

**LIVERPOOL CITY REGION STRATEGIC GOVERNANCE
REVIEW**

AUGUST 2013

DRAFT

1. INTRODUCTION

1.1 This report has been prepared on behalf of the Liverpool City Region Cabinet, which brings together the Mayor of Liverpool and Leaders of the other five Local Authorities of the Liverpool City Region: Halton, Knowsley, Sefton, St Helens and Wirral. The report sets out the findings from a review of strategic governance arrangements in the Liverpool City Region.

1.2 The strategic governance review has been carried out in accordance with Section 108 of the Local Democracy, Economic Development and Construction Act 2009. This requires that a governance review in relation to a potential Combined Authority must address the effectiveness and efficiency of:

- a) Transport within the area covered by the review; and
- b) Arrangements to promote economic development and regeneration within the review area.

The full legislative requirements are set out in Appendix One.

1.3 The purpose of this review was to determine the following:

- Whether the area covered by the local authorities of Halton, Knowsley, Liverpool, Sefton, St Helens and Wirral can properly be seen as constituting a functional economic area for the purpose under consideration in the review; and
- Whether the existing governance arrangements for economic development, regeneration and transport are effective or would benefit from changes, including establishing a Combined Authority.

1.4 The governance review has to date considered the options available and in relation to each option, evaluated the likely improvement in:

- The exercise of statutory functions relating to economic development, regeneration and transport in the area;
- The effectiveness and efficiency of transport in the area; and
- The economic conditions in the area.

This is because before a scheme for a Combined Authority can be prepared a review has to show that the creation of such a body would be likely to improve these matters and make them more effective and efficient.

1.5 Having examined these issues the report draws conclusions about the nature of the Scheme being recommended for the Liverpool City Region.

2. EXECUTIVE SUMMARY

- 2.1 The Liverpool City Region has been transformed over the last twenty years with the rejuvenation of Liverpool City Centre, greater utilisation of our indigenous assets and the growth of our key sectors. The City Region's economy is now one of the fastest growing in the UK and has closed the gap on national performance, but there remains a significant challenge to continue this. The economy is still not as large as it needs to be.
- 2.2 Working together with our businesses the potential of an additional GVA of £2bn and up to 100,000 jobs for our economy has been identified for future years, an opportunity unparalleled in the country. The role of Government and the public sector is to support and facilitate this growth where it is needed. This is not just for the benefit of the Liverpool City Region and our communities but also the UK as a whole.
- 2.3 Our vision is to create a thriving, international City Region; and to achieve this, the Liverpool City Region must accelerate the opportunities for economic growth and utilise all means necessary. There is strong evidence that the Liverpool City Region has latent potential for additional economic output: if the City region performed at the national average an additional £8.2bn of output would be generated per annum for the national economy.
- 2.4 To do this would involve building on the existing commitments articulated in both the Liverpool City Deal and Liverpool City Region Deal, and by maximising opportunities to enhance the local delivery of national programmes that are critical to improving local growth. Ensuring that clear and effective arrangements are in place to enable long-term strategic decision making at the City Region level is an essential component to drive economic growth which is why this governance review needs to consider the appropriate options to achieve this and make recommendations.
- 2.5 Whilst the Liverpool City Region was more robust than many other City Regions at the outset of the recession it continues to face a number of economic challenges that are aggravated by the current global economic climate: productivity is 75% that of national rates, there is a gap of 18,500 businesses compared to national rates, a jobs deficit of 90,000, a skills deficit at all levels and one in ten residents are in receipt of either jobseekers' allowance or sickness benefit. In combination, these deficits contribute to the average household per-head being £1,700 less wealthy each year than the average nationally.
- 2.6 Economic analysis by the OECD demonstrates that strategy integration across key policy domains can deliver economic benefits at the local level in terms of sustainable economic growth and employment. It emphasises the importance of organisational capacity at the functional spatial level, a level which would be consistent with the City Region which is considered to be a 'functional economic area', with 84% of employed residents working within the Liverpool City Region (2012 Annual Population Survey).
- 2.7 The six Councils in the Liverpool City Region have a strong track record of working together on areas of mutual benefit, dating back before the Liverpool City Region Development Plan, which was agreed in 2007. Collaborative working has evolved

over the years and a number of City Region Boards bring together democratic leadership and senior business leaders, including the Local Enterprise Partnership. In 2012 the City Region made further strides towards improving its governance arrangements, with the establishment of the Local Transport Body. However, these overarching arrangements remain informal without any independent legal status and could be improved, particularly around providing democratic leadership, transparency and accountability. There is a general consensus that the City Region has outgrown these existing arrangements and the time is now right to take the strategic governance arrangements to the next level, moving from a process of informal collaboration to joint strategic decision making.

- 2.8 It was agreed at the Liverpool City Region Cabinet meeting on 21 June 2013 that a review of strategic governance arrangements should be undertaken. One of the drivers for this review was to make sure that the City Region is well placed to secure greater influence over key levers affecting local growth, including freedoms, flexibilities and funding which would otherwise remain under the control of Whitehall. This approach builds on the commitments identified in the Liverpool City Region Deal which was agreed with Government in Summer 2012.
- 2.9 The approach taken to undertake this governance review was in accordance with Section 108 of the Local Democracy, Economic Development and Construction Act 2009. The methodology included a review of evidence, desktop research of current arrangements, a series of workshops and discussions with stakeholders, including constituent local authorities, Merseytravel, the Local Enterprise Partnership, strategic partners and neighbouring authorities and an options assessment based upon this evidence.
- 2.10 The review considered the following options:
- Option 1 – status quo
 - Option 2 – establishing a Supervisory Board
 - Option 3 – establishing an Economic Prosperity Board
 - Option 4 – establishing a Combined Authority
- 2.11 After evaluating the current available evidence and the options available to the City Region, the current view is to explore further the option of a Liverpool City Region Combined Authority model, and to include the functions currently exercised by the Merseyside Integrated Transport Authority and Halton's strategic transport functions, as the preferred governance option. This would give legal form to the close working relationships that already exist between the six local authorities, the Integrated Transport Authority and the Local Enterprise Partnership by creating a sub-regional body with legal personality and a governance mechanism that can act across the combined area.
- 2.12 A strong Combined Authority would be able to bring together key decision making powers into a single body, exercising appropriate strategic transport and strategic economic development and regeneration functions. It would provide a visible, stable and statutory body which could act as the accountable body to attract further funding to the Liverpool City Region to support economic growth, alongside any additional powers which may be devolved from Government. This would not have any additional resource implications for constituent Councils and is expected to be at least cost neutral.

2.13 The current view is that the benefits of operating as a Combined Authority for the Liverpool City Region would through its integrated governance arrangements:

- Improve the exercise of statutory functions by bringing together strategic decision making powers into a single Body to facilitate better alignment, co-ordination and delivery of economic development, regeneration and transport related initiatives;
- Increase the effectiveness and efficiency of the related functions by reducing potential duplication of interest between the roles and responsibilities of the constituent local authorities, ITA and the LEP;
- Ensure long-term effective engagement with business and other sectors, including employment and skills providers and registered housing providers; and
- Lead to an improvement in the economic conditions of the City Region.

3. RECOMMENDATIONS

3.1 The conclusion from the work currently undertaken on the strategic governance review recommends that:

- a) Liverpool City Region should establish a Combined Authority model of governance relating to economic development, regeneration and transport pursuant to Section 103 of the Local Democracy, Economic Development and Construction Act 2009. This will accelerate economic growth and improve the economic conditions in the City Region.
- b) Merseyside Integrated Transport Authority shall be dissolved pursuant to Section 91 of the Local Transport Act 2009 and its functions transferred to the new Combined Authority.
- c) Strategic transport powers should be transferred from Halton Borough Council to the Liverpool City Region Combined Authority.

4. THE LEGAL CONTEXT

4.1 Part 6 of the Local Democracy, Economic Development and Construction Act, 2009 (the 2009 Act) enables the creation of Economic Prosperity Boards or Combined Authorities. These are sub-national structures that have separate legal personality to the Local Authorities who come together to create them. These bodies are available to support the effective delivery of economic development and regeneration, and in the case of Combined Authorities, transport.

4.2 The 2009 Act sets out the process for the creation of Economic Prosperity Boards or Combined Authorities relating to their constitution and organisation. The legislation is not prescriptive and the detail of how these bodies are established, how they will operate and what their functions will be is left to be determined locally, subject to final approval by the Secretary of State.

4.3 The Localism Act 2011 contains powers for the Secretary of State to transfer the powers between authorities (including Combined Authorities) and also to transfer ministerial functions to such authorities. Property, assets and liabilities relating to those functions can also be transferred. Notably, transfers and delegations of

additional functions under this legislation can be made at any time and independent from the procedure to create Economic Prosperity Boards or Combined Authorities.

5. METHODOLOGY FOR THE GOVERNANCE REVIEW

- 5.1 At their meeting on 21 June 2013, Liverpool City Region Cabinet agreed to formally review the strategic governance arrangements across the area in the context of the March 2013 Budget and the Government's response to Lord Heseltine's review 'No Stone Unturned in Pursuit of Growth'. The intention was to consider potential options for strengthening governance arrangements to enable the City Region to optimise its economic growth potential.
- 5.2 The statutory process to establish a Combined Authority or Economic Prosperity Board has three main steps:
- First, a review of existing governance arrangements for the delivery of economic development, regeneration and transport. This must lead to the conclusion that there is a case for changing these arrangements based upon real improvements.
 - Second, drawing up and consulting on a scheme for the new body upon which the authorities are required to engage to secure support amongst stakeholders. All constituent Councils are required to approve the scheme for submission to the Secretary of State for Communities and Local Government.
 - Finally, the Secretary of State will consider the scheme and undertake a formal consultation. If satisfied with the proposals, a draft order will be laid before both Houses of Parliament for adoption by affirmative resolution.
- 5.3 An Officer-led working group was tasked with undertaking the review, comprising senior officers and relevant experts from each of the constituent local authorities, Merseytravel and the Local Enterprise Partnership (LEP). This included the following activities:
- **Review of economic evidence** to test the rationale for working across the Liverpool City Region geography as a functional economic area. This included a review of previous strategies and identification of key information to assess the economic conditions of the area.
 - **Desk research** of the current governance arrangements and structures.
 - **Workshops** to collect views and evidence from stakeholders in each constituent authority, Merseytravel and the LEP to consider the functions or activities that could benefit from strengthened collaborative governance arrangements.
 - **One to one interviews** with external stakeholders, including LEP members, Chambers of Commerce and neighbouring local authorities, to collect views on the draft proposals.
 - **Options assessment** based on this evidence.
- 5.4 Liverpool City Region has developed, over a period of time, a strong evidence base which supports both the need for economic growth and the opportunities to achieve this. The evidence base for the emerging 'Growth Plan' is being written in parallel with activity to develop the City Region EU Investment Funds framework for 2014 – 2020, which has informed the governance review. There has been extensive consultation to date on the EU Programme development, including considerable

engagement with representatives from business, the public sector and academic institutions across the City Region: some 150 people attended a stakeholder event on 23 April 2013 and a number of thematic engagement sessions were also undertaken to capture further evidence.

- 5.5 The findings from all this research has been analysed by the Officer-led working group and the information collected used to inform the production of this governance review report.

6. VISION FOR THE LIVERPOOL CITY REGION

6.1 The vision for the Liverpool City Region is to create a thriving, international City Region. We are committed to establishing the Liverpool City Region as a top international and national investment location, with global trade, knowledge, manufacturing and tourism relationships. We will enhance our status as a thriving international City Region by developing the long-term sustainability of the economy through:

- Accelerating the creation of new business.
- Supporting growth and improving productivity in local small and medium sized businesses.
- Making best use of public sector funds to induce private sector business investment and to maximise private sector leverage.
- Delivering a step change in our economic performance by prioritising our investment activity in transformational areas, such as the Visitor Economy; Knowledge Economy; Liverpool SuperPort and the Low Carbon Economy.
- Increasing the number of residents who are in work.
- Increasing the scale of economic activity and developing global markets.
- Working with business to produce a demand-led programme of investment in skills and learning.
- Promoting economic growth and meeting the demands of the low carbon agenda.
- Supporting all potential investors with planning, access and infrastructure, sites availability and finance.
- Supporting Atlantic Gateway development including Wirral and Liverpool Waters and the Daresbury Enterprise Zone, incorporating Sci-Tech Daresbury.
- Reducing dependency on benefit systems.
- Reducing the number of families bringing children up in poverty.

6.2 Four key sectors are already creating new jobs and new opportunities (the Low Carbon Economy, the Knowledge Economy, Visitor Economy and the SuperPort) and these are at the heart of the City Region's economic development strategy. In addition, the Atlantic Gateway, a strategic growth corridor stretching from SuperPort on the Mersey along the Manchester Ship Canal into the heart of Manchester, represents a unique investment opportunity of international importance.

6.3 The Local Enterprise Partnership (LEP) is playing an important role in developing the conditions for economic growth and is working with key partners in business, the local authorities and universities to produce a Liverpool City Region Growth Plan which will underpin the delivery of the City Region's shared vision and ambition.

- 6.4 The City Region has an established track record of working together on strategic employment and skills to support the current and future requirements of business. This is evidenced by the business-led Employment and Skills Board and an existing Employment and Skills Strategy (transform, compete, thrive). The strategic framework provided by the Employment and Skills Board and the clear priorities that underpin it is widely supported by business, public sector partners, colleges and training providers.
- 6.5 We already have an agreed plan of priorities for both housing and transport, which are based upon improving connectivity and ensuring a choice of quality and affordable homes. The provision of an efficient transport system is critical to helping the City Region achieve this and the wider economic vision.
- 6.6 Sustainable economic growth is vital to the City Region. Our Local Transport Plans support this, and carbon reduction. These are underpinned at a local level by a commitment to help improve the health and wellbeing of the community. It is critical that the Liverpool City Region continues to better link the location of new developments and facilities with the transport network in order to ensure ease of access for all and reduce unnecessary travel.

7. ECONOMIC CONTEXT

- 7.1 Liverpool City Region has a population of 1.5 million covering the local authority areas of Halton, Knowsley, Liverpool, Sefton, St Helens and Wirral and over 36,000 active businesses. The City Region has one of the fastest growing economies in the UK, with growth being driven across four key sectors: (the Low Carbon Economy, the Knowledge Economy, Visitor Economy and the SuperPort). The area is considered to be a functional economic area, with 84% of employed residents working within the City Region (Annual Population Survey 2012): 75% of residents living and working in an area is sufficient to justify a functional economic area.
- 7.2 The Liverpool City Region is a globally connected economic centre with real competitive advantage. Through its Port, airport accessibility, and its international companies and cultural assets it has reach far beyond the UK and will host an International Festival for Business in 2014. World leading companies including Unilever, Jaguar Land Rover, Maersk, NSG (Pilkington), Novartis, Iberdrola and Sony, are major investors in our business friendly and cost competitive environment.
- 7.3 The City Region has been transformed over the last twenty years with the rejuvenation of Liverpool City Centre, greater utilisation of indigenous assets and the ongoing growth of our key sectors. For example, the area now hosts some of the largest offshore wind farms in the UK, placing the Liverpool City Region at the forefront of the UK's offshore wind industry and a significant global location for offshore wind investment, with CORE (Centre for Offshore Renewable Energy) status. Collectively, these sectors represent outstanding opportunities for further growth - both in terms of output and jobs. Econometric forecasts^[1] have indicated that these sectors could generate up to 100,000 jobs for our economy in future

^[1] The City Region, via the LEP has commissioned a new set of forecasts to support the development of the Liverpool City Region Growth Plan due to be submitted in March, 2014.

years and the City Region already has established, private sector led Action Plans to achieve that economic potential.

- 7.4 There is a latent potential within the City Region for additional economic activity. If performing at the national average an additional £8.2bn of output would be generated per annum for the national economy. To achieve this we would need to create an additional 18,500 businesses and see a further 90,000 jobs created. And from doing this, we can close the annual £1,700 per-head 'wealth-gap' between the average household in the City Region and the average household in the UK - giving our communities the resources they need to be sustainable in the long-term. This will mitigate the cost of child poverty to the City Region, which is current estimated to be £970m per year.
- 7.5 In the next twelve months alone the City Region will see £1.3bn of construction and development work begin as the Mersey Gateway Bridge in Halton (£600m), the post-Panamax, 'Liverpool 2' deep water berth at the Port (£340m), and the redevelopment of the Liverpool Royal Hospital (£330m) all get under-way. With ambitious, £10bn plans to develop our Enterprise Zones at Wirral Waters and Liverpool Waters, the ongoing development of Daresbury as a national science asset, and plans to bring forward logistics and development sites across the City Region there is a real opportunity that collectively, the City Region can take forward.
- 7.6 What sets the Liverpool City Region apart from other areas is our unique set of economic assets and the willingness of our partners, especially the private sector, to contribute to achieving an improved economic performance. With over 400 members, no other City Region or LEP area in the country has the same level of private sector buy-in and support as the Liverpool City Region LEP.
- 7.7 In achieving our economic vision and objectives, it is imperative that success reaches all parts of the Liverpool City Region. This includes addressing some of the long term structural issues that if not dealt with will hinder the City Region's economic growth, including low business density, significant skills gaps, relatively high levels of unemployment and relatively low productivity.
- 7.8 Whilst the growth secured between 1997 and 2007 has narrowed the gap with the UK on a number of economic indicators, the rebalancing from a public sector dominated economy to a private sector based economy is not happening as quickly as in other areas. An example is that nationally since 2010 the private sector has created 3 jobs for every public sector job lost, whereas in the City Region, 1¼ jobs have been created for every public sector job lost.
- 7.9 Good transport is essential for the quality of life and economy of the City Region. It provides for the efficient movement and access of people and goods across the area. In overall terms, the City Region has a very comprehensive transport network that allows these connections to be made. However, for some people and especially those living in our most disadvantaged communities, these opportunities are not always readily available to them. High levels of worklessness in some communities and poor access to healthcare, education and food shopping have been highlighted as particular issues.

8. EXISTING GOVERNANCE ARRANGEMENTS

- 8.1 Liverpool City Region has long advocated devolution and decentralisation to real economic geographies, the places that drive local economic growth. We are committed to working with Government to do this and to ensure we deliver economic prosperity and opportunity. Our existing governance arrangements and models of partnership working for economic development, regeneration and transport have evolved over a number of years, and the extent of this is evidenced throughout the document. There are currently a number of Boards across the City Region bringing together the democratic leadership and senior business leaders to support our ambition to be a thriving, international City Region, with those particularly relevant to this governance review summarised below.
- 8.2 The 2009 Act does not provide a definition of economic development as this can vary in different areas depending on local circumstances. For the purpose of this review, economic development and regeneration is taken to cover strategic activity related to business support, inward investment, trade and export, strategic housing, and employment and skills, in addition to the transport roles and functions. This review has only considered options that are available to the City Region now through existing legislation: as such the option for a City Region level Elected Mayor is excluded.

Liverpool City Region Cabinet

- 8.3 The six Councils in the City Region have a track record of working together on areas of mutual benefit, dating back before the Liverpool City Region Development Plan, which was agreed in 2007. Following this, the Liverpool City Region Cabinet was established in 2008 to take forward this and other work. The City Region Cabinet is made up of the Mayor of Liverpool and Leaders of the five Councils. The Cabinet demonstrates high level leadership and has been effective at setting the strategy for the City Region and working in partnership with business leaders to develop the conditions for economic growth.
- 8.4 In 2008 the Cabinet agreed that each Leader/nominated member would lead on one of the portfolios identified in the City Region governance structure, and each Portfolio Holder would be supported by a Chief Executive acting as Lead Advisor. This led to a series of thematic City Region Boards, across transport, economic development, employment and skills, housing, health, and child poverty and life chances. Many of these boards bring together the democratic mandate and the contributions of the private sector and other partners.
- 8.5 The City Region Cabinet has been effective as an informal mechanism to foster and develop joint working and responses to City Region level issues; a recent example being the development and agreement of the Liverpool City Region Deal with Government in 2012. It does, however, lack formal underpinning arrangements and as such is unable to take formal decisions.

Liverpool City Region Local Enterprise Partnership

- 8.6 Liverpool City Region Local Enterprise Partnership (LEP) was established in March 2012 and formally incorporated: as such, it has a unique structure with over 400 members contributing to the success of the Partnership. This provides the LEP Company with an income stream which adds value to public funding for economic development, including European monies and sees the private sector playing a direct role in setting the economic agenda for the City Region. The Mayor of Liverpool and the other five Leaders also sit on the LEP Board alongside the private sector.
- 8.7 The LEP has established sector committees and panels around the key sectors for economic growth: Low Carbon Economy, SuperPort, Visitor Economy, Advanced Manufacturing and Innovation. This provides the opportunity for businesses and public bodies to work together on identifying the key actions and opportunities that will support the delivery of jobs and growth. These structures have proved highly successful at setting joint public/private strategies and action plans to create jobs and growth.
- 8.8 The LEP has also been given a set of strategic responsibilities by Government in terms of prioritising investment (such as with Growing Places Funds) as well as setting future economic strategy for the City Region through the requirement for a Growth Plan by Spring 2014 and the determination of European Funding priorities. The unique model of the Liverpool City Region, which fully integrates the private sector role within City Region decision making is a real strength that cannot be matched by other City Region areas in England.

Transport powers and structures

- 8.9 The current transport arrangements in the Liverpool City Region are fundamentally complex. Merseyside Integrated Transport Authority, supported by its Passenger Transport Executive, is the local transport authority for Merseyside and is responsible for developing a Local Transport Plan and managing associated funding streams. The Executive is responsible for delivering passenger transport services across Merseyside. The districts of Knowsley, Liverpool, Sefton, St Helens and Wirral are highway and traffic authorities in their own right with wide ranging powers over the highway network, which includes delivery and enforcement. Halton Borough Council is a local transport authority in its own right and has a separate Local Transport Plan. As a result of this complex structure, there has been long standing and extensive collaboration and joint working on transport issues between City Region Councils, the Integrated Transport Authority and increasingly the LEP, with the establishment of the Local Transport Body to serve the City Region as a case in point. The aligned Local Transport Plans and implementation plans are a further example of this.

Liverpool City Region Employment and Skills Board

- 8.10 The Liverpool City Region has a track record of working together on Employment and Skills strategy across the functional economic area. The City Region's Employment and Skills Board leads work on jobs and skills on behalf of the City Region Cabinet and the LEP. It focuses on implementing the existing 10-year Employment and Skills Strategy and the City Region Deal for Jobs and Skills. It oversees the City Region's Labour Market Information Service, which communicates economic opportunities to the vast array of colleges, training

providers and employment support providers. It also provides governance arrangements for a range of different devolved funding streams.

Liverpool City Region Strategic Housing and Planning Board

- 8.11 There is already considerable collaboration on strategic housing priorities and public sector assets aligned to the City Region's economic growth and regeneration ambitions. We have prepared a joint Local Investment Framework, for the delivery of our housing priorities, since 2009 and we have secured over £80 million pounds of investment as a result. The Board has recently been working on the Local Investment Framework for 2014 – 17, which will include a spatial framework, to support the Local Growth Plan. This Local Investment Framework will continue to identify and promote all housing opportunities which support economic growth and will identify all potential funding resources to support the delivery and to bridge funding gaps.
- 8.12 Both the Liverpool City Region Cabinet and LEP Board regularly review the strategic management of the City Region's public sector assets held by the Homes and Communities Agency. This asset base is an important resource for the City Region particularly in providing match funding for the JESSICA regeneration fund.

Creating the right governance arrangements for growth

- 8.13 One of the drivers for reviewing the Liverpool City Region's governance arrangements is to secure greater influence over key levers affecting local growth, including freedoms, flexibilities and funding which would otherwise remain under the control of Whitehall. The Liverpool City Deal, Liverpool City Region Deal and LEP Business Plan and Action Plans seek to capitalise on the City Region's strengths, assets and key sectors to attract investment into and create additional jobs within the City Region. However, they do not go far enough in terms of maximising opportunities to enhance local delivery of national programmes (such as the Manufacturing Advisory Service) that are also critical to improving local growth.
- 8.14 For a number of years the City Region has successfully aligned central Government funding, ERDF and private sector investment to support strategic priorities within the wider economy. The development of the Liverpool Arena and Convention Centre generating in excess of £300m to the visitor economy is a prime example of this approach. Working with the LEP, a pipeline of projects spanning investment in infrastructure, business growth, housing, transport and regeneration is in place together with an agreed approach to the joint investment of ERDF, Regional Growth Fund and Growing Places funds.
- 8.15 One of the priorities in the City Region Deal was to produce a Liverpool City Region Investment Framework. Combining and consolidating resources with local and national investment in a single programme will create greater impact and ability to leverage funds. This joining up of partners, funding streams and timescales focuses resource on priority actions and outcomes, results in more effective delivery, improved results and reduced costs. Through the work undertaken in the City Region to develop the EU Investment Framework for 2014 – 2020 we are setting strong foundations to demonstrate how we link EU thematic priorities, through the Strategic Growth Plan to local investment and action.
- 8.16 With the new Government funding opportunities and policies, including the Growth Deals/Single Local Growth Fund and EU Structural and Investment Funds 2014 -

2020 there is now an added impetus to ensure the Liverpool City Region has the most appropriate strategic governance arrangements in place to deliver agreed priority investments and in doing so to maximise the use of these funds alongside existing resources.

- 8.17 Similarly, whilst the establishment of the Local Transport Body has been seen as a positive step; it is a staging post on the journey, rather than a destination. The Local Transport Body model does not enjoy the legal transport powers or funding regimes that are currently vested with the Integrated Transport Authority, its constituent districts and with Halton Borough Council. The Department for Transport has consistently impressed upon the Liverpool City Region the importance of developing effective governance arrangements that facilitate, for example; links to other policy areas, strong leadership, streamlined structures and the ability to make difficult decisions, linked to clear priorities and a long-term investment programme.
- 8.18 The Liverpool City Region also needs to demonstrate the credibility to deliver agreed priority investments, along the lines of other City Regions such as Birmingham, Leeds and Sheffield.

9. OPTIONS FOR CHANGE

- 9.1 To ensure compliance with the relevant legislation, the governance review has been undertaken to establish if a Combined Authority would likely bring about an improvement in the City Region in the following:
- The exercise of statutory functions relating to 'economic development, regeneration and transport' in the area;
 - The effectiveness and efficiency of transport; and
 - The economic conditions in the area.
- 9.2 Department for Transport have also confirmed they are looking for partners to address the following headline issues in formulating governance arrangements:
- Political Leadership for Transport at the most senior level;
 - Ability to take difficult decisions;
 - A long term (ten year) investment programme, focussing on the top priorities for the functional economic area as a whole;
 - A local investment budget combining local resource in addition to Departmental resource;
 - Evident links to strategies and decision making processes on economic growth, housing and planning; and
 - Efficient use of transport resource across the City Region (e.g. joint procurement, maintenance contracts, rationalisation of highway functions etc).
- 9.3 The review has considered the statutory tests outline in paragraph 9.1 and those in paragraph 9.2 against the following options:
- Option 1 - Leaving existing governance unchanged (status quo);
 - Option 2 - Establishing a Supervisory Board;
 - Option 3 - Establishing an Economic Prosperity Board; and

- Option 4 - Creating a Combined Authority.

- 9.4 This review respects there are limits to comparisons between the options, in particular between potential options and the status quo. The existing governance arrangements are context specific and a known quantity, and the alternative potential options are considered at a high level in the abstract and would inevitably require further development in due course in order to quantify, for example, their potential impact on efficiency savings.
- 9.5 It is recognised that creating appropriate governance structures alone is unlikely to achieve in full the ambitious vision and growth potential for the Liverpool City Region. The importance of issues of policy design, culture and values is also considered significant. The optimal governance model needs also to confront the need for evidence and vision and ensure that the City Region fully implements its ambitious and challenging plans.

Option 1 - Status quo

- 9.6 The Government is clear that City Region structures will require greater collaboration, commitment and strengthened governance arrangements to seize any devolution opportunities that may become apparent in the future including a substantial 'Single Pot'. This is clearly evidenced in Government guidance for LEPs on Growth Deals (July 2013). Demonstrating commitment to the growth agenda and the clear expectation that Local Authorities will put economic development at the heart of all that they do and work collaboratively across the functional economic area is part of the Government's response to Lord Heseltine's review. Maintaining the status quo could set Liverpool City Region behind the other parts of the country that are in the process of strengthening their alignment between decision making on areas such as transport, economic development and regeneration in exchange for greater devolution.
- 9.7 As non-statutory, the Liverpool City Region's current arrangements leave the space for ambiguity and overlap between the roles and functions of various sub-regional bodies and are dependent on agreements by constituent authorities. There is no formal link between decision making in relation to economic development (including inward investment, skills and housing and regeneration), regeneration and transport. It is, therefore, more challenging for decisions to be aligned in a way that secures maximum economic and social benefit. Strengthening and clarifying these relationships would also increase transparency, accountability and the certainty of local decision making.
- 9.8 Whilst the current arrangements have served the City Region well in the past, changes in national policy coupled with the current economic conditions suggests strongly the City Region is outgrowing its existing governance structures. The voluntary partnership between local authorities is no longer sufficient to underpin the City Region's ambitions and does not meet the expectations of Government.
- 9.9 The City Region, therefore, requires a single democratic and financially accountable model, a legal entity in its own right, to provide the necessary certainty, stability and democratic accountability to allow for long-term strategic economic decisions to be made at the City Region level. In short, no change would mean the Liverpool City Region is disadvantaged both economically and politically.

Option 2- Establishing a Supervisory Board

- 9.10 Following Lord Heseltine's review of government policy, Greater Birmingham working with Lord Heseltine (The Greater Birmingham Project: The Path to Local Growth) have outlined a new form of democratic arrangement to specifically manage the 'Single Pot' of funding; a Supervisory Board model. The Supervisory Board operates under a more formal governance structure than the Joint Committee model but does not provide the legal status of a Combined Authority. This Board comprises all City Region elected authority leaders or mayors and provides the necessary political accountability for managing the distribution of financial resources.
- 9.11 The Supervisory Board does not replace the private sector led LEP, it only provides political and financial accountability for the holding of the 'Single Pot'. The Greater Birmingham LEP Board continues to be responsible for development and implementation of the Local Growth Strategy and strategic economic functions but with no accountability or legal responsibility.
- 9.12 This model provides Government with the necessary financial accountability for a 'Single Pot' approach, but there is no formal legal entity to accommodate the democratic accountability around the potential strategic economic development, regeneration and transport functions that could be executed at a City Region level. This could potentially limit the size of the 'Single Pot' and constrain the potential for further freedoms and flexibilities to be secured around economic development, regeneration and transport programmes, again placing the City Region at a disadvantage.
- 9.13 This model whilst an improvement on City Region existing arrangements simply provides Government with the means of placing more powers and decision making through the LEP whilst making the Supervisory Board the accountable body in financial terms only. In addition, this model would not address the issues around different geographies for transport and as such would not improve the effectiveness of strategic transport.

Option 3 - Establishing an Economic Prosperity Board

- 9.14 A third option is to put in place an Economic Prosperity Board for the City Region. As a statutory body it would share many of the features of a Combined Authority in that it would have legal personality and would provide a strong basis for taking on devolved powers and funding relating to economic development and regeneration, e.g. accountable body status for an economic development single pot or EU funding. The Integrated Transport Authority would however remain as a separate body responsible for transport across the Merseyside Councils, with Halton retaining its transport authority status. This would run counter to the recent good work being undertaken through the establishment of a Liverpool City Region Local Transport Body, which includes the Mayor of Liverpool, the five other Leaders and the Chair of the LEP.
- 9.15 The Economic Prosperity Board could not raise a levy, nor have borrowing powers to fund investment. Further, fragmented strategic transport and economic development governance at a City Region level would not provide a convincing proposition to Government for taking on with others, including Sheffield and Manchester, the devolved Northern Rail franchises.

- 9.16 An Economic Prosperity Board for the Liverpool City Region would address a number of questions and issues around the governance of economic development, but then would not address the issues around strategic transport governance at the City Region level.

Option 4 - Creating a Combined Authority

- 9.17 The Local Democracy, Economic Development and Construction Act 2009 allows the Secretary of State to create Combined Authorities. They are corporate bodies with their own legal identity which are able to take on the functions and responsibilities of sustainable economic development and regeneration and in addition transport functions available to Integrated Transport Authorities. They are controlled by their members, who are the elected politicians of the constituent local authorities.
- 9.18 A Combined Authority can be set up when two or more contiguous local authorities, covering an area's natural economic footprint, who want to collaborate more closely together, on a voluntary basis to improve economic outcomes. However, one local authority may only be part of one Combined Authority. The LEP's relationship with the Combined Authority is essential and must be designed to co-ordinate their efforts to work towards a common shared vision and Local Growth Plan.
- 9.19 Government policy confers certain responsibilities to LEPs and requires LEP representation on Local Transport Bodies while economic growth cannot be achieved without the full involvement of the private sector. The Combined Authority could act as an accountable body for the funds being invested by LEPs on behalf of local areas further integrating economic growth activity. The LEP can be a co-opted representative on the Combined Authority to enable this integration and co-ordination.
- 9.20 The Benefits of operating as a Combined Authority would ensure streamlined governance arrangements. The Combined Authority would be able to bring together strategic decision making powers into a single body and improve alignment, coordination and delivery of economic development and transport related initiatives. It would provide a visible, stable and streamlined body corporate which Government could be confident in devolving powers and funding to which would again be otherwise controlled by Whitehall. It would have a separate legal entity from its own constituent authorities, be able to undertake its own administrative processes including employing staff and entering into contracts and may have statutory powers and duties conferred on it which it can exercise in its own right.
- 9.21 The maximum benefit would be gained by integrating and bringing together at a strategic level functions across the City Region in relation to economic development, transport, housing and employment and skills. This means that the strategic transport functions that are currently within the Merseyside Integrated Transport Authority would be transferred to the newly created Combined Authority, along with the strategic transport functions from Halton Borough Council. This would ensure that the maximum improvements in efficiency and effectiveness are gained.
- 9.22 A Combined Authority is not a merger or a takeover of existing Local Authority functions. Instead it seeks to complement Local Authority functions and enhance the effectiveness of the way they are discharged. In particular, it is the

enhancement of decisions and information at a strategic level that are most frequently cited as the advantages of such a body. On this basis, the proposal to establish a Liverpool City Region Combined Authority would not have any additional resource implications for constituent Councils and would be expected to be at least cost neutral.

10. EVALUATION OF OPTIONS

10.1 The three tests which the options for change need to be assessed against are as follows:

- The exercise of statutory functions relating to economic development, regeneration and transport in the area;
- The effectiveness and efficiency of transport in the area; and
- The economic conditions in the area.

These are set out in the Local Democracy, Economic Development and Construction Act of 2009. A full evaluation against these tests is presented at Appendix Two and summarised in the following table.

Option	Commentary
Status quo	Maintaining the status quo would provide the basis for economic growth (as it has done for some time) but may not make sufficient improvements in the economic conditions of the area in the timescales required.
Establishing a Supervisory Board	A Supervisory Board would address some of the governance and accountability issues around economic development and regeneration but would still leave the issues around transport.
Establishing an Economic Prosperity Board	An Economic Prosperity Board would address some of the governance and accountability issues around economic development and regeneration but would still leave the issues around transport outside the formal joint arrangements.
Creating a Combined Authority	Building on existing arrangements and supporting the LEP, the creation of a Liverpool City Region Combined Authority, with the alignment of accountability, governance and geographies for economic development, regeneration and transport would provide the City Region with the best possible chance of securing significant and lasting improvements in economic development, regeneration and transport. This model will further strengthen democratic and financial accountability.

- 10.2 It is therefore recommended that the Liverpool City Region pursues the creation of a Liverpool City Region Combined Authority to draw together accountability and leadership for strategic economic development, regeneration and transport.

11. CONCLUSIONS

- 11.1 That the existing governance arrangements in the Liverpool City Region can be improved upon is self evident. There is a further need to signal to business and Government that the City Region has a clear, consistent and shared view, particularly with the challenges being faced around jobs and growth. Consequently there is a need to consider another approach.
- 11.2 The City Region has worked well to date through a series of adhoc and informal governance arrangements, but these current governance arrangements not being optimal may be one of the reasons why the Liverpool City Region economy is not achieving its full potential. As an example, there is no single strategic transport and economic development decision making body at the Liverpool City Region level.
- 11.3 The options that are currently available to the City Region have been considered, and the option that would most likely lead to improvements in economic conditions and in the efficiency and effectiveness of service delivery is the establishment of a Liverpool City Region Combined Authority.
- 11.4 Based on the current available evidence, a strong Combined Authority would be able to bring together key decision making powers into a single body, exercising appropriate strategic transport and economic development functions to maximise the impact of what we do. It would provide a visible, stable and statutory body, could act as the accountable body for the City Region funding to support economic growth and could attract devolved powers from Government to facilitate local economic growth. This model of governance would not have any additional resource implications for constituent Councils and its operation would be expected to be at least cost neutral.
- 11.5 A Combined Authority would facilitate closer partnership working to drive economic growth and job creation and ensure long-term effective engagement with business, through the LEP, and other sectors including employment and skills providers and registered housing providers.
- 11.6 Operating as a Combined Authority would ensure the work of everyone that impacts on the economy is integrated to add value and better achieve our vision and economic goals. Put simply, this model would help maximise growth in output and jobs, increase the City Region's productivity and competitiveness, raise skill levels, support a rebalancing of the economy away from relative public sector dependency and stimulate greater employment and growth in the private sector. These measures would make our economy more sustainable in the long-term.
- 11.7 In addition, a strong and effective Liverpool City Region Combined Authority would counter misperceptions about public sector collaboration in the City Region and help in engagement with national agencies. It would also create the opportunity for various types of collaborative effort with adjoining and other northern Combined

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Authorities to put in place a much needed counter-balance to London and to Wales e.g. for devolving the power to let rail franchises for Northern Rail.

- 11.8 It can therefore be concluded that for the functional economic area of Liverpool City Region a Combined Authority model of governance if created and incorporating Integrated Transport Authority functions would be the best option for securing sustainable economic growth.

Appendices

Appendix One: Legislative requirements of governance review
Appendix Two: Evaluation of options against tests

For further information, please contact lcr.governance@knowsley.gov.uk.

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APPENDIX ONE

LEGISLATIVE REQUIREMENTS OF GOVERNANCE REVIEW

Local Democracy, Economic Development and Construction Act 2009

Schedule 108 Review by authorities: new combined authority

- (1) Any two or more of the authorities to whom this section applies may undertake a review of—
- (a) the effectiveness and efficiency of transport within the area covered by the review (“the review area”), and
 - (b) the effectiveness and efficiency of arrangements to promote economic development and regeneration within the review area.
- (2) This section applies to—
- (a) a county council in England;
 - (b) a district council in England;
 - (c) an EPB;
 - (d) an ITA.
- (3) Where the review is being undertaken by a county council, the review area must include—
- (a) the areas of one or more district councils that are within the area of the county council, or
 - (b) if there are no such areas, the area of the county council.
- (4) Where the review is being undertaken by a district council, the review area must include the area of the district council.
- (5) Where the review is being undertaken by an EPB, the review area must include one or more local government areas within the EPB’s area.
- (6) Where the review is being undertaken by an ITA, the review area must include one or more local government areas within the ITA’s integrated transport area.
- (7) The review area may also include the area of any county council or district council in England that does not constitute or fall within the area of an authority undertaking the review.

APPENDIX TWO

EVALUATION OF OPTIONS

	Legislative tests: would there be an improvement in these areas?		
	Exercise of statutory functions relating to economic development, regeneration and transport	Effectiveness and efficiency of transport	Economic conditions in the area.
Status quo	Improving joint working may lead to marginal gains but these are expected to be insignificant.	Current joint working is partially effective and the current duplication would continue.	The economic conditions in the area may improve on an incremental basis, as they have done in recent years.
Establishing a Supervisory Board	Mixed – yes for economic development and regeneration as these would be given democratic oversight and leadership by the Supervisory Board. However, this does not address the current issues around transport governance, accountability and areas of delivery.	This model would not address the issues around different geographies for transport and as such would not improve the effectiveness and efficiency of transport.	Possibly
Establishing an Economic Prosperity Board	Mixed – yes for economic development and regeneration as these would be given democratic oversight and leadership by the Supervisory Board. However, this does not address the current issues around transport governance, accountability and areas of delivery.	This model would not address the issues around different geographies for transport and as such would not improve the effectiveness and efficiency of transport.	Possibly
Creating a Combined Authority	A Liverpool City Region Combined Authority would provide the basis for functions around economic development, regeneration and transport to be improved, with democratic oversight, leadership and financial accountability being provided.	The creation of a Combined Authority provides a single statutory organisation to discharge strategic functions around transport, which will lead to improvements in the effectiveness and efficiency of transport.	A Liverpool City Region Combined Authority provides the best option to facilitate an improvement in economic conditions in the area.

Evaluation of Options against Department for Transport Requirements for governance

	Status quo	Establishing a Supervisory Board	Establishing an Economic Prosperity Board	Creating a Combined Authority
Political Leadership for Transport at the most senior level	The current Local Transport Body would continue with risks around duplication of activity.	The current Local Transport Body would continue with risks around duplication of activity.	The current Local Transport Body would continue with risks around duplication of activity.	A Combined Authority would provide streamlined political leadership for transport across the functional economic area at the highest level.
Ability to take difficult decisions	The current Local Transport Body would continue with the risks around duplication of activity and governance.	A Supervisory Board would not offer any improvements on the current model.	An Economic Prosperity Board would not offer any improvements on the current model.	The requirement of a Combined Authority to make decisions for the best interests of the City Region as a whole means that it will be able to take difficult decisions.
A long term (ten year) investment programme, focussing on the top priorities for the functional economic area as a whole	The current Local Transport Body would continue with the risks around short sightedness.	A Supervisory Board would not offer any improvements on the current model.	An Economic Prosperity Board would not offer any improvements on the current model.	The requirement of a Combined Authority to make decisions for the best interests of the City Region as a whole means that it will be able to develop a long term investment programme and clear priorities.
A local investment budget combining local resource in addition to Departmental resource	The current Local Transport Body would continue with the potential for partial resources to be considered.	A Supervisory Board would not offer any improvements on the current model.	An Economic Prosperity Board would not offer any improvements on the current model.	A Combined Authority would be responsible for the governance of the Single Local Growth Pot which would mean that it would be able to maximise resources from national and other sources.

	Status quo	Establishing a Supervisory Board	Establishing an Economic Prosperity Board	Creating a Combined Authority
Evident links to strategies and decision making processes on economic growth, housing and planning	The current Local Transport Body would continue with risks around gaps and duplication of activity.	The exclusion of transport from a Supervisory Board does not improve the links around relative contributions to securing growth.	The exclusion of transport from an Economic Prosperity Board does not improve the links around relative contributions to securing growth.	The inclusion of transport within a Combined Authority would allow an integrated discussion to take place on the relative contributions to growth of transport and other activities across the functional economic area.
Efficient use of transport resource across the City Region	The current arrangements would be maintained and incremental improvement in efficiencies captured.	The current arrangements would be maintained and incremental improvement in efficiencies captured.	The current arrangements would be maintained and incremental improvement in efficiencies captured.	The creation of a Combined Authority for the City Region provides the best opportunity for efficiencies to be secured in the use of transport resource across the functional economic area.