Where now for Combined Authorities?

The impact of the vote to leave the EU

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Balfour Beatty

Introduction

The political uncertainty which is a by-product of the Referendum on leaving the EU, creates short-term uncertainty about the prospects for devolution and for the Combined Authority agenda. The risk is that the focus on the UK's negotiations to leave the EU will overshadow other political questions in the coming months, causing the devolution agenda to stall and become mired in uncertainty. It is therefore possible that the process of devolution could be slowed or even halted as politicians turn their attention to new political priorities.

There has also been a need for reassurance in the light of the change of leadership in Government: the devolution agenda has been driven to a large extent personally by George Osborne during his time as Chancellor – to what extent will it survive a change of leadership? Will it look the same? While we welcome the Prime Minister's recent recommitment to the devolution agenda, there have been a number of mixed messages which have had an impact on confidence, and the length of time it took for the new Government to confirm its commitment may have curbed momentum.

For those places yet to begin a formal devolution process, there is a worry the window may have started to close. For those with an existing deal, there is concern that the terms of their deals may change following the vote to leave the EU in the light of economic uncertainty over the next few years. Tees Valley Combined Authority and Cornwall Council for example, have both been vocal in demanding assurances that pledged EU investment funding will still be forthcoming in spite of the vote to leave the EU[1] and calling for compensation from the Government for any loss of funding. In the meantime, the North East's deal has fallen through and Sheffield City Region's is in doubt both because of the uncertainty on EU funding being matched and the lack of clarity around the future of the policy.

The possible economic impacts of Brexit also include the loss of other significant EU funding streams for devolved areas, including European Structural and Investment Funds (ESIF) and European Regional Development Funds (EDRF), jobs and investment linked to European trade, future investment in infrastructure and business, universities' ability to continue to attract EU academics and students, and research and innovation investment. It will be important that the Government reassures Combined Authorities regarding their continued ability to access these funds, or designs a mechanism to replace them. However, it is equally important that existing Combined Authorities now step up to the plate and identify or create for themselves the opportunities to leverage the full financial potential of their balance sheets.

Balfour Beatty believes that it is vital that devolution, one of the Government's flagship policies since 2010, continues – precisely because of the UK's continuing political and likely future economic turbulence.

We urge the Government to continue with these innovative reforms. Gaining new powers over strategic planning, transport, skills, housing and economic development will give city regions and other areas the ability to invest in and shape their own futures, help to rebalance the economy and take the pressure off the overheated south east. It is our hope that devolving money and powers will result in roads, rail and other infrastructure schemes being built because they capture wider economic benefits as defined by the region in question. For example, in Scotland, many of the road networks which have recently been upgraded, several of which Balfour Beatty has worked on, were not economic in the narrowest sense, but were deemed necessary to the growth of the Scottish economy by Holyrood.

Furthermore, Balfour Beatty believes that devolution of other taxes such as stamp duty for example, along the lines proposed by the City Growth Commission and the London Finance Commission, could enable Combined Authorities to secure further infrastructure funding. To rebalance the economy we need to consider new forms of infrastructure investment.

However devolution in the broader sense of the term is only on offer to a few cities at the moment and it is unclear how quickly it can be extended to others. City-deal type arrangements have yet to be rolled out across the country, particularly to non-metropolitan areas. Even where a way forward has been agreed, most councils have only just begun to form themselves into combined authorities such as the West Midlands Combined Authority and Greater Manchester, which is a requirement for significant devolution to be agreed. We would therefore welcome the setting out of a clear plan for the extension of devolution deals to the remaining areas.

We believe that Government's plan to rebalance the economy using infrastructure as the key driver – and new Combined Authorities and transport bodies as deliverers remains the right strategic path for the UK. We also believe that the time is right for Combined Authorities and other devolved bodies to develop strategies to ensure that their areas make the most of the opportunities that arise from Brexit, from changes to the regulatory regime to contributing to the Government's industrial strategy and taking advantage of new trading relationships.

[1] http://www.publicsectorexecutive.com/Public-Sector-News/devolved-bodies-warn-about-loss-of-eu-funding

Summary of recommendations

1. The Government must maintain its commitment to the devolution agenda during the EU exit negotiations, so momentum is not lost.
2. Communities in England have been allocated £5.3bn of EU regeneration funding up to 2020. However, until the EU withdrawal negotiations have been completed, the future of EU direct funding will remain uncertain. We welcome the Chancellor's words on this and look forward to a firmer commitment in the Autumn Statement. It is important that this vital funding continues to avoid essential growth-boosting projects stalling and local economies across England being stifled.
3. The response to the economic uncertainty should be an holistic review of local authorities' income and expenditure, and innovative approaches including public private partnerships. These emerging models will optimise public sector assets, and secure private sector investment, to reduce costs and increase revenues across energy, waste, transport, accommodation and service provision.
4. Devolution in the broader sense of the term is only on offer to a few cities at the moment and it is unclear how quickly it can be extended to others. We would welcome the setting out of a clear plan for the extension of devolution deals to the remaining areas.

5. To rebalance the economy we need to consider new forms of infrastructure investment. The devolution of taxes such as stamp duty for example, along the lines proposed by the City Growth Commission and the London Finance Commission, could enable Combined Authorities to secure further infrastructure funding.
6. Combined Authorities will need to work with their local businesses to understand the skills they need and to support people in the area to develop those skills and fill vacancies that may emerge should the UK no longer be able to access skilled workers via free movement. It will be essential that Combined Authorities develop and articulate a skills vision for their area and are able to advise and assist businesses in, for example, taking advantage of funding available through the Apprentice Levy and Digital Apprentice Service, once they are in place.
7. Combined Authorities should take a lead in encouraging growth in their areas by identifying small and medium sized infrastructure schemes that could be publicly funded and that will meet the Chancellor's vision of providing maximum value for money to the taxpayer by bringing about a longer-term structural contribution to the economy for example, by addressing congestion on the roads or improving energy and communications capability to help businesses thrive.
8. Combined Authorities should take steps to accelerate procurement and achieve value for money in order to bring infrastructure schemes to fruition as quickly as possible to give their areas a stimulus for example, by using a single supplier framework such as those offered by Scape Group. With OJEU and other tendering processes already completed, the frameworks result in time and cost savings by avoiding the often time-consuming and costly procurement processes for each project.
9. Greater powers should be transferred to local government in the wake of the vote to leave the EU[2].
10. Combined Authorities must be involved in negotiating the UK's exit from the European Union on behalf of their local areas.

[2] LGA, "LGA statement on 'leave' vote in UK referendum", 1 July 2016

The impact of Brexit

The impact of the UK's withdrawal from the EU on Combined Authorities as with every other area of the economy, will not become clear until the negotiations have formally begun and are quite well advanced. Two things however, are clear. Firstly, that much of the UK's economic policy is now unclear, including the Government's pledge to a 'devolution revolution'. We are in a time of uncertainty during which it is difficult to plan for the long term. Secondly, it is clear that our exit will take place gradually. Even once negotiations are underway, much of final outcome will depend on the timescales agreed and the relationships and nuances involved in the final agreement.

However, there are some things we can surmise in the interim and work to mitigate. For example:

- The speed of devolution deals may slow as attention in Government focuses on Brexit negotiations. Over the last year, more powers and funding have been given to local areas. Balfour Beatty believes that the referendum result and the political uncertainty that has followed must not see that process stall or go backwards. We hope to see ongoing commitment to the devolution agenda during the EU exit negotiations, so momentum is not lost. Effective infrastructure can boost economic growth, create jobs, regenerate communities, connect people and places and drive environmental sustainability. It is our view that Combined Authorities must now take the helm and deliver these benefits locally. To this end, we agree with the recommendation of the ICE report[3] that an infrastructure strategy based on need should be established for every current and emerging economic area so money is directed towards the right projects.
- Combined Authorities are likely to be concerned at a loss of significant EU regeneration Funds and may have to make the case for their replacement funds. Communities in England have been allocated £5.3bn of EU regeneration funding up to 2020. However, until the EU withdrawal negotiations have been completed, the future of EU direct funding will remain uncertain. We welcome the Chancellor's words on this and look forward to a firmer commitment in the Autumn Statement. It is important that this vital funding continues to avoid essential growth-boosting projects stalling and local economies across England being stifled.
- The UK National Infrastructure Delivery Plan was developed to bring together the Government's plans for economic infrastructure, housing and social infrastructure over the next five years. The Government committed to deliver the plan by 2020/21 which today sets out over 600 projects costing a total of £420bn, of which £100bn is to be Government-funded, with the remainder provided by private investment and EU investment, such as from the EIB. Whilst the decision to leave the EU will not directly impact on the Government's commitment to invest £100bn in the plan, the decision does introduce uncertainty around the feasibility of securing the balancing figure of £320bn, which could jeopardise some projects. Of the 600 projects set out in the pipeline, about half are focused on cities. Some of these projects are important enabling projects that open the door to further private investment. Investors, who depend on certainty before making their investment decisions, may wait to see what impact the UK's withdrawal from the EU has on the national economy and the value of Sterling before committing to some of these key projects. At this stage it would be imprudent to predict

[3] LGA, "LGState of the Nation: Devolution report, Institute of Civil Engineers (ICE), June 2016

whether any specific projects are at greater or lesser risk, but at some stage in the not too distant future, discussions about the potential funding gap in the National Infrastructure Delivery Plan will become critical.

- Any downturn in the economy whilst all this plays out will itself impact local authorities already burdened by a tight financial settlement. The downside of greater financial autonomy is that the connection between the council and its local economy is closer and more immediate – a benefit in successful times but increasingly challenging in difficult economic conditions. The response has to be what we are already witnessing in some areas, an holistic review of local authorities income and expenditure, and innovative approaches including public private partnerships. These emerging models will optimise public sector assets and secure private sector investment, to reduce costs and increase revenues across energy, waste, transport, accommodation and service provision. A keen focus on maximising local economic and social value associated with delivery of these works will enable the benefits to be fully realised.
- New ways of working will require new behaviors, with successful partnerships built on collaboration and shared objectives. Public sector reform, and the establishment of effective public private partnerships will require existing behaviours and mindsets to be challenged and new ways of working, including digital, to be embraced.

Of course, as with every challenging event there are opportunities to reshape and improve things. For example, the Government has recently announced its commitment to a new industrial strategy and regeneration plan. This could make a significant difference to parts of the country outside London and the south east. And of course, redistribution of wealth occurs most effectively and is best delivered when power is also devolved: Balfour Beatty strongly believes that Combined Authorities know best what their areas need and we welcome the LGA's calls for greater powers to be transferred to local government in the wake of the vote to leave the EU[4], rather than them being returned to Whitehall. We furthermore believe that it is therefore right that they are involved in negotiating the UK's exit from the European Union on behalf of their local areas.

[4] LGA, "LGA statement on 'leave' vote in UK referendum", 1 July 2016

Devolution: more important than ever

The need for greater devolution is particularly striking when we consider the unbalanced nature of the UK's economy. The geography of economic growth in the UK has historically been and remains uneven. The UK regions increasingly dependent on taxes generated in London, which now account for around 30 per cent of national 'economy taxes' (including all tax revenue dependent on the growth of the economy, such as income tax, land and property taxes, and VAT). And while the capital's tax intake grew by 25 per cent (£28 billion) in the last decade, other major UK cities like Manchester and Birmingham saw little or no growth in the same period. The devolution agenda must continue in order to give Combined Authorities the power to drive economic growth in their local areas. The drive for investment and inclusive economic growth is now more important than ever.

However, while the Government has its role to play, the onus will be on Combined Authority leaders to step up to the plate to come up with some of the proactive, innovative ideas to ensure that investment in their areas does not stall. Most cities have yet to leverage the full financial potential of their balance sheets. Many have yet to make compelling cases for significant private investment. Too often individual sites are put to the market, instead of a wholesale vision for a city extending beyond just real estate, which is more likely to attract large and sustained funding to be deployed in partnership with the public sector. Municipal bonds have rarely been used in the UK, despite the establishment of the Local Capital Finance Company. Investment banks have waited patiently for cities to approach with ideas for institutional bonds. There is a range of funds available to create Social Impact Bonds. In short, for those city leaders who are eager to act, there are a number of possible funding mechanisms outside of Government-funded devolution investment vehicles that could catalyse growth. Combined authorities should be investigating these and, where necessary, making the case to be able to use them.

There will also be a role for Combined Authorities in encouraging growth in their areas by identifying small and medium sized infrastructure schemes that could be publicly funded and that will meet the Chancellor's vision of providing maximum value for money to the taxpayer by bringing about a longer-term structural contribution to the economy for example, by addressing congestion on the roads or improving energy and communications capability to help businesses thrive.

In order to accelerate procurement and achieve value for money, local authorities could also consider steps they could take to bring schemes to fruition as quickly as possible to give their areas a stimulus for example, by using a single supplier framework such as those offered by Scape Group. These frameworks involve a carefully controlled tender process that complies with OJEU and Public Contract Regulation requirements, resulting in the selection of a single supplier to deliver any project over a specified amount during an agreed timeframe. With OJEU and other tendering processes already completed, the frameworks result in time and cost savings by avoiding the often time-consuming and costly procurement processes for each project. This means that schemes can begin more quickly and will be delivered by an organisation that is already familiar with the supply chain and the local area.

Combined Authority leaders will have an important role in supporting local businesses that trade heavily with the EU, through Brexit, to ensure that they understand the impacts and are able to mitigate them as much as possible. Work will need to begin to diversify city economies that are heavily exposed to EU trade in physical goods. Combined Authorities will need to work with their local businesses to understand the skills they need and to support people in the area to develop those skills and fill vacancies that may emerge should the UK no longer be able to access skilled workers via free movement. It will be essential that Combined Authorities develop and articulate a skills vision for their area and are able to advise and assist businesses in, for example, taking advantage of funding available through the Apprentice Levy and Digital Apprentice Service, once they are in place. Some Combined Authorities, for example, Greater Manchester, have taken control of the Apprenticeship Grant for Employers as part of their devolution agreement and are already ensuring access to apprenticeships, qualifications and training and careers advice that are responsive to their local jobs market. It will be for those Combined Authorities that have not already done this or that are yet to be established, to follow their lead.

Finally, if, as commentators suggest, part of the vote against the EU was due to dislocation amongst some of the public with the political process and with remote institutions, then bringing the decision making closer to the people the decisions impact could be part of the solution. And ensuring more decisions over issues such as skills, housing and transport are taken at the level at which the local economy actually works will play a big part in driving investment, job creation and wage growth in places across the country. We believe that the UK needs local leaders with a strong mandate in their local areas who have the powers and finances implicit in devolution to enable them to do this effectively.

Veena Hudson
Head of Public Affairs | Balfour Beatty
veena.hudson@balfourbeatty.com
+44 (0)20 7963 4235 | +44 (0)7790 340 693
www.balfourbeatty.com