



HM TREASURY



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22 December 2008

Dear colleagues

PRE-BUDGET REPORT: CITY-REGIONS

We are writing to follow up our letter of 2 December, which drew your attention to the Government's recent proposals on city-regions in the Pre-Budget Report. We are grateful for the positive responses we have received to date.

These proposals build upon the progress local areas have made in increasing policy flexibility and improving collaboration through MAAs, which will continue to be a key tool for cooperation on economic priorities across local authority boundaries. The announcements in the Pre-Budget Report complement the suite of MAAs in operation and in development, by making clear the Government's intention to extend a comprehensive range of powers and freedoms to at least two areas that can demonstrate the ambition and capacity to deliver real improvements in economic growth and resilience, jobs, skills, housing and transport.

Greater devolution goes hand-in-hand with greater responsibility, with city-regions making tough choices about prioritisation across their economies, and responsibility for the outcomes of those decisions for the individuals, businesses and communities they represent. The proposals also build on the evidence base on the strategic economic importance of city-regions, the need for our city-regions to diversify their economic bases and evidence of the advantages of closer sub-regional collaboration. They complement the actions the Government is taking to ensure that our cities and regions are well-placed to manage the current economic situation and take advantage of future economic recovery for the benefit of the families and businesses in those areas.



INVESTOR IN PEOPLE

For those areas that can best use this vehicle to deliver economic outcomes and have the desire and capacity to do so, the Government will implement a genuinely comprehensive, cross-Whitehall approach to devolution, designed to improve co-ordination across a range of key economic levers on planning, housing, transport, skills, employment and joint-work on the feasibility of greater flexibility over capital funding.

The proposals will also incorporate ongoing dialogue between Government and local authorities over the policy solutions necessary to deliver long-term economic prosperity, which will continue to be a cornerstone of our approach to MAAs and LAAs. We recognise that the 'initial offer' in the PBR may need to be further developed with local and regional partners to suit particular circumstances, opportunities and needs, reflecting the co-operative and responsive approach we wish to use.

This letter invites groups of local authorities to approach the Government with expressions of interest in benefiting from these pilot proposals by 12 January 2009, and submit formal proposals by 27 February. This stage of the process is intended to ensure that the Government is aware of which city-regions are seriously considering putting forward proposals, and the membership of those city-regions.

Groups of local authorities will need to provide supporting evidence of the economic outcomes they think can be achieved - demonstrating their capacity to improve the economic performance of the regional and national economy, strong local capacity, governance and accountability at the city-region level, and of collaborative delivery between local authorities and with their regional development agency. Government will take a decision on the basis of this evidence and an announcement will be made in Budget 2009. The Government will evaluate the impact of the arrangements before considering whether to extend the new policy to other city-regions.

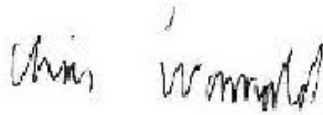
The explanatory note attached to this letter provides further details on the criteria and supporting evidence that the Government is looking for, and setting out the process leading to an announcement of which areas will be named as the city-region pilots in Budget 2009. If you wish to discuss any aspect of the process, please contact Cathy Francis:
cathy.francis@communities.gsi.gov.uk.

Copies of this letter go to Paul Raynes at the Local Government Association, Sue Baxter at the RDA National Secretariat, Stephen Marston at DIUS, Jill Rutter at Defra, Sharon White at DWP and Nick Bisson at DfT.

Yours sincerely,



Philippa Lloyd



Chris Wormald



Helen Bailey

EXPLANATORY NOTE ON TAKING FORWARD PROPOSALS ON CITY-REGIONS IN PBR 2008

This explanatory note:

- reiterates the Government's objectives in city-region pilots;
- sets out the process by which Government will reach its decision on which city-regions should be the pilots for the policy;
- gives an indicative timetable setting out the key milestones between now and Budget 2009; and
- invites groups of local authorities to approach Government with expressions of interest by 12 January, and submit formal proposals by 27 February.

OBJECTIVES

The announcement on city-regions in PBR 2008 (attached at Annex B) builds upon what we have already learned from past and current MAA negotiations, and from discussions with other partnerships such as City Strategy Pathfinders.

By introducing these pilots, the Government is seeking to:

- in the **short term**, explore the powers and funding that might be given to sub-regional partnerships under existing legislation, and further powers and funding that might be given once stronger arrangements for sub-regional governance are in place. The Local Democracy, Economic Development and Construction Bill – currently in the House of Lords – aims to introduce Economic Prosperity Boards. These will provide city-regions with an accountable decision-making body that could provide a platform for the process going forwards. The PBR sets out in high-level terms what the Government envisages being available to city-regions as a first priority, but there may be other policy flexibilities that could be introduced to better promote growth in these areas;
- in the **medium term**, test in practical terms, in real time and within current and proposed legislation, the established theoretical case for significant devolution to strong city-regions as set out in the SNR;
- understand the impact of devolution on the city-regions selected, including the effect on outcomes including employment, skills, productivity, the impact on the effectiveness of public and private investment in these areas, the wider impacts on the regional economy, and the impact on local leadership and capacity;
- allow the Government to explore whether there are any subsequent changes to national policy and/or further legislative measures that should be taken to support city-regions in their ambitions to really drive growth and prosperity; and

- in the **longer term**, examine whether to expand this approach to make the proposed policy flexibilities available to other sub-regions, and whether there are any wider lessons for areas looking to improve economic outcomes in their area.

PROCESS FOR SELECTING CITY-REGIONS

The Pre-Budget Report and our subsequent letter of 2 December made clear that city-regions will be selected on the basis of the highest levels of capacity, strongest partnership arrangements, their likely impact on overall regional and national economic performance, and the clearest sense of ambition to drive economic growth within their sub-region. The Government will use the following principles in coming to its decision:

- The process should be **transparent**, with all groups of local authorities sharing a common understanding of the process by which the Government has made a decision and the evidence that we will be taking into account.
- The process should be as **simple** as possible and **build upon evidence** that has already been produced, for example in MAAs, or information to inform the RES and RSS.

The timetable below sets out the key steps leading to an announcement of which areas will be named as the city-region pilots in Budget 2009.

Date	Milestone
22 Dec	Invite partnerships of local authorities to express an interest by 12 January
12 January	Deadline for expressions of interest from partnerships (see below on requirements for expressions of interest).
12 Jan-6 Feb	Workshops with interested parties
27 Feb	Partnerships to submit formal written proposals, setting out supporting evidence as detailed in this explanatory note. ¹
9 March	Ministers announce decision on which city-regions will benefit from pilot proposals in Budget 2009. ²

¹ The Government will assume that the formal written proposals from partnerships will have gone through the necessary local government clearance procedures. If there are likely to be any problems with this, we expect partnerships to note this in their EoI and contact us as soon as possible to discuss timescales.

Expressions of Interest

We would expect Eols to take place, in writing, by 12 January. Eols do not have to set out how the partnership meet the criteria set out below, this will need to be done via the formal written proposals by 27 February. However, we would expect city-regions to provide full details of the membership of their partnership, listing local authority and other partners, and an indication of the broad areas where they might be seeking additional policy or financial flexibilities. Expressions of Interest should be no more than 3 pages long.

² There is currently no planning assumption date for Budget 09. For planning purposes, this indicative timetable assumes that the Budget will take place in the week beginning the 9 March. The timetable will need to be revised accordingly once a confirmed Budget date is available.

CRITERIA AND SUPPORTING EVIDENCE FOR SELECTION OF CITY-REGIONS

Threshold Criteria

T1. The area must be able to demonstrate that they have a coherent economic geography.

The Government expects to select areas that meet conditions A to C in clause 83 of the Local Democracy, Economic Development and Construction Bill. Partnerships will be expected to supply or point to evidence as to how far the geographical area covered by the proposal operates as a functional economic area. Partnerships may wish to use (but are not restricted to) the following data: travel to work/learn patterns, housing market data; retail spending patterns; investment in research/technology; skills diversity, development and levels; financial and investment parameters (eg return on capital employed, private sector leverage).

T2. A clear statement of which functions will be carried out at the city regional level.

Partnerships will be expected to set out which economic and infrastructure functions will be exercised at the city-regional level and which will continue at the level of individual local authorities, including once new statutory arrangements are available to local authorities. The Government will expect that the powers and functions held at the city-regional level will be sufficient to make an impact on economic development.

The Government will normally expect that in due course an Economic Prosperity Board would be combined with an Integrated Transport Authority where both are established or proposed. Where this is not the case, evidence should be provided on how the Board, or alternative model of governance, will liaise with those authorities exercising transport functions relevant to the economic prosperity of the area.

Ranking Criteria

R1. Economic significance and potential contribution to regional and national growth.

This criterion is designed to test both the economic significance of city-regions and the potential added value in terms of regional and economic growth of taking the proposed devolutionary measures. Partnerships will be expected to demonstrate that they are able to produce improvements that would drive up the overall performance of their region and the country in the Government's economic priorities, ie. that will improve the rate of progress towards the Government's Public Service Agreements 1 and 7, that is, to raise the productivity of the UK economy, and, to improve the economic

performance of all English regions and reduce the gap in economic growth rates between regions.

The Government will also take into account likely improvements against Public Service Agreements, in particular:

- PSA 2. Improve the skills of the population, on the way to ensuring a world-class skills base by 2020
- PSA 4. Promote world class science and innovation in the UK
- PSA 5. Deliver reliable and efficient transport networks that support economic growth
- PSA 6. Deliver the conditions for business success in the UK
- PSA 8. Maximise employment opportunity for all
- PSA 20. Increase long term housing supply and affordability

Partnerships will be required to demonstrate that their evidence base is underpinned by reliable data that has been used to inform existing plans and strategies, such as the RES and RSS.

Evidence/information:

- Evidence of the city-region's current contribution to the regional and national economy;
- Evidence of a thorough understanding of the economic issues facing the city-region and how the flexibilities within the PBR package would help to tackle these issues;
- Evidence of how pilot status would enable city-regions to make a greater contribution to the priorities agreed in the Regional Economic and Spatial Strategies (or Regional Strategy once introduced)
- Any available estimates (preferably from an independent source) of the improvements in outcomes in the Government's core economic objectives on Regional Economic Performance, Employment, Skills, and Housing that would be realised provided by the PBR package to residents of the city-region – particularly in parts of the city-region that are currently underperforming; and
- Evidence of other improvements that city-regions would be able to make if they were granted pilot status, such as efficiency savings and more effective use of public resource to lever in private investment.

R2. A clear vision, and the capacity to deliver it

The Government will be looking for evidence that the city-region has a clear vision for how it will use additional policy and financial flexibilities to achieve real change in economic outcomes in their area.

Partnerships will be expected to provide reassurance that their plans are realistically deliverable within given timescales and economic conditions.

Evidence/information:

- Information about the programmes and projects that will be made possible as a result of the increased flexibilities set out in the PBR and how the delivery of these schemes will be managed, including whether use will be made of delivery vehicles in place at the city-regional level.
- Evidence of track record on delivery of existing projects in the city-region, which have involved collaborative working, including with the private sector.
- Evidence of how new arrangements will provide efficiencies in delivery across the city-region.
- Evidence of equity and sustainability in both delivery and long-term governance.
- Evidence of accountability to and engagement with communities, the public and stakeholders.

R3a). Evidence of ability to take decisions collectively

Partnerships will be expected to supply or point to evidence of ability to take decisions collectively.

Evidence/information:

- Evidence of existing machinery already in place that requires cooperation, e.g. an MAA, HMR Pathfinder, Growth Area/Point, Passenger Transport Authority, Employment and Skills Board, or other joint boards or joint committees.
- Other supporting evidence that the area has a history of effective working across local authority boundaries- for example pooling/aligning of resources (financial or staff resources), joint targets (eg. joint LAA targets), evidence of joint decision-making in the collective interest of a group of authorities (for example planning decisions, joint working on Regional Strategies or Funding Advice).

R3b). An effective mechanism for taking decisions at the city-regional level

Partnerships will need to demonstrate that they will be able to make decisions collectively and will be expected to supply or point to evidence that there are effective mechanisms in place for managing joint working across the city-region. They will need to set out what mechanisms already exist or could be put in place, to a) identify and tackle under-performance against objectives, b) manage disagreement and c) ensure financial and delivery accountability. Mechanisms should be commensurate with the nature of the proposed devolution of flexibilities to the city-region level and offer the strongest basis for dialogue about the development of tailored policy packages for individual city-regions going forwards. The Government's preferred mechanism to underpin these proposals would be Economic Prosperity Boards.

Evidence/information:

- Are structures in place to make sure that activity carried out at the city-region will be effectively and publicly scrutinised?

Other evidence that will be taken into account

- Evidence that other non-LA partners, for example RDAs and local business representatives, are supportive of stronger working at the city - regional level.
- Partnerships' proposals should also include a commitment to work closely with the RDA and the Local Authority Leaders' Board (once established) to ensure alignment between the city region's proposals and the new Integrated Regional Strategy
- For context, it may also be useful to include details of the historical relationship between local authority members of a partnership.

Annex A: FAQ

1. The PBR says ‘city-regions’. Can two-tier areas submit proposals? What about areas that are not core cities?

Any group of contiguous upper, lower or single tier authorities would be eligible to submit a proposal. Proposals will be assessed against the criteria set out in the explanatory note above, including the need to demonstrate a coherent economic geography.

Lower tier authorities who wish to submit a proposal must have the agreement of the relevant county council before submitting a proposal. Not all the districts in a county need be part of the partnership that puts forward proposals. That is, it would be possible for a pilot to cover part of a county in geographic terms. All partnerships should have regard to the criteria in the explanatory note, and in particular, must be able to provide clarity about what functions will take place at which spatial level, should they be chosen.

2. Government has already agreed some aspects of this package with me through my MAA – will that still be the case if I’m not selected through this process?/ I am involved in MAA negotiations about some aspects of this package- will I reduce my chance of Government agreeing to this if I don’t submit proposals through this process?

The Pre-Budget Report set out a list of components that the Government envisages will be available to pilot city-regions. The Government will be carrying out further detailed work to develop this package and this list is not necessarily exhaustive. The Government’s view is that not all of these components will be restricted to pilot city-regions. The Government remains committed to policy flexibilities that the Government has already formally signed up to through an MAA. MAA partnerships that have not been signed off should continue to negotiate with Government and make the case for policy flexibilities in the same way as before.

3. Will the elements of the package only be negotiated through these two places now?

[See above]

4. Is the list of things that go into the package exhaustive?

[See above].

5. My city region is planning to review governance arrangements for transport under the Local Transport Act 2008? Are we eligible?

Yes, but a city-region will not be required to be a pilot if they wish to set up or review an ITA. Whether or not regions wish to apply for pilot status should not affect their going ahead with plans to set up or review an ITA, and the Government will still be ready to consider what responsibilities might appropriately be devolved to it. DfT have issued guidance on the procedures for Transport Governance schemes.

5. Will we get any money to support the work that we do through this process?

There will be no additional resource available.

6. Can I submit additional supporting evidence beyond what you've set out in this letter?

Yes. Government is interested in evidence that responds to the criteria and accepts as such that it may be best captured in a different form to the examples suggested. However the Government does not anticipate submissions will require very lengthy supporting material.

7. Does our partnership have to agree to set up an Economic Prosperity Board?

EPBs are the Government's preferred basis for underpinning these new arrangements. Partnerships will wish to consider whether an EPB (as and when they become available) is the optimum mechanism to support joint working for their area in the future, or whether alternative arrangements would be more suitable.

8. How will the city-region pilots be monitored/performance managed?

Partnerships will be expected to set out how they envisage the performance of their city-region will be managed, and a commitment to agree sub-regional targets. This should be within the context of the local performance framework/Comprehensive Area Assessment.

9. What does Government mean by 'greater flexibility over capital funding?' Does this include the RDA single programme budget?

The Government will explore with city-regions how much additional flexibility can be granted under existing legislation and to non-statutory partnerships, in order to inform future decisions on whether either policy or legislative changes are needed. In doing so we will build upon the work already in progress with a number of MAAs to enable them to re-profile the sequencing of individual projects, between and within specific capital funding streams, including HCA funding, RDA single programme budget and potentially other departmental capital programmes.

9. What if I want to apply for the new flexibilities after 27 February?

The timetable set out in this letter is based on the Government's intention to announce the city-regions in Budget 2009. We acknowledge that these timetables are challenging, but it is important that all partnerships are given the same amount of time to prepare their proposals and that Government is able to consider proposals fully. Applications made after this date will not be considered for pilot status.

10. How will RDAs work with the city-regions?

The RDAs will have a central role in taking forward the city-region agenda. There is a clear and logical role for RDAs in acting as a galvanising force in the development and regional co-ordination of stronger city-regions. We envisage an important role in working with city-regions to identify economic opportunities and helping to develop proposals for devolutionary measures as part of the process outlined in the PBR.

11. How does the process for identifying city-region pilots relate to the sector productivity and progression pilots also announced in the PBR?

Sector productivity and progression pilots will test how coordinated training and business support services can boost productivity and help create higher-value job opportunities. Although it is possible that candidates for fore-runner city regions will

also be interested in taking part in these pilots, we are not seeking proposals for sector productivity and progression pilots at this stage. We will be writing to RDAs in the New Year to set out the criteria and process for selecting these pilots.

ANNEX B: Pre-Budget Report Announcement

Devolving responsibilities to city-regions

4.75 *The UK Economy: addressing the long-term strategic challenges* sets out the increasingly vital role that cities and their city-regions will play in driving regional and national prosperity and responding to new challenges. Building on the Sub-National Review, and Multi-Area Agreements in particular, the Government will support city-regions to fulfil this role by agreeing, on a voluntary and tailored basis, a set of devolutionary proposals with local authorities in city-regions, to increase further their ability to drive economic growth and contribute to sustainable development. The Government intends to announce new agreements with at least two forerunner city-regions at Budget 2009.

4.76 These proposals will support stronger integration of planning, housing, transport, regeneration, employment and skills to drive sustainable growth and economic development, ensuring policy decisions are made at the right spatial level. The proposals will be underpinned by new statutory arrangements for sub-regional cooperation between local authorities, supporting strong local capacity, governance and accountability at the city-region level.

4.77 RDAs will play a key role supporting sustainable growth within city-regions, as part of their broader role in driving up regional economic performance, and ensuring that city-region policies remain coordinated with those of other sub-regional and local economies. RDAs will support city-regions in developing proposals for devolutionary measures and work with city-regions to increase capacity where it is needed, as they increasingly take on a strategic programme management role. RDAs will also support strong city-regions through their role in formulating regional strategies.

4.78 New agreements will be developed with the local authority city-region leadership, in order to suit particular needs. The Government envisages that the following components will be available:

- Increased statutory responsibilities for strategic transport issues;
- Integration of the DWP three levels of devolution model, as announced in the Welfare Reform Green Paper;
- a city-region Employment and Skills Board, with strong employer representation and formal powers to influence provision in line with employer demand;
- a joint board between the city-region and the Homes and Communities Agency to provide strategic direction of housing and regeneration spending, in line with the Agency's area-based approach to working with local and regional partners;
- Integrated city-region planning within the context of the Single Regional Strategy; and
- Joint investment planning with key partners. As part of this, Government would consider the merits of greater flexibility over capital funding to support the more effective programme management of projects.