1. **Introduction: A Devolved Spending Review for a Place Based System**

1.1. The Core Cities city regions already contribute over one quarter of the UK economy, but have significant untapped potential. Post-Brexit it is more important than ever that they are able to boost productivity, increase their export and investment base, contribute more to sustainable national growth and improved local living standards.

1.2. The UK still has the widest regional economic disparity in Western Europe and UK urban productivity is low in comparison to international standards. If all the Core Cities performed at the national economic average, it would put around £80 billion into the economy every year. If they performed at the same level as comparable cities in Europe, North America and Asia, that figure would rise to £100 billion.

1.3. The evidence shows that successfully addressing low productivity relies on dealing not only with ‘in work’ issues (e.g. transport and digital infrastructure, business support, R&D and innovation), but also tackling poverty, deprivation, low skills and health levels that account for almost 40% of low productivity across the Core Cities.

1.4. Delivering high quality public services must therefore be a top priority for Government in solving the UK’s productivity challenge, raising living standards and reaping the economic and social benefits of these outcomes.

1.5. Delivering reformed, modern public services will, however, require a quantum of funding in the local government system that enables cities to provide both statutory and non-statutory services. Crucially, many non-statutory services increasing local quality of life and vibrancy, but also have an emphasis on preventive action and it is often these services that most effectively reduce demand for acute responses, improve outcomes for citizens and reduce overall costs to the public sector.

1.6. Government should view public sector finance much more holistically, particularly in cities – taking a place based approach to funding. This means looking at the totality of public investment into a place and asking, what are the big outcomes that place needs, and how can resources best be deployed to achieve them?

1.7. Too often the opposite happens, asking what different parts of the system need to maintain their current position, leading to siloed initiatives. Instead the system needs to fundamentally shift to comprehensive financial settlements for a place, with some national objectives set, but local accountability for how they are delivered.

1.8. This must include a recognition of the cumulative impact of funding decisions across a range of departments and agencies which operate within a place and a better appreciation of the interconnected nature of public services. For example, recognising that decisions about public health budgets are likely to have ramifications for the NHS, that infrastructure investment and economic rebalancing are linked, or acknowledging that incentivising academisation through business rates relief has an adverse effect on the general funds of local authorities.
1.9. Strong shared leadership models are in place across all of our cities and we believe local democratic, business, third sector and community leaders working together are best placed to understand the assets, priorities, service needs and ambitions of places they represent.

1.10. We therefore want to work with Government in place-based partnerships to deliver the evidenced interventions needed to drive economic growth and improve quality of life for our citizens. To achieve our ambitions, and to strengthen our national economy, Core Cities need greater flexibility and freedom to raise and spend money locally, within a framework that also recognises varying levels of health inequalities and social deprivation.

2. The Importance of Place

2.1. Place really matters. Where and how we live shapes our identities, life chances, physical and mental health. What will raise productivity or tackle deprivation in one place will fail in another.

2.2. Yet a recent year-long study⁴ demonstrated that national policy is largely ‘place-blind’, treating everywhere as if it were the same and imposing blanket solutions, top down. The study concluded that devolution was an improvement but too formulaic. Places needed “much greater discretion to deliver meaningful solutions at the local level.” It found that “people believe almost every decision should start by understanding what matters to people in a locality, and what constitutes its sense of place.”

2.3. A place-based approach to the Industrial Strategy was highlighted as particularly important, and the same is true for future local government settlements and the Spending Review as a whole. Place is crucial to our cities for four main reasons.

1. Cities that do well harness the capacity, ingenuity and creativity of their people and connect them to business and each other at the level of ‘place’, a scale that matters economically.

2. Place provides a coherent way to organise the different public services and investment within an area, improving outcomes through joined up solutions and local knowledge.

3. People feel a growing dissatisfaction with decisions taken at a distance which don’t understand local needs and opportunities in sufficient detail - place offers a way to reconnect and empower people.

4. A focus on place supports community identity and is key to addressing exclusion, inequality, integration and the sense of injustice that many people feel.

2.4. Place-based policy doesn’t mean just devolving everything to the city authority. That might be the right answer, in other cases policy should be national, or a combination of the two.

2.5. It does however mean deciding objectively what the right level and scale is to deliver what’s in the best interests of that place. These can then be brought together by the

---

⁴ Where We Live; British Academy; 2016: report, animation http://www.britac.ac.uk/where-we-live-now
convening power of city leadership, using its democratic mandate, but working with
the private and third sectors toward common aims for their place: what Core Cities
have described as Whole Place Leadership².

2.6. Another recent study³ found that decades of centralised policy have made little
impact on educational attainment and child poverty. At current rates, it will take 120
years before disadvantaged teenagers can hope to get the same qualifications as
their better off peers. This is unacceptable in a modern, developed democracy.

2.7. Place-based policy can help us solve this, and can create Inclusive Growth because
it can link up social and economic policy to match local need. Social policy has been
seen as something we spend money on when we have growth. But when people are
healthy, have skills and can access the labour market, they contribute more to the
economy and make fewer demands on public services. Social policy is a driver of
growth and productivity, and a way of investing in our economic future, not a cost.
We need to remove the artificial barriers that separate social and economic policy.

2.8. Without place-based policy, local and national efforts can unwittingly undermine
each other. For example, providing care for people in their own home costs an
average of £300 per week, compared to £2,500 to keep someone in a hospital bed
when this care fails. Instead, they could be locally integrated. In Scotland it is
already a reality while in Greater Manchester city region-level integration is now
happening.

2.9. Another example is the way in which cuts to public funding have been applied.
Looking at total public spending across our cities and city regions over the last 5
years, it has not actually reduced that much. Instead cuts have been made to
preventative services, particularly local authorities, which have driven equivalent
rises in health and welfare costs.

2.10. Housing policy is another, which has dramatic effects on homelessness,
education, health, jobs and the economy. Yet national policy and investment hasn’t
met the needs of cities outside the South East well enough. Making it locally flexible
will speed up housing delivery and allow housing to be seen in the context of place,
so it can become a driver of local economies and better support communities. That
is why we have championed City Housing Deals with Government.

2.11. Place-based policy isn’t just the best way of joining up public services and
investment, it’s the only way. The powerful added value of this approach is that cities
can bring their own resources to bear on challenges in a coordinated way. The
future of policy must be place-based.

3. Harnessing the economic role of Core Cities

3.1. The ten UK Core Cities are home to 20million people. Their diverse populations
have grown steadily since 2006 and are set to rise by almost 3million by 2036, when
the Core Cities will account for 23% of the UK’s population growth.

3.2. They are drivers of surrounding city region and wider regional economies. Core
Cities have never based their arguments on ‘trickle down’ economics and instead
sought to develop networked economies, where different places that are connected

² Whole Place Leadership, Core Cities 2016
³ Time for change; Social Mobility Foundation; 2017
across a labour market can play different roles and all benefit, although more work is needed to understand how to maximise these roles to ensure all places do better from future growth. To this end, Core Cities are in discussion with the OECD about a piece of work to investigate these roles in the context of regional rebalancing of the UK economy. We are also supporting the UK2070 Commission review.

3.3. Core Cities deliver over 25% of UK economic output. Their productivity is improving, but the UK now has the widest regional economic disparity in Western Europe. Compared to the Core Cities’ average, productivity per person is 88% higher in Munich, 80.7% in Frankfurt, 42.8% in Rotterdam and 26.7% in Barcelona.

3.4. These other cities retain more of the taxes raised in them at the local or regional level to fund services and infrastructure: 35% in Germany; 25% across the OECD on average; as much as 50% in North America. Greater local financial control has been linked to cities being more competitive. The gap between the Core Cities’ average economic output and the national average is estimated at between £70-90billion per year, indicating the underutilised economic potential of the cities.

3.5. About 60% of low productivity in the Core Cities is due to ‘in-work’ factors, which can be addressed by investment in transport infrastructure, broadband, research and innovation, and business support. However, around 40% of this gap is due to deprivation, low skill levels, and people being disengaged from the labour market. Therefore, although addressing productivity does require investment into industry and its supporting structures – in a place-based manner – it must also deal with deprivation, investing in people as assets.

3.6. Deprivation drives higher demand for spending on public services, including children’s services, adult social care, public health and is a significant driver of the rise in homelessness, which has increased by 66% across England since 2010. In addition, the higher housing costs in urban areas mean these areas experience higher costs in of providing temporary accommodation for homeless households.

3.7. Cities also face higher costs as a result of higher rates of crime, anti-social behaviour, larger student populations and costs associated with the night time economy. Greater population density creates challenges in the form of congestion, traffic delays, air pollution and accessibility. While cities have acted to alleviate these pressures, they are constrained by a lack of resources and a lack of powers.

3.8. It should however be underlined that although, in common with big cities the world over, the Core Cities face significant challenges, they are also the places of greatest opportunity for the UK outside the south east, economically, in terms of increasing productivity investment and trade, but also for addressing issues of climate change, air quality and social cohesion. Cities are primarily the places where these issues play out and must be solved.

4. Lessons learnt from past changes to local government funding

Cumulative Impact

4.1. Cities have shouldered the highest proportion of Government cuts over the last decade. They have seen the largest cuts in funding per capita, are more reliant on grant with less ability to raise council tax, yet contain large amounts of deprivation.
4.2. The siloed approach to austerity has further compounded the impact of these combined pressures, as it has not effectively taken account of the cumulative impact on different places of changes to funding mechanisms, investment decisions and budget reductions across a range of public sector departments and organisations.

Preventative Approach

4.3. Such is the pressure on local authority budgets after a decade of austerity that there is limited scope to find further significant savings through efficiencies or service reductions outside of acute care or statutory responsibilities.

4.4. The risk now facing cities is that, despite it being a false economy, immediate pressure to deliver short term budget savings can only be achieved through a reduction in preventative interventions or targeted work to drive much needed economic growth.

4.5. Cities have repeatedly demonstrated that preventative action reduces long-term expenditure and demand for acute services, while also delivering better outcomes for citizens.

4.6. However, there often appears to be a lack of understanding at a national level about the impact investment in non-statutory preventative services has on managing demand for – and therefore the cost of – statutory public services. For example, if there is a reduction in the Government offer to support programmes such as Troubled Families beyond 2020/21, statutory services will face even greater demand as councils manage more costly cases of crisis.

4.7. Cities further understand that their economic future, and therefore their contribution to national economic growth, depends upon successfully tackling the constraints of poverty and deprivation on productivity. To do this funding settlements cannot be limited to the level of only enabling councils to invest in statutory functions.

Stability

4.8. Our cities welcomed the additional baseline certainty created through multi-year settlements. However, we are now in the final year of the settlement and there is very little clarity about local government funding beyond 2019/20. This includes a lack of certainty about significant funding streams for programmes in sensitive areas of policy supporting vulnerable adults and children.

4.9. While additional funding in areas such as Adult Social Care is needed and therefore welcome, the quantum provided still does not meet the substantial demand now facing city authorities.

4.10. The stability for financial planning provided by multi-year settlements has been undermined by late announcements of short term or one-off allocations such as those in Adult Social Care to ‘top up’ what were inadequate initial core funding allocations.

4.11. Cities would urge Government to pre-announce as much information as possible, including Council Tax thresholds and Business Rate Changes, and to do so much earlier to fit in with the budget setting processes of councils, which can start as early as the summer.
Complexity

4.12. Successive governments have added new funding “modules” to the local government funding system: the four-block model was laid over the existing Standard Spending Assessments, on top of which was added the Business Rate Retention System (BRRS). This has created an increasingly complex picture for local government finance.

4.13. All our cities hope that the Fair Funding Review will deliver a simpler, more transparent funding system. Cities would welcome much greater clarity about how the components of local government finance fit together and what assumptions are being made within the financial allocation system (we have responded separately to this review).

4.14. The caveat to this is, however, that transparency and simplicity should not be achieved at the expense of fairness. It is vital that incentives for growth are properly balanced with the needs of our communities, particularly in the case of cities where there are often significant concentrations of deprivation.

4.15. The introduction of the BRRS in 2013/14 also shows that the Government must give greater consideration to the accounting rules applicable to local authorities when a new system is introduced. In 2013/14 it became clear that authorities would have to make large provisions for losses due to appeals only after many of the main decisions about the BRRS had been taken.

4.16. In aiming to achieve a solution to this issue the funding system became – and has remained – overly complex. Closer consultation with bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA) prior to the introduction of any new scheme could help prevent a repetition of this situation.

4.17. The complexity of these funding arrangements has been further compounded by the system of compensation and discretionary grants introduced to address policy changes which have directly impacted on councils’ funding from business rates.

4.18. It should also be noted that other policy changes have indirectly impacted on funding from business rates – such as using business rates relief as an incentive to encourage schools to convert to academies – and these have not been compensated for.

4.19. An important principle of further localisation of Business rates should therefore be that exemptions should be within scope for the influence of the authority where desired, so that they can align with local priorities, and that bogus exemptions can be clamped down on.
6. **Efficiency, fitness for purpose and sustainability of the current system for funding local government**

6.1. The current system of local government finance is no longer fit for purpose. System wide reform of local government finance should underpin a programme of radical decentralisation across all our cities - regardless of whether mayoral structures are in place.

6.2. Local place leaders (democratic, business, third sector and community leadership acting together as custodians of a place) are best place to understand the needs of their communities and want to work in a place-based partnerships with Government to deliver growth and reform.

6.3. We already know that Core Cities are drivers of much wider networks of smaller economies. In order to deliver an enhanced economic performance, for local and national benefit, cities must be given greater flexibility to raise and spend money locally, and to better align their services with local need.

6.4. It should be noted that unlike in England where there has been very little fiscal devolution, even in mayoral authorities, tax-raising powers have been devolved to Scotland and Wales (although these have in large part been to the Devolved Administrations, not to cities). Using a similar model in England would support greater integration of services and increased investment in infrastructure that reflects local priorities.

6.5. To achieve the necessary step change in public service reform, however, localities also need the right quantum of funding over a long-term period.

6.6. It is also acknowledged that any new system of local government finance would require a degree of equalisation, alongside measures to incentivise growth.

6.7. Any new or devolved system of taxation should also be considered within the broader context of fairness – more detail of which was set out in our response to the Fair Funding Review. Whilst various forms of local taxation would certainly increase the quantum of funding for the sector, different authorities have varying capacity to generate extra income. A balance will therefore need to be struck to ensure any new model incentivises local decision making while also ensuring a proportion of growth generated by stronger economies is redistributed.

6.8. Cities advocate abolishing Council Tax referendum limits and simplifying the existing Business Rates Retention System to provide more local flexibility.

7. **Business Rates**

7.1. The current rigidity of the business rates system does not allow councils to design local taxation in a way that balances the service needs of communities with wider council ambitions to grow local economies.

7.2. Whilst we agree with the Government’s expressed intention of allowing local government to keep more of the income it raises locally through the business rates retention scheme it has to be recognised that the sector has very few tools with which to combat the inherent volatility of the current system.
7.3. This makes local councils and the services they provide vulnerable to sudden funding reductions to which they do not have the financial tools to react. An example of this includes 80% mandatory charity relief being provided to incentivise schools to convert into academies. Not only does this create a scenario where state maintained schools pay business rates while academies do not, but it is the general funds of local authorities that bear the cost, often amounting to millions of pounds. A number of Foundation Trusts in the Health Service are also pursuing a similar charitable status to academies to obtain business rates relief. If this is achieved it will deliver a funding boost for the NHS but at the expense of local government, potentially compromising the sustainability of key services. Moving money around the public sector in this way is unnecessary and creates further uncertainty.

7.4. Cities would argue that the uniformity of business rates across the country should be maintained to avoid a situation where cities are competing against one another, potentially resulting in a reduction in the overall quantum of funding in the system.

8. Council Tax

8.1. The Council Tax system is still based on 1991 valuations and needs revision as above, potentially with the addition of new Council Tax bands dependant on local circumstances.

9. Tourism Tax

9.1. Our cities worked together with the four UK Arts Councils to support the Cultural Cities Enquiry, chaired by Dame Jaye Anne Gadhia which launched recently. One of the recommendations of that report was for Government to establish a UK wide review of the merits of a tourism levy, extending the debate that has taken place in Scotland to the other nations.

9.2. Different models of tourism levies are widely used internationally. Many cities across the UK are actively considering them as a means to increase investment in culture, and the results of surveys in Scotland have shown strong support from business and residents for a levy.

9.3. The general principle is simple. A dedicated levy will help cities – and indeed other places like Towns – to look after and enhance the very amenities that attract tourists in the first place.

9.4. At the same time, we would like Government to look to pilot the BIDs+ model set out in the Cultural Cities Enquiry report in at least one urban regeneration area, where businesses put additional resources into culture to improve urban environments.

9.5. BIDs+ is modelled on Business Investment Districts, with the difference that, where business invests in culture for example into an urban regeneration scheme and creates an uplift in value or tax receipts, some of that additional value is retained locally to be reinvested locally.
11. How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

11.1. Local government is already facing a funding shortfall and it is continuing to see rapidly growing demand for its services. The main priority for our cities is therefore not how available funds will be redistributed but whether those funds are sufficient and sustainable.

11.2. The Local Government Association has estimated a funding gap of £7.1 billion for Local Government by 2020. This includes an immediate £1.3 billion pressure to stabilise the adult social care provider market and a £2 billion estimated funding gap facing Children’s services.

11.3. These concerns are supported by the recent report from the National Audit Office, which found that the financial health of local authorities across England is getting worse. Despite greater freedoms to increase council tax bills and one-off short-term funds from government, local authorities are struggling to balance higher demands and cost pressures against significant central government funding cuts of nearly 50% since 2010-11 (NAO 2018).

11.4. Within the FFR consultation response, Core Cities did raise concerns about the assessment of need and distribution of resources. We had particular concern about the proposal to remove deprivation as a cost driver for the foundation formula.

11.5. Deprivation has the most significant influence on demand for services across our cities. Demand for services is higher in areas of deprivation and the ability of residents to contribute to the cost of those services is much lower.

11.6. For large cities like ours the extent of need and poverty in our most deprived communities can be masked by average measures across large, varied geographies. Analysis on the basis of deprivation ‘hot spots’ would provide a more accurate picture.

11.7. Per head funding as proposed by Government is not reflective of comparative need and the proposed formula also removes consideration of distinctly urban pressures such as roads, visitors, homelessness and pollution levels. Consideration must also be given to the growing trend for social care to consume greater amounts of service expenditure.

12. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review.

12.1. The primary objectives of the Spending Review in respect of local government finance should include the following.

1. **Stability**: to stabilise the currently unsustainable financial position of the system as a whole.
2. **Place based**: to create a comprehensive, place based settlement for a city or city region, creating maximum alignment across all relevant public services and funding streams.
3. **Devolved**: to give certainty across multiple years and flexibility on how funds are used to address agreed priorities, including fiscal reforms.
Stability

12.2. Since 2010/11 local government has, according to evidence from the National Audit Office, experienced cuts of 50% in levels of central Government funding. Rising demand-led cost pressures face the sector, especially within the Adults and Children’s social care services.

12.3. Local Government has risen to this challenge with resilience, innovation and an increasingly entrepreneurial approach. Cities have delivered a range of measures to stimulate inclusive economic growth, manage demand for services and deliver organisational efficiencies.

12.4. However, as above it is becoming increasingly hard to protect vital care services, and to plan for the medium to long term, in a context of short term funding allocations and an insufficient quantum of funding in the sector.

Place based

12.5. Our arguments for this set out above and are primarily about increasing efficiency, improving outcomes and decreasing duplication and waste. There are good examples operating across our cities that provide models and evidence on which to base broader approaches to a comprehensive place based settlement. This also applies to the way in which funding reductions have been made in a siloed rather than locally integrated way, which have seen cuts in one part of the system simply leading to rises in spending in others. Government must better understand the cumulative impact of activity in different government departments and the ways in which different areas of the public sector interact.

12.6. Accountability has been raised as an issue in the past, but can and has been pragmatically overcome, through either clearly devolved legal responsibilities or shared accountability. We would welcome undertaking more work with Government on this issue, particularly if it is seen as a barrier.

Devolved

12.7. For major cities, some with budgets the size of FTSE 100 companies not to know what their operating budget will be from year to year is an unsustainable position which leads to inefficiency and an inability to create spend to save initiatives, particularly in relation to prevention and early intervention, saving significant sums. Cities should have certainty over the full period of the Spending Review.

12.8. Flexibility on how existing funds are spent to achieve shared national and local priorities will greatly enhance the ability of cities to deliver improved outcomes, removing ringfencing between different funding streams, and allowing budgeting across longer periods for revenue as well as capital, for example investing in prevention to reap the rewards downstream.

12.9. Overall, there should be increased control of the local tax base, additional business rates retention and greater fiscal devolution, beginning with a national conversation to set out a road map to achieve these things. It is, in our view, local leaders who are best placed to meet the often conflicting aims of encouraging local economic growth and answering increasing demand for local services.
13. Core Cities and the Devolved Administrations

13.1. It is important to note that two of the Core Cities, Glasgow and Cardiff, exist within Devolved Administrations where these issues, although of shared concern across the Core Cities, are devolved matters resting with those Parliaments for final decision rather than the UK Parliament.

April 2019