ENGLAND IS GOVERNED?**

The Devolution Bill has its limitations. The most significant of those is the level of fiscal devolution to local areas.

Without greater fiscal authority local areas will be managing Whitehall budgets rather than having genuine freedom to innovate. This was a source of frustration for us when we agreed our first stage devolution deal.

Devolution will not work if it simply becomes a means for Whitehall to devolve cuts from the spending review.

There has been some movement in the right direction – business rates reform and the social care precept have introduced greater flexibility. But there is much more the Government could do. Restrictions on borrowing powers, for example, should be revisited.

When we have approached our own negotiations, regional leaders have been determined to set out game changing ‘asks.’ We want transformative powers in the hands of local leaders. That will enable us to drive economic growth.

Current asks include a wide range of proposals including:

- fiscal/public finance
- transport (including bus re-regulation and a single multi-year transport budget)
- housing and regeneration (including a housing investment fund, strategic investment planning, and Enterprise Zones),
- growth
- skills and employment (including further education budgets and apprenticeships),
- public services reform (potentially children’s services reform and extending the successful troubled families model), and
- a devolved approach to flood prevention funding

There is already an evidenced based case for a further devolution deal based on the LCR geography. That is the most economically coherent option available for further devolution that includes Leeds.

This, however, is being resisted by Government. We are unclear why the Government doesn't agree with this approach, given the consistency with previous devolution arrangements. However, we fear it is Westminster politics which is the current barrier to progress.

Regardless of this frustration, we believe in devolution and as a result are exploring alternative options – such as an all Yorkshire deal. Crucially for us, whatever the final membership of a deal, it must make economic sense.

We do remain confident that within a Yorkshire model our ambition will be undiluted. We should be able to progress at pace and we will provide opportunities to consult on any deal with local communities and businesses.

I referred earlier to reluctance within some government departments to devolve powers and resources to local areas. This could be a key barrier to achieving the extent of change local authorities would like to see.

That is reflected in the fact that many deals to date include powers that are not in fact truly devolved. Instead, they simply provide for closer joint working on specific programmes.

This includes the “devolution” of health and social care in Manchester. What the act provides for is in reality joint decision making between the combined authority and the NHS CCGs by creating a joint commissioning board. However, health remains very much part of the NHS – so part of central Government.

It was revealing that when giving evidence last year to the Commons CLG Committee the then Minister for Employment, Priti Patel, was keen to stress that new arrangements should focus on joint working and partnership, rather than a transfer of responsibility.

We are a long way from embedding a “culture of devolution” in all departments, however much it would contribute to genuine reform within the public sector.

Of course, all of these discussions are taking place with a backdrop of substantial change for local government finance. The financial outlook for local authorities is certainly bleak.

Core funding for Leeds has reduced by £214m (47%) since 2010. We will see a further £53m of reduction over the next 4 years. Reductions will be front loaded which means we will see a reduction of £25m (10.6%) in 2017/18.

These budget reductions come alongside big increases in demand for services. The combination of funding reductions and demand pressures in 2017/18 is £75m.

Our priority remains protecting services for our most vulnerable citizens. But that means 64% of our budget is currently spent on adults and children’s services – this will rise to 67% in the next year.

In contrast, the opportunities presented by devolution are cause for optimism. Since 2010 local government has increasingly directed its efforts to encourage economic growth.

We have worked much more closely with our partners towards joint ambitions and we have delivered substantial reform within our own organisations.

Unlike many other areas of the public sector councils have had to start thinking differently about the role of our organisations and the future of public services.

In Leeds in 2012 my predecessor chaired the Commission for the Future of Local Government. That brought together representatives from across the public, private and third sector to consider the role of local government in shaping the future of our communities.

Developing greater partnership working, establishing a new social contract, investing in social infrastructure and stimulating good growth were all key features of that work.

We are now looking to refresh that vision as we seek to meet new challenges for local government. I would anticipate much more focus on the drive towards place based leadership and delivering inclusive growth.

Discussions with colleagues from authorities across the country reassure me there is certainly no shortage of ambition within local government.

Devolution does bring with it new risks for the sector. But we have already proved ourselves to be innovative and adaptable. And our workforce is proving increasingly flexible, albeit smaller in size. Let's not forget that we are also the most efficient area of the public sector – unlike national government we have no choice other than to balance our books year in, year out. I therefore have great faith that we will have the capacity to manage those risks.

However, there are a number of practical issues outside of local authority control, which if addressed by Government would significantly improve the deal making progress.

Those issues are:

**1. A lack of transparency**

More must be done to share lessons learnt from the process of deal making. Local government would benefit hugely from a clear understanding of the framework informing government negotiations.

**2. Complexity of access to government**

Local authorities still end up having multiple conversations with representatives from different government departments. At the end of what is often a very complex process the treasury can then undo what has been agreed. That is not conducive to effective decision making. Deal-making is still

predominantly a top down process – and it’s a process that can be very difficult to navigate.

### **3. Capacity within DCLG**

I have concerns about whether there is the capacity within DCLG to manage the current demand for devolution. No more deals were announced in the autumn statement, which suggests the agenda is slowing down in practice.

### **4. A disproportionate focus on shape rather than outcomes**

The rigidity of the Government’s approach cannot reflect the complexities of all local arrangements. The number of deals that have fallen apart in recent months illustrates this.

Too much time is being spent prescribing the shape of the deals. Instead, more attention should be paid to the outcomes possible through varied local arrangements.

## **E. LEVELS OF PUBLIC ENGAGEMENT**

I mentioned earlier that one of the key risks of devolution is a lack of accountability in the system. This risks leaving services feeling as remote as when they were directed from London.

Those set to benefit from devolution do not currently have ownership of this agenda. At the very least citizens must understand who is running their local services. That will be the only way that a decentralised system will really take root.

With the exception of a failed attempt by the Commons to require a referendum to approve a deal, there has been very little discussion about public engagement.

Debate about devolution deals usually focuses on the economy and growth. The accompanying discussion about public engagement and democratic accountability has not had the same priority. West Yorkshire is almost unique in having consulted on our city deal at all.

The speed with which local authorities have had to secure powers often leaves very little time for consultation. Deal making also takes place largely behind closed doors.

Not only do members of the public feel remote from the process but so do many back bench councillors.

In Leeds a regular report is taken to our council meetings to update members on the progress of devolution arrangements. However, many colleagues do not feel they have been able to shape the process.

As negotiations focus on the technical arrangements for deals, there is often little consideration of the democratic implications of those changes. This is obviously troubling for councillors, who can feel disempowered by increasing regional government.

Having been elected to represent their communities those members may find they are unable to influence key decisions about infrastructure, investment or services.

There is a serious question to address about the role of councillors as devolution progresses. How do we as community leaders reshape our role in a world where multiple public bodies will share complex responsibilities for local services?

Local authorities, combined authorities and potentially directly elected mayors may all have different responsibilities for services. Aside of the impact for councillors, this is unlikely to be easily understood by the public. Part of our role is to find a way to make that system as transparent as possible.

## **F ELECTED MAYORS**

Of course the ministerial answer to the question of accountability is elected mayors. Many more regions will soon have an elected mayor. Resisting this government vision comes at too high a cost for the majority of areas.

However, for all the zeal of ministers, the drive to appoint elected mayors does not seem to be connecting with the public. Turn out for mayoral elections – with the recent exceptions of London and Bristol – remains stubbornly low.

In Leeds, a referendum saw 63% of voters reject the concept of an elected mayor. However, citizens now look likely to have that structure imposed on them in order to access further devolution.

Clearly we need accountability built into any devolved system. Huge amounts of public money will be spent through these new deals. However, accountability needs to be rooted in local democracy.

Imposing a 'one size fits all' mayoral approach will create a new layer of complexity for the public. There are plenty of areas of public service where mayors will have no responsibility or only part responsibility. This does not create a system that will be easier for the public to understand.

What is more, unlike in London there will be no assembly to hold the mayor to account. In fact there will be very few local ways at all in which to hold mayors to account.

Even the proposed scrutiny committees have significant restrictions built into their remit by central government. The committee will only be able to review decisions taken, as opposed to future decisions. There will be no way to block decisions, only the option to recommend that a decision is reconsidered.

Central government will have the power to influence committee membership, and who takes on the role of chair. Central government also determines what must and must not be disclosed to scrutiny.

Combined authorities are not being trusted to determine their own governance arrangements. Locally derived solutions to the questions of governance and accountability should be at the heart of all new deals. Deals need to mean something to local people – local people should be able to scrutinise their performance.

The success of both the northern powerhouse and the devolution agenda rely upon strong local politics. In my view placing greater trust in existing democratic

structures, and enabling them to flourish, would provide even stronger momentum to the devolution process.

I will say again that the prescribed shape of deals – specifically the imposition of mayoral structures in areas with complex regional geography and politics – is holding a number of ambitious regions back.

## **G CONCLUSION**

In conclusion, devolution presents local government with huge opportunity. We may finally have access to the tools we need to address the huge regional imbalances embedded in our national economy.

Transport investment is a prime example. Currently, Yorkshire and Humber will receive an average of £250 per person for infrastructure between 2016/17 and 2020/21. That compares to an investment of £1,900 per person in London. Making our own choices about infrastructure investment would enable us to boost growth, better connect markets and provide increased access to employment.

Current economic policy is increasing inequality. Within the Core Cities we want to be empowered to deliver much more inclusive growth so that we do reduce inequality. The RSA has suggested that if we could address the inclusivity gap we could increase GVA by £192bn a year.

Given that context, for Leeds City Region the option of no deal is untenable.

Without a deal we would be disadvantaged as we seek to ensure

- Brexit works for people living and working in the region,
- we can lead on industrial strategy delivery,
- tackle inequality
- and remain at the forefront of civic leadership.

Devolution will allow us to maximise the value of economic redevelopment projects such as Leeds south bank and the M62 Corridor Enterprise Zone.

It will help us tackle low skills, poor air quality, a shortage of affordable housing and inadequate transport infrastructure. We can work towards our ambition to be a NEET free region and more effectively shape future public services.

With central government increasingly preoccupied with Brexit we know we must move quickly to secure the powers and funding we need.

We are realistic that this will mean accepting an imperfect governance arrangement, and in all likelihood an elected mayor. Should we be looking at an all Yorkshire deal, we would see multiple combined authorities sitting within a Yorkshire wide mayoral framework.

Despite its imperfections, devolution offers optimism to a local government sector that has been hit by unprecedented funding cuts since 2010.

It offers the potential to deliver innovative solutions to the challenges facing our citizens, with the aim of genuinely improving lives.

Even with the latest round of deals in place there will, however, be more to do. Government has yet to show the courage to embark on a wide ranging programme of radical fiscal devolution.

While the centre ultimately retains power, influence and fiscal control our ability to maximise the potential of our region will always be limited.

We need Government to have the courage to enable local government to pursue our ambitions, to deliver long lasting change and to redress long standing regional imbalances. In doing so we will secure sustainable public services, reduced inequality and economic stability.