

**Manchester City Council
Report for Resolution**

Report To: Executive – 1 June 2011
Subject: Report of the City Finance Commission
Report of: Chief Executive and City Treasurer

Summary

The final report of the City Finance Commission was published on 23 May 2011. The Commission was established to feed into the Government's Local Government Resource Review. The Report contains a number of recommendations for reform of the local government finance system so as to enable cities with the greatest potential to drive growth and to create the incentives that would underpin this.

Recommendations

The Executive is invited to agree that the Chief Executive and the City Treasurer, following consultation with the Leader of the Council and the Executive Member for Finance and Human Resources, be authorised to contribute to the consultations on the local government resources review on behalf of the Council and AGMA / Combined Authority.

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	The performance of the economy of the region and sub-region will be enhanced if the local government finance system is reformed in the way the Commission suggests.
Reaching full potential in education and employment	The improvements to the finance system will enable more residents to reach their full potential in education and employment.
Individual and collective self esteem – mutual respect	Individual and collective self esteem and mutual respect will grow in an economy that is thriving.
Neighbourhoods of Choice	The implementation of Area Growth Budgets would help create single pots for delivering local integrated services that would enhance the attractiveness of local neighbourhoods.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
 - Risk Management
 - Legal Considerations
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Financial Consequences – Revenue

None

Financial Consequences – Capital

None

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

“Setting Cities Free – Releasing the Potential of Cities to Drive Growth” the Final Report of the City Finance Commission

1.0 Introduction

- 1.1 The Inquiry into the Future of Cities and Local Government Finance (the City Finance Commission) was established by Birmingham, Manchester and Westminster City Councils, on behalf of Central London Forward, to feed recommendations into the Local Government Resource Review and champion the importance of cities in accelerating economic growth and in driving the nation's economy.
- 1.2 The Commission was chaired by Sir Stuart Lipton, Deputy Chairman of Chelsfield Partners LLP, and comprised a number of experts in business, local government and finance and included Mike Emmerich, Chief Executive of the Commission for the New Economy.
- 1.3 The Commission met five times over three months including a session held on 25th February 2011 in the Town Hall where the Leader, Chief Executive and John Early, Chair of the Business Leadership Group, gave evidence on behalf of Manchester. Other sessions were hosted by the City of Westminster and Birmingham City Council. The final report (attached) was launched at the House of Commons on Monday 23rd May.

2.0 Key findings

- 2.1 'Setting Cities Free – Releasing the Potential of Cities to Drive Growth' sets out the commissioners' recommendations on the relationships, powers and financial settlement that needs to be put in place between central government and local government in cities to secure economic growth and deliver the Government's objective of decentralisation.
- 2.2 The Commission found that UK cities have not had sufficient importance and priority in their role in driving growth and should be given adequate recognition as engines of the national economy. The City Finance Commission report proposes five key recommendations:

- a. Area Growth Budgets

These would give cities responsibility for local public spending for growth through the devolution of Whitehall budgets to cities, creating single local pots for delivering locally integrated services for employment and skills, adult education, health and housing. This is a suggestion that AGMA has made to Government on previous occasions and it is helpful that it forms a key recommendation of the Commission. The report highlights that cities are not responsible for the majority of local public spending in their areas and by devolving - on a trial basis – a 'single pot' of funding, more responsive and integrated public services could be achieved.

- b. Commitment to city-led growth through devolution pilots.

This commitment would complement Area Growth Budgets and would formally recognise the ability of councils to support their local economies though

devolution of powers either to a city or a city and its surrounding area. The Government would grant additional freedoms to cities with the greatest potential to improve their local economy in the national interest. Freedoms could potentially include the ability to raise finance for new facilities and infrastructure; pool budgets; manage commissioning; or grant exemptions from regulation. Manchester is mentioned specifically in the context of this recommendation as an area where there is strong cross-boundary working and strong governance arrangements including the Combined Authority. If accepted by Government this would give the city or city-region the ability to take local control of business support policy and commissioning; the ability to levy additional business rate for defined infrastructure developments; and financial freedoms to achieve full cost recovery in areas such as planning and licensing.

- c. A business rate retention system that reconnects business and local government and incentivises growth.

This recommendation asks Government to allow local authorities to retain the growth in their business rate base as a way to incentivise growth. The proposal is that local authorities would be able to retain a share of the uplift in their business rate resulting from local growth and be able to use this to promote further growth. Business rate retention is the key issue being discussed in the Local Government Resource Review and it is good that the Commission has focussed on this issue. The Commission accepts that there is a need for equalisation arrangements to protect areas facing structural economic decline but not to the extent of diminishing the power of the tax base incentives. The Commission also recognises the potential benefits of allowing local authorities to pool business rates – such as is being discussed across Greater Manchester – in order to drive growth across a city-region.

- d. Tax Increment Financing Powers to encourage infrastructure investment

This recommendation would allow local authorities new powers to borrow against future revenues, either on their own or in partnership with the private sector. This would bring together direct revenue generation and tax generation ensuring that local authorities do not have to rely on a single source of return in large scale projects. The Commission report proposes that Tax Increment Financing powers should be brought forward immediately in Enterprise Zones. For Manchester this would be another important tool to drive growth in the Airport City Enterprise Zone initially and potentially in the future across the whole of the city-region.

- e. A new relationship between business, central government and local government

This recommendation asks the Government to establish a joint committee with representation from the public, private and voluntary sectors to investigate the future relationship between central government, local government and businesses, so that it provides the right governance framework for growth. Evidence to the Commission from Manchester highlighted this as a key issue

and it is helpful that this forms a recommendation of the Commission. Such a committee would review the effectiveness and efficiency of current relationships and make proposals for reform. The Commission suggests that cities with significant large business populations and effective working relationships with business should benefit from more freedoms and powers.

- 2.3 Together these recommendations pick up on many of the suggestions made in Manchester's evidence to the Commission and also on issues that have been highlighted in the past both at a city and Greater Manchester level. In general the City Finance Commission recommendations are well-argued and evidenced. The Commission's report is now being sent to other government departments, the LGA, think tanks, business and the media.
- 2.4 The Local Government Resource Review is currently underway and a second phase focussing on Community Budgets has begun. The Core Cities Group has already made an initial submission to the Review focussing on the role of cities in driving growth and reducing dependency and many of its suggestions are consistent with those of the City Finance Commission. Phase 1 of the Review is scheduled to publish its initial findings in July.
- 2.5 The Report of the City Finance Commission is a valuable input to what will become an increasingly important review by Government of local government resources. The Report highlights the importance of public sector reform and the need for resourcing to incentivise growth; and the relationship of these crucial issues to a platform for achieving self-sufficiency within a framework of equalisation. The Report is seen as a valuable platform for highlighting these critical issues. AGMA / the Combined Authority will be debating the extent to which a basis may exist for an aggregated funding model to underpin Greater Manchester's single economic strategy. It is recommended that the Chief Executive and the City Treasurer, following consultation with the Leader of the Council and the Executive Member for Finance and Human Resources, be authorised to contribute to the consultations on the local government resources review on behalf of the Council and AGMA / Combined Authority.

3.0 Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

- 3.1 The performance of the economy of the region and sub-region will be enhanced if the local government finance system is reformed in the way the Commission suggests.

(b) Reaching full potential in education and employment

- 3.2 The improvements to the finance system to enhance economic growth will enable more residents to reach their full potential in education and employment.

(c) Individual and collective self esteem – mutual respect

- 3.3 Individual and collective self esteem and mutual respect will grow in an economy that is thriving.

(d) Neighbourhoods of Choice

- 3.4 The implementation of Area Growth Budgets would help create single pots for delivering local integrated services that would enhance the attractiveness of local neighbourhoods.

4.0. Key Policies and Considerations

(a) Equal Opportunities

- 4.1 None

(b) Risk Management

- 4.2 None

(c) Legal Considerations

- 4.3 None