Written evidence submitted by the Greater Manchester Combined Authority [FSR 034]

Summary

- Greater Manchester’s devolution deals have led to innovation and new models of local service delivery, as well as better co-ordination of interventions to drive productivity growth.
- The full benefits of this integrated approach will only be realised for residents and businesses if it is backed up by a funding settlement which provides flexible resources to enable integration, puts services on a sustainable basis, and avoids rigid criteria and inappropriate metrics which prevent placed-based investment.
- The Treasury needs to use the Spending Review to look beyond negotiations with individual departments and individual spending silos in order to unlock the benefits of devolution through place-based settlements which support integration.
- The Shared Prosperity Fund (SPF) will be vital for underpinning the next steps in the partnership between local and national government to deliver this agenda. It is unfortunate that the consultation on the SPF has been delayed and there is a growing risk that it will not be in place in time to provide ongoing funding for vital programmes.
- Delivery of in the innovation and integration set out in the Greater Manchester’s White Paper on Unified Public Services requires new approaches to investment and reform.
- Such innovative thinking is essential at a time when there is such significant strain on the funding of services. Not only does the funding available to local government need to increase overall, but the specific funding pressures faced by areas need to be recognised in its allocation.
- Early intervention, prevention and innovation depends on having sufficient certainty over future funding to allow financial planning and long-term decisions to be made. The immediate financial challenges are therefore being compounded by the uncertainties that surround the future of local government funding.
- Local taxation needs to balance incentives for growth with a mechanism for equalisation which accounts for need. This was achieved in the devolution deals agreed between Greater Manchester and national government, which were partially underpinned by agreements on Business Rates. We would strongly support the continuation of the pilot of 100% Business Rates retention beyond 2019/20.

Introduction

1.1 The changes to UK local government funding that have been introduced over the last 40 years have had two main characteristics. First, there has been centralisation of control over local resource-raising which has made local authorities ever more dependent on the redistribution of funding from the national level. Second, there has been no significant modernisation of local forms of taxation which, even if central control were to be relaxed, could enable local resources to be gathered more fairly and effectively from residents and
businesses and in a way that best incentivizes local economic growth and public service reform.

1.2 These long-term shortcomings of local government financing, along with many potential responses to them, are well known to the Committee, not least as a result of its previous inquiries.¹ They have been exacerbated by reductions in public spending over the last decade. These reductions in funding have been significantly larger in local government than in more protected areas of spending (health, education, overseas aid). It has also seen larger funding reductions for major urban areas, particularly in the north of England, than elsewhere.² As a result, local authorities in the UK are far less empowered than their counterparts in other leading economies to lead innovations that can improve economic performance, develop proactive programmes that can reduce future, reactive spending, and play a positive role in limiting geographical and social disparities. International evidence suggests that disparities are less pronounced in those countries where there is greater sharing of resource-raising power between levels of government and in which systems of resource redistribution from richer to poorer areas are both stronger and less politicized than they are in the UK.

1.3 Greater Manchester Combined Authority (GMCA) and the broader family of public authorities delivering services at the Greater Manchester-wide level are both directly and indirectly affected by these changes in local government funding regimes while also being a partial exception to them. On one hand, GMCA and other Greater Manchester bodies rely on the ten local authorities of Greater Manchester for a proportion of their funding and for support in the delivery of the multi-agency Greater Manchester Strategy, including transport and waste functions via levies charged on the districts, and blue light services via precepts, which have a direct practical impact on the ability of the districts to raise funding for their own services. They are also directly affected by changes in government funding that affect the flow of resources, beyond the local government system, into the city region. At the same time, GMCA has benefited from incremental innovations, introduced via a series of ‘deals’ with national government, that have enabled greater flexibility and experimentation in funding and policy development. What is now needed is a shift to a place-based settlement, where resources can be brought together through a robust local decision-making process to deliver the joined-up investment and integrated services which can increase the prosperity and outcomes for residents and businesses.

1.4 This submission sets out the lessons learned from GMCA’s experience of devolution for the key questions raised by the Committee.

**The Benefits of Devolution**

² Centre for Cities, Cities Outlook 2019. London: Centre for Cities
1.5 The devolution agreements between Greater Manchester and the Government have provided the opportunity to better integrate policies and decision-making at a local level. They have led to innovation and new models of local service delivery, as well as better co-ordination of interventions to drive productivity growth.

1.6 Most importantly, outcomes for residents across the city region have been improved. The Greater Manchester Strategy has provided the vision and aims for the city region, agreed between the public sector, businesses and the Voluntary, Community and Social Enterprise Sector, and implemented through local and national government working in partnership. For example, the devolved Working Well programme, which integrates services such as skills and health to support people into work, has outperformed national equivalents, while joint local and national investment into the Metrolink network has resulted in a doubling in journeys over the past 6 years – linking residents to jobs across the city region.

1.7 The recent Greater Manchester Independent Prosperity Review, chaired by Professor Diane Coyle and including leading economists from the UK and US, found that such integration is vital for not only improving services but driving productivity and prosperity. It also showed how flexible resources at a local level are required to back up that approach.

1.8 In January 2019, we set out a vision for the Future of Greater Manchester. With a number of bold plans for consultation which will shape the city region for generations to come, including through the Greater Manchester Spatial Framework, a new Transport Delivery Plan, a Housing Vision and Infrastructure Framework. We are now developing the next steps for this agenda through:

- The Greater Manchester Local Industrial Strategy, being developed between the city region and Government departments;
- A White Paper on Unified Public Services, which has been developed collaboratively with districts, other public services and the Voluntary, Community and Social Enterprise Sector;
- A Prospectus for Health & Social Care, which sets out the proposed next steps for developing the unique devolved health and care model in Greater Manchester.

1.9 The benefits of this integrated approach will only be realised for residents and businesses if it is backed up by a funding settlement which provides flexible resources to enable integration, and puts services on a sustainable basis. The Treasury, therefore, needs to use the Spending Review to look beyond negotiations with individual departments and individual spending silos in order to unlock the benefits of devolution through place-based settlements which support integration.

**Flexible Funding to Underpin Growth & Innovation**
1.10 The Greater Manchester Industrial Strategy, developed by the city region and national government, sets out an ambitious agenda to address the productivity and prosperity challenges in the city region. This includes developing a new partnership between the city region and national government, covering education, skills and work. The first step, in the Spending Review, needs to be to secure the programmes which have already been successfully developed through devolution deals. The Work & Health Programme, developed from the Working Well pilot which outperformed national equivalents, relies on funding being secured through the next Spending Review Period. The Adult Education Budget has been devolved for the first time in 2019, allowing investment in skills to become more responsive to the needs of employers and residents in the city region whilst also ensuring that statutory entitlements are provided. Again, future funding for adult skills but also the associated capital for skills provision will need to be agreed at the Spending Review.

1.11 The National Infrastructure Commission has recommended that city regions should have stable, substantial devolved funding for infrastructure, in places like Greater Manchester which have integrated strategies in place for transport, employment, housing and the environment. And for cities that face the most severe capacity constraints, and with the most potential for growth, there should be additional funding to support major upgrade programmes, which would be agreed between the cities and central government. This approach of partnership working between local and national government, with a joint investment programme leveraging in additional investment from the private sector, is one which Greater Manchester strongly supports. Greater Manchester is also in discussions with MHCLG and Homes England on the funding which would be necessary to deliver the housing needs of the city region. Innovative funding mechanisms such as the GM Housing Fund have successfully delivered in recent years, and significant further investment is needed to deliver the scale of ambitions set out in the GM Spatial Framework. However, the imposition of rigid criteria and inappropriate metrics make it very difficult to deploy funds to support growth because the Benefit Cost Ratio rules used by major housing and infrastructure funds are generally based on the quantum of land value uplift – and so fail to recognise the huge need for, and demand for, housing and infrastructure in markets where there are lower wages and property values.

1.12 The devolution deals have included powers over police and crime and fire services. Police Funding will need to increase if resources are going to match the growing challenges and increasing public concern about crime. Greater Manchester is currently in process of consulting on the Greater Manchester Fire & Rescue Service (GMFRS) Programme for Change, which is a major transformation project for GMFRS with the aim of ensuring the service has the right resources in the right places, is well-equipped, well-managed, and well-led.

1.13 The Shared Prosperity Fund will be vital for underpinning the next steps in the partnership between local and national government to deliver this agenda. The EU funding which it replaces has been worth around €414m to Greater Manchester in the current 7
year period, with matched funding and Local Growth Fund type investment coming on top. It is unfortunate that the consultation on the SPF has been delayed and there is a growing risk that it will not be in place in time to provide ongoing funding for vital programmes in Greater Manchester, such as the Work & Health Programme, which have been underpinned by EU funding. Mayoral Combined Authorities should play a key role in providing a strategic overview to SPF investment acting as the key primary investment partner for SPF in a place. Greater Manchester and other cities and regions across the UK have set out the key principles which should determine the development of the SPF, with its development based on:

- Multi-year funding – providing flexibility to sequence investments to maximum local effect;
- A place-based single pot – allocated and devolved to functional economic areas, so that resources can be allocated within national themes, but prioritised to local productivity priorities and taking a joined-up approach which avoids policy silos;
- Matched funding – with UK national funding which has in the past been used to match EU Structural Funds also brought into the Shared Prosperity Fund;
- Flexible use – so that it can be used for both capital and revenue purposes, and for early intervention and preventions (e.g. school readiness) rather than just tackling problems which arise later. It could then also support innovations such as the local revolving investment funds which have been pioneered in Greater Manchester;
- Funding level – with the amount of funding available to Greater Manchester being at least the level of existing EU Structural Funds and their matched funding and other Local Growth Fund-type investment.

A Sustainable Funding Model for Services

1.14 Delivery of in the innovation and integration set out in Greater Manchester’s White Paper on Unified Public Services requires new approaches to investment and reform. It aims, through early intervention and prevention, to reduce funding pressures elsewhere in the system and in other services. Greater Manchester has therefore developed, with national government, a Reform Investment Fund to bring together sources of funding to provide greater flexibility to invest in and support innovative approaches to transformation of public services. This has already included agreement from the Government to bring together a number of funding lines into a single Greater Manchester pot to be invested alongside other local funding in driving system wide reform. We are now looking to scale up the Fund to increase its impact.

1.15 In Greater Manchester, the unique model of devolved health and social care means that this approach can also be scaled up and joined up with health services in a way which is vital for a sustained funding model to be developed. A sustained basis for NHS funding requires a sustained basis for funding adult social care. A misalignment of resource
planning and allocation between the NHS and social care directly undermines the clinical and financial viability of the NHS. It is unfortunate that the publication of the Adult Social Care Green Paper has been so significantly delayed, but that will be crucial to improving the future delivery of services.

1.16 Such innovative thinking is essential at a time when there is significant strain on the funding of services. Local authority spending in Greater Manchester fell by a third between 2008/09 and 2017/18 and the LGA is estimating that by 2025 local government services face a funding gap of at least £7.8bn, just to stand still, much of this relating to social care. They forecast that by 2025 there will be another 350,000 people needing high levels of social care from councils. This follows almost ten years of reducing funding with the LGA estimating that between 2010 and 2020, Greater Manchester councils will have lost 50p out of every £1 the Government had provided for services.

1.17 Not only does the funding available to local government need to increase overall, but the specific funding pressures faced by areas need to be recognised in its allocation. For example, reducing the number of people becoming homeless is one of the key priorities in Greater Manchester and we are doing everything in our power to achieve this. The majority of the factors driving the increase are beyond the control of the local authorities and compounded by reducing resources across all partners. We believe the levels of homelessness are a combination of deprivation, welfare reform, economic and population growth, poorly funded mental health services, failure of public service reform to engage quickly enough with the criminal justice system, and housing shortage. Therefore, funding allocations made on the basis of population alone cannot possibly measure the level of need for such a complex issue. It is also essential that there is a separate and transparent funding formula or mechanism for concessionary travel and that it is not simply included in the foundation formula for Upper Tier services and that it is fully funded, given the huge funding gap that now exists between the costs of what is mainly a national statutory scheme and the estimate funding central government is now providing.

**Future Funding of Local Government**

1.18 The early intervention, prevention and innovation described above depends on having sufficient certainty over future funding to allow financial planning and long-term decisions to be made. The immediate financial challenges are therefore being compounded by the uncertainties that surround the future of local government funding, which leads to the cancellation of preventative work and prioritisation of crisis responses. Unfortunately, the period of time between the outcomes of the Spending Review and the Fairer Funding work and the need for councils to set budgets for 2020/21 and beyond is now extremely tight.

1.19 There is serious concern about the practicalities of implementing a new formula for 2020/21. As an example the Children’s Services research has not been concluded and the distributional outcomes from this work will not be known until almost the point at which
budgets have to be set for 2020-21. Therefore, enabling effective financial and service planning requires:

● Exemplification of the funding formula proposals to be provided at an earlier stage;
● Clarity around the future of the core funding streams for adult social care - across Greater Manchester the allocations for 2019/20 for the Improved Better Care Fund, Winter Pressures funding and Social Care Support Grant alone total £158m;
● Clarity on the transition arrangements with guaranteed minimum allocations for 2020/21.

1.20 If the above cannot be delivered it may be better to continue with the current funding allocations for 2020/21 and start the transition to a new funding formula for 2020/22 which would give local authorities more time to plan appropriately.

Local Taxation

1.21 Local taxation needs to balance incentives for growth with a mechanism for equalisation which accounts for need. This was achieved in the devolution deals agreed between Greater Manchester and national government, which were partially underpinned by agreements on Business Rates. The GMCA and Greater Manchester District Councils are one of the original pilots for 100% business rates retention. The original business rates retention agreement between Government and Greater Manchester authorities had the stated intentions of:

● Giving the Greater Manchester authorities and incentive to grow local tax bases by ensuring they see long term rewards from growth;
● Maintaining a predictable income stream against which authorities can take long term investment; and
● Ensuring that Greater Manchester authorities can continue to provide a full range of local services, whilst recognising that decisions about spending priorities should be made locally by locally elected representative accountable to local taxpayers.

1.22 These resources have helped deliver a number of Greater Manchester priorities including:

● Funding for the Business Growth Hub, GM Spatial Framework and Health and Social Care Partnership;
● The GM Business Productivity and Inclusive Growth Programme which addresses Greater Manchester’s need to close its productivity gap with the rest of the UK and ensure that all parts of the city region can contribute to, and benefit from, economic growth;
● The activity of MIDAS and Marketing Manchester which are central to the delivery of the Greater Manchester Internationalisation Strategy; and
● Delivery of the Greater Manchester Industrial Strategy including the digital agenda and extension of full fibre network and implementation of Greater Manchester’s Good Employment Charter.

1.23 The continuation of the 100% pilot will have an important role to play in enabling the ongoing delivery of these programmes. We would therefore strongly support the retention of the 100% pilot beyond 2019/20 until national roll-out is achieved. Continuation of the 100% pilot would enable the GMCA to maintain a source of income to cover its investment priorities to promote growth in the Greater Manchester economic area. In addition, the continuation of the pilot will give Government the opportunity to fully test and review the scheme with the maximum insight from 100% pilots over a longer timeframe and through a reset process. It would also offer some certainty for Greater Manchester post 2019/20 to support longer term planning and strategy development and implementation. In relation to transition to the new systems it is suggested the full proceeds of the 100% business rates pilot should be captured to support transitional arrangements.

1.24 While the revenue from Business Rates has been crucial in supporting Greater Manchester’s priorities, the transition process put in place following the revaluation of properties for Business Rates has undermined the regeneration of town centres. The city region’s ambition is to transform its town and local centres into areas of high density mixed and affordable housing, with local retail and leisure facilities supported by transport and digital connectivity, for example through the Greater Manchester Town Centre Challenge. While funding provided by central government, such as the Future High Streets Funds, are welcome, this could be used to provide a greater strategic response to the challenges.

1.25 Key to this transformation is the ability to keep existing retailers on our high streets and ensuring vacant properties can be brought back in to use quickly. However, the time it takes to implement transitional arrangements following the Business Rates revaluation process is impacting upon this and as a result counteracting the Government’s national funding intended to support our Town and Local Centres. For example, in Stockport town centre where a Mayoral Development Corporation is being established, the transitional surcharge means that businesses were paying an additional £126,000 in Business Rates in 2018-19 – doubling what they would have been paying in rates based on actual Rateable Values.

1.26 This increases the cost of occupation for retailers deterring them from entering into and/or renewing leases; reduces the willingness of retailers to take on large properties with high rateable values subject to the transition ‘surcharge’; and results in the transitional element of Business Rates being a large part of retailers occupational costs.
1.27 In recent years increasing importance has been placed on raising funds locally through Council Tax and the relaxation of the referendum cap. However, this has a limited impact in areas where a large proportion of properties fall into lower value council tax bands – leaving local authorities having to pass on large increases to residents who cannot afford them while raising a relatively small amount when compared to need. More widely, there is no doubt that Council Tax revaluation is long overdue. We agree with the Institute for Fiscal Studies’ conclusion that this would need to be approached at a national level.

1.28 The UK has one of the most centralised tax systems in the developed world and extensive work has been carried out on options for addressing that imbalance – for example by the London Finance Commission and recently by the Institute for Fiscal Studies. Again, any options need to be considered according to the incentives they provide for growth, alongside the redistribution they allow to ensure needs are match by funding and the overall distribution is equitable.

Conclusion

1.29 Greater Manchester’s devolution deals have led to innovation and new models of local service delivery, as well as better co-ordination of interventions to drive productivity growth. But the benefits of this integrated approach will only be realised for residents and businesses if it is backed up by a funding settlement which provides flexible resources to enable integration, puts services on a sustainable basis, and avoids rigid criteria and inappropriate metrics which prevent placed-based investment.

1.30 The Treasury needs to use the Spending Review to look beyond negotiations with individual departments and individual spending silos in order to unlock the benefits of devolution through place-based settlements which support integration. Innovative thinking is essential at a time when there is such significant strain on the funding of services. Not only does the funding available to local government need to increase overall, but the specific funding pressures faced by areas need to be recognised in its allocation and there needs to be sufficient certainty over future funding to allow financial planning and long-term decisions to be made.

1.31 We look forward to seeing the Committee’s conclusions on these issues.

April 2019