

CABINET MEETING – 16 MAY 2016

EXECUTIVE SUMMARY SHEET – PART 1

Title of Report:

ADDENDUM REPORT
NORTH EAST COMBINED AUTHORITY – PROPOSED DEVOLUTION
AGREEMENT AND ELECTED REGIONAL MAYOR

Author(s):

CHIEF EXECUTIVE

Purpose of Report:

The purpose of this report is to update Cabinet and seek its views on the current position in relation to the Devolution Agreement and the question of the creation of a Mayoral Combined Authority.

Description of Decision:

Cabinet is requested to:-

1. Further consider and express its views on the Devolution Agreement and the proposal for a Mayoral Combined Authority.
2. Agree that any resolution under Recommendation 1 above is urgent for the purpose of Paragraph 18(j) of the Overview and Scrutiny Procedure Rules regarding “call-in”.

Is the decision consistent with the Budget/Policy Framework?

***Yes**

If not, Council approval is required to change the Budget/Policy Framework

Suggested reasons) for Decision:-

The NECA Devolution Agreement is expressed as being “conditional on the legislative process, the Spending Review, further public consultation, agreement by the Constituent Authorities, and the formal endorsement by the Leadership Board and Ministers.”

In relation to Recommendation 1, within the Constituent Authorities, the decision as to whether or not the NECA should become a Mayoral Combined Authority is an executive function.

In relation to Recommendation 2, the Leadership Board of the North East Combined Authority (NECA) will consider a report on the Devolution Agreement and proposal for an elected regional mayor at its meeting on 17th May 2016, and it is in the Council’s interests that Cabinet’s views be taken into account. In addition, full Council has been consulted upon the devolution proposals and the views expressed by Council Members are included in Appendix 3 to this report.

Alternative options to be considered and recommended to be rejected:-

The alternative option is not to consider the proposals. However, the Leadership Board will be considering a report on 17th May 2016 and it will be contrary to the Council's interests for the Board not to be apprised of Cabinet's views.

Impacts analysed:

Equality Privacy Sustainability Crime and Disorder

Is the Decision consistent with the Council's co-operative values? Yes

Is this a "Key Decision" as defined in the Constitution? Yes

Is it included in the 28 day Notice of Decisions? Yes

CABINET – 16th MAY 2016

ADDENDUM REPORT NORTH EAST COMBINED AUTHORITY – PROPOSED DEVOLUTION AGREEMENT AND ELECTED REGIONAL MAYOR

Report of the Chief Executive

1. Purpose of the Report

As main report.

2. Description of Decision (Recommendations)

As main report.

3. Current Position

3.1 As set out in the main report, further commitments and clarification were required from Government by the NECA Leadership Board, this Authority and four of the other Constituent Authorities following their meetings in March 2016. As a result, discussions have been on-going with the Department for Communities and Local Government and HM Treasury. The responses to the outstanding issues which were outlined in Section 5 of the Addendum report to Cabinet dated 23rd March 2016 (pages 94 and 95 of the Cabinet Agenda) are set out below.

3.2 Area Based Review (ABR)

Confirmation was sought that Government would delay the ABR until such time as a North East Devolution Deal is confirmed, so that the Employment and Skills Board would be able to proceed with the wider review.

3.3 Government have agreed to push back the North East's ABR to wave 4, which is to commence in September 2016.

3.4 Local Growth Fund (LGF)

The proposed Agreement establishes the principle of a single five year programme allocation of local growth funding, to form part of the North East Investment Fund, and clarification was sought on how that commitment would be fulfilled.

3.5 Ministers have confirmed that this round of Local Growth Fund will be competitive, with the money going to those areas that bring forward the most ambitious proposals. Government suggest that with a Mayoral Combined Authority, the North East will be at an advantage compared to some areas. As a Mayoral Combined Authority, NECA/NELEP would be able to submit a programme level proposition, providing the ability to bring forward dynamic proposals that align with the wider investment strategy through the new Single Pot for the North East. The bid for the next round of LGF is due in July 2016.

3.6 In relation to the £2 billion of Local Growth Fund monies which are being allocated through the Homes and Communities Agency (HCA) Home Building Fund, the NECA has sought Government commitment to the North East preparing, in collaboration with private sector developers and the HCA, a 5 year programme to utilise these funds in the area. The Government have clarified that once the prospectus is launched, the HCA will engage on the mechanism of the fund with the NECA and the developers.

3.7 Investment Fund

Confirmation was sought that the proposed 5 year gateway review process for the investment fund would not be able to reduce the level of funding received to the extent that it is not possible to finance borrowing.

3.8 The Government has recognised the ambition of the plans to maximise the impact of the thirty year investment fund. The Government have confirmed that the level of funding would not be reduced subject to NECA's investments meeting both Government and the NECA's rigorous assurance and appraisal processes. Funding will be subject to Government's gateway review every five years as described in the deal, however clarification has been received that the earlier gateway reviews will recognise that the local and national economic impact of the investment fund may not yet be observable. As a result, the Panel will use appropriate metrics at each gateway, such as whether investments are being delivered on time and to budget. The panel will have to take into account NECA's specific approach to implementing the investment fund in the North East.

3.9 Government has provided the assurance requested on the matter and it is worth noting that the NECA is not the only Combined Authority that would be receiving an investment fund as part of their Devolution Agreement. In addition the first year tranche of monies for the investment fund will be available to Combined Authorities in the 2016/17 financial years pending ratification of their Agreement.

3.10 Sustainable Travel Funding

Confirmation was sought on how the Government plans to devolve sustainable travel funding to the region.

3.11 Government have confirmed that they have placed the £500m of capital for the Access Fund within the competitive element of the Local Growth Fund. Government are expecting the North East's forthcoming LGF proposal to include a package of sustainable transport measures building on the good track record to date. The NECA has already set out a proposal for a devolved sustainable transport allocation for the North East.

3.12 Fair Funding

Commitments were sought to ensure that the North East is not disadvantaged in relation to fiscal freedoms granted to the Scottish Government, and also does not suffer disproportionately from future funding reductions through a fair funding settlement.

3.13 The Government have provided the following commitments:

- Local Authorities have been provided with summaries and figures for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant allocations for the multi-year settlement offer, and the Government has committed to providing the amounts that have already been set out in that settlement.
- Looking to the future and the introduction of 100% Business Rates Retention, Government have provided assurance that there will be redistribution between councils so that areas have funding adjusted where they currently collect less in local taxes.
- The Fair Funding Review will consider the appropriate funding needs of different types of areas and assurances have been received that the Government intends to fully engage with the North East on this, and places great value on specific circumstances being recognised and accommodated.
- The consultation of the New Homes Bonus closed on 15th March 2016 and responses are currently being considered. Government have confirmed they will consider the impact on all parts of the country carefully where they implement the reforms.

3.14 Air Passenger Duty (APD)

Confirmation from Government was sought on how Newcastle Airport will be protected from the impacts of the devolution of APD to the Scottish Government.

3.15 Government agree that the North East has legitimate concerns about the potential impacts of air passenger duty devolution to Scotland on airports in the North East, and have confirmed that a formal response will shortly be published to the discussion paper published last year. The Government believe that there are possible solutions that would avoid State Aid or other restrictions. However, there remain real uncertainties as to the scale of impacts, not least due to decisions that remain to be made by the Scottish Government. Treasury officials are in regular discussions with Newcastle Airport on the airport's congestion charge proposal and will continue this dialogue on how to implement the preferred solution.

4. Further Devolution

4.1 The Devolution Agreement sets the framework for ongoing dialogue with Government to transfer more power and resources from Whitehall to the North East. If the current Agreement is ratified the Combined Authority and Government will start to progress further opportunities for devolution moving forward. Some of the opportunities open to the North East include but are not limited to:-

- Business cases for the relocation of significant government functions from London to the North East.

- Devolution of funding and assets held by central government which could be devolved to support faster housing and regeneration;
- Devolution of climate change initiatives, support for investment in energy efficiency and technological development;
- Measures to implement the Prime Minister's commitment to protect Newcastle Airport from the impact of devolution of Air Passenger Duty to Scotland;
- Opportunities for joint initiatives between the North East and Scotland, in areas such as tourism, culture, transport and industrial collaboration.
- Proposals for an appropriate relationship between the functions of a Mayor and future role of the Police and Crime Commissioners, including in relation to fire services, to be developed, subject to local consent and a business case developed jointly by PCCs and council leaders, and in consultation with the Fire and Rescue Authorities.

4.2 The Proposed Agreement also sets out a commitment for the NECA and the NHS to jointly establish a Commission for Health and Social Care Integration, to establish the scope and basis for integration, deeper collaboration and devolution across the NECA area, in order to improve outcomes and reduce health inequalities. The Commission is established, a public call for evidence will be published imminently and the Commission is due to report back in September 2016.

4.3 County Durham is in a unique position within the NECA regarding the police, fire and health and social care as the geographical footprint of these services extends beyond the NECA. Any proposed devolution in these areas will be subject to the consent of Durham County Council (and all other Constituent Authorities) and the NECA Leadership Board. Such devolution proposals would be supported by the inclusion of appropriate safeguards in decision-making to protect the interests of Durham County Council or other Constituent Authorities in a minority voting position in decision making.

5. Finance and Funding

5.1 If approved, the Devolution Agreement will bring additional resources from 2016/17 onwards to the NECA area, which could increase significantly in 2018/19 and future years with the devolution of skills and other funding. These additional resources will be administered by the NECA and the use of these resources will be determined by the NECA Cabinet, which would include the Elected Mayor.

- 5.2 The devolution of additional flexibility and the ability to take decisions locally about the allocation of existing and new resources is also a notable benefit of devolution. The intention is to maximise the benefits of flexibility through the operation of a Single Pot. The resources allocated at this stage up to 2020/21 amount to c. £589m and as noted in paragraph 5.1 these could increase considerably with further devolution. A single investment fund worth up to £1.5bn controlled in the North East would be created and funded through a new revenue stream from Government of £30m a year over the next 30 years. Flexibilities such as wider borrowing powers if secured would give real benefits in terms of accelerating capital investment and creating opportunities to achieve savings in revenue financing costs, which could be used to increase the level of investment in the NECA area.
- 5.3 In some cases discussions are continuing to confirm the details of the proposals and to seek confirmation of additional flexibilities such as borrowing powers. Discussion about additional funding, such as new investment for Metro Cars and extensions, will take longer to be concluded.
- 5.4 It is important for the region to have a strong voice to help secure the principle of fair funding. While there has been some improvement in the fairness of some of the funding decisions this year, other decisions do not support this principle. It is therefore important to continue to take advantage of the opportunity to discuss fair funding with the Secretary of State and the Chancellor of the Exchequer, potentially working in concert with other areas of the country, including other combined authorities in the Northern Powerhouse.

6. Next Steps

- 6.1 As previously set out, creating a Mayoral Combined Authority and conferring upon it the functions outlined in the Devolution Agreement will, if agreed, require secondary legislation in the form of Orders. Two Orders are required specifically for the NECA. Advice from the Department for Communities and Local Government has indicated the following timetable:-
- Order 1 to deal with the creation of a Mayoral Authority and the initial term of the Elected Mayor. The Order will need to be laid in May 2016 and implemented by 4 November 2016.
 - Order 2 to address issues relating to the devolution of powers and responsibilities to NECA. Order 2 requires NECA to undertake a Governance Review and develop a Scheme, which will be consulted on for a minimum of six weeks. Consultation on the Scheme will have to commence in early July following completion of the Governance Review. Order 2 will incorporate the provisions of the Scheme, and will require the consent of all participating Constituent Authorities. That Order will need to be laid in October, and will need to be in place by the end of December 2016.
 - In addition, there will be a number of generic Orders developed which will cover all Mayoral Combined Authorities, and the Government will be consulting on those during 2016

7. Reasons for the Decision

7.1 As main report.

8. Alternative Options to be considered, recommended to be rejected

As main report.