

*John Denham is Chair of the Advisory Board at the Southern Policy Centre. Member of Parliament for Southampton Itchen from 1992 until he stood down in 2015, John held a variety of ministerial and Cabinet posts in the last Labour Government and also chaired the Home Affairs Select Committee. In addition to his SPC role he is a Visiting Professor at both the London School of Economics and Winchester University.*

Contact John on [denhamj@southernpolicycentre.co.uk](mailto:denhamj@southernpolicycentre.co.uk)

## **Presentation to Business South**

The SPC is relatively new think tank and policy forum for central Southern England.

Roughly Dorset-West Sussex, Isle of Wight to Oxfordshire.

We're working on open data and public policy, innovative forms of public participations, and the new localism.

And it's that new localism: and how it can help us achieve the world class status for our region and business that we want, that I'm going TO talk about.

## ***Why not a 'southern powerhouse'***

Everyone here will have heard about plans to give new powers to local authorities in Greater Manchester and other major metropolitan areas in northern England.

George Osborne has set out his vision of a 'northern powerhouse'...

In the north, and, increasingly, in the West Midlands the idea of greater devolution has caused real excitement, not just amongst local authorities but in the business community too.

In central southern England, that debate has barely started outside a few local authority leaders

But there is real potential for this region too.

No one is going to come and do it for us. It's up to us to decide what we want and to make the case for it.

## ***Isn't this just about the north?***

Northern England - and indeed of most of the UK's major cities - have long underperformed against the national economy.

The response has traditionally been seen in terms of regional aid; essentially demands to compensate the north for its relative economic weakness. A near permanent transfer of cash and resources.

It's tempting to assume that the latest proposals are simply a rehash of old demands for regional policies and more subsidies.

That would be a mistake.

The new ideas - shared by all the major parties - have clear new thinking.

Based on the idea, not of compensating for weakness, but helping the north achieve its potential

### ***The importance of cities in economic growth***

Groups like the City Growth Commission, chaired by Jim O'Neill - he is the economist who coined the term 'BRICS' and is now of course a Treasury Minister; groups like that argued that most innovation, most dynamism in the global economy comes from large metropolitan areas.

An argument summed up in the observation that 50% of the world's population lives in cities, but cities produce 80% of the world's economic growth.

These dynamic growth regions have a number of common features

- a high population density
- a critical mass of skills
- good connectivity

Taken together these factors bring together enough people with enough skills and sufficient ease of movement to encourage inward investment, support networking, make clusters and innovation easier to achieve, and support the economic and social infrastructure innovators want

They also enjoy

- excellence in higher education
- local leadership enabled to make things happen.

In other words, what London often seems to enjoy, but most other cities do not.

That's the real vision of the northern powerhouse.

A metropolitan area from Liverpool to Hull to Newcastle.

The devolution to local authorities like Manchester and Liverpool are building blocks for this larger dynamic region.

And there are two other factors driving devolution

### ***Bringing local leadership to local challenges***

England is one of the most centralised states in the developed world. More is run and paid for from Whitehall and less run and locally funded.

What this means in practice is that the skills system is the same, irrespective of local skills needs.

The benefit rules and back to work policies for long-term claimants are the same whatever the state of the local labour market.

The planning rules are the same whether the population is growing or shrinking.

At long last, Whitehall is beginning to accept - albeit reluctantly - that this does not produce the best results.

### ***Making the best use of public money***

- \* Local authority funding fell 37% over the past four years.
- \* NHS spending was frozen in real terms against rising demand and higher NHS inflation levels.
- \* More cuts are to come. The Local Government Association expects another £3.3bn in cuts next year.

For years the biggest inefficiencies have been at the joins between different services - that's why elderly people stay in hospital instead of being in care, even though hospital is much more expensive than care. It's why we spend a fortune on families with high demands for benefits, social services and criminal justice system instead of investing early with family support.

This may have been bad enough when there was a lot of money. Now it is critical. The only way to spend money better is to allow more decisions to be taken locally, with more flexible use of the money.

## ***What about southern England?***

The obvious question is this: if these are good reasons for devolution to the northern cities; which of the reasons would not apply to the south?

### ***Public money:***

The need to make the best use of public money is even more pressing here.

We have the lowest level of public spending per head of any English region.

To illustrate the consequence, the number of adults receiving social care fell by 30% in the past five years

### ***Towards a southern powerhouse***

Perhaps the biggest challenge of the new thinking is that our economic geography is different to northern England.

We have only one 'city region' - the Solent area - that has the high urban density of the northern city regions.

We do have strong links to London.

But we are by no means simply part of a greater London economy. Many southern English businesses are either part of the global or the European, or the national economy in their own right. Others serve primarily the regional economy. To see us as just London focussed would be wrong.

The truth is that a false debate has grown up between the advocates of cities as the engines of growth, and those who argue for equal treatment for all.

Highlighting the role of densely populated urban areas is helpful. It enables us to understand the factors driving innovation and growth: high population density, good connectivity, excellence in higher education, empowered local leaderships. But it should not be a straightjacket.

Central southern England north of Southampton is not a sparsely populated prairie. 11% of England's population lives here.

What we need to go back to is the engines of growth that George Osborne identified for the north, and which devolution is designed to deliver, and recognise we need them here

*\* a large population with the critical mass of skills that attracts investment*

*\* good connectivity, so that people can meet and work together*

We need good connectivity. But everything is focussed on London. (Not even that in the case of Portsmouth's rail services). But moving along the South Coast or across region is much more difficult. Particularly by the high quality public transport typical of dynamic growth regions. Our rail passengers pay more to the government and get less investment than passengers anywhere else.

*\* excellence in higher education*

This is a real strength, both our local universities and our access to many in London. But we all know more could be done to build links to the local economy both in meeting skills needs and innovation

*\* local leadership capable of pushing through the changes that are needed.*

We may be closer to London, but that doesn't mean Whitehall understands Dorset any better than it understands Durham.

### ***How devolution is being managed***

It's now becoming clear how the government plans to roll out devolution.

New legislation is not just about cities, and it is not just about the north.

Firstly, city-region metropolitan areas, and counties, districts and unitary councils are being encouraged to form 'combined local authorities'.

The individual councils pool some of their powers into a new legal structure where decisions are taken collectively.

Second, the government wants to see simplified decision-making and accountability.

Controversially, George Osborne is insisting on elected mayors for the city-regions that get the greatest powers.

Mayors may not be imposed everywhere - including in large county areas - but it is not clear whether this will restrict the powers they get. In areas with two tier councils - counties and districts - the government would clearly like to see simpler structures agreed at local level.

Third, a deal is agreed between the combined authority and the government. There are no guidelines for this. The government says it means each deal can be bespoke. Critics say it makes the process opaque and open to abuse.

## ***What is on offer?***

There is no standard package, but the most ambitious is Manchester

## ***The emerging local picture***

Things are moving very fast. Two months ago there did not seem to be any agreement amongst local authority leaders. Now we have sense of the shape of some new combined authorities

Looks like there might be a large combined authority covering Hampshire, Southampton, Portsmouth, IoW and the district councils, for example.

But new council agreements are only the first stage of devolution. Now we need to make sure the new structures work.

One challenge is that our local authority geography, shaped by 1000 years of history, doesn't map neatly onto the real world of the economy, communities or public services.

As these slides show

The government would like to devolve power to Functional Economic Market Areas.

That means things like

***travel to work areas***

and

***housing market areas***

neither really match our ***LEPs***

which have different boundaries again to the ***local authorities***

while if you were worried about skills, you might be concerned about the stark difference in ***university participation rates*** along the coast compared with the rest of Hampshire

And if you were mainly interested in ***health***, the geography of who goes to hospital where is completely different

So the first challenge will be to make sure that these new combined authorities are set up in a way that actually delivers in the real world.

Some parts of our region are less strong economically than others

Skills shortages exist everywhere, but the type of skills that are needed vary from area to area 50% of people in Hart have higher level qualifications; its 28% on the Island

We will need links between combined authorities; and within them. We would not want, for example, to throw away 10 years of investment of cooperation between local authorities in the Partnership for Urban South Hampshire.

In the north, LEPs generally coincide with city regions. Our LEPs and Councils will need to look at how they work together.

### ***Let's be ambitious***

But the other challenge is to make sure we get the right powers devolved to the fullest possible extent.

Look at ***skills***.

The UK CES this week said we need local leadership for better links between skills providers and employers.

£1bn is spent in the region on 16-19 and 19+ further education

Look at ***investment***

In Manchester, the local authorities can borrow against future increases in business rates to invest in infrastructure to boost growth.

In this region, that growth was £382m over five years - five years of very low economic growth. Imagine what that could unlock if we could lever in new investment against the future increase in business rate income.

### ***Let's be realistic; this is a journey***

Let's be clear, this is a process.

The resources currently on offer to Manchester and the rest are important, but not enough to create a northern powerhouse.

Just last week, a rail project vital to connectivity was scrapped.

The promised HS3 is further away than HS2 .

Nowhere will get all the powers they ask for at the beginning.

Not every council or LEP can yet show they could use new powers well.

Previous so-called devolution, like city deals, have ended up with councils and LEPs going cap in hand to Whitehall just like they always have.

But if we seize this opportunity, further local powers can be developed over time. Over parts of welfare spending, relations between schools and business, planning policy.

This is a journey.

***What would make most difference to your business?***

The Southern Policy Centre is working with Business South because we both believe that the business voice must be heard in these discussions. And because we believe that the business voice can support our local authorities in making sure they bid for the right powers in the right areas.

That's the debate we need to have and to have quickly.