The Real Deal

Pushing the parameters of devolution deals.

A collaboration between the Centre for Local Economic Strategies (CLES) and the Sheffield Political Economy Research Institute.

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Introduction

Devolution is a great opportunity. After years of oppressive centralisation, the devolution deals offers many local authorities and combined authorities a chance to break free and forge their own distinctive economic and social destiny. However, while the authors of this paper remain strong advocates for devolution, we are disappointed by the present agenda. The devolution on offer is too constrained by the Treasury's economic and social model, and cowed by the ongoing austerity agenda. Devolution should be about enabling local authorities to forge a progressive social, economic, democratic and environmental future. At the moment, it is not. And it should and can be.

It is impossible of course to ignore the impact that Brexit will have on devolution. Almost certainly, many local areas will lose a significant chunk of European structural and investment funds in the years ahead, with no guarantees that the development finance gap will be filled by Whitehall. This underlines the need for progress towards devolution to go hand-in-hand with a move away from austerity.

But we must also consider why so many people in poorer UK regions, including vast parts of Northern England, which benefit disproportionately from European Union (EU) investment, voted to leave. There is little doubt that the Brexit vote was prompted in part by a sense that people felt abandoned by central government. The message from the voters is not simply that the UK parliament must reclaim power from Brussels, but also that we must strive to create a more inclusive state within our country, which genuinely enables people to exercise control within their own communities.

We believe there are many pressing problems which devolution could offer an answer to, but is failing to do so. In economic terms, our country remains skewed toward the financial services and retail sectors. Devolution should be offering a context in which a new industrial future, involving manufacturing, ICT and creative industries, can be built. In social terms, it is clear that poverty and inequality stalk many of our towns and cities; devolution should offer a way of redrawing the role of the local state, transforming public services and provide new forms of social inclusions and mobility. In environmental terms, we must make the transition to a greener, less carbon-focused economy, and capitalise on the green jobs opportunity. Devolution as its stands is cognisant of these aspects, but is under-powered and under an austerity cosh.

What we have had so far is a limited deal-making process of narrow negotiations with Whitehall, which seems to be stacked in favour of the status quo, and limited in terms of what it deems important. As such, the ability of local authorities to think and act progressively has been squeezed. What we need instead is a new devolution settlement between central and local government that empowers local areas to forge their own answers to the challenges they face. We need a real deal.

In this work, we seek to recalibrate the devolution deal context and provide some alternatives. Whilst we do not advance direct opposition to the present agenda, we do advocate, quite frankly, more belligerence. We believe local authorities must be bolder and break free from the oppressive centralism and a type of devolution deal in which Whitehall holds all the aces. A new settlement must be based on partnership working that is transparent and underwritten by mutual trust between central and local government. Indeed, it is only through this type of process that citizens will trust the process. As a new government takes office this is a valuable opportunity and critical juncture to reset the devolution agenda in the UK and create a new settlement. As such, in this paper we consider eleven areas of policy that should form part of this settlement, and suggest ideas designed to provoke dialogue between central government, local government and citizens on the path that devolution deals should take.

These ideas go with the grain of existing devolution deals, but they also seek to broaden out their scope and significantly push the parameters toward a more progressive and ambitious devolution agenda. We do not claim to be offering a comprehensive manifesto for how to do devolution in the UK, and some of these ideas will have greater relevance in some localities than others. A great deal more innovative thinking will be required than we have been able to muster here if devolution is to be turned into a genuinely progressive agenda – but we can only start from where we are now. As such, we offer them in the hope of providing food for thought for those responsible from taking devolution from rhetoric to reality, and to provide a progressive glimpse, into what we should aim for.

We maintain that devolution away from the centre within the UK cannot possibly succeed without reform at the centre. As such, the first section of this paper outlines the 'central bedrock' we believe is required to make devolution more progressive. The remainder of the paper outlines our eleven sets of ideas, encompassing recommendations for employment policy, transport, energy and environmental policy, housing and land use, health, procurement, local banking, higher education, lottery funding and the democratic process.

The central bedrock of decentralisation

Our starting point for this paper is that the UK's cities and regions need more power and, in a sense, more freedom from central government. Much of what we advocate concerns the greater provision of resources at the local level, to ensure that local authorities are fully equipped to achieve public goods and pursue economic development in their areas. As noted in the introduction, the likely impact of Brexit on funds for local economic development makes this agenda more important than ever.

However, devolution away from the centre within the UK cannot possibly succeed without reform at the centre. A progressive approach to devolution recognises that our agenda for reform must encompass the country's governance structures and processes at all levels, rather than focusing solely on what local government needs to do, or how local government needs to change. The recent referendum result has to be seen as more than a desire for the UK to withdraw from the EU: it is a wake-up call for us to urgently reconsider the structure of governance at all levels.

At the heart of the government's current agenda around city-deals, the Northern Powerhouse and devolution is a major flaw. Whilst great attention has been placed on decentralising policy powers away from the national government, there has been relatively little on how the centre will reform and relate in new progressive ways to the peripheral cities and regions.

A number of things could be done by central government quickly and with little fuss which would enhance the state's ability to support localities more effectively. For instance, Whitehall departments must embark on an ambitious programme of relocating their core functions away from London. The recent decision of the Department for Business, Innovation and Skills to close its offices in Sheffield and relocate the jobs to London shows that progress in this area has stalled, and arguably gone into reverse. It is vital that the UK's national policy-making functions are embedded in the lived experience of cities and regions other than London.

Furthermore, in conjunction with the phased devolution of powers over public services such as health, transport, and employment support, Whitehall departments should collectively move towards the introduction of place-based budgets for key public services, building upon the experience of community budgets, so that local authorities (or combinations of local authorities) can decide on public service priorities for their areas. Such an approach would provide a fillip to public services investment, by rewarding efficiencies in public services delivery (as under-spend on some services could be re-invested elsewhere).

More generally, we need to recognise that local prosperity does not rest on local action alone. If the government's vision for the Northern Powerhouse is to be fully realised, it will require a national strategy to support the North, including the employment of economic policy powers currently located at the centre. Therefore, the question 'what should not be devolved?' is an important one for considering how to develop a progressive approach to devolution. This would reframe the issue of devolution as part of a broader set of concerns about reorienting the British political economy as a whole. Local economies will not thrive either in isolation, or in competition with each other, but rather in interaction with each other, and the role of central government in determining fair and mutually beneficial terms for this interaction will remain crucial.

What is ultimately required is a new constitutional settlement within the UK. Brexit might just have provided us with an opportunity in this regard. Ideally, such a settlement would establish the partial sovereignty of local government over their jurisdictions, from the land they inhabit to the conduct of private firms affecting their economies, thereby establishing a framework within which centre and localities can regularise their negotiations over resource allocation. If local areas are going to be expected to develop their economies over the long term, the structures and resources of local government cannot remain at the mercy of the central government of the day, even if the government in question were to have the best of intentions.

Of course, you could not impose a new constitutional order on the country; it should be decided, democratically and deliberatively, in a constitutional convention. But the format of the convention must properly reflect the perspective of citizens and public representatives from all parts of the UK, with a bottom-up agenda that asks 'where should power reside?' rather than the more limited 'which functions should be devolved?' This would not need to stall devolution to date, but rather run as a parallel process.

Furthermore, the convention would also provide an opportunity to consider how localities can be better represented within the national parliament and the machinery of central government. The reorganisation of the House of Lords along regional lines should be actively considered, alongside regional representation within Whitehall's departmental corporate governance structures, and bodies such as the Office for Budget Responsibility's Budget Responsibility Committee and the Bank of England's Monetary Policy Committee and Financial Policy Committee.

The government's current approach to devolution carries two enormous and unacceptable risks. The first is that it exacerbates rather than alleviates regional inequalities within the UK. Advocates of the new urban economics which underpins the Northern Powerhouse agenda argue that successive governments have effectively held back Northern cities and regions precisely because they have sought to manage Britain's geographical inequalities; by having to support depressed regions, more resilient regions have suffered. We reject this reasoning: regional inequalities in the UK are ultimately due to the subservient role of cities and regions outside London and the South East within the finance-led growth model long upheld by UK elites. It is not the existence, but rather the limp approach to regional policy that has propagated subservience and perpetuated inequality.

The second and arguably more significant risk is that any success will be severely fettered without an effective partnership with central government and other layers of political authority. London is often seen as an exemplary case of market-led 'agglomeration' forces, yet its success is underpinned profoundly by the unquantifiable commitment of the UK state to supporting the London-centred finance sector (as evidenced by 'the banking bailout' in 2008), the heavy bias towards London in public infrastructure investment, and of course the location of virtually all key central government functions within London. Moreover, the success of many smaller cities in the South of England is owed in large part to their proximity to the capital.

This reality exposes the limitations – and indeed duplicity – of the government's attempt to liberate cities and regions located further north of the capital. The initial moves towards fiscal decentralisation in the form of the localisation of business rates illustrate this point well. As central grants to local authorities are diminished, and eventually withdrawn altogether, local areas will become more dependent on raising revenue from private enterprises located within their jurisdiction for resources to invest in economic development and localised public services. Yet not only are cities and regions away from London starting from a much lower base, they are also missing out on the kind of support from central government for private sector development that London seems to enjoy as a matter of course.

This issue goes far beyond what centre/local relations in the UK should look like, to questions of how to reform the variant of capitalism and economic development that prevails in this country. The UK urgently needs to rediscover an activist industrial policy and tools that are capable of supporting productive industries. Local authorities at all levels should become pivotal cogs in the new industrial policy, with the freedom and resources to pursue their own objectives. However this paradigm shift can only be led from the centre, where the key macroeconomic policy powers will remain for the foreseeable future.

The prospect of fiscal decentralisation presents progressives with an unavoidable set of dilemmas in relation to devolution. It is apparent that most countries within Western Europe, with more balanced economies and lower levels of geographical inequality, encompass stronger tax-raising powers at the local or regional level. This is undoubtedly where we should seek to end up. Of course, the notion that we are heading in this progressive direction is a fanciful one. Business rates are being devolved, but local authorities will have very limited power to actually raise rates; at the same time, the government is offering local authorities the opportunity to raise the egregiously regressive council tax, in order to compensate for cuts in social care budgets, and has refused to grant local authorities the borrowing powers that would enable them to invest in infrastructure upgrades.

The UK needs to restore and strengthen redistributive local government financing arrangements, not simply to avoid exacerbating geographical inequalities, but also to reflect the contributions that all localities already make to the national growth model. Genuine fiscal decentralisation must follow, but should be phased in slowly as more spending powers are devolved and the centre is itself is decentralised, and the UK's peripheral cities and regions become better able to develop their economies.

Eleven ideas for progressive devolution

1. Local control over employment policy and support

The design and delivery of employment support provision is best determined at a local level, because local government is best placed to understand both supply and demand factors within local labour markets. There are two key reforms which would go some way to addressing the deficiencies of the current system.

Firstly, the national Work Programme should be abolished with local authorities afforded the flexibility to develop localised and bespoke employment programmes. Strategic direction from the Department for Work and Pensions, the role of which should be redefined, should guide the schemes, but control over the management and resource to deliver it should be local. Local schemes would be regulated by national standards, but these standards would be configured towards the outcomes that genuinely benefit local economies (that is, job entry, retention and progression, and the creation of social value) rather than those which suit Whitehall pathologies (that is, caseload reduction).

All providers must seek to build relationships with the local business community, and look to access additional funds around employment and skills (a more challenging task now that European funds will not be available). It is also vital that individualised support can be provided, and that voluntary and community sector organisations are engaged in this provision. Local actors should also have the ability to decide if an individual is best suited to alternative provision rather than being placed on an employment programme.

Secondly, local employability and skills charters should be developed. These would provide a framework within which local stakeholders could coordinate their activities and maximise the benefits they bring to an area based on the local context. The strategy is framed around key values which in turn influence the aims. Activities to meet these aims would include formal skills agreements and career pathway programmes that businesses sign up to – and provision of and investment into training across communities – to ensure that the future labour pool needed to develop the success of the local economy is in place. In particular, businesses will be encouraged to promote employability by engaging with schools, providing meaningful work experience opportunities and offering learning opportunities to their workforce. Clearly, maximising the effectiveness of these charters will require aspects of skills and education policy to be devolved from the Department for Education and Department for Business, Innovation and Skills to local authorities.

The current, highly centralised approach lacks the flexibility to respond to local needs, operates on a model which rewards providers regardless of the quality of jobs created, and is ineffectual in ensuring that people across the whole skills spectrum receive the support they need to both access employment and progress within work.

2. New powers to develop local solutions to the housing crisis

The chronic shortage of affordable housing in Britain is one of the biggest failures of public policy, and has been for decades. To meet current demographic needs alone at least 240,000 homes per year need to be built – in 2015 only around 150,000 new home starts were registered. All too often responses designed to tackle the 'housing crisis' take a one-size-fits-all approach, and the national conversation around housing is increasingly being skewed by a focus on London's overheating housing market and the capital's specific problems.

In practice, multiple housing markets – and therefore multiple housing market failures – can exist in the same town or city. The best solutions to addressing housing shortages are those designed locally by people who know the needs of local communities, understand changing demographic pressures and can plan new developments to address them appropriately and sustainably. To make this happen, planning, delivery and funding powers to address housing shortages should be devolved to councils from the Department of Communities and Local Government and the national Homes and Communities Agency.

Over recent decades the ability of councils to increase and maintain the supply of new affordable homes by directly funding new house building, and preventing affordable housing being sold off, has been severely curtailed. This process should be put into reverse, starting with reform in two key areas of housing policy.

Firstly, reform of the 'Right to Buy' local authority housing stock is long overdue. The programme, rolled out in the early 1980s, was one of the critical drivers in creating housing shortages we experience today. Around 40% of ex-council homes sold through Right to Buy are rented out more expensively by private landlords. Right to Buy could be reformed by giving councils the freedom to determine how they want the scheme to operate locally, if at all. This could involve increasing the qualifying period for tenants, tightening eligibility and altering the level of discounts provided, or halting the policy entirely. Powers over Right to Buy have already been devolved to Wales, Scotland and Northern Ireland, and in Scotland the decision has been taken to end the Right to Buy for all council and housing association tenants on 1 August 2016.

The Right to Buy funding model must also be reconsidered. Ensuring that all property sale receipts go straight to councils and housing associations, rather than to central government, would allow them to build one-for-one replacements for sold properties. Since the coalition government relaunched the policy in 2012, just one replacement home has been started for every nine homes sold.

As well as preventing affordable homes being sold, councils should, secondly, be enabled to build new homes. Currently there is a borrowing cap on councils' Housing Revenue Account; lifting the cap would allow councils to borrow to build new social housing to address housing shortages in the short term, which would also provide them with new assets and a long term future revenue stream. Long term borrowing for new housing pays for itself through rents, and should be considered as an investment in the people and future of localities, yet the retention of the borrowing cap is often justified because the additional debt incurred would be added to the overall national government debt. No other European Union country counts public borrowing for housing towards national debt and so in line with accepted international measures of debt public borrowing for housing should be removed from the UK's national debt calculations. The Office of National Statistics should be tasked with rethinking the categorisation of public bodies and their finances so that clear and sensible distinctions can be made between national government borrowing and council borrowing, and between short and long term borrowing.

Another idea which could help councils to alleviate housing problems in their area is the establishment of new acquisition and compensation powers to enable them to gain ownership over private properties within priority areas when current owners sell the property, or pass it on as a gift or through inheritance bequests. Alternatively, councils could have powers to impose conditions upon future use of the property in such circumstances (for instance, insisting on owner-occupancy by key workers or young families, or on storey extensions to increase housing density in certain areas). Of course, such changes would involve quite radical reforms to property rights, which would have to be driven from the centre – this is discussed further in the next section.

3. Devolving powers over land and property

One of the most important – but often under-appreciated – factors shaping local economic development is the control of land. The UK's approach to land management and property rights prevents local areas fully utilising their resources to enable economic development. Currently, local authorities are in the curious position of having extensive veto powers over planning, used principally in relation to housing, but few powers to proactively shape how land is used within their jurisdiction (even where land is publicly owned), or benefit from economic rents related to land ownership.

Most immediately, local authorities could be given new powers over all publicly owned land in their jurisdiction, including the authority to instruct different parts of the public sector (for example, Network Rail, the NHS and the Ministry of Defence) to release land for economic development. Too often the potential for greater use of the public estate is overlooked. The Land Commissions established in London and Greater Manchester are a useful first step in this process. The commissions aim to oversee the efficient utilisation of the public sector estate, in part by creating a comprehensive database of all public sector land. However, they appear too focused at present on housing issues alone and, indeed, on enabling the privatisation of land for housing development.

We also need to consider whether local authorities have sufficient powers to determine how private land is used, particularly in economically significant areas such as city centres, key transport routes and (potential) industrial clusters. At present, powers over compulsory purchase ultimately reside at the national level. This invariably means that developments deemed to be of national significance are favoured, which biases planning towards private firms with a national footprint (even if their presence in local economies adds little economic value to the area, for instance by being poorly connected to local supply chains).

Clearly, this issue goes beyond considerations of local authorities' powers; it raises questions about how public authorities in general in the UK regulate private property rights. A national constitutional convention focused on establishing the balance of powers between central and local government should have land law reform at the heart of its agenda.

Local authorities' control over land is of course intimately connected to issues around housing. The UK's dysfunctional housing market creates incentives for landowners to hoard land for future housing use when market conditions are favourable – neither building the type of housing required now, nor considering more economically beneficial uses for the land.

Land value taxes – taxing land rather than or as well as the buildings that sit upon it – should therefore be considered to incentivise development. Revenues could accrue to either central or local government, or some combination; its primary purpose in terms of enabling a progressive approach to devolution would be changing behaviour rather than raising revenue. A more modest proposal in this vein would see councils allowed to levy council tax on unbuilt properties, where planning permission has been granted for a particular piece of land, to accelerate development.

Another important way that councils can be empowered to address the cost and use of land is to provide them with new ‘zoning’ powers. In Holland, once land is zoned for housing, if the current landowner cannot provide new homes, local authorities are empowered to buy the land and either deliver the homes themselves, or in partnership with developers. This is similar to the ideas discussed in the previous section regarding local authorities being empowered to take a more strategic approach to planning, rather than simply reacting to private proposals. Priority zones could be established within which traditional property rights over land could be partially suspended, to enable local authorities to deflate prices and stipulate economically beneficially uses.

4. Securing excellent health outcomes through adequate funding and better integration

The National Health Service (NHS) is facing a number of challenges resulting from an ageing population, and increased costs due to advancements in medicine and technology. In addition, cuts to social care budgets have had a knock on effect in terms of increasing utilisation of A&E services. Furthermore, it is regularly evidenced and reported that an increasing number of patients are retained in hospital for lack of intermediate care accommodation elsewhere. This so called 'bed blocking' would appear to be an issue which is not going to go away.

These challenges are compounded by increased privatisation and the propensity of market systems to increase fragmentation, thereby restricting the potential for the promotion of more integrated services. The devolution agenda could provide answers to these challenges. Greater Manchester has led the way through its recent city-deal, with Greater Manchester councils taking direct control of, and influence over, the entire budget of which £6 billion is spent on the NHS and social care. Other city-regions are exploring how they integrate and co-ordinate services in new ways, to tackle some of the major health challenges facing their respective regions.

However, whilst the move to integrate health and social care, under the auspices of devolution, are welcome, there are issues which work against the effective integration of services and better health outcomes.

Firstly, there remain significant health funding gaps, which no amount of integration will resolve. For example, in Greater Manchester there is a £2bn funding gap between the available resource and planned expected demand. As such, a fairer devolution deal must be struck, providing more money for devolved health services. No further devolution of health and social care should take place until there is an easing of NHS and local government austerity, a change which would provide a more fertile context in which devolved health and social care is able to effectively integrate, therefore increasing the likelihood of better health outcomes.

Secondly, there is a growing need to tackle health inequalities through recognition of the wider, socio-economic determinants of health. Factors associated with socio-economic status can dramatically impact on health outcomes. Chronic physical and mental ill-health is often driven by poor living and working conditions, and a lack of exposure to opportunities to build positive health outcomes. As such, we need to invest much more in addressing deprivation in order to alleviate preventable health conditions, tackling the causes before the problems start.

Devolution should be a fabulous opportunity to make this connection, by unlocking the potential to flex and bend economic development activity toward the poorest and others who place most demand on health services. As such, real devolution should herald a greater confluence between Local Enterprise Partnerships and other vehicles for business and economic growth, and Health and Well-Being Boards and other structures related to health and social care devolution. This could include a range of occupational health considerations, as well as a greater consideration of how the poorest and those most demanding of health services access employment opportunities. In delivery terms, this would mean an increase in health-focused and wealth-focused bodies jointly commissioning services that seek to make the link between health, socio-economic status and the labour market.

5. Tackling climate change from the bottom up

Whilst nearly 200 governments have finally agreed a global deal to limit carbon emissions the critical importance of tackling climate change at the local level should not be overlooked. The UN estimates that globally over 70% of climate change reduction measures and up to 90% of climate change adaptation measures are undertaken by local government. Yet in the UK climate change policy, energy production, carbon reduction programmes and their funding are determined nationally. Too often the negative impact of policies designed and announced in SW1 are felt locally. For example, national decisions made in 2015 to change the feed-in tariff cost thousands of renewable energy jobs, and the viability of many community energy schemes is now at risk due to tax relief changes.

In the UK, and around the world, there is growing demand and ambition from citizens and local politicians to have more control over energy and climate change policy. After a citizen-led campaign, Hamburg in Germany has voted to return the city's electricity grid into public ownership, and most of Britain's major cities have made an ambitious pledge to run entirely on green energy by 2050. Although major energy infrastructure facilities like new power stations will still be required, and will need to be determined nationally, the Department of Energy and Climate Change should implement a new 'local-first' policy to significantly increase the amount of the UK's energy that is locally generated.

To create a bottom-up, low-carbon energy system all towns and cities should be given the tools to allow them to meet their ambitions, develop innovative and local responses to help the UK meet its climate change commitments, and empower citizens and communities. A key way to achieve this would be to enable energy reduction and production schemes to be jointly designed, commissioned and run locally. This would allow local authorities to invest in local low-carbon industries, create new jobs, boost local supply chains and effectively target support towards those in most help, and there are a number of ways this could be done.

A significant step would be the devolution to local authorities of tax receipts from the environmental taxes (such as the Climate Change Levy and CRC Energy Efficiency Scheme) levied on industry and non-domestic energy users. This would provide a new revenue stream for local authorities to develop bespoke initiatives including: investing in low-carbon energy production such as hydro or wind energy schemes; providing loans and seedbed funding to support and nurture community energy schemes, and establishing or expanding large municipal energy schemes like District Heating Networks or not-for-profit locally owned energy companies.

Robin Hood Energy in Nottingham

In September 2015, Nottingham City Council launched Robin Hood Energy, the UK's first energy supply company run by a local authority on a not-for-profit basis since the nationalisation of the energy market in 1948. The council established the company to take on the Big Six energy providers to provide affordable energy, tackle local fuel poverty and support community renewable energy projects. The company buys gas and electricity from the markets, but plans to also use locally generated energy generated from the city's incinerator, solar panels and waste food plants.

As a licensed national energy supplier, the company's tariffs are available to anyone in the UK, but a special 'Nottingham tariff', only available to residents of the city, offers greater savings. All profits go back into the company which enables them to provide lower tariffs, and average tariffs are now cheaper than when the company launched. The company's aim to tackle local fuel poverty has seen them introduce a competitive pay-as-you-go, pre-payment tariff – their dual fuel pre-payment is the cheapest available in Nottingham. The new Mayor of London has pledged to follow Nottingham's lead and establish a municipal energy company, Energy for Londoners.

Whilst enabling more local energy production is essential, so too is reducing energy usage and improving energy efficiency – they should be considered as two sides of the same coin. At present energy efficiency upgrades for low income households are funded by the big energy firms through the Energy Company Obligation scheme. This funding and all commissioning powers for efficiency improvements could be devolved to local authorities. This would allow local policymakers to support new and existing local companies and social enterprises to undertake this work, and to effectively target support towards people in fuel poverty that need most help. For example, Wessex Home Improvement Loans, a non-profit Community Interest Company which works with local authorities in south-west England, offer loans for essential repairs and renewable energy installations. If councils had control over energy reduction funding they could support the establishment of similar initiatives in their localities.

6. Devolution and integration of all transport governance

Local government outside London has limited transport powers as local rail services and the road network are predominantly controlled from Whitehall, while bus services are deregulated and their licensing and economic regulation is carried out by central government agencies. This has resulted in a lack of integration across transport services, creating a significant splintering of transport provision and difficulties in terms of both national and local co-ordination. Local authorities are therefore unable to plan routes and set fares, undermining a key element of local place stewardship and delivering poor value for money.

In order to address these challenges, a substantial devolution of transport powers is required, alongside the integration of the strategic transport powers and funding currently exercised by other bodies such as Local Enterprise Partnerships. Recent city-deals have included powers to introduce bus franchising, multi-modal 'smart ticketing' systems, a unified multi-year transport investment budget, and new working relationships between Network Rail and Highways England. But despite recent progress, transport devolution across England remains both fragmented and limited, especially in comparison to many other countries in Europe.

Instituting transport powers at the regional level will be the key to progress. The first step would be for the UK's rail network to be renationalised under a regional accountability structure. This should be accompanied by the devolution and integration of transport and infrastructure budgets at the regional level. The German model is instructive in this regard. In Germany, federal states and/or local public transport authorities are empowered to act as executive authorities, responsible for the management and co-ordination of all forms of public transport. This therefore allows states and transport authorities to tailor transport provision to local needs, through targeted management and investment, while maintaining an integrated transport system as a critical objective.

Clearly, the metropolitan level matters too. Local authorities (and combined authorities) should be empowered to take ownership of and manage local transport systems, including rail where appropriate, in accordance with their membership regional structures. City-regions would therefore have the power and resources to determine transport priorities within their area, including fare-setting powers. Local and/or regional authorities should also be given optional powers to develop their own public municipal transport companies, should public ownership be deemed necessary to improving the performance of transport systems.

7. Freedom for and engagement with local anchor institutions

The term 'anchor institutions' is commonly used to refer to organisations which have an important presence in a place, usually through a combination of being large-scale employers, one of the largest purchasers of goods and services in the locality, controlling large areas of land and having relatively fixed assets. Examples include local authorities, NHS trusts, universities, large infrastructure facilities, trade unions, local businesses and housing associations.

Interest in the role of anchor institutions has arisen in recent years due to their potential to generate economic growth and bring social improvements to the local community and environment. Anchors have a large stake in the local area as, due to their activities, they cannot easily relocate. For example, while many corporations may be able to move, an airport or a hospital probably will not.

We believe there is untapped potential for anchor institutions to contribute to the local economy by, for example, ensuring value is retained locally through the procurement practices. In future, anchor institution procurement should look to secure social value outcomes (in line with the Public Services Social Value Act 2013). Suppliers should be encouraged to create local jobs and apprenticeships, provide support to the voluntary and community sector, and develop progressive environmental management strategies.

Anchor institutions in areas that have agreed city-deals should be wholly or partly freed from national purchasing frameworks. This would therefore enable a greater degree of flexibility across the procurement process for public sector anchors in terms of their choice of suppliers and also the values of their commissioning processes. Local authorities should also have the powers necessary to establish strategic partnerships with anchor institutions so that procurement best meets the area's local development needs.

The positive outcomes seen in the Preston case study have occurred in spite of the existing policy landscape; currently, anchor institutions are prevented from providing the maximum local economic benefit due to national purchasing frameworks and restrictive procurement rules. Greater freedoms allied with a local government or other agency that is able to engage and ensure collaboration amongst local anchors will generate the most progressive outcomes.

Public sector engagement with anchor institutions in Preston

CLES have worked with Preston City Council to engage with local anchor institutions, by seeking to tie local anchors into strategies which encourage the development of a local economy in which poverty and inequality is tackled, inclusive growth is fostered, and creative new ideas for retaining wealth and expand economic democracy are pursued.

Engagement with local anchors led to the development of a pledge: 'A long term collaborative commitment to community wealth building in Lancashire for influenceable spend'. This is underpinned by key objectives:

- Reducing the amount of spending by public and anchor institutions 'leaking' out of the Preston and Lancashire economies;
- Seeking to understand the Preston and Lancashire business base in detail, and collectively encourage businesses and social enterprises to bid for opportunities to deliver goods and services;
- Developing the capacity of Preston- and Lancashire-based businesses to bid for local procurement opportunities;

Identifying services where there is potential for cooperative models of delivery. There have been many positive outcomes as a result of this work, including Lancashire County Council redrafting their commissioning and procurement strategies in order to make them more focused upon maximising economic, social and environmental benefits. A recent contract around fresh produce, for example, was broken down to enable businesses to bid only for the lots associated with the produce they could provide, with distribution-focused lots tendered separately. This benefited the Lancashire economy directly by around £2 million. Furthermore, although local anchors such as Lancashire Constabulary, for instance, have limited flexibility in their procurement processes as a result of being tied into national procurement frameworks, they have revisited non-specialist contracts and have recently recruited a Lancashire-based organisation to deliver a printing contract for the next four years, with a value of over £600,000 over that period.

8. Localising the banking sector

The inability of firms, particularly small- and medium-sized enterprises (SMEs), based outside London and the South East to access credit is a longstanding problem, and part of the explanation for geographical imbalances within the UK economy. Even where SMEs based in other regions are able to access credit, they invariably are only able to borrow money on stricter terms to those based in or near the capital – essentially because the risk of insolvency is deemed to be greater.

Of course, SMEs in, for instance, the Northern regions are more likely to fail; we must be careful not to assume that barriers to accessing credit are the result of bias against the North in any simplistic sense. Equally, difficulties in accessing credit, on reasonable terms, is part of the reason that SMEs based outside London and the South East are more likely to fail – there is a self-fulling logic to bank decisions in this regard. We also have to consider that SME failures are concentrated in recessionary periods, and the North and the Midlands tend to be disproportionately affected by recessions even if, as was the case in the 2008-2010 recession, they are triggered by crises in the London-based finance sector.

Localising the UK banking sector is clearly part of the solution to this problem, in the sense that local economies in the UK need lending institutions which are designed to support the local economies they inhabit over the long term. We need banks that are more willing and able to invest in SMEs, especially where engaged in innovative but riskier activities, ahead of the relative safety of the mortgage market. If under-performing local and regional economies are to increase their growth rate and productivity up towards the UK average, they will need a much higher rate of business start-ups, as well as firms that are able to expand.

Central government has in recent years introduced several initiatives to increase access to finance for SMEs, including the British Business Bank, Funding for Lending and the National Loan Guarantee Scheme. All have failed. All provide evidence of the limited ability of Whitehall to understand how to induce sustainable economic development at the local and regional level. The government has also sought to promote smaller 'challenger banks' within the private sector as a counter-weight to the highly concentrated London-based banking sector. Yet there is little sign of any challenger banks having had a transformative impact on local economies. Banking sector localisation cannot succeed without the active involvement of local government, within a reimagined public sector.

The publicly-owned and largely publicly-underwritten network of local Sparkassen banks in Germany offers a model for the UK to follow. The examples of community interest banks that have sprouted up in the UK, some of which have been backed by local authorities, may provide a platform for such a development. The Sparkassen banks are instituted by local and regional political authorities with a mandate to support local economies, particularly SMEs. The banks are largely profitable, but do not seek to maximise profits at all costs.

Of course, in crucial respects, the differences between the UK and Germany are vast. In general, business finance in the UK is centred on equity rather than debt;

although SME owners typically report they would prefer to borrow rather than sell stakes in their company, this may be a rationale for reforming equity finance instead of, or as well as, importing a local banking model which the UK currently has only a limited capacity to resource, maintain and supervise.

More importantly, the Sparkassen banks exist within a much more substantive industrial policy tradition, which supports a much stronger manufacturing sector in Germany, in comparison to the UK. Crucially, German SMEs are invariably located within dense industrial supply chains, often clustered geographically within particular localities. The self-fulfilling logic works the other way in Germany: it is precisely because SMEs are more resilient that local banks are in a position to enhance their resilience through the availability of long term debt financing.

The fact that the Sparkassen banks are also part of a national network – which extends even to pooled liabilities – underlines the need for a national industrial policy in the UK to support the establishment an effective banking model at the local level. But banking sector localisation would be a significant and positive change irrespective of this. Yet rather than relying on under-resourced and inexperienced local authorities – let alone local voluntary sector organisations – to initiate reform alone, it is surely correct for central government to consider using its considerable leverage over the banking sector (including its ownership of RBS) to devise an infrastructure within which a local banking network can flourish.

9. Enhancing the role of universities in local economies

Higher education is an indispensable part of the national economy. But many universities also play a hugely important role within local economies, as major employers and consumers of local goods. Universities attract tomorrow's highly skilled workforce to local economies, and act as magnets for exogenous private investment. A progressive approach to devolution would build upon these strengths, however, to ensure that higher education institutions' role in supporting local economic development and resilience is realised in full.

As it stands, there are two main barriers to enhancing the role of universities in local economies. Firstly, higher education funding is skewed towards London and the surrounding areas. In 2013 research council funding in London, the South East and Eastern region was £74, £72 and £68 per person. Funding in every other English region was below £30 per person. This bias is partly due to the greater concentration of research-led universities in the South.

It is also apposite to mention Brexit at this point: the UK's withdrawal from the EU is likely to have a significant financial impact on all universities as access to EU research funding is restricted and EU student numbers fall, but the knock-on impact for local economies of this will be greater in areas where universities employ a greater proportion of the local workforce. Generally speaking, this applies to parts of the North of England far more than areas in the South with more highly-developed private sectors.

Secondly, despite the work that many universities do to forge links with national and international enterprises within their local area, the absence of industrial policy mechanisms at the local level in the UK (symptomatic of the general neglect of industrial policy) serves to curtail opportunities for local economic development that might arise. In many places, networks between universities, local policy-makers and businesses are relatively strong, but largely informal. For instance, some universities already work closely with local authorities and Local Enterprise Partnerships in terms of the provision of advice – but universities' research strengths are seldom integral to specific strategic initiatives at the local level. Universities are beginning to play a more strategic role within particular sectors, such as advanced manufacturing, but such initiatives are too often only loosely integrated into local development agendas.

Of course, it is precisely their independence from government that allows universities to play such an indispensable role within the UK economy, investing in science even where the long term financial benefits are not immediately apparent, and teaching the analytical skills that will be transferable across a large number of occupations and industries. This autonomy must not be jeopardised. But this does not mean that the way that higher education institutes relate to local economies cannot be transformed.

Central government has an intimate role in structuring how universities operate by controlling how they are funded, principally through regulations related to tuition fees, and the allocation of research funding. Such powers should be partially localised (while retaining a national framework for higher education regulation and national-level resources for research funding). Local authorities at the appropriate geographical level should be given the power and resources to directly fund tuition in subjects deemed strategically important to the local economy, with grants perhaps linked to conditions around retaining the skills developed within the local economy. Furthermore, the UK's seven research councils should operate at local as well as national levels, with funding dedicated to supporting scientific expertise within particular local economies, as well as to projects of strategic value to the economy as a whole. Crucially, both of these powers would have to be underpinned by the ability of local authorities to establish new research-led universities within their areas.

The most effective way of encouraging universities to play an enhanced role within industrial policy mechanisms at the local level would be to strengthen these mechanisms, and invite academic experts to participate in their functions as key stakeholders and delivery partners. Such mechanisms might range from regional research and innovation councils (through which local authorities and universities might collaborate to attract investment to a local area), to the creation of local investment banks with universities represented on their boards.

10. A new mechanism for distributing National Lottery funding

The National Lottery has awarded grants totalling £32 billion since 1995, funding around 450,000 community projects across the country. This funding is distributed via regional Big Lottery offices, which are allocated block grants from the national level. However, the current system of centralised distribution for National Lottery funding needs to change due to an uneven distribution of funds across regions, with certain areas receiving higher proportions of funding and a larger number of substantial grants than others.

It is also apparent that lottery funding priorities are decided at the national level in an undemocratic manner, and are thus unlikely to reflect local needs and priorities. In order to secure better outcomes for individuals and communities, Big Lottery must reflect local priorities for investment and ensure a more equal distribution of funding.

We propose the creation of regionally-based strategic review boards consisting of local voluntary and community sector organisations, local authorities and representatives from local citizens' assemblies. The boards would be responsible for shaping the funding strategy and criteria for lottery funding in their local area, thereby ensuring that a broad cross-section of funding meets the needs of local individuals and communities, whilst simultaneously encouraging integrated working. The strategic review boards would also ensure a greater level of diversity within Big Lottery policy-making, providing a key opportunity to better understand the challenges facing disadvantaged communities.

Lottery funding should continue to be distributed centrally in the form of a block grant to regional offices using the established formula of population size and overall need. However, the strategic review boards would also be responsible for engaging in dialogue with the national Big Lottery body regarding additional funding. The dialogue between the two bodies would allow for the possibility of supplementing the regional grant. For example, if the majority of the strategic review boards reported skills deprivation as a particular challenge, areas in which this challenge was most evident could receive an additional element of funding.

In order to ensure that communities with high levels of deprivation receive a fair allocation of funding, strategic review boards must also work with Big Lottery offices to ensure that bids from disadvantaged communities receive greater levels of facilitation and support. Deprived communities do not always have the social or cultural capital to help them access funds, which often require a highly-involved application process. The support currently available is classed as part of Big Lottery's administration costs, yet such costs should instead be classified separately and provided by ring-fencing a proportion of each regional office's funding. The strategic review boards would then have the responsibility to liaise with the regional office to monitor the delivery of support.

11. Reinvigorate the public realm by democratising devolution

Political disillusionment is rising: turnout remains on a downward trend and is stubbornly low for local elections. Ipsos MORI polling for Policy Network in 2015 found that 69 per cent of people think the current system of governing Britain needs improving, whilst just 31 per cent of people feel their voice counts in decisions taken by local politicians. Devolution must be about more than economic development and service delivery; furnishing local government with greater powers must be a means to breathing new life into our democracy by allowing citizens to shape the places where they live and work.

Yet the government's agenda appears to treat democracy and citizen engagement as a rather marginal concern. The Treasury, rather than the Cabinet Office or the Department for Communities and Local Government, is the lead department within Whitehall for the devolution agenda. The Treasury has repeatedly insisted that the decentralisation of powers is strictly contingent upon the adoption of a new directly-elected 'metro mayor'. This top-down approach risks compounding frustration with local government at precisely the moment that it offers an opportunity to transform our democratic system.

Most urgently, therefore, strings-attached devolution deals which insist on one prescriptive form of governance should be abandoned. More generally, devolved localities should be free to adapt their democratic system as they see fit, in consultation with the electorate. This might include changing their voting system, introducing online and weekend voting, creating new second chambers and/or youth assemblies, amending voter registration rules to let citizens register to vote up to and on election day, and setting their own franchise arrangements.

Brexit is now an inevitable dimension of local democracy. We believe that the possibility of UK nations and regions developing and formalising new relationships with the EU – if there is a popular mandate to do so – should be a central aspect of the UK government's withdrawal negotiations. Clearly, devolved authorities in London, Scotland and Northern Ireland are in pole position to contribute to such negotiations. But all areas should be offered an opportunity to consider all available options for withdrawal (assuming the EU is willing to restructure its membership model), if their citizens are inclined to do so.

One of the key challenges for devolution is determining the appropriate geographical bounding for the location of new powers and associated accountability mechanisms. There will of course always be an element of arbitrary boundary-drawing, especially in a country as centralised as the UK where sub-national political structures only exist at the mercy of central government. The most sustainable solution would be to permit the construction of multiple layers of political authority, each accompanied by whichever democratic arrangements the relevant communities deem appropriate. The North of England, for instance, may require a collective voice for powers best exercised at the macro-regional level, such as transport – the custodians of these powers should be directly accountable to Northern voters. There are also strong grounds for the creation of new political structures at city-regional level, along the lines of those currently being agreed. But the Northern Powerhouse must not become a means by which democratic legitimacy is drained away – and upwards – from smaller communities.

But getting the right institutions in place is only half the battle. We also need to see local government, where the distance between governors and governed is smallest, embrace more deliberative models of democracy. We believe the devolution process should therefore encompass experimental forms of political engagement, with the Electoral Commission given a refreshed mandate and substantial new resources to monitor local democratic reforms, operating under a new guiding principle of embracing and helping to facilitate innovation.

Democratic innovations at a local level

Devolution offers the potential to recast local democracy as more than just elections. In many countries around the world, innovative forms of deliberation and participation are being explored and tested – the credibility and efficacy of local government will be enhanced if similar approaches are adopted in the UK.

- In the Netherlands, the 'G1000 citizens' assemblies have brought together 1,000 randomly selected citizens with employers, politicians and civil servants. The assemblies start with conversations to establish what the participants see as the most important issues in their communities. Through a process of dialogue, the assemblies aim to find common priorities, proposals for policymakers and ways that citizens themselves can contribute to addressing the priorities.
- Participatory budgeting allows citizens to identify, deliberate and adjudicate on the allocation of all or part of the public funds available within a given locality. Typically, communities select delegates to work with elected representatives and policy experts to develop spending proposals, which are then voted on by the whole community. In its most well-known example, Porto Alegre in Brazil, neighbourhood committees actually have authority over city-wide spending, rather than simply funds allocated to their own specific area. Similar processes have been adopted by hundreds of localities across the world, although in many cases budget committees have only a consultative role, or are able to adjudicate only of funds allocated to their specific area on a discretionary basis – examples in the UK tend to be very small-scale in nature. Participatory budgeting was recently adopted in New York: citizens' power over budget decisions remain fairly limited, yet the example stands out in terms of the extensive process by which participation takes place, with public meetings taking place all year round.
- Lambeth was the first of over twenty councils in the UK to become a 'co-operative council', working collaboratively with citizens to co-design and, where appropriate, co-deliver services. One successful co-operative initiative in Lambeth is the Young Lambeth Cooperative (YLC), a membership organisation set up as a partnership by young people, community members and the council. The council devolved its youth services budget to the YLC, which then chooses and commissions services for young people. It is seen to have been a major factor tackling and reducing youth violence in the borough.

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