

 Council – 7th October 2015		Agenda Item No. 3
Title	Devolution and Economic Growth – options for a combined authority	
For further information about this report please contact	Chris Elliott Tel 01926 456000 E-mail chris.elliott@warwickdc.gov.uk	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	Executive 11 March 2015 Council 24 th June 2015	
Background Papers	Cities and Local Government Devolution Bill; July 2015 Budget; Productivity Plan; Rural Productivity Plan; WMCA Statement of Intent	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No
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Officer/Councillor Approval		
Officer Approval	Date	Name
Deputy Chief Executives	28.09.15	Bill Hunt, Andy Jones
Heads of Service	28.09.15	Mike Snow, Tracy Darke, Andy Thompson, Rose Winship, Robert Hoof, Richard Hall
CMT	28.09.15	Chris Elliott, Andrew Jones, Bill Hunt
Section 151 Officer	28.09.15	Mike Snow
Monitoring Officer	28.09.15	Andy Jones
Finance	28.09.15	Mike Snow
Portfolio Holder(s)	28.09.15	Cllr. Mobbs
Consultation & Community Engagement		
N/A at this stage as if the Council decides to join a WMCA then the Government must undertake a consultation as part of the statutory process.		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		
This depends on the decision(s) of the Council.		

1. **SUMMARY**

- 1.1 This report brings members up to date with the current position regarding proposals for devolution, growth and combined authorities and current proposals for the Coventry and Warwickshire and for the West Midlands in the context of rapidly changing national policy. In June 2015, the Full Council agreed a report that proposed responding to this rapidly moving agenda by entering into discussions with other local authorities and the Government to establish how the Council's objectives might be achieved through membership of a West Midlands Combined Authority (WMCA). This required the Council Leader and Chief Executive to feedback on these discussions to Council. This report sets out that feedback on those discussions for the Council to make a decision on the way forward and in particular to make a decision to join or not join the proposed WMCA as it is now required.

2. **RECOMMENDATIONS**

- 2.1 That Council considers whether to accept or decline the invitation to become a Non-Constituent Member (NCM) of the proposed West Midlands Combined Authority (WMCA).
- 2.2 That, should the decision be to accept the invitation, Council approves the Governance Review and Scheme at Appendices 3 and 4, and agrees to receive further information on governance arrangements and the devolution 'deal' for the proposed WMCA.
- 2.3 That, should the decision be to accept the invitation, Council approves an allocation of £10,000, from the existing budget of £50,000, as this Council's contribution to the WMCA set up costs in the 2015/16 financial year and agrees a provisional contribution of £25,000 for future years within future budgets in subsequent financial years.
- 2.4 That Council notes the current position in respect of its preferred option for a Coventry and Warwickshire Combined Authority and agrees to retain this option in case the proposed WMCA does not develop as currently envisaged.
- 2.5 That, regardless of the decision made in respect of 2.1, Council seeks a review enhancement of the current Joint Committee covering Coventry, Warwickshire and Hinckley and Bosworth to enhance and maintain the strong local economic, housing and planning linkages and the local authority input into the Coventry and Warwickshire Local Economic Partnership (LEP).
- 2.6 That the Council considers participating in proposals for public sector reform in the sub region or Warwickshire area should it receive such an invite to do so from Warwickshire County Council.
- 2.7 That should the decision be to accept the invitation to join the WMCA that the Council also considers whether or not it becomes member of the new West Midlands Business Rates Pool.
- 2.8 Subject to 2.7, the Council agrees that governance arrangements for the new West Midlands Pool are agreed and signed off by the Chief Executive and Head of Finance in consultation with the relevant portfolio holders (Leader and Finance).

3. REASONS FOR THE RECOMMENDATION

3.1 In June 2015, the Council considered the matter of Combined Authorities, and devolution proposals. It decided that:

“2.1 That Council endorse the statement on combined authorities previously agreed under delegated authority by all 4 Group Leaders, including the Council’s agreed objectives for entering a combined authority and devolution discussions and its preferred option of a combined authority for the city deal area of Coventry and Warwickshire (with Hinckley and Bosworth), set out in Appendix 1.

2.2 That the Council continues to explore the opportunity to deliver its objectives set out in Appendix 1 through the potential membership of a combined authority and that its objectives are used as the basis for the evaluation of any option before it.

2.3 That as its preferred option the Council is willing to enter discussions on forming a Combined Authority and entering devolution discussions for Coventry and Warwickshire.

2.4 However, the Council should respond to the proposal to develop a combined authority for the three Local Enterprise Partnership (LEP) areas of Black Country, Greater Birmingham and Solihull, and Coventry and Warwickshire, by taking part in discussions and investigating with the other authorities included in that proposal and with the Government on the devolution proposals that could be associated with it.

2.5 That the Council should delegate authority to the Leader and Chief Executive to enter into discussions on behalf of the Council on a possible combined authority and devolution options so that proposals can be considered by the Council at the earliest opportunity.

2.6 That it be noted that the £50,000 previously agreed by the Executive to be allocated from the contingency budget to support this work will be retained for this purpose.”

3.2 For the sake of completeness, the Appendix 1 referred to in the decision above is also attached to this report as Appendix 1. This provides a starting point in terms of setting out what the Council had sought to achieve.

3.3 In terms of implementing the decision above the Chief Executive and Leader, and other officers have:

- Attended meetings with other Leaders/Chief Executives of Coventry and Warwickshire Councils (for the sake of completeness this includes Hinckley and Bosworth as it is part of the City Deal);
- Attended meetings with other Leaders/Chief Executives across the whole of the proposed West Midlands Combined Authority areas;
- Spoken with officers of other District and Borough Councils involved in Combined Authorities (existing and proposed) elsewhere in the country;
- Undertaken research on devolution proposals emerging elsewhere in the country;

- Met and discussed issues with civil servants from the Department of Communities and Local Government (CLG);
- Briefed members in August 2015;
- Kept abreast of the emerging relevant policy of the new Government.

3.4 To enable members to make decisions, this section of the report sets out:

1. The developing policy context
2. Local Developments – The Proposal to establish a West Midlands Combined Authority
3. Local Developments - Coventry and Warwickshire Combined Authority
4. An assessment of those two options and of others that might be available

3.5 The Developing Policy Context

3.5.1 Since the election in May there has been a rapid evolution of national policy and legislation which is still developing. The new Government has quickly announced that it intends to pursue its policy of economic growth through devolution and has published the Cities and Local Government Devolution Bill to assist with this process. The first speech given by the Chancellor of the Exchequer after the election focused on the Northern Powerhouse and devolution.

3.5.2 In this speech the Chancellor stressed on the importance of the cities and their adjoining areas in the north to improve productivity and to rebalance the UK economy. This policy initiative is based on the economic theory that significant increase in productivity requires areas to work together at scale i.e. that there are real benefits to be had from economic agglomeration where places collaborate on key economic initiatives. The Chancellor promised greater powers and autonomy through devolution deals to cities with ambition elsewhere in the UK, particularly to those who choose to have an elected Metro mayor.

3.5.3 In early June, following the publication of the Cities and Local Government Devolution Bill, George Osborne, Greg Clark and Michael Heseltine met some West Midlands leaders to talk about a West Midlands Combined Authority for which they received encouragement.

3.5.4 The July Budget 2015 gave even further support for the concept of devolution containing comments such as "...building strong city regions by devolving further powers....." and "... build a Northern Powerhouse and ensure the productive potential of all parts of the UK is realised...". It also stated that:

"The Government intends to support towns and counties to play their part in growing the economy offering them the opportunity to agree devolution deals and providing local people with the levers they need to boost growth. The Government is working with towns and counties to make these deals happen and is making good progress with Cornwall."

3.5.5 Later in July 2015 the Chancellor published the Productivity Plan which made more specific comments and indeed support for devolution. This sought proposals for devolution to be submitted by 4th September with an expectation that the results would be announced as part of the Comprehensive Spending Review (CSR) decisions on 25th November 2015. This has clearly spurred on many parts to the country and at the time of writing this report it is reported

that almost 40 proposals have been submitted. One from the proposed WMCA is amongst them. The Chancellor also stated in that document:

“The government also strongly supports the recent publication of a West Midlands Statement of Intent for devolution, which sets out ambitious proposals for a strong and coherent West Midlands Combined Authority. The Government is also pleased to have received two Combined Authority proposals from local authorities in the East Midlands.”

3.5.6 However, it is also clear that this policy announcement is tied closely to the continuing policy of austerity for public finances. Such a tie highlights that there are risks as well as potential advantages to accepting the devolution of funding from government and of delivering central government activities. However, the Chancellor’s policy seems to take the view that as more local decision equals better decisions it also allows more or the same to be achieved for less money spent. It also ties in with an overall strategy of enhancing the country’s productivity, part of which is about realising the potential of the country’s urban areas hence the accent on scale of proposals.

The government’s approach to raising productivity

The government’s framework for raising productivity is built around two pillars:

- encouraging long-term investment in economic capital, including infrastructure, skills and knowledge
- promoting a dynamic economy that encourages innovation and helps resources flow to their most productive use

These high-level drivers of productivity are based on widely agreed and relatively well-understood academic analysis. The government is now rising to the challenge, and this document sets out a fifteen-point plan for productivity that takes on the hard choices needed for lasting change.



3.5.7 However, in August 2016 the Government also published a 10 point Rural Productivity Plan which, amongst other things, offered the prospect of devolution of powers and funding but envisaged that it sought enhanced governance including elected mayors even in shire county areas, as the price.

This followed the announcement of a devolution proposal having been agreed for Cornwall (a unitary county area) in late July.

3.6 Proposal to establish a West Midlands Combined Authority (WMCA)

3.6.1 The seven metropolitan authorities of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton have made a commitment in principle to establish a West Midlands Combined Authority by 1 April 2016. These seven authorities published a Statement of Intent on 5 July 2015 (see Appendix 2). The Statement identifies an ambition for the WMCA to encompass a much wider and important geography across the three Local Enterprise Partnership areas that the seven authorities are members of (Greater Birmingham and Solihull; Black Country; and Coventry & Warwickshire). The proposed WMCA would also incorporate the functions of the existing West Midlands Integrated Transport Authority.

3.6.2 The Statement of Intent identified five early delivery priorities for the WMCA:

- Developing an overarching Strategic Plan for the West Midlands
- Access to a Finance and Collective Investment Vehicle
- Getting the transport offer right for the long term
- Creation of an economic policy and intelligence capacity
- A joint programme on skills

3.6.3 The Statement also proposes to establish three major new independent commissions to help shape the future of the WMCA. It will be seeking support from government to deliver these commissions. They are:

- The West Midlands Productivity Commission
- The West Midlands Land Commission
- The West Midlands Commission on Mental Health and Public Services

3.6.4 The rationale for a 3 LEP economic geography covering some 20 local authorities is that it is a much more coherent functional economic market area. Evidence to support this includes a much higher self-containment ratio (the percentage of people who live and work in a given geography) across the 3 LEP area than for any individual LEP area. The self-containment ratio for the proposed 3 LEP area is 90% whereas the same measure for each LEP is as follows: Black Country LEP (71%), Coventry & Warwickshire LEP (77%) and Greater Birmingham & Solihull LEP (77%). 90% is at the higher end of most proposed or established combined authorities to date. What this means is that if the 3 LEP economic geography is used as the basis for the proposed WMCA, then this body could directly relate to 90% of the resident working population.

3.6.5 Delivering the 3 LEP area ambition means that 13 Shire Councils within the LEP areas have been invited to join as Non Constituent Members (NCMs) and all are considering their position. The 12 October 2015 is the deadline for any District / Borough council to be named in the Scheme which sets up the proposed WMCA.

3.6.6 The three key steps for the creation of any CA are:

- A review of existing governance arrangements for the delivery of economic development, regeneration and transport. The conclusion based on evidence must be that there is a case for change as it will bring about real improvement that could not otherwise be delivered.
- Drafting a Scheme which sets up the WMCA and contain issues such as membership, funding, functions and executive arrangements.
- The Secretary of State will consider the scheme and undertake formal consultation lasting 8 weeks. If he is satisfied with the outcome and persuaded that the improvements are likely to be delivered, a draft Order will be laid before both Houses of Parliament for adoption.

3.6.7 Any changes to the membership of a CA need to undergo the same process of consultation by the Secretary of State. If the Council decides to join the WMCA as a NCM, then it should also recommend approval of the Governance Review and draft Scheme which are attached as Appendices 3 and 4. .

Relationship with existing Local Economic Partnerships and Local Businesses

3.6.8 Local Enterprise Partnerships will continue to operate alongside any CA that is established. The Chairs of the Greater Birmingham & Solihull LEP, the Black Country LEP and the Coventry & Warwickshire LEP have written in support of the proposal to establish a WMCA and look forward to jointly creating “.. an economy that is the strongest outside London and contributes fully to the Government’s vision of a wider Midlands Engine for Growth”. The 3 Chairs of the Chambers of Commerce have similarly written in support. The written advice of the Chair of the Coventry and Warwickshire LEP which he gave to Warwickshire County Council was that it should join. The business feedback from the Coventry and Warwickshire Chamber of Commerce has also been set out. . The local branch of the Federation of Small Businesses (FSB) has also set out its views. Appendix 5 contains all of the views referred to above from the business community. There are a mixture of views with recognition of the benefits of a larger economic scale but concern at losing the more local and well-known brand of Coventry and Warwickshire. The Coventry and Warwickshire LEP Board will consider its position on 5th October 2015.

3.6.9 If the Council decides not to join the emerging WMCA, it would still be a full and proactive member of the Coventry and Warwickshire LEP. It is anticipated that the three LEP’s identified above intend to join the WMCA as non-constituent members. If that occurs, it does not mean that District / Borough Councils who are part of a LEP would be automatically committed to non-constituent membership through LEP membership of the CA. Similar to District / Borough Councils, LEPs can only be non-constituent members of a combined authority. The longer term role of the three LEPs may need to be reviewed in light of any approval given to establish a WMCA.

Devolution ‘Deal’ & Public Sector Reform

3.6.10 Establishing the legal entity of a combined authority does not guarantee any devolution of powers or responsibilities from Government. A set of devolution proposals have been submitted to Government from the emerging WMCA and these are currently subject to negotiation prior to final agreement. The combined authority needs to demonstrate the case for ‘added value’ – in other words, if the same level of activity or outcomes will be delivered as the relevant Government department then devolution is unlikely to be agreed for that specific function or area. The combined authority has to present a compelling

case for devolution and reach agreement with Government that it will deliver more.

3.6.11 Alongside the negotiation over devolution, the Government will also require clear accountability mechanisms to hold the combined authority to account. It has already become clear from various meetings and statements by senior national politicians that any substantial devolution of powers from central to local government will only occur if the combined authority accepts the need for an elected mayor. If it does not, it may still be able to agree some limited devolution of powers, responsibilities and / or resources but these will generally be at a lower level than a mayor led combined authority. A mayoral WMCA is likely to have substantially more powers than a WMCA that does not have an elected mayor if the Cities and Local Government Devolution Bill is passed as currently proposed. An elected mayor would be elected by and responsible for only the area of the constituent members of the combined authority i.e. as things stand, this would not include Warwick District. There is no agreement or decision at this time about whether the WMCA will have an elected mayor.

3.6.12 As part of any devolution agreement with Government, the combined authority will need to make a commitment to public service reform which would result in reducing and managing demand for services in a period when financial pressures on local government will be immense. This will require new ways of looking at old problems. Part of the challenge of public sector reform will be to re-engineer services within a substantially reduced financial envelope as local government funding reductions are applied during the course of this parliament to 2020.

3.6.13 Detailed proposals for a devolution package to be negotiated with Government have been developed by the emerging WMCA were submitted on 4 September 2015 to HM Treasury.

The general areas included are:

- a) Securing greater local control of funding
- b) Transforming growth through HS2 and enhanced connectivity
- c) Transforming land supply
- d) Revitalising the housing market
- e) Transforming the education, employment and skills system
- f) Transforming business support and inward investment
- g) A National Pathfinder for Innovation
- h) Creating a Midlands Magnet – investing in quality of life
- i) Transforming public services and closing the public funding gap

3.6.14 As the Deal is under active negotiation only a very high level summary of the proposal is available publically. In summary, the deal is worth an estimated £8 billion to the proposed WMCA area, though no doubt negotiations will change that sum and the issues that it covers. In terms of its coverage at present it does address many of the issues that this Council had previously agreed should be its aims, as set out at Appendix 1. The results of the negotiations are

unlikely to be known until the Comprehensive Spending Review (CSR) is announced in late November 2015.

- 3.6.15 In order to enable joint working across a 3 LEP geography, it is proposed that a Joint Committee is established between District / Borough Councils and the proposed WMCA using the Local Government Act 1972. The details of how the Joint Committee would work are not yet confirmed. A separate issue that needs to be resolved is that the legislation appears to suggest that there cannot be a greater number of non-constituent members (Districts / LEPs) than constituent (metropolitan councils) on the CA Board. Detailed discussions are ongoing with DCLG legal advisers to clarify this point. Some of these issues may well be addressed by the Bill currently being debated by Parliament but the situation has generated the need to test out the proposals with Government officials so it cannot be absolutely be said that it will be the final format.
- 3.6.16 Experience from the Sheffield City Region Combined Authority is relevant since it has only 4 Unitary Councils and 5 District Councils (from 2 Counties) and the voting issue does not arise as they never vote except where required by legislation on Transport matters. Decision making is by consensus. Although much more of a challenge with potentially more Councils involved, the 7 Mets have stated that this is their aim of working with District Council partners.
- 3.6.17 It is likely that the initial devolution 'deal' agreed with Whitehall will relate primarily to the functions exercised by Metropolitan authorities. However, there are specific proposals intended to cover the 3 LEP geography which have been included in the devolution submission to Whitehall. It should also be noted that lessons from other areas such as Manchester indicate that devolution is an ongoing process and the first 'deal' is a foundation for other devolution to be agreed over a period of time. It is also likely that when District / Borough Councils have made their decisions about membership of the 'first wave' WMCA that a greater focus on how non constituent members can benefit from devolution can be progressed over time.
- 3.6.20 There will be provisions to be able to exit the WMCA should any Council subsequently decide that it does not wish to continue to be a member. These are different for a Constituent Member (CMs) as opposed to a Non Constituent Member (NCM) but there is less clarity for NCMs and officers will give an update on this following discussion currently underway with CLG officials so that clarity can be given at the Full Council meeting.
- 3.6.21 It's also important for this Council to be aware that it could decide to join the WMCA as a NCM now and but withdraw support prior to the Statutory Order being laid before Parliament should further details emerge with which it is not happy about.

3.7 Local Developments - Coventry and Warwickshire Combined Authority

- 3.7.1 A Combined Authority based on the economic geography of the Coventry and Warwickshire sub region is this Council's preferred option as agreed at the Full Council in June, although it was also seen as advantageous if Solihull were to be part of the same sub regional grouping. This view has been advocated by this Council strongly via a number of avenues and on various agendas.
- 3.7.2 However, Solihull Metropolitan Council has indicated that it will join a West Midlands Combined Authority, and indeed its Leader has recently been elected as the Leader of the Shadow WMCA Board. Coventry City Council's Cabinet, in June 2015, agreed 'in principle' to join a combined authority with a preferred

option of councils from Coventry and Warwickshire (with Hinckley and Bosworth), Greater Birmingham and Solihull and the Black Country.

- 3.7.3 Coventry City Council's Cabinet will consider the matter on 6th October and then it will go to its Full Council the subsequent week. Nuneaton and Bedworth Borough Council has met to consider the matter and has decided to join the proposed WMCA. North Warwickshire Borough Council will consider the matter on the evening of the 7th October and Rugby Borough Council on the 8th. Stratford upon Avon District Council will meet on the 12th October to consider the matter. None of these Councils are known to be considering a Coventry and Warwickshire Combined Authority.
- 3.7.4 Warwickshire County Council has decided not to join the proposed WMCA and has written to all Councils in the sub region asking them to consider a Coventry and Warwickshire Combined Authority. However, they have not set out any proposals for consideration. Warwickshire County Council has also decided to examine other options and it is understood that Councils in Warwickshire may receive an invitation to develop proposals for public sector reform. Very recently though Warwickshire County Council re-debated the matter and its decision, which is repeated below does appear to re-open the door to joining the proposed WMCA.

"That, in the light of the news that the Shadow Board representing a West Midlands Combined Authority (WMCA) comprising authorities from Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton (which expects to be established in April 2016) has submitted proposals for devolved powers to the government, this Council agrees that the new Member Working Group should explore all options, including any improved WMCA proposal put forward. Any options supported by the Member Working Group, and subsequently the Council, should be formally consulted on before any final decisions are taken."

- 3.7.5 It is almost certain that should the Warwickshire authorities decide not to participate in the WMCA that Coventry would proceed to join it in any event. Indeed the Leader of Coventry City Council has already written to the Leader of Warwickshire County Council in response to a request to join a Coventry and Warwickshire Combined Authority, to reject the request. Consequently, whilst the clear preference for this Council is for a Coventry and Warwickshire approach it is unlikely to be able to be practically achieved given at least one Council has already decided that they ought to be part of the WMCA instead and another (Coventry) has decided in principle to join.
- 3.7.6 This might only become a viable option if Central Government intervenes and decides that the WMCA cannot proceed in its present shape or form.

3.8 An assessment of those two options and others that might be available

Coventry and Warwickshire Combined Authority

- 3.8.1 A Coventry and Warwickshire Combined Authority is simply not a practical option available to this Council given the views of Coventry City Council and the decision by Nuneaton and Bedworth Borough Council to join the WMCA. Even if it were an option no devolution proposal has been worked upon and if work then began and submitted, it would be at the back of a queue of almost 40 submissions from across the country. It would not be able to deliver very much very quickly.

3.8.2 However, the present Joint Committee relating to Coventry and Warwickshire would still have its uses in relation to local planning, economic development and housing matters and as an input into the Coventry and Warwickshire LEP. It is possible that this Joint Committee could be further enhanced to ensure that the necessary local joint work is not lost. This would mitigate many of the concerns of the local business community about the potential loss of a local focus.

West Midlands Combined Authority

3.8.3 A WMCA and devolution proposal is on the table and given that the deal is subject already to negotiations with the Government it must be seen as highly probable that it will be agreed in some shape of form, to operate from next April. The proposal could help to deliver some of this Council's ambitions and from Section 5 of this report it is clear there is a potential significant financial benefit for this Council. Given that the Council as a NCM would not be covered by a Mayor if the WMCA decided to have one, nor by a Council Tax precept and that there is no transfer of powers, there is little to be lost and a lot to be gained. There is also an exit strategy should matter not turn out as envisaged. The more local perspective can be addressed by continuing to support the existing Joint Committee and seeking its enhancement.

Wait before Deciding to Join

3.8.4 The Council could decide not to join at present but to wait and then consider joining at a later date. In practice this would be likely to be in 2 to 3 years time, after allowing for one or two years to assess its progress and then a year to follow the legal process to join. Consequently the Council would experience the adverse financial impact set out in Section 5. There can be no absolute assurance that the Council would be subsequently admitted, though that would seem unlikely. However, by not joining initially the opportunity to influence the WMCA at its early stage of development would be lost and joining subsequently would inevitably be on the terms set by others.

Not Joining the WMCA at all

3.8.5 The Council could decide not to join outright. However, not joining opens the prospect of a negative financial impact on the Council as set out in Section 5. Not joining would lessen the considerable influence that this Council does exercise on a range of county, sub regional and regional matters. Not joining, especially if this Council were the only one of the Districts in the County not joining or were one of a minor number would threaten the break-up of the County wide voice and might rupture the LEP. There seems little benefit for this approach as an option. Indeed there is much more at stake for the Council through not joining the proposed WMCA.

Warwickshire

3.8.6 A Warwickshire only approach could only work if it were not predicated on becoming a Combined Authority or an Economic Prosperity Board as Warwickshire alone is not able to demonstrate that it acts as a Functioning Economic Market Area, a basic requirement under the legislation, since it has a low level of self-containment and high levels of outward commuting.

Other County Areas

3.8.7 The economic data does not support a Combined Authority covering Warwickshire and other adjoining County areas. Worcestershire has been approached and has rebuffed a neighbouring District Council and aside from Hinckley and Bosworth Borough Council, the Leicestershire Authorities are focused on their own Combined Authority and Devolution proposals. There is no interest and little overall linkage by and with Gloucestershire,

Northamptonshire or Oxfordshire Councils and these Councils have in any case submitted their own devolution proposals without the need for a Combined Authority. Such areas do not have the complication of having a Unitary Council in their midst and of a favourable public sector geography where alignment of boundaries is high. As much as anything the emphasis is on the public sector reform as upon developing the local economy.

Public Sector Reform in Warwickshire

3.8.8 It is understood that Warwickshire County Council may be contacting the public bodies in Warwickshire to develop proposals around public sector reform. This approach could sit alongside also joining the proposed WMCA since each could have a different emphasis. This Council will need to consider if this is a route it also wishes to explore.

3.8.9 In considering such an approach Members may wish to be mindful that:

- the public sector geography in Warwickshire is less clear cut than in other counties, with some organisations also covering Coventry and/or Solihull;
- the Government has emphasised that devolution is contingent upon enhanced governance, even in shire areas. In Warwickshire, that could mean the creation of a unitary council(s) and/or an elected Mayor;
- Warwickshire County Council has a declared intention of wanting to establish a single County wide Unitary Council.

3.8.10 Previously this Council has said that since the Government is not interested in imposing Unitary Councils and that they would take too long to deliver the reforms and savings against what is needed; that anything involving local government reorganisation would be a distraction from the real efforts of making savings/raising income and maintaining/improving services and should not be pursued. If the Council is minded to participate in such an approach then it may wish to rule out local government re-organisation as a precondition.

4. **POLICY FRAMEWORK**

4.1 The Council's Sustainable Community Strategy (SCS) seeks to help make Warwick District a great place to live, work and visit; and it has 5 priority policy areas – Prosperity, Housing, Sustainability, Health and Well Being and Community Safety.

4.2 A WMCA and the devolution deal that goes with it could assist in furthering that vision by enabling the local economy to grow even stronger (Prosperity), aiding further affordable housing investment (Housing) and securing infrastructure funding (Prosperity, Housing, Sustainability, Health and Well Being). A package could also be supportive of the Local Plan and the accompanying Infrastructure Development Plan.

4.3 In relation to the Council's Fit for the Future Programme (FFF), the WMCA and devolution package could assist 2 of the 3 strands:

Services – by improving or maintaining a range of the Council's services especially around economic development and housing – two of its policy priority area;

Money – by attracting additional financial resources to help address the forecast budget deficit and helping to bring in investment in necessary infrastructure. Not joining could lead to a negative impact on the Council's finances.

The impact on the **People** strand is at this stage anticipated to be neutral but could change.

- 4.4 As there is no devolution proposal for a Coventry and Warwickshire Combined Authority it is impossible to make a judgement on what impact one may have on the Council policy wise, positively or negatively. Likewise, with a Warwickshire wide proposals for public service reform.

5. **BUDGETARY FRAMEWORK**

- 5.1 Although still subject to discussion and negotiation, joining the WMCA as a NCM might cost £10,000 in this current financial year 2015/16 and £25,000 for each subsequent year. This compares against the current cost to the Council of supporting the Coventry and Warwickshire Local Economic Partnership (LEP) and the Joint Committee of £20,000 per annum. It is not anticipated that this cost would diminish. The £20,000 for the LEP was funded as a one off item from the 2015/16 Contingency Budget. The Executive also agreed £50,000 from the 2015/16 Contingency for work to assist in the consideration of the Combined Authority options. Future annual contributions estimated at £25,000 are recommended to be incorporated into the Council's Medium Term Financial Strategy; this will increase the savings that the Council needs to make from 2016/17.
- 5.2 Under the Business Rates Retention Scheme that has been in operation since April 2013, 50% of all rates collected is due to be paid to the Government by way of the Central Share. As part of the WMCA Devolution proposal, there is the request that 100% growth in the Central share of Business Rates is retained by the Combined Authority. The use of this funding it is envisaged would be determined by the Combined Authority Board.
- 5.3 The remaining Local Share is retained or distributed to local authorities by way of Baseline Funding and tariffs and top-ups. Along with other District Councils, Warwick District is a "tariff" authority. The tariffs are used to contribute towards other authorities that are classed as "top up" authorities. The top up authorities are largely Unitary and County Councils.
- 5.4 The financial benefit of business rates pooling is derived from tariff and top-up authorities forming a pool and so reduce or eliminate the levy payable to the Government on the growth in the Local Share of business rates. For tariff authorities the levy rate is 50%, whereas for top-up no levy is applicable. The ideal pool would have a mix of authorities such that the Levy comes down to zero. Pooling does not impact upon the core growth in business rates for which the District retains 20% of the total. Pooling does reduce the amount of the Local Share paid to Central Government (50% of the total growth is classed as Local Share, of which 50% is paid to Central Government as Levy, representing 25% of the total growth in business rates).

- 5.5 Warwick District Council is currently part of the Coventry and Warwickshire Business Rates Pool. This comprises Coventry City Council, Warwickshire County Council and the five Warwickshire Districts. With a mix of top up and tariff authorities, the overall levy for the pool is 16% which enabled to pool to retain an additional £510,000 in 2014/15 that would otherwise have been subject to Government levy. The Council's share of this amounted to £45,000.
- 5.6 The current Greater Birmingham and Solihull Business Rates Pool is an overall top-up pool and therefore does not have to pay over any levy to the Government.
- 5.7 If the authorities in these two pools came together, it would remain a tariff pool. Authorities in the Black Country LEP (Dudley, Sandwell, Walsall and Wolverhampton) are all top-up authorities so there was no financial benefit in them forming a pool. However, if they were to join a wider pool, for example one comprising the current Greater Birmingham & Solihull and Coventry & Warwickshire pools, this would become an overall top-up pool. This would allow more resources to be retained by the pool as no levy would need to be paid over to the Government from the Local Share at all. This would bring a financial benefit even if the request to fully retain the Central Share was not agreed through the current negotiations.
- 5.8 Modelling has been carried out to consider different allocation methods using the 2015/16 Estimates (from the NNDR1). These show that overall a new pool would retain around an additional £2.5m per annum, compared to the no pooling position.
- 5.9 The Coventry and Warwickshire Pool and the Greater Birmingham and Solihull pools allocate additional resources differently. If the pooling arrangements are to change, and potentially more authorities join a new greater pool (for example the black country authorities that are not currently within a pool), it is intended that no authority will be any worse off under the new pool compared to the previous pooling arrangements.
- 5.10 The following principles have been agreed for the modelling of different pooling scenarios for the allocation of business rates retained by the pool:-
- That the pool only relates to the retained levy from the local share (growth on the central share, if agreed to by Government, would be retained by the Combined Authority).
 - That no authority in the current pools would be financially worse off by the designation of a new Pool.
 - To give the Black Country authorities financial benefit broadly commensurate with the benefit that they are bringing to the overall Pool.
 - The lead authority fee has been kept as the sum of the current fees for the GBS and Coventry and Warwickshire Pools, but will need further discussion.
 - Recognising the risk of being part of the pool, the extent of the pool's safety net provision would be kept under review.
- 5.11 The modelling carried out to date, using different allocation methods, and with assumed growth (from the 2015/16 NNDR1 estimates), suggests that Warwick District Council may benefit from an additional £119k-£171k. These figures need

to be treated with caution as recent history has shown that within the business rates system there are many drivers that may increase or decrease the net yield.

Timeline and Government Selection Process

5.12 Based on previous years, in order for a Pool to be designated by the Government for 2016/17, a proposal needs to be submitted by the 31st October 2015 at the latest. This proposal needs to include:

- § Membership of the Pool
- § Benefits to Pool members by pooling business rates
- § Identity of the Lead authority, through whom payments due to and from the Government can be made.
- § Governance Arrangements around the management of the Pool, distribution of Pool income and arrangements for meeting any liabilities. These need to be signed off by each authorities Section 151 officer.

5.13 No authority can be a member of more than one pool. Therefore, any authorities leaving an existing pool to join the Combined Authority pool will have to have their previous pool revoked or the remaining authorities would need to make an application for a new pool by the 31st October deadline. In approving the designation of a Pool, the Government will consider the following:

- the likely benefits of the proposals for local authorities and the Government
- the proposed governance arrangements
- the affordability of the proposals in terms of the rate retention scheme as a whole.

5.14 The Government will announce the designation of Pools in the Local Government Finance Settlement in December 2015.

5.15 In order for a proposal to be submitted the following will need to be undertaken in a very short timescale, if the Pool is to be established for 2016/17:

- Formulation of financial arrangements.
- Due consideration will need to be given to the governance arrangements of each of the existing Pools in relation to notice periods for dissolving existing pools.
- Authorities to determine whether or not they wish to be a member of the Pool.
- Production of governance arrangements and sign off by the Chief Executive and Section 151 officer of each authority.
- Each authority to produce a report to Cabinet/Council (or obtain delegated authority) to gain formal approval to be a member of the Pool.

However, it is more likely that any new pool would not come into operation until 2017/18 financial year. In any case should the Council decide to join the WMCA then it will also need to consider joining the rates pool for the WMCA area. If it does so then the detail of such an agreement should be delegated to the Chief Executive and Head of Finance in consultation with the Leader and Finance portfolio holder.

- 5.16 Under the Memorandum of Understanding for the Coventry and Warwickshire Pool, when a Pool member leaves or the Pool is dissolved each authority will refund the Pool or receive from the Pool the balance in their Memorandum Local Volatility Fund/Safety Net. Based on current projections to 31 March 2016, Warwick District Council would be due to pay £93,000. Consideration would need to be given to how any safety net repayment would be financed.
- 5.17 Should the Council decide not to join the WMCA but others in the existing rate pool do, such as Nuneaton and Coventry, it would inevitably break up meaning that this Council could lose £45,000 per annum (based on 2014/15 outturn) benefit from pooling as well as incurring a one off cost estimated at £93,000. Whereas joining the WMCA could cost £25,000 per annum but being part of the wider WMCA rate pool could mean that it has the potential to gain a further £119,000 to £171,000 per annum on top of the current benefit of £45,000.
- 5.18 If some members of the current pool join the WMCA, but some Warwickshire ones do not, it could still be possible to form a new pool with Warwickshire County Council which could provide some financial benefit. However, this would depend on how many authorities remain within the current pool and if this Council were the only one not joining the proposed WMCA or were one of a minority, then this is an implausible scenario.
- 5.19 With the information available to officers at the time of writing the report, not joining the WMCA is likely to lose the Council £45,000 per annum it currently receives, and incur a one off cost of £93,000. Joining the WMCA is likely to protect the current £45,000 received and give rise to the opportunity of a further £119,000 to £171,000 per annum but minus the cost of £25,000 per annum of joining giving a net gain of £94,000 to £146,000 per annum. The range of financial impacts is therefore almost £200,000 (i.e. -£45,000 or +£146,000) depending on the Council's decision about WMCA membership. Both scenarios assume that the Coventry and Warwickshire LEP continues and that this Council continues to contribute £20,000 per annum.
- 5.20 This financial impact of the pooling arrangements need to be considered in the context of the Council's need to find savings or additional income of over £1 million. Any potential growth from the pooling should need to be treated with caution and should not be factored into the Council's Medium Term Financial Strategy until it can be forecast with a higher level of certainty.
- 5.21 None of the above financial analysis takes account of the potential wider benefit that the Council, or the communities it serves, might accrue from the Devolution of Central Government funding that is currently being negotiated by the proposed WMCA.
- 5.22 None of the £50,000 allocated to be used to help undertake research has been used to date and it seems it is now unlikely to be used so can be returned to

the contingency budget for this year. But if the Council does decide to join the proposed WMCA as a NCM then there may be a cost of £10,000 for 2015/16 which could be funded from the current allocation of £50,000.

6. RISKS

6.1 There are inevitably risks associated with either joining the proposed WMCA as a NCM or staying out of the proposed WMCA structures. In making the decision on recommendation 2.1 members will need to consider the differing risks associated with each option.

6.2 Joining the WMCA

6.2.1 There are potentially some financial risks associated with this option if either the cost of the annual contribution we will be required to make is higher than the anticipated initial £10,000 and subsequent £25,000 per annum (see paragraph 5.1) or the benefits of joining a West Midlands Business Rates Pool are less than the anticipated £119, 000 -171,000 per annum arrangements (see paragraph 5.11). However, by becoming a NCM the Council would be involved in, and able to influence, any future debate on contribution levels.

6.2.2 In respect of the Business Rates pooling arrangements the current estimates of the level of potential additional income that this Council receives are as robust as possible at this stage but will be subject to further discussion by the relevant s151 officers. As with any rate pooling arrangement the actual level of benefit accruing to any individual authority could go up or down depending on a range of factors impacting on the economic performance of the pool area. As the WMCA is aimed at promoting improved economic performance the risk can be minimised and current information is that joining a wider WM Rates Pool is a much better financial option than any other pooling arrangement available to the Council.

6.2.3 The negotiations on the devolution deal are still on-going so there remains a risk that the outcome might not be as advantageous to the proposed WMCA as hoped. However, if the negotiated deal was so significantly different that it offered no benefits to this Council any decision to join as a NCM at this stage would not be irreversible and the Council would be able to extricate itself from the proposed WMCA provided that it decided to leave before the Order is laid before Parliament. Therefore, a decision to join presents minimal risk at this stage.

6.2.4 Another risk might be that we joined but found that we were unable to exert the influence we anticipate on, for example, governance issues, spending priorities, future direction of the WMCA. The risk can be mitigated by ensuring that any decision to join was allied to a commitment to ensure that an appropriate level of officer and member engagement was devoted to ensuring that influence was wielded and the risk minimised.

6.2.5 The same mitigation, of ensuring that we became an active and committed NCM would also minimise any risk of the proposed governance arrangements proving to be too unwieldy and incapable of making effective decisions.

6.2.6 There is a further risk that if the WMCA is established that the 3 LEPs that its constituent members are currently members of are merged and we consequently lost influence and potentially saw less infrastructure or project funding being delivered in, or to the benefit of, the district. In reality this risk

will exist whether or not we became a NCM but there is more chance of influencing any debate as to whether or not it might happen and/or exerting influence within any revised LEP structures if we are member than if we aren't.

6.3 Not joining the WMCA

- 6.3.1 There is an immediate financial risk if the current Coventry & Warwickshire Business Rates pool were to break up and a requirement for this Council to consequently make a one-off payment of £93,000 (see paragraph 5.16)
- 6.3.2 However, there is a further risk that if we don't join a wider West Midlands Business Rates pool we could not only fail to realise the potential additional income of between c£119,000 to £171,000 per annum but also actually lose current income of c£45,000 per annum, a net detrimental impact of £164,000-£216,000 per annum.
- 6.3.3 The loss of the current £45,000 per annum income could be mitigated by seeking another partner(s) to pool with, for example just Warwickshire County Council, but current estimates are that this would be less advantageous to this Council than the current pooling arrangements.
- 6.3.4 There is a significant risk that if some Warwickshire districts become NCMs but this Council does not that the existing arrangements in respect of the Coventry & Warwickshire LEP (CWLEP) would need to change. At worst the CWLEP could break up threatening the level of investment in, or to the benefit of, the district as Government funding is directed elsewhere. However, in any event the current arrangement of this Council being one of the two representing the district/borough councils on the CWLEP Board is unlikely to remain sustainable, particularly if the CWLEP itself becomes a NCM. This would significantly decrease the level of influence that we are able to exert on all issues affecting the CWLEP.
- 6.3.5 Whatever happens to the CWLEP there is a risk that funding is withdrawn from areas without a CA and redistributed to those areas where a CA has been established. The current 'direction of travel' of the Government, (set out in the Developing Policy Context sub-section within section 3 of the report) could be seen to indicate that this is a real prospect. The risk could only effectively be mitigated by becoming a NCM and exerting influence within the proposed WMCA to ensure appropriate levels of funding continue to be directed to the district.
- 6.3.6 The current focus on CAs from the Government also raises the risk that UK inward investment and/or foreign direct investment is directed to those areas with strong and effective CAs by, for example, United Kingdom Trade and Investment (UKTI) and/or the Department of Business, Innovation and Skills (BIS). There is a linked risk that even if there is no policy driver to this effect that businesses themselves decide that there is commercial advantage to locating to a CA area, for example, depending on the benefits that could accrue through a more effective focus of cross-boundary investment and economic development initiatives, potentially backed up by freedoms negotiated through a devolution deal.
- 6.3.7 These risks could directly impact on retained business rate income (regardless of any future pooling arrangements that we were able to negotiate if we weren't to join a wider WM pool) and consequently the Medium Term Financial Strategy, requiring additional revenue savings to be achieved.

7. **ALTERNATIVE OPTION(S) CONSIDERED**

7.1 Alternative options considered have been explored throughout this report.

8. **BACKGROUND**

- 8.1 Combined Authorities can be set up by one or more local authorities who wish to so come together to promote economic growth on a sub-regional basis for their area so that they can address issues including transport, skills and economic regeneration. A Combined Authority must reflect the area's economic geography and provide a collective voice and enable collective decision making by the local authorities that make up the combined authority. Combined Authorities have increasingly become the body of choice for the devolution of powers and funding from Government during the last Parliament and now this one. The creation of a Combined Authority must follow a number of steps and these are explained in Appendix 6.
- 8.2 Combined Authorities are not intended to replace existing local authorities, nor do they involve the creation of Unitary Councils. Member councils continue to deliver local services and retain civic responsibility for their areas. Nor are Combined Authorities a replacement for Local Enterprise Partnerships which are made up of local businesses and local authority representatives and which would continue to operate alongside Combined Authorities. Greater Manchester, regarded as the most advanced Combined Authority, is to be given powers over health and social care – although this is being linked to the creation of a metro mayor for the area. A Frequently asked Questions prepared by CLG officials may be of help to members. This is attached at Appendix 7.
- 8.3 Initially seen as predominantly a vehicle for metropolitan areas for the city deals negotiated with the last Government, the last year has seen many areas looking to create a combined authority for a variety of city, county, district council or a mixture of these in areas across England.
- 8.4 Warwick District Council, the other Warwickshire Districts, Warwickshire County Council, Hinckley and Bosworth Borough Council and Coventry City Council are members of the Joint Committee for Coventry, Warwickshire and South West Leicestershire. This was formed early in 2014 as the first stage in the commitment that all of the local authorities in the sub region gave as part of the sign up to the Coventry and Warwickshire City Deal in 2013.
- 8.5 The City Deal area, along with Coventry and Warwickshire Local Enterprise Partnership, reflects the economic geography and functional market area of our sub-region. Slides showing the economic linkages are attached at Appendix 7 for the sake of completeness. That economic analysis shows Warwick District has particularly close economic links with Coventry, Stratford and Rugby. However, the combined commuting flows to and from Birmingham, Solihull and the Black Country with Warwick District are almost as big as that to and from Stratford District. Analysis of the Housing Market also confirms the same linkages.
- 8.6 Members will need to recognise though that other parts of Warwickshire do have stronger economic linkages with Birmingham/Solihull, for example North Warwickshire. Housing data also shows that Stratford and North Warwickshire overlap into the Greater Birmingham Housing Market Area. This economic geography may have a bearing upon the decision of those Councils to join the proposed WMCA.

- 8.7 The issues and relative merits of a Combined Authority were previously considered by the Executive at its meeting on 11 March 2015. To respond to discussions that were taking place at that time locally, it was agreed that feedback would be sought from the Council's political groups to enable the Leader and Chief Executive to discuss with other local authorities options for potential membership of a combined authority.
- 8.10 Following feedback from the Council's political groups a statement on combined authorities was drawn up which is set out at Appendix 1. The statement set out the objectives that Warwick District Council would want to achieve by working together with other local authorities through a combined authority; and preferred governance arrangements, with a first preference for a combined authority based on the city deal area to include all the councils of Coventry, Warwickshire and Hinckley and Bosworth. This was then endorsed by Full Council on 24th June 2015.
- 8.11 The background to emergence of a possible WMCA is that in November 2014 Birmingham City Council and the four metropolitan district local authorities that make up the Black Country announced that they intended to create a combined authority for their area and invited other neighbouring authorities to consider joining them in a combined authority for the West Midlands. This precipitated discussions in the Coventry and Warwickshire sub-region which have taken place during the last ten months.
- 8.12 Coventry City Council is currently a member of the West Midlands Joint Committee which has responsibilities for the oversight of the Police and Fire services for the West Midlands and is also a member of the West Midlands Independent Transport Authority (WMITA) which is responsible for the provision of public transport. This means for Coventry there is not a status quo option.
- 8.13 As the West Midlands is the only metropolitan area in England without a combined authority it is viewed as being behind other areas of the country. It is also perceived that the Midlands is at risk at missing out on the Government's devolution agenda – particularly as the Northern Powerhouse concept is developed and supported by Government including specific provision in the last budget and the creation of a minister responsible for the Northern Powerhouse in the new Government. In their recent visit to Birmingham on 1st June 2015, the Chancellor, along with Greg Clark, the Secretary of State for Communities and Local Government, and Lord Heseltine made it clear that there was an opportunity for the West Midlands to respond to the Government's devolution agenda but this required a speedy and ambitious response from local councils. They urged engagement with the wider adjoining area including district councils.
- 8.14 The area proposed would be the biggest combined authority area in the country with a population of 4 million and would run from northern Worcestershire (Redditch and Bromsgrove) in the south to southern Staffordshire (including Tamworth, Burton on Trent) in the north. This would be a new West Midlands larger than the metropolitan area itself and considerably bigger than Greater Manchester. The Local Authorities that could be involved and their current political control are listed at Appendix 9.