

# **Informal response from Officers of Birmingham City Council to the Lyons Inquiry Paper “Questions for Stakeholders”**

## **General Comments**

We welcome the extension of the Inquiry to take into account the implications of the Barker, Eddington and Leitch reviews. We feel this will give the Inquiry the opportunity to ensure that a stronger case for devolution is put to the Treasury as it considers these reviews and the sub-national review of economic development and regeneration.

We will be submitting a full report on these matters to the Treasury in the near future and we will also forward that to the Inquiry. But our general argument is that the government should devolve and integrate strategic and decision making functions in transport, planning and skills and associated resources at city region level and that it should give local authorities new freedoms to innovate in economic development. This needs to be accompanied by a reform of essential regional arrangements, so that they too devolve control of more resources and decisions to sub-regional and local bodies and they adopt a more strategic and co-ordinating rather than funding and programme driven role. The case for this rests on the need to:

- Align decision making and resources with real economic areas (as argued powerfully in the recent LGA paper “Prosperous Communities: Beyond the White Paper”)
- Improve allocative efficiency in public investment, by making decision making more responsive to needs, more joined up and faster (for example by reducing chains of decision making and bidding)
- Integrate economic, planning, transport and skills strategies
- Support stronger local leadership and democratic accountability
- Make better use of local assets and enable the local public sector to be a better driver of economic growth
- Respond to modern challenges facing government, through greater local choice (as argued in your earlier reports)
- Align local taxation with local economic development planning to incentivise growth related activity by councils

Above all, devolution will enable local government to make a fuller contribution to national economic prosperity and the cities and city regions to meet their potential contribution to GDP (as they more often do in many less centralised European nations). In other words the case starts from the question of how better to achieve economic goals, not from the wish to see a particular form of governance develop.

We are absolutely clear that we are not proposing the recreation of general purpose metropolitan government – form must follow function with the focus sharply on better delivery of outcomes in planning, transport, skills and economic development. So, in putting the case for devolution to local authorities and groups of councils it is important that we argue for a system that is:

- Evolutionary – developing over time as local capacity is built and testing delivery before devolving further
- Flexible – able to operate across different geographical areas to address different needs and to work effectively with regional arrangements
- Not bureaucratic – we do not want to create new tiers of costly administration
- Accountable for delivery – focused on local priorities but also delivering reliably on central government investment (for example through robust multi-area agreements) and enjoying the confidence of government departments.

All three of the reviews recognised the need for a sub-regional focus for investment and planning, with Barker apparently endorsing the development over time of city region arrangements, Eddington making a useful analysis of the appropriate sub-regional geography and Leitch leaving open the alignment of the sub-regional Boards.

The overall model for city region working we propose (and are developing) has a strong accountable core, led by the local authority leaders but is inclusive of the business sector and the region. A City Region Development Plan would provide for an integrated strategic direction on transport, skills, housing, planning, cultural and economic development and climate change. It would be supported by a multi-area agreement as its delivery vehicle. We propose that delivery arrangements for transport and skills would be accountable to this core executive. We also propose (as Barker implies) that the government consider devolution of certain development control powers from central and regional government to a decision making process at this level.

We are clear that with these arrangements in place we will:

- Make a significantly increased contribution to UK prosperity in line with Government's aim of reducing regional imbalances
- Accelerate the development of our place-making role as proposed by your inquiry
- Deliver significant opportunities for carbon emission reduction as demanded by Government.

## **Eddington Transport Study**

### **Governance**

**Can local authorities work effectively in partnership to deliver transport outcomes or are new/reformed institutions necessary.**

Local authorities already work effectively at sub-regional level in metropolitan areas; however there are tensions between PTA responsibilities and those directly of local authorities. Given clear city region leadership arrangements, such as those we are developing, there is scope for:

- Giving clearer leadership and accountability to a reformed PTA/PTE through a unified accountability structure
- Clarifying the appropriate allocation of duties and powers to the city region and the individual authorities, taking into account the appropriate arrangements for capital and revenue and for operations/maintenance versus new developments.

There is a strong case for granting the core city regions the same freedoms and powers that have been devolved to the London Mayor, through the creation of locally accountable Transport Boards or (in our case) a “Transport for Birmingham”, with enhanced powers to borrow to invest and to bring an integrated approach to the whole sub-regional and local public transport system. Such bodies should be able to influence if not control spend by the Highways Agency and Network Rail (relevant local spending) and have more control over bus and rail networks.

In view of Eddington’s analysis of the complex multi-level nature of transport systems, the city region body would need the power to work in partnership with neighbouring councils to develop plans and programmes of relevance to the whole travel-to-work area and not be constrained by local authority boundaries or the permanent membership of the city region executive. Existing powers for PTEs to do this need to be re-inforced, along with flexibility for resource agreements across the boundaries of council tax areas.

**What are the key behaviours required of local authorities to work in such partnerships? Would new institutional or contractual arrangements be needed to support them?**

Explicit and publicly understandable accountability for setting strategic direction backed up by transparent agreements for delivery. The executive arrangements we are developing and the use of multi-area agreements will provide for this.

**Do the issues not considered by Eddington – particularly the potential benefits of aligning transport with other policy powers - alter the best overall design for governance arrangements?**

Eddington was clear that the solution was not just giving more powers to PTEs. A fully integrated executive arrangement such as we propose will offer the best opportunity to align transport with other issues within an overall Development Plan and MAA.

**How could local government make use of new bus powers in line with its broader role in promoting economic development.**

Bus power changes would strengthen partnerships between local authorities and operators while carefully allocating risk without increasing the need for complicated contracts. The government should take the current proposals further by giving new powers to the bodies proposed above, including powers to control fares and operate franchised bus services. An integrated approach to buses would bring benefits in terms of aligning route planning with housing and growth strategies and with strategies for aligning skills development with job creation.

**Convening**

**How can local authorities make the links between transport and other elements of economic development and quality of life most effectively at the local level?**

Through the integrated Development Plan and MAA approach suggested above, combined with convening powers in skills, economic development and other areas. Direct accountability through visible local leaders also offers the potential for individual local authorities to engage local communities in sub-regional transport planning.

## **Funding**

**How could current funding arrangements best be reformed to support cost effective and appropriate spending and investment decisions at sub-national level?**

***See comments above on the need to adopt a Transport for London approach in the core city regions.***

We acknowledge the case for retaining a limited regional funding stream, as suggested by Eddington. However there is a need for greater devolution of funds directly to the city region, combined with greater flexibility and clarity of accountability.

As Eddington identified there has been a clear link between transport systems and economic prosperity. It is essential for local authorities to be fully supported financially by central government to carry out their duties for local transport planning and its link to economic development. Local authorities have suffered a cash freeze in the Highways Maintenance block of the formula grant system throughout the Spending Review 2004 period. Consequently, local government has to find significant savings in order to redirect funding to frontline services while at the same time keeping the council tax increase as low as possible.

As for capital schemes, the borrowing costs associated with the Supported Capital Expenditure(Revenue) are supposed to be funded by the Formula Grant system. However, as the transparency of the formula grant system has reduced significantly under the four-block model, there is no guarantee that any authority will receive an increase in formula grant to match the borrowing costs associated with the SCE(R). We believe that there is a clear case for supporting capital funding via capital grant. This is an important issue for authorities that are above the grant floor such as Birmingham. Single Capital Pot funding should be provided separately as an unhyponthecated capital grant, so that local authorities continue to have the freedom to spend according to their need.

**What transport funding sources are most appropriately managed by local bodies? What would be the most appropriate incentives to encourage the adoption of demand management options at a local level?**

As mentioned above, there is a clear case for a transport capital scheme to be funded via unhyponthecated capital grant. Many small capital schemes may continue to be run by individual local authorities, with most others delivered at a city region level, but there need to be capital raising and spending powers as suggested above.

It is clear that revenue retention offers a clear incentive to local authorities considering adopting demand management mechanisms where such schemes offer revenue raising potential. Greater flexibility in the use of such revenues would also provide a powerful incentive, potentially freeing up resources from other areas and allowing local priorities to be met more effectively.

**Local authorities currently retain the revenues from local road pricing schemes. How might further developments in this area affect the use of those revenues?**

The effect of local road pricing schemes on local enterprise/business should be carefully considered by the government. If a scheme were to be similar in nature to the London congestion charge scheme, there is evidence to show that businesses and retail shops within the congestion zones may suffer a drop in visitors. Local authorities may find it increasingly difficult to promote economic development in their region.

New local pricing schemes may lead to the widespread imposition of controlled parking zones in areas outside the congestion zones. For example, the Congestion Charge has proved controversial in Outer London, where it has encouraged commuters who previously drove into Central London to instead park at suburban railway or underground stations. The operation and enforcement costs of these areas would inevitably fall onto local authorities. Therefore, there is a clear case that the revenues from local road pricing schemes should continued to be retained by local authorities and that there should be no possibility that such revenues will be clawed back by central Government.

Moreover, we strongly believe that in order for the local road pricing schemes to work in the long run, significant investment has to be put in by the government on the development and maintenance of public transport infrastructures. In this regard, examination of arrangements for the specification and funding of bus services which learn from the experience in London are worthy of exploration.

It is of course a precondition of any participation by the city region in road pricing pilots that we able to retain the revenue raised for re-investment locally. Greater influence over the Highways Agency would also be essential to the proper working of such a scheme.

## **Barker Review**

### **Governance**

**What specific measures are needed to ensure that local planning authorities have sufficient flexibility over issues of purely local impact? Are there particular implications of the review's recommendations on the use of Green Belt land?**

**What different approaches could be taken to enable strategic decisions to be taken at the appropriate spatial level? Can local authorities work effectively in partnership across wider areas to do this or are new/reformed institutions necessary?**

Clearly there is a need for strong national, regional, sub-regional and local plans, which require joint working and the integration of objectives across diverse areas. As Barker recognises, the current planning system is overly bureaucratic, time consuming and resource intensive and has been seen to hold up development (for example while plans are completed that would allow change of use). Giving a greater strategic role to the city region (and indeed other sub-regional partnerships) could provide for a faster process of plan development where issues cross local authority boundaries. As with transport this may well require the flexibility to work with different local authorities, which are not permanent members of a city region. Any consideration of sub-regional development control powers (which in principle we would support) would also need to take care to

design the appropriate decision making architecture. We are clear that the outcome of such changes must not be the shifting upwards of decision making that is currently (and quite rightly) local.

The existence of a stronger national spatial strategy would enable this to be incorporated into the regional spatial strategy and, in turn, the identification of areas which can be devolved to sub-regional and local strategies. As well as conforming to the national strategy, the RSSs should set a framework for sub-regional plans which will be developed from a focus on real economic areas.

The role of the planning inspectorate needs to be re-thought to allow greater local and sub-regional accountability and a speedier planning process. The national and regional influence on local planning should be limited to the national and regional strategies or statements, providing a framework for locally driven strategies and to the proper procedural assessment of planning appeals (i.e. not changing local or sub-regional policy on appeal). As Barker suggests there should be a reduction in call-ins and ministerial involvement.

The fact that many local authorities and consortia of authorities have bid for additional growth funding (above the allocation by the RSS) might indicate that more locally driven strategies are more likely to drive growth

**What role should local authorities have in relation to a future independent Planning Commission, and how should they best work with local communities on their concerns and potential benefits?**

The role of the new housing and regeneration agency (Communities England) recently announced by CLG also needs to be considered here. How will it relate to the new planning commission and to regional, sub-regional and local authorities?

The role of the new Commission needs to be tightly defined so that only genuinely national planning decisions are taken at that level, leaving space for appropriate decision making at regional, sub-regional and local levels. Similarly the national statements of strategic objectives need to provide a loose enough framework for local independence in strategic planning, whilst delivering adequate clarity on key national objectives so that the Commission can make its decisions in a legitimate and accountable manner. We would also suggest that the core city regions need to be represented in some way in the workings of the Commission.

**Convening**

**How can local authorities link work on planning, housing and transport issues together most effectively?**

Through the devolved and integrated city region arrangements described above and new sub-regional planning powers.

We agree with Barker's recommendation that better integration of Regional Economic Strategies and RSSs is needed. However the same need often applies at the local authority level also. The key to ensuring strong linkages between work on planning, housing and transport issues is to ensure that the strategies for each are well integrated

and support and reinforce broad strategic objectives for the local area. They must also integrate well with overarching economic and spatial strategies for the area. A major finding of a recent evaluation of the West Midlands RES was that , whilst strategic alignment with other policy areas was generally good, co-ordination with the Regional Housing Strategy was weaker. In the West Midlands ensuring stronger strategic links between key policy documents must therefore continue to be a priority.

## **Funding**

### **What would be the most effective and practical means of creating incentives for local authorities to support appropriate growth?**

Local authorities play a vital role in promoting economic growth in their areas. Local authorities currently receive planning delivery grant (PDG) to improve their planning systems. In particular, local authorities need to respond more effectively to local housing pressures and become actively involved in the delivery of additional housing to meet local demands. We note that the overall level of PDG has reduced nationally in recent years, we feel that local authorities must be equipped with adequate resources in the planning system in order to support appropriate growth.

Moreover, we feel that reforms are needed to improve existing schemes such as the Local Authority Business Growth Incentive (LABGI), which do not necessarily provide incentives for local authorities to promote economic growth. For example, our analysis shows that the chances of receiving LABGI increase if an authority belongs to a lower base group. The baseline group is based on historical growth rates, which often result from one-off developments. Some may argue whether an increase in rateable values is a good indication of economic growth. For example, the increase in rateable values may result from refurbishment in government buildings <sup>1</sup>, and therefore, have very little relation to business growth. It is also extremely sensitive to the loss of major employers, where global economic conditions or competition within a particular market, is responsible for the outcome, rather than weakness in the provision of support by the local authority. In addition LABGI funds are awarded according to improvements shown in data with a significant time lag, such that significant investment in supporting business growth is not rewarded until some years later. However LABGI is not guaranteed to run beyond the current pilot phase and this means that, together with the fact that LABGI receipts are not ringfenced for economic development, the initiative does not encourage a sustainable approach to investing with the aim of increasing the local business stock. The government must carry out a full evaluation of the LABGI scheme before extending it to the next Spending Review period. There may be scope to use other avenues to distribute LABGI grant, for example, the government may wish to build this into the formula grant.

Other economic development schemes such as Local Enterprise Growth Initiative often involve lengthy bidding processes, which consume a significant level of resources. This often results in local authorities with high needs competing against each other for

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<sup>1</sup> Westminster's RV increased by £48m in 2005, nearly half of the increase came from just two buildings – 2 Marsham Street and the refurbished Ministry of Defence main building – both occupied by government.

Source Hewdon Consulting – LABGI does it do what it says on the can?

resources despite government assurances that the amount of funding awarded through competition would be reduced following the introduction of LAAs.

Authorities in the West Midlands face severe shortages of available, high-quality development land opportunities. Schemes that reward “performance” on the basis of an authority’s ability to provide such opportunities, or penalise authorities unable to provide a sufficient quantity to meet a “reservoir” requirement set nationally or regionally, would clearly favour areas with significant spare capacity, and would offer no incentive to authorities facing major constraints. It is therefore critical that any such measure also works to incentivise the use of brownfield development opportunities where these exist. Such schemes also fail to take full account of the linkages between activities that directly support physical development and the work required to create suitable conditions for economic growth. By not incentivising skills development; the provision of decent housing, education and culture amongst other factors as part of a high quality of life offer; and tackling worklessness and deprivation, for example, the schemes fail to capture adequately the wider approach to supporting growth taken by local authorities.

We feel that future funding arrangements should focus on delivering sustainable communities, with rewards for delivering in line with agreed strategies – phasing, balance etc. This would recognise that some places within a region may be deliberately constrained in order to fulfil a wider strategic purpose – to produce sustainable communities. Such a scheme should also include rewards for creating balanced and stable communities – e.g. a balanced mix of housing – and could be linked to Planning Delivery Grant as well as performance in retaining local business.

We object to the proposed redistribution of some income from the new PGS to the region and suggest that the income should be retained within local authorities (or at the discretion of the local authority, city-regions or other sub-regional arrangements). We would argue that benefits from PGS will accrue to the wider region through the city region’s ability to drive the regional economy, rather than through artificial re-distribution systems.

**How should the empty property relief in business rates be reformed? How should a charge on vacant and derelict brownfield land be introduced into the existing local land and property tax system? Would any local flexibility on such measures be desirable?**

There is a strong in-principle case for the re-localisation of business rates. However we do not advocate a straightforward re-localisation and recognise the case for strong business involvement. The emphasis must be on creating greater local flexibility to provide incentives for local authorities to pursue growth creating policies (as your previous reports have noted, the business community is more likely to support this) as discussed above. Increased income from investment in genuine business growth must be linked directly to prudential borrowing if we are to achieve the public investment necessary for cities to achieve their growth potential. So-called Tax Increment Financing was also suggested by Barker.

The current system allows owners of non-domestic properties to apply for reliefs of either 50% or 100% (section 45 of the LGFA and the Non-Domestic Rating (Unoccupied Property) Regulations 1989). Relief is also available to partially occupied properties. The current system gives very little incentive for owners to bring properties back into

use. We believe that the relief system could be reformed in a similar way to the council tax system, whereby local authorities have the freedom to set the level of discounts for empty and partially empty properties. Even in a centralised system, it is important to allow local authorities to keep the additional revenue that results from lowering the discount, so that extra resources can be deployed to promote enterprise growth and to bring those properties back into use.

It is also essential for the Government to review the criteria applicable to exemptions from industrial properties. The Government may wish to consider setting a time limit on the duration of the relief (or preferably allowing local authorities to do this as part of re-localisation), thereby giving the owners more incentive to bring these properties back into use. This will also encourage owners to advise local authorities of any changes in occupancy, which at the moment they are not legally obliged to do. Furthermore, local authorities should be able to keep the extra revenues raised in order to aid regeneration programmes.

## **Leitch Review**

### **Governance**

**With their new strategic leadership role, how can local authorities relate most effectively to a reformed learning and skills council on 14-19 education issues? What are the merits of different options for managing the division of these responsibilities.**

It is important the different aspects of skills and employment services are dealt with at the appropriate level. We would argue that the local authority, through its new strategic education role within the new broader role on children and young people, is the appropriate place for leadership on these matters. This role could be linked effectively with a new city region role in respect of skills and employment, through the leadership of local authority leaders and chief executives.

The proposed purely regional role of the LSC should be one of support and regional cohesion, with Employment and Skills Boards aligned with sub-regional groups of local authorities, and in the case of the city region, linked into our executive arrangements. Having achieved this real economic area focus, we accept the case made by Leitch for a more demand led rather than centrally planned approach but would urge that this also be consistent with other sub-regional strategies. In the West Midlands the LSC is exploring the options to establish Skills and Employment Boards. These are welcomed but accompanied by an expectation that local government will be fully engaged in their development phase, including the geographical coverage, and appropriately represented on the Boards. Clearly local authorities should play a leading role in proposed Employment and Skills Boards as leaders for the locality and a statutory responsibility for young people. Local authorities would also serve to link into wider economic prosperity and development and other local frameworks.

As the LGA has pointed out, a tailored and active labour market policy also requires the ability to integrate job centre plus and welfare to work programmes with skills and economic development strategies. We submitted a city region proposal to DWP's City Strategies Initiative which has been accepted and begins to show how we can work at a city region level to bring these aspects of skills and labour supply planning together. We

would also support the LGA's call for the government to look at local flexibilities around the 16-hour rule, the ability to share data between authorities and the ability to pool budgets and recycle savings in this area. There may be a case for an even more radical look at the deployment of benefits, employment and welfare to work services between central, sub-regional and local government.

## **Convening**

**What links should be made between employment and skills provision and other local services and responsibilities?**

**What role should local authorities play in a new demand led skills system?**

**What role should local authorities play in the proposed Employment and skills Boards, to ensure skills and employment issues are properly linked to wider work on economic prosperity and development?**

See comments under governance above.

## **Funding**

**What implications for local authority funding do the Leitch recommendations or related proposals have?**

There are a number of implications for local government in the Leitch Review of Skills. For example, the review recommends an increase in adult skills across all levels. There are currently two main streams of funding for adult education, namely, grants from Learning and Skills Council (LSC) and income from fees and charges. The level of grants from LSC has been reduced in the current year nationally; this has caused significant concerns to local authorities. Moreover, there is a strong indication that the grants from LSC will continue to be reduced in future years, leading inevitably to spending pressure on local authorities. In many cases, local authorities will be left with little choice but to raise income from fees. There would also be a detrimental effect on the access to education, this will have significant impact to people with a disadvantaged background. We therefore urge the government to invest sufficient resources in this area, but as importantly to allow such decisions on spending priorities to be made by accountable local authorities and linked to other local priorities (skills and employment is a top priority for Birmingham and our city region).

As indicated in the Leitch Review, lack of skills can be a key barrier to employment for people from some ethnic minorities. In addition, research reveals that some ethnic groups' education attainment (e.g. Pakistani, Bangladeshi, Black Caribbean) is lower than the national average. We strongly believe that the Government should take this into account in the distribution of resources.