

**Appendix One**

**LIVERPOOL CITY REGION COMBINED AUTHORITY**

To: The Chair and Members of the Combined Authority

Meeting: 20 November 2015

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: No

**REPORT OF THE LEAD OFFICER: ECONOMIC DEVELOPMENT**

**PROPOSED DEVOLUTION AGREEMENT FOR  
LIVERPOOL CITY REGION**

**1. PURPOSE OF THE REPORT**

- 1.1. This report seeks endorsement for the proposed Liverpool City Region Devolution Agreement (Appendix One) and to adopt a directly elected Mayor for the City Region as required in the Government's Cities and Devolution Bill.

**2. RECOMMENDATIONS**

- 2.1 It is recommended that the Combined Authority:
- a) Approve the Liverpool City Region Devolution Agreement as outlined in Appendix One and agree to adopt a Directly Elected Mayor with effect from May 2017 based on the Governance Principles outlined in Appendix Two;
  - b) Note that the Governance Principles will be incorporated into a formal constitution and will be the subject of a further report in due course;
  - c) Agree to explore with Government further opportunities for devolution, noting that any proposals will be presented to future meetings of the Council for consideration and approval before being agreed and implemented; and
  - d) Reserve the right to withdraw from the Devolution Agreement if Government fail to deliver on the proposals as outlined in the Devolution Agreement attached in Appendix One.

**3. EXECUTIVE SUMMARY**

- 3.1 On 17 November 2015, the Chancellor announced that a proposed Devolution Agreement had been reached (subject to Council ratification) with Liverpool City Region (LCR), which was signed by the five local authority Leaders, Mayor of Liverpool, and the Chair of the Local Enterprise Partnership. The Agreement delivers a major transfer of resources, powers and responsibilities from Government to the City Region, alongside governance changes to adopt a directly elected City Region Mayor.

- 3.2 City Region Leaders and the Mayor of Liverpool have negotiated hard to secure the best possible package of devolved powers and resources for the City Region.
- 3.3 The proposed deal gives the City Region greater control and influence over approximately £3bn of national funding over 5 years alongside increased powers and responsibilities in the key areas of; economic development, transport, employment and skills and housing and planning. This will enable elected members, together with their communities and local businesses, to make more decisions locally which would otherwise have been made in Whitehall.
- 3.4 The chance to bring powers and resources down from Government directly to the City Region is important to all local authorities in the context of on-going austerity. Having local decision-making powers over significant areas of national government expenditure is a much better position to be in than having priorities for local services and funding determined by Whitehall officials and Government Ministers in London.
- 3.5 The key elements secured in the proposed Agreement include:-
- Establishment of a Single Investment Fund that draws together City Region and national funding streams as a single pot to invest in economic growth. This will be made up of a range of budgets to be determined after the Comprehensive Spending Review, including any successors to Local Growth Fund, Regional Growth Fund and Growing Places Fund. Instead of bidding for such funding streams, the commitment is for such funding to be given to the City Region as a flexible multi-year settlement;
  - The Single Investment Fund will also benefit from an additional £30m annual allocation over the next 30 years, equating to £900m of total investment which the City Region can use to invest in projects to create jobs and drive forward economic growth;
  - Longer term certainty over the Special Rail Grant to the City Region which will allow the procurement of new trains for the Merseyrail network, replacing existing rolling stock with newer, faster trains with greater capacity;
  - A devolved and consolidated multi-year transport settlement;
  - The ability to franchise bus services in the City Region to achieve an improvement in the local bus offer to residents and businesses;
  - Devolution of the Government's business support services which will enable the City Region to provide a fully integrated and locally delivered business support service;
  - Greater control over the skills system, including full devolution of the Adult Skills Budget which will enable the City Region to address the mismatch between the supply of skills and the needs of employers;
  - The ability to co-design future employment support programmes with Government to ensure that they address local needs and to develop a new household approach to supporting residents into work;

- Strategic planning powers to accelerate economic growth and housing development and give clarity and certainty to potential developers. This includes the establishment of a Mayoral Development Corporation with the power to establish Mayoral Development Zones to aid the development and delivery of the City Region's key strategic sites;
- Recognition of the unique asset and potential of the River Mersey including a commitment to consider a business case for a tidal power scheme for the River Mersey/Liverpool Bay area which could ultimately generate low carbon energy for business and consumers; and
- Support for a place based strategy for culture and creativity, a statement of support for the City Region's ambition for a National Migration Museum and the exploration of options for a sustainable and viable business model for National Museums Liverpool.

3.6 The deal is the first step in a long term devolution journey towards a genuine place based relationship with national government which will, over time, provide for significant influence or control over all public expenditure in our local areas. It also reinforces the role of the City Region at the heart of the "Northern Powerhouse" and recognises the unique and significant contribution the City Region can play in driving forward the economy of the North.

3.7 The proposed deal is subject to the agreement of individual local authorities, where it is due to be discussed on 19 November 2015. Endorsement is also being sought from the Local Enterprise Partnership (LEP).

#### **4. THE PROPOSED DEVOLUTION AGREEMENT**

4.1 The six Liverpool City Region Local Authorities have a long and successful history of collaboration. This economic area is the scale at which most day to day economic interactions take place and where the benefits of joint working in areas such as transport, housing, key economic sectors and the provision of labour market support are realised.

4.2 Collaborative working has evolved over the years and culminated in the establishment of the Liverpool City Region Combined Authority in April 2014, which provided strong and effective governance for the City Region and has responsibilities covering; strategic transport, employment and skills, housing and economic development.

4.3 A highly effective partnership with business leaders has also been established through the LEP, ensuring our business community is able to play a full part in helping to shape the strategic direction of Liverpool City Region.

4.4 The City Region's achievements have been significant and include a highly successful Growth Deal agreement in July 2014 with on-going delivery of strategically important transport schemes and a programme of skills capital funding to improve skills infrastructure in the City Region. Through the Combined Authority, the City Region is making an effective input into the Northern Transport Strategy,

which has the aim of radically improving connectivity across the five northern City Regions, to support agglomeration and to accelerate growth, as part of the Northern Powerhouse agenda.

- 4.5 Liverpool City Region has a critical contribution to make to the Northern Powerhouse. With the River Mersey and Superport we have unique economic assets that can help transform the northern economy. The Superport has the potential to provide lower cost and competitive trade links for businesses and consumers across the North, backed by multi-modal logistics that combine sea, rail, freight and air. The River Mersey has the potential to be a major producer of renewable energy for the north and unlock the green infrastructure needed to put the City Region at the leading edge of the green economy. The City Region is also well positioned to be at the heart of an advanced manufacturing network across the North with our science and innovation strengths at Daresbury and Liverpool Knowledge Quarter and world class firms like Jaguar Land Rover, Getrag, Unilever, Pilkingtons, Ineos Chlor and Cammell Laird.
- 4.6 Despite these strengths, the City Region's £23.1bn economy continues to struggle to reach its economic potential. GVA per head in the City Region is only 75% of the national average and this gap has remained largely unchanged over the last decade. As a result, the City Region suffers from an £8.2bn output gap compared to nationally.
- 4.7 With present Liverpool City Region governance arrangements, it would not be possible to achieve the significant increase in powers, functions and resources from Government which are fundamental to addressing these challenges and to exploit the significant economic opportunities which exist.
- 4.8 The proposed Devolution Agreement is the first step to achieving much greater resources and responsibilities from Government and this is set out in summary form below.

#### 4.9 **Economic Development**

The draft Agreement sets out a range of additional resources and powers which the City Region can use to drive forward economic growth and make local decisions on those investments and issues which will best drive forward the local economy. These include:-

- i. The Liverpool City Region Single Investment Fund which will draw together City Region and national funding streams to deliver an ambitious programme of investment across the City Region which will accelerate economic growth. It will be a flexible multi-year settlement including any successors to funding streams such as Local Growth Fund and Regional Growth Fund which the City Region would normally have to bid for. This will give the City Region the ability to allocate funding more effectively to locally determined priorities and in support of a planned and longer term investment programme;
- ii. In addition, the Single Investment Fund will benefit from an additional £30m a year funding allocation over 30 years, in order to unlock the economic potential of the River Mersey and Superport as well as maximise the opportunities from High Speed 2 (HS2);

- iii. The creation of a Mayoral Development Corporation with powers to designate our key sites as Mayoral Development Zones and accelerate economic growth and housing development;
- iv. Government will work to devolve control and responsibility for business support services to allow the City Region to provide a fully integrated, locally delivered and demand led service to businesses. In addition, the Agreement provides for greater control and influence over UKTI trade resources and also inward investment activities;
- v. Agreement to build on the success of the International Festival for Business (IFB) 2014 and 2016 and establish IFB as a vital feature of the international business calendar in 2018 and 2020;
- vi. Support for Liverpool's cultural and creative strengths including greater alignment of cultural and creative funding, support for the ambition to realise a National Migration Museum as well as plans to work to establish a sustainable business model for National Museums Liverpool;
- vii. Recognition of the unique asset and potential of the River Mersey including a commitment by the City Region to the cleanest River standard by 2030 and a discharge free Mersey by 2040. The deal also commits Government to consider a business case for a tidal power scheme for the River Mersey/Liverpool Bay area which could ultimately generate low carbon energy for businesses and consumers; and
- viii. The City Region will exercise greater control over €220m of European Funding for 2014-2020 through Intermediate Body Status.

#### 4.10 **Transport**

The Agreement offers the City Region the opportunity for greater control over local transport decisions and over key elements of the transport network including:-

- i. Responsibility for a devolved multi-year transport budget, details of which will be agreed as part of the Spending Review;
- ii. The ability to franchise bus services in the City Region, subject to the emerging Buses Bill;
- iii. Powers for the Combined Authority to manage a Key Route Network of local roads on behalf of the City Region's Mayor from May 2017;
- iv. A long term Special Rail Grant (SRG) settlement for the Merseyrail network, to support Merseytravel's on-going procurement of new trains on behalf of the Combined Authority;
- v. The ability to manage the local rail network in alternative ways (e.g. the transfer of Merseyrail station assets to the Combined Authority), subject to a satisfactory business case;

- vi. In addition, Government will continue to work with the Combined Authority in its review of the Mersey Tunnels tolls, which will consider options to reduce the cost of tolls and the role of the tunnels in supporting growth and investment; and
- vii. The Government also recognises and supports the City Region's crucial role in supporting the Northern Powerhouse, and notes that the Liverpool City Region will work with 'Transport for North' to bring forward proposals that could enhance the capacity of Liverpool Lime Street, together with options for strategic road and rail investment and the roll-out of smart ticketing across the North of England.

#### 4.11 **Skills and Employment**

The Devolution Agreement gives the City Region more local decision making powers and responsibility over skills provision and employment support. This will ensure that the training and skills being developed are relevant to the needs of local employers and will enable our businesses and residents to have the skills to be able to compete for jobs and improve growth and productivity. The Agreement includes:-

- i. Responsibility for chairing an area based review of 16+ provision to start in 2016;
- ii. Full devolution of the Adult Skills Budget from 2018/19;
- iii. The City Region will work collaboratively with Government to help local businesses to create more and better quality apprenticeships;
- iv. The creation of a Careers Hub for the City Region, which Government have committed to work with, to draw together the disparate initiatives on promoting careers and to act as a repository for high quality careers materials;
- v. Co-design and co-commissioning of employment support programmes by the City Region and Government to make sure that they meet our local needs; and
- vi. Commitment to work together on a business case for an innovative household based approach to support residents into work.

#### 4.12 **Housing and Spatial Planning**

As part of the Devolution Agreement, the City Region will be able to utilise strategic planning powers to help speed up economic growth and housing development. Specifically the agreement includes:-

- i. Development of a Single Statutory City Region Framework supporting the delivery of strategic housing and employment sites. This requires the unanimous agreement of constituent councils of the Combined Authority;
- ii. Creation of a Mayoral Development Corporation and ability to designate key strategic sites as Mayoral Development Zones;

- iii. Power to be consulted on and/or call in planning applications of strategic importance to the City Region, subject to the consent of the relevant Local Authority; and
- iv. Establishment of a Land Commission to support the better co-ordination and release of public assets with the aim of increasing sites for economic growth, housing and improved communities.

## **5. GOVERNANCE**

- 5.1 The proposed Devolution Agreement sets out the additional powers, control and resource which the City Region will assume from central government. It does not assume powers from constituent local authorities.
- 5.2 While establishing a clear commitment to greater City Region working, the Agreement builds upon the economic opportunities and strengths across the whole City Region. It also recognises the importance of the unique identity and history of individual communities which make up the City Region.
- 5.3 The package of devolution agreed so far gives the City Region greater control and influence over approximately £3bn of national funding over 5 years. In order to secure the greatest levels of control and influence over such resources, Government has consistently demanded a mayoral model of governance. This requirement will not change and without it, Liverpool City Region will not pass the test of direct accountability to enable it to take on central government functions.
- 5.4 The proposed Agreement will therefore be implemented through a governance structure of a directly elected Mayor that provides strong leadership, whilst protecting the integrity and the existing role and functions of local authorities. The mayoral model is part of the LCR Combined Authority, thus maintaining the integrated approach to governance which the City Region has worked consistently to develop.
- 5.5 The Governance principles which the City Region will adopt are outlined in Appendix Two of this report and demonstrate the safeguards that have been built into the arrangements. The Mayor will act as the Chair of the Combined Authority and Members of the LCR Combined Authority will provide a supporting and advisory function to the Mayor and the Combined Authority.
- 5.6 The Liverpool City Region Mayor will be required to consult the Combined Authority on his/her strategies, which it may reject or amend if two thirds of the constituent council members agree to do so. The Combined Authority will also examine the Mayor's spending plans and will be able to reject or amend his/her plans, if two thirds of the members agree to do so.
- 5.7 The Mayor and the LCR Combined Authority will be scrutinised and held to account by the Combined Authority Scrutiny Panel.
- 5.8 Subject to the necessary legislation being in place, it is anticipated that Mayoral elections will take place in May 2017.

## **6. NEXT STEPS AND IMPLEMENTATION**

- 6.1 All Liverpool City Region Councils are considering these proposals on 19 November 2015 at their respective Council Meetings. The Combined Authority is meeting subsequently, on 20 November 2015 and the LEP Strategic Board on 3 December 2015.
- 6.2 There will then be a period where the necessary legislative arrangements are made by Government, to allow for a directly elected Mayor for the City Region. The Cities and Devolution Bill will require Royal Assent and subsequently an LCR Order will be laid by the Secretary of State to give effect to the necessary legislation to enable Mayoral elections to take place in May 2017. A separate “Buses Bill” is planned for introduction later in the current parliamentary session.
- 6.3 The City Region will be required to co-operate with Government to ensure the necessary statutory requirements are met and to secure timely and accurate input for drafting the Statutory Instruments.
- 6.4 As outlined in paragraph 62 of the proposed Agreement, implementation plans will be required for individual elements of the Agreement and over the coming weeks and months and officers from the City Region will work with Government to prepare such plans. This will be managed by LCR Chief Executives.
- 6.5 The powers and resources to be devolved to Liverpool City Region are not exhaustive. Liverpool City Region will be able to add to them as discussions with Government are progressed. The focus of the proposed Agreement has been on what can be achieved quickly and those areas which have financial implications that need to be considered in advance of the Government’s Spending Review 2015. The proposed Agreement includes reference to continuing discussions to consider further areas for devolution to the City Region and is the subject of recommendation 2.1 (c) in this report.

## **7. ALTERNATIVE OPTIONS CONSIDERED**

### **7.1 Option 1: Not agree the devolution deal on offer from Government.**

This would place the City Region at a real disadvantage compared to those areas that have secured a devolution agreement which includes greater funding and powers from Government. The City Region would be left to compete for funding from a much smaller pot which has had resources top sliced for those areas which have successfully negotiated devolution deals. The City Region would have no ability to agree its own spending priorities. It would be faced with the reality of continuing to do “more with less”; and having to weather further future spending cuts which face the public sector without any flexibility or additional resources which the devolution deal offers to the City Region.

Government have also indicated that there is a small window of opportunity for devolution agreements in line with their Spending Review timetable. Therefore there would be no possibility for the City Region to negotiate a similar deal at a later date should it not reach agreement with Government at this time.

## 7.2 Option 2: To negotiate a significantly reduced devolution deal without a Directly Elected Mayor arrangement

Government require strong governance proposals in place for those areas which are seeking the maximum level of devolution. Without a directly elected Mayor, Government has been clear that the level of resources and powers on offer would be substantially less and as with (7.1) above would place the City Region at a distinct disadvantage with other comparable areas. The Cornwall devolution deal is an example of how the Government has devolved comparatively fewer powers to areas that do not pursue a directly elected Mayor.

## **8. TIMESCALE FOR ACTION**

- 8.1 As indicated previously, the powers and resources set to be devolved to Liverpool City Region are not exhaustive or final. Liverpool City Region will be able to add to them as discussions with Government are progressed. The focus of the Agreement has been on what can be achieved quickly and has financial implications which need to be considered in advance of the Government's Spending Review.
- 8.2 Some elements of the Deal, as set out in Appendix One, will be implemented from April 2016, where legislation is not required and devolution is to the LCR Combined Authority. These elements will require work to be started immediately and progress on this will be reported regularly to the Combined Authority.
- 8.3 Those elements of the deal which are conditional upon a directly elected Mayor will only be implemented from May 2017.
- 8.4 All elements of the deal will require an individual implementation plan to be developed with Government which will set out the timetable, responsibilities and accountabilities together with any required financial arrangements.

## **9. CONSULTATION**

- 9.1 The Liverpool City Region Combined Authority's consultation on the four prioritised areas for negotiation with Government (economic development, transport, employment and skills and housing and planning) took place between 21 September 2015 and 2 November 2015.
- 9.2 The consultation framework adopted incorporated three levels of engagement – corporate, area and political.
- 9.3 For each priority, a lead Chief Executive was identified to manage the consultation process with key stakeholders.
- 9.4 Targeted public engagement has taken place with thematic stakeholder groups including business representatives and key strategic Boards to inform the scope of the City Region's proposals. Feedback was extremely helpful and those who engaged in the process were supportive of the approach being taken.

- 9.5 A website - [www.liverpoolcityregion-ca.gov.uk](http://www.liverpoolcityregion-ca.gov.uk) - was set up to support consultation which was promoted by each local authority. This included website updates social media, newsletters and internal communication channels. The website provided an outline narrative of the proposals and approach. It also incorporated a feedback facility. In addition, internal communication channels were utilised.
- 9.6 Of the responses received to the feedback facility referred to above, over 70% were supportive of devolution with recurring themes of:-
- Improving transport infrastructure and public transport accessibility;
  - Accelerating house building and physical regeneration;
  - Ensuring residents can develop skills needed by employers;
  - Reducing inequality across the City Region;
  - Capitalising on the value of the City Region's cultural sector; and
  - Increasing local sovereignty and autonomy over funding.
- 9.7 A small proportion of responses raised concerns about devolution with specific reference to the risk of:-
- Increased shared services and reduction in public sector jobs;
  - Loss of local accountability;
  - Loss of identity of areas within the City Region.

## **10. RESOURCE IMPLICATIONS**

### **10.1 Financial**

10.1.1 All financial implications of the proposed Agreement relate to the devolution of resources from central government to the City Region. There are no resources being taken from individual local authorities as part of the proposed Agreement.

10.1.2 The Agreement includes the following headline financial implications:-

- i. An additional £30m of investment for economic growth for 30 years, equating to £900m total additional investment. This is subject to 5 yearly gateway assessments as set out in paragraph 61 of the proposed Agreement;
- ii. A devolved and consolidated transport budget (subject to the Government's Spending Review);
- iii. A commitment for Government to establish a single pot of government funding to invest in economic growth. The details of which will be determined following the SR. This is in addition to those funds already committed to the City Region e.g. £207m of Local Growth Funds;
- iv. Greater influence and decision making over a range of national programmes including the Work Programme, 16+ skills funding, Adult Skills budgets and potentially housing funds . Although such budgets will still sit formally with Government Departments in the immediate future, the City Region can direct and influence how these will be spent; and

v. On-going consultation on the Government's proposed business rates reforms.

10.1.3 All additional and directly devolved funding streams will be managed by the Combined Authority and the newly elected Mayor for the City Region. The Combined Authority Treasurer and City Region Finance Directors will explore the detailed implications and conditions of all of these funding commitments with Government, in particular HM Treasury Officials over the coming weeks and months as further detail is provided by Government, post the Spending Review 2015.

10.1.4 It will be for the City Region itself to agree the arrangements for how these resources will be managed and allocated as part of the implementation plans referred to in Section 6 of this report and paragraph 62 of the draft Agreement.

10.1.5 The Agreement also commits the Combined Authority to:-

- i. Continue to set out proposals for how local resources and funding will be pooled;
- ii. Agree overall borrowing limits with HM Government;
- iii. Agree a process to manage local financial risk relevant to the proposals in the draft Agreement; and
- iv. Continue to progress service transformation amongst local authorities including streamlining back office functions and sharing data and services.

10.1.6 Officers will engage with Government officials to set out how these commitments will be implemented on an individual basis. At that point the detailed financial implications on any individual proposal will be set out for the Combined Authority to consider and agree.

## **10.2 Human Resources**

There are no human resources implications arising from the recommendations in this report.

## **10.3 Information Technology**

There are no information technology implications arising from the recommendations in this report.

## **10.4 Physical Assets**

There are no immediate implications for the Combined Authority's physical assets arising from the recommendations in this report.

## **11. LEGAL IMPLICATIONS**

11.1 The implementation of the proposed Agreement is subject to the enactment of the necessary legislation; the Cities and Devolution Bill and to the parliamentary approval of subsequent secondary legislation. Government are working to a legislative timetable for elections for a directly elected City Region Mayor to take place in May 2017.

- 11.2 It is currently stated within the draft Cities and Devolution Bill that each constituent council of an existing Combined Authority is required to consent to any order establishing a directly elected Mayor and that if one constituent council does not consent then that council must be removed from the Combined Authority.
- 11.3 All LCR Councils are considering the proposed Agreement at their Council meetings on 19 November 2015 and feedback from these will be reported to the meeting. The proposed agreement also requires the consent of the Liverpool City Region Local Enterprise Partnership, which will be sought at the Strategic Board meeting on 3 December 2015.
- 11.4 The Constitution of the Combined Authority will require amendment to reflect the new governance arrangements which will be accepted as part of the Devolution Agreement. Amendments to the Combined Authority constitution need the unanimous agreement of the Combined Authority Constituent Members and as such all amendments will be put to the Combined Authority for agreement.

## **12. RISKS AND MITIGATION**

- 12.1 The agreement and implementation of a devolution deal for the Liverpool City Region will enable improved local decisions to be taken, which will improve the economic growth and productivity of organisations within the City Region.
- 12.2 There is a risk that the City Region will fall behind other areas who have negotiated a devolution agreement. This will be mitigated by negotiating a satisfactory agreement for the City Region.

## **13. EQUALITY AND DIVERSITY IMPLICATIONS**

- 13.1 There are no direct equality implications associated with this report as it deals with the issue of devolution at a strategic level. Equality analysis will be undertaken in future as appropriate and in relation to specific elements or activities.
- 13.2 Paragraph 67 of the proposed Devolution Agreement sets out that the Combined Authority will continue to adhere to its public sector equality duties, for both existing and newly devolved responsibilities.

## **14. COMMUNICATION ISSUES**

- 14.1 Consultation has focussed on the phase one priority areas. This is the start of a long-term process where the other proposals outlined in the submission to Government on 4 September 2015 will need to be consulted on over the next 18 months.

## 15. CONCLUSION

- 15.1 This report has provided an update and seeks Combined Authority endorsement for the proposed Liverpool City Region Devolution Agreement and to adopt a directly elected Mayor for the City Region as required in the Government's Cities and Devolution Bill.

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### Appendices:

Appendix One - Liverpool City Region Devolution Agreement with Government

Appendix Two - Liverpool City Region Devolution Governance

### Background Documents:

None