

Cabinet – 12 August 2015

Proposals for a combined authority for the West Midlands

Portfolio: Councillor M Bird Leader of the Council

Related portfolios: Councillor A Andrew, Deputy Leader, Portfolio Holder Economy, Infrastructure and Development

Service: Chief Executive

Wards: All

Key decision: No

Forward plan: No

1. Summary

- 1.1 This report provides an introduction and brief overview of the role of a combined authority and the consideration that is being given to the formation of this governance arrangement here in the West Midlands. This report outlines the process undertaken to conduct a Governance Review commissioned by the seven West Midlands Council Leaders to inform the formation of a combined authority.
- 1.2 The report also provides an introduction to the proposals to form a West Midlands 'Devolution Deal' being sought by central government to the partners who may form the West Midlands Combined Authority. A 'Devolution Deal' is the means by which Government may seek to devolve centrally held powers and resources to enable more responsive decision making in line with locally identified needs; leading to improved service provision and greater economic benefits.
- 1.3 This report is brought to Cabinet to update Members on the work to date and seek certain decisions and delegations at this point in the evolution of the proposed West Midlands Combined Authority (these are covered in recommendations 2.1 to 2.5 which follow). It is intended that further decisions will be sought during the autumn, through both Cabinet and Council, once work is complete which will inform those further reports.

2. Recommendations

- 2.1 That Cabinet approves the draft findings of the strategic 'Governance Review' for the West Midlands- as contained in **Appendix 1**

- 2.2 That Cabinet agree to engage with key stakeholders on the proposals set out in the 'Governance Review', and raise awareness amongst our partners of the West Midlands Combined Authority and the content of the 'Statement of Intent'-
Appendix 2
- 2.3 That Cabinet, in order to progress the Council's interest in the creation of a combined authority for the West Midlands, agrees to delegate the responsibility for the consideration of the initial membership, rights and obligations of the West Midlands Combined Authority to the Leader of the Council through his role on the proposed Shadow Board.
- 2.4 That Cabinet, in order to meet the timescales set down by Government, delegate responsibility to the Leader of the Council, through his role on the proposed Shadow Board to agree the early propositions that form the West Midlands 'Devolution Deal'.
- 2.5 That Cabinet agree to receive final proposals and documentation referred to in paragraphs (3.6) to (3.14), together with the findings of the engagement exercise, informing the creation of a Combined Authority for consideration at a future meeting of the Cabinet.
- 2.5 That Cabinet approves a budget of £300,000 as a contribution towards the costs of bringing about the creation of the West Midlands Combined Authority.

3. Report detail

West Midlands Combined Authority

- 3.1 Over recent months there has been continued discussions held across the West Midlands on the formation of a combined authority for the purposes of enhancing and maximising the economic performance of the wider region. The formation of a combined authority is a new way for local authorities to work together on key strategic functions that cross geographic council boundaries. Combined authorities can provide better collaboration between local councils on the key strategic issues that are more effective when delivered together or they cannot be decided alone, such as transport investment or strategies for skills and economic development.
- 3.2 Combined authorities are legal structures that may be set up by local authorities in England, following a governance review. Their power is granted by Parliament and can be a powerful tool to:
- secure greater resources from Government over the long-term (10 years+)
 - collectively engage with Government on issues and functions that cross local authority boundaries
 - influence and ultimately change the delivery of national programmes to address local needs.

Noting that a combined authority enables powers to be devolved from Whitehall to the local area, it should equally be noted that in passing powers and budgets

to devolved bodies, each local authority would also pass some of its powers and budgets to the combined authority. They have a power of general competence and can be passed functions by the Secretary of State under the general power to pass ministerial functions down in the Localism Act 2011.

- 3.3 In the Queens Speech in May 2015, the Government announced its intention through the 'Cities and Local Government Devolution Bill' to strengthen the opportunities for combined authorities to receive devolved powers; the Bill includes provisions that allow for the election of mayors which can provide additional local powers to those already afforded by existing combined authority legislation.
- 3.4 It should be noted that a combined authority is not a merger or a takeover of existing local authority functions nor would it be a 'Super-Council'. Local authorities will remain in place but collectively will create a combined authority; the local authorities will remain 'sovereign' and the principle of 'subsidiarity' whereby decisions are made at the spatial level closest to the people 'on the ground', applies. Instead a combined authority would seek to complement local authority functions in economic development regeneration and transport and enhance the effectiveness of the way they are discharged.
- 3.5 The Black Country Leaders and the Leader of Birmingham City Council agreed to the principle of establishing a combined authority in March 2015, and more recently Coventry and Solihull have made a commitment to explore the possibility of forming this new tier of local government, based upon an emerging and sound economic rationale as detailed in the work to define the 'Functional Economic Market Area (FEMA)' of the region. The work to establish the FEMA has also considered the wider regional geography covered by the 3 Local Enterprise Partnerships (LEPs) and the District Councils within them. See **Appendix 3**. As such the Leaders of the seven metropolitan councils have given a commitment to engage with these district councils with the intention of understanding whether they share the ambition of the Combined Authority for the West Midlands and wish to participate in it, and on what the nature of their participation in it may be

The Draft Governance Review

- 3.6 A draft Governance Review currently covers the seven local authority areas of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton ('the West Midlands'). There is recognition that the three LEP areas of the Black Country LEP, the Greater Birmingham and Solihull LEP and the Coventry and Warwickshire LEP also constitute a Functional Economic Market Area. However, for the purposes of this current review, it is the governance arrangements of the seven metropolitan local authorities that are being considered.
- 3.7 Based upon the evidence of the FEMA and the opportunity that the West Midlands has to have an even greater impact upon the Gross Added Value (GVA) of the UK, the Leaders of the seven local authority areas have formed an ambition for the region formed around principles of collaborative working and a vision articulated through a programme of early priorities. This ambition is articulated in the 'Growing the UK Economy through a West Midlands Powerhouse' Statement of Intent contained in **Appendix 2** of this report. Locally the ambition for the combined authority must seek to protect Walsall's priorities and seek the best advantage for our communities.

3.8 In accordance with Section 108 of the Local Democracy, Economic Development and Construction Act 2009 a governance review in relation to a potential combined authority addresses the effectiveness and efficiency of: (a) transport within the area covered by the review and (b) arrangements for economic development and regeneration within the review area. The statutory tests for the governance review in relation to a potential combined authority are set out in the Local Transport Act 2008 and the Local Democracy, Economic Development and Construction Act 2009. The process of the review examined the options available to the West Midlands in relation to each of the following and evaluates the likely improvement going forward:

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

3.10 The process to establish a combined authority or economic prosperity board (similar legal entity as a combined authority but without transport functions) 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 (those with full voting rights) are required to approve the scheme for submission to the Secretary of State (SoS) for Communities and Local Government. Finally, the Secretary of State will consider the scheme and undertake a formal consultation. If the SoS is satisfied that the proposals are 'likely' to make improvements then a draft order will be laid before both Houses of Parliament for adoption by affirmative resolution. At this stage in the establishment of the WMCA it is not known what powers will be passed on from the SoS through the creation of the Combined Authority, neither is it known exactly what powers any of the Local Authorities will be asked to cede to the Combined Authority itself. This is envisaged to come through the negotiation phase, including the 'Devolution Deal' (see paragraph 3.16 onwards) that will only be exercised once the Combined Authority is formally constituted.

3.11 An Officer-led working group was tasked with undertaking the governance review, comprising senior officers and relevant experts from each of the constituent local authorities, the ITA and the LEPs. The activities undertaken included:

- A review of the economic evidence to test the rationale for working across the West Midlands geography as a functional economic market area
- Desk research of the current governance arrangements and structures.
- Workshops to collect views and evidence from stakeholders in each constituent authority, the ITA and the LEPs 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.

3.12 The draft Governance Review (see **Appendix 1**) has considered three options available to the West Midlands (see **Table 1**). The review demonstrated that the seven councils in the West Midlands have a strong track record of working together on areas of mutual benefit. Collaborative working has evolved over the years bringing together democratic leadership and senior business leaders, including the LEPs. However, the 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 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 decision making. The draft Governance Review proposes that the West Midlands Joint Committee and the ITA are dissolved under the proposed arrangements for the Combined Authority and their responsibilities formed into those of the Combined Authority itself.

Option	Evaluation	Rationale
Maintain status quo	✗	The current structures leave space for ambiguity and overlap between the various roles and functions of the sub-regional bodies. The opportunity to address the deficiencies highlight in this review would be missed.
Establish an economic prosperity board	✗	The downside of this option is that it misses out on the opportunity to fully achieve coordinated transport and economic benefits.
Form a combined authority	✓	A Combined Authority affords the area the best opportunity to address its underlying economic needs. This is as a result of the creation of a legally independent and accountable body that combines powers in respect of economic development/regeneration and transport. In addition it provides for the potential for powers to be devolved from central government.

Table 1: Options analysis for the formation of a combined authority

3.13 After evaluating the current evidence, the conclusion from the strategic Governance Review is to recommend a combined authority model. This would give legal form to the close working relationships that already exists between the seven local authorities, the ITA and the LEPs by creating a sub-regional body with legal personality and a governance mechanism that can act across the combined area.

- 3.14 The process by which the WMCA will make its application to Government to form a combined authority is through a scheme. A scheme sets out the overall framework for the powers, duties and functions of a combined authority, what it will do and how it will operate. This document is currently being considered by an officer-led working group including legal representatives and its proposals will be shared with the Leaders in late August prior to formal decision making on the content of the 'Scheme' with local authority Cabinets and full Councils. The draft Scheme for the WMCA will form the document upon which the Government will legislate whether a combined authority for the West Midlands can be established. The Scheme will set out the framework for the powers, duties and functions of the combined authority, what it will do and how it will operate; it will therefore form the basis of the WMCA Constitution.
- 3.15 The next stage of activity associated with the formation of the proposed Combined Authority is to consult upon the draft Governance Review. Thereafter responses will be analysed and a final version of the Governance Review and Scheme will be prepared and reported back to the individual constituent local authority Cabinets/ Councils and the Integrated Transport Authority in September or October 2015. Only after this process will submission to form the Combined Authority to the Government be made; herein the decision rests with the SoSs for Communities and Local Government and that for Transport. Government will then consider the submission and conduct statutory consultation. If it is found that the Combined Authority meets the statutory tests and has local support then an order will be laid before Parliament.

The 'Devolution Deal'

- 3.16 In late July, the West Midlands Leaders were invited by Government to commence negotiations on an initial 'Devolution Deal' as the means by which Government might conceive devolving powers and resources from Whitehall to the region in support of local economic outcomes. Work has therefore commenced on the preparation of propositions for devolved powers/ resources to scope out what barriers to growth the West Midlands Combined Authority in due course may wish to overcome through future locally determined programmes and interventions. The propositions are being informed through; developing our understanding of existing successfully run programmes that have the ability to be delivered at a combined authority scale, drawing upon examples of best practice from other areas, and considering new and innovative ways of working. The propositions will also be tested with delivery partners and agents including the LEPs.
- 3.17 The Government are seeking the proposition for a West Midlands Devolution Deal by 4 September 2015 and initial consideration in the Autumn Comprehensive Spending Review. As such, initial propositions will be formed but this will be an iterative process that may take several months to negotiate, with opportunities to develop additional propositions as the maturity of the WMCA strategic thinking evolves. This will be informed, in part, by the proposal to develop a 'Super Strategic Economic Plan' for the West Midlands, drawing from the existing three LEP's SEPs.
- 3.18 It should be noted that the request by Government to the West Midlands Leaders to commence its consideration of the 'Devolution Deal' is a separate process

from that of the administrative and political process to create a combined authority. To commence the devolution negotiations the seven Leaders do not need a formally constituted body to be in place, they will however need the Combined Authority to be in place to receive the negotiated deal. It is therefore imperative that the Governance Review is completed in accordance with paragraph 3.6 onwards and the process for drafting of the Scheme and application to government to create the proposed West Midlands Combined Authority is expedited this financial year. Presumptive?

4. Council priorities

4.1 The Council's Corporate Plan 2015-2019 seeks to ensure that with fewer resources available there is concentration on protecting the most vulnerable and reducing inequalities through a number of key priorities:

- Support with cost of living
- Helping local high streets and communities
- Creating jobs and helping people get new skills
- Helping create more affordable housing
- Improving educational achievements
- Promoting health and well being

The proposed Combined Authority has an overall ambition to increase the economic prosperity of the area through reformed public services and in doing so will have a positive impact on communities in Walsall and support the priorities contained in the Corporate Plan 2015-2019.

5. Risk management

5.1 There is a risk that the West Midlands cannot close the gap in economic performance to England. This will be mitigated by proposing the establishment of a combined authority to draw together strategic work across economic development, transport, housing and employment and skills and to potentially access additional funding from Government.

5.2 There is a risk that the proposal to create the WMCA may not have local stakeholder support. This will be mitigated by consulting on the review of strategic governance and potential operation of a Combined Authority with stakeholders to collect their views.

5.3 There is a risk that the potential establishment of a combined authority is seen as a 'Super-Council'. This will be mitigated by establishing a clear approach to the communication strategy between the Councils and WMITA explaining precisely what the potential Combined Authority may and may not do.

6. Financial implications

6.1 The cost to bring the Combined Authority into being is being shared equally between the seven proposed constituent members. To date expenditure has

been associated with the commissioning of consultancy teams who have provided fresh capacity and expertise to assist the local authorities through the statutory process, drawing upon their experience of undertaking similar roles for other combined authorities.

- 6.2 To date the each of the seven Councils has set aside £50,000 from existing revenue resources to support this work. To date £190,000 of the £350,000 available to the Combined Authority has been spent. It is estimated that a further £250,000 will be needed as an additional budget per local authority. This is calculated on the basis of total cost of £2,100,000 less £350,000 contributions in 2014/15 divided between the seven authorities. This budget will support the continued engagement of consultants and provide sufficient resources to the proposed consultation process. It is therefore proposed that a total sum of £300,000 be set aside from reserves to support the combined authority set up costs.
- 6.3 Set out below in **Table 2** is an analysis of the costs incurred to date, and the likely level of cost to take the programme through the key summer months when, it is anticipated that, the input from the supporting advisers will be at high levels. Also included is an estimate of the costs from October 2015 to March 2016 to take the programme to the end of the financial year.

Combined Authority Budget					
	<u>Incurred</u>	<u>To end</u>	<u>Estimate</u>	<u>Estimate</u>	
	<u>to 28/5</u>	<u>June</u>	<u>to</u>	<u>to</u>	<u>Total</u>
			<u>July -</u>	<u>Oct - Mar</u>	
			<u>Sept</u>	<u>16</u>	
Advisors	172,600	234,500	606,750	1,013,850	2,027,700
Programme team	62,600	18,120	54,360	108,720	243,800
Expenses	4,007	4,700	3,900	3,900	16,507
Total costs	239,207	257,320	665,010	1,126,470	2,288,007
Less					
Wolverhampton					
CC/PwC pro bono					
direct Programme					
Support Costs	-50,600	-12,120	-42,360	-84,720	-189,800
Total	188,607	245,200	622,650	1,041,750	2,098,207

Table 2: Combined Authority Walsall Budget Table

- 6.4 It should be noted that the above estimate does not relate to the ongoing operating costs of a combined authority. The Councils contribution to that will be subject to a further report.
- 6.5 It should also be noted that the draft Scheme for the WMCA is also proposing that the Combined Authority be set up in such a way that enables it to become a levying body under section 74 of the Local Government Finance Act 1998 (as is, for example, the current West Midlands Integrated Transport Authority). The Act enables the Combined Authority to issue a levy to its consistent members in

respect of the expenses and liabilities of the Combined Authority which are reasonably attributable to the exercise of its functions relating to transport.

7. Legal implications

- 7.1 The formation of a combined authority will create a new tier of local government and as a result there will be a statutory process to be undertaken, and a constitution for the Combined Authority will be required. The legislation that enables a combined authority to be formed is explained in paragraphs 3.2 and 3.8 and the statutory process is explained in 3.15.
- 7.2 However in short, a combined authority is a separate corporate body which derives its legal powers from those given to it by the Secretary of State. A combined authority can hold the same powers that local authorities hold in relation to transportation and regeneration, and can exercise those powers concurrently with the local authorities within its area as well as having legal powers transferred to it from a local authority by order of the Secretary of State. The Secretary of State is currently considering widening the powers that can be given to a Combined Authority to include all powers currently exercised by Local Authorities.

8. Property implications

- 8.1 There are currently no property implications arising directly from this report.

9. Health and wellbeing implications

- 9.1 There are currently no direct health and well being implications arising from this report but the current ambition for the Combined Authority- to support economic prosperity through public service reform- may have future positive impacts on residents' health due to the opportunity for collaborative working on interventions that support both economic and social well being.

10. Staffing implications

- 10.1 There are currently no direct staffing implications arising from this report. Existing staff resources from across a number of service areas are providing support to the formation of the Combined Authority; their role is to represent Walsall Council and its priorities through partnership working in officer-led working groups. Staff are therefore being encouraged to play an active role in the discussions and negotiations.

11. Equality implications

- 11.1 At this stage of the proposal there are no immediate equality implications. Equality analysis, legal requirements and good practice issues will be considered throughout the project, and will include engagement and consultation.

12. Consultation

12.1 An engagement and consultation plan has been prepared. The engagement will focus on whether it is considered that the proposals emanating from the governance review will meet the statutory tests in that the proposed Combined Authority would be likely to improve:

- 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.

12.2 The draft Governance Review is issued as part of an iterative period of engagement and consultation with all stakeholders including proposed members of the WMCA, the public, the West Midlands ITA, neighbouring authorities, the Local Enterprise Partnerships and neighbouring LEPs, local MPs, other relevant public, private and third sector bodies and well as all relevant government departments. A Walsall- specific engagement and communications plan has been developed that will draw upon our best practice for engaging with our partners through a range of tools and forums. Whilst there will be a co-ordinated approach to local media and regionally based stakeholders, it is the responsibility of the individual local authority to deliver their own engagement plan.

Background papers

None

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Paul Sheehan
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22 July 2015



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Leader of the Council
22 July 2015

West Midlands authorities' statutory governance review

Undertaken in accordance with section 108 of the Local Democracy, Economic Development and Construction Act 2009 and section 82 of the Local Transport Act 2008

Contents

Executive summary	3
Review Conclusions.....	7
The statutory process of the governance review	8
Introduction	8
Purpose of the review.....	8
Legal context.....	8
Delegation of additional powers from Central Government.....	9
Transport.....	9
The Four Steps to Creation of a Combined Authority or Economic Prosperity Board	9
Flexibility and Control	10
Creating the right governance arrangements for growth	10
The West Midlands	12
Geography.....	12
Local context	13
Challenges to address in the West Midlands.....	14
Review of the economic evidence	16
Overview	16
Analysis of functional economic market areas (FEMAs)	16
Travel to Work Areas	17
Migration data	18
Industrial specialisation data	18

Conclusion.....	19
The current governance arrangements and the case for change	20
Introduction	20
Current governance in relation to transport	20
Current governance in relation to economic development and regeneration	22
Options analysis	25
Conclusions	27

Executive summary

The region will benefit from improving governance.

A Combined Authority would be the most appropriate governance model for the local authorities to act together to deliver their economic development, regeneration and transport functions. This stronger governance will deliver a more joined up strategic approach. It will bring together policy interventions in transport and in respect of the key economic drivers that will deliver enhanced growth. By working this way, members of a Combined Authority can deliver shared strategic priorities that are best addressed at a scale above local boundaries.

The area has a good track record of collaboration between local authorities and with the Local Enterprise Partnerships on issues that affect the area covered by the local authority areas of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton – referred to as the “West Midlands”. However, the governance needs to change if the West Midlands is to demonstrate stronger, more efficient and more effective delivery of economic development, regeneration and transport responsibilities.

To do this, a Combined Authority needs the means and flexibilities to tailor the delivery of national scale interventions to address local issues. To support this there needs to be clear and effective governance arrangements in place with a long term strategic focus.

There are a number of alternative models of governance that could be adopted.

The following options have been considered:

Option 1 – status quo;

Option 2 – establish an Economic Prosperity Board; and

Option 3 – establish a Combined Authority.

This review examines the options above and concludes that the most appropriate option for the West Midlands is to establish a Combined Authority. Stakeholder engagement will be undertaken and views reflected in the final version of this Governance Review.

The West Midlands is a functional economic market area.

There is compelling evidence that the area covered by the contiguous local authority areas of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton (for the purposes of this review this area is defined as the “West Midlands”) forms a functional economic market area. This is one of the statutory requirements under proposals to change governance requirements under section 108 of the Local Democracy, Economic Development and Construction Act 2009 (LDEDCA). A review of the evidence detailing the economic structure of the region shows high levels of economic integration, in terms of the labour market, travel to work areas and a number of the area’s key sectors.

Furthermore, the West Midlands sits within a broader and even better defined functional economic market area covered by three Local Enterprise Partnerships.

The broader area covered by the three Local Enterprise Partnerships (LEPs), Black Country, Greater Birmingham and Solihull and Coventry and Warwickshire (“the three LEP area”), is in fact a stronger functional economic market area. The Leaders of the seven local Authorities of the West Midlands agree that a Combined Authority collaborating across the much wider and important geography across the three LEPs is crucial.

The challenge for the West Midlands is to address the complex and inter-related issues which have held back its growth.

The three LEP area annually contributes more than £80bn of Gross Value Added (GVA) to the UK economy. In 2012/13, the region’s output grew by more than 4%, one of the fastest growth rates in any region of the UK, demonstrating the impact of our growing public and private sector collaboration. However there are a numbers challenges to be addressed that if successfully addressed could accelerate this growth further.

These include a skills deficit at the lower and higher ends of the skills spectrum which has led to high levels of unemployment in the region and low levels of productivity. If unemployment rates moved into line with the England average, there would be 14,500 fewer claimants resulting in a benefits saving in excess of £35 million per annum.

The pressure on public services is becoming more complex. Current ways of running services do not appear to help people out of dependency. There is a need to tackle the hard issues on a collective, collaborative and jointly funded basis, for example in areas such as complex dependency, mental health and the challenges of aging well.

The region does not yet have an effective fully integrated public transport network. It needs quick and frequent services that connect people to employment opportunities and effective

freight transport and business travel options to connect businesses to supply chains, key markets and strategic gateways.

Addressing the West Midlands contribution to the country's prosperity is a driver for enhancing the governance of the area.

The West Midlands' aim is to lead the national effort to rebalance the British economy. This would see the region closing the gap between its current performance and national output. This currently stands at £4,000 per head less than the national average.

The West Midlands intends to create the most effective Combined Authority in the country, in order to propel the economy to further growth than can be achieved at present. The region's leaders are committed to delivering growth, prosperity and well-being for the benefit of all residents.

National and international evidence suggests that dealing with regional issues is best achieved at a regional level.

In a recent speech the Chancellor of the Exchequer, George Osborne MP stated that "the old model of trying to run everything in our country from the centre of London is broken". Furthermore, economic analysis from the Organisation for Economic Co-operation and Development ("OECD") demonstrates that strategy integration across key policy areas can deliver economic benefits at the regional scale in terms of sustainable economic growth and employment. For example, dealing with regional skills shortages with locally developed policies.

The research emphasised the importance of having governance capacity at the level at which the local economy functions, this is a level which would be consistent with the proposed West Midlands combined authority area. A Combined Authority, with appropriate resources, offers the most beneficial option to enhance the region's ability to address its underlying economic challenges.

The Combined Authority will have a strategic focus and will not be bureaucratic.

The Combined Authority will not be another layer of politicians. It is a way of bringing together existing activities to create greater coherence. It will be a streamlined and strategically focussed body, appropriately resourced to ensure more effective and efficient delivery of economic growth, skills and transport functions across the West Midlands.

It will be underpinned by strong research, intelligence and advocacy functions. It will deliver area-wide functions around the co-ordination of funding streams, seeking investment and collective resourcing and other responsibilities devolved from central government and other agencies. This will lead to greater self-reliance as the West Midlands will have the means to unlock its economic potential.

The Combined Authority will be democratic, accountable, transparent and effective.

A Combined Authority that reflects the functional economic market area, would enable decisions to be made by the democratically elected Leaders from the seven local authorities, together with the Chairs of the LEPs and other non-constituent members. This joint accountability and leadership would increase collective responsibility. It would create a transparent and effective decision making process. The Combined Authority would provide a visible, stable and statutory body which could act as an Accountable Body to attract further funding to the West Midlands. It would be a vehicle capable of seeking additional powers which can be devolved from Government.

Collaboration will continue and improve.

The Combined Authority would build on and give legal form to successful public and private sector partnerships established through the working of the LEPs. It will enhance the close working relationships that already exist between the local authorities, LEPs and the West Midlands Integrated Transport Authority ("WMITA") to make them more effective and efficient. A Combined Authority would bring together the strategic decision making powers relating to economic development, regeneration and transport. By creating a sub-regional body with legal personality and a governance mechanism that collaborates across the region, the prospects for improvements in the economic conditions of the area are most likely to be maximised. The need for issues to be considered at various bodies will be significantly streamlined through the strengthened governance process.

The partnerships between the private and public sectors will be central to the ambition of the West Midlands.

The Combined Authority will bring together authorities from the three LEP areas. There is a shared recognition of the importance of enabling further economic growth at a faster pace whilst undertaking necessary public sector reform. The private sector Chairs of the LEPs will

have a place on the Combined Authority board. This will ensure that the partnerships between the private and public sectors will be central to the considerations of the decisions that will affect the region. Existing enduring partnerships can be built upon through the Combined Authority and offering an opportunity to show how public and private sectors working together can deliver jobs and growth.

The creation of a Combined Authority is the best way forward.

The Combined Authority will operate across a broad area and will be able to achieve a greater impact than the sum of its parts as a result of more effective and efficient governance.

The Combined Authority option brings together the governance of economic development, regeneration and transport. It therefore affords the area the best possible chance of addressing the issues that have held the region back. Working together across geographic boundaries and sectors and recognising the crucial role the private sector has to play will deliver conditions for growing businesses, more skilled and better paid jobs, increased investment, improving health outcomes and reducing the region's welfare bill.

Review Conclusions

In order to deliver the identified improvements in the efficiency and effectiveness of governance of economic development and regeneration and transport in the West Midlands, a Combined Authority should be established pursuant to Section 103 of the Local Democracy, Economic Development and Construction Act 2009. The Leaders of the seven Metropolitan authorities of the West Midlands are all committed to a Combined Authority for their area. They agree that a Combined Authority collaborating across the much wider and important geography across the three LEPs is crucial and that LEP representation on the board will be key to the area's success and aligned priorities. Additionally, the West Midlands Integrated Transport Authority shall be dissolved pursuant to Section 91 of the Local Transport Act 2008 and its functions transferred to the Combined Authority.

The statutory process of the governance review

Introduction

This report has been prepared by the seven West Midlands Chief Executives; Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton, on behalf of their Leaders. It sets out the findings of the governance review undertaken in accordance with section 108 of the Local Democracy, Economic Development and Construction Act 2009 (LDEDCA) and Section 82 of the Local Transport Act 2008.

Purpose of the review

The purpose of the review is to determine:

- Whether the area covered by the local authorities of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton can properly be seen as constituting a functional economic area for the purpose under consideration under the review;
- Whether the existing governance arrangements for economic development, regeneration and transport are effective or would benefit from changes;
- The options available and in relation to each option, to evaluate 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

Having examined these questions the report draws conclusions on what is considered to be the most effective form of governance.

Legal context

Part 6 of the LDEDCA enables the creation of economic prosperity boards (EPBs) or combined authorities (CAs). These sub-national structures have separate legal personality to the local authorities who come together to create them. The bodies are available to support the effective delivery of sustainable economic development and regeneration and in the case of CAs, transport.

Delegation of additional powers from Central Government

The Localism Act 2011 contains powers for the Secretary of State to transfer certain 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 independently from the procedure to create EPBs or Combined Authorities.

Transport

A Combined Authority is differentiated from an EPB due to the inclusion of transport functions. There are intended similarities between Part 6 of the 2009 Act and part 5 of the Local Transport Act 2008 (the LTA) which provides for Integrated Transport Authorities (ITAs). When a Combined Authority is established in an area where an ITA already exists, the ITA is dissolved and the Combined Authority assumes all the functions of the ITA for the area.

Whilst there are differences, the process for review is broadly similar under both Acts. In preparing a scheme under the 2009 Act, regard must be had to the provisions of the LTA as well as any guidance published by the Government relating to both pieces of legislation.

The Four Steps to Creation of a Combined Authority or Economic Prosperity Board

The process for creating an Economic Prosperity Board or Combined Authority involves four main steps:

1. A review of existing governance arrangements for the delivery of economic development, regeneration and transport. This must lead to a conclusion that there is a case for changing these arrangements based on improvements;
2. A period of engagement with stakeholders to ascertain their views. This is not a statutory requirement, but to ensure views are understood engagement will be undertaken;
3. Drafting a Scheme for the Combined Authority. The Scheme will be the basis for the creation of the new body and should contain information on the area it will cover; its membership, voting and any executive arrangements; its functions and the way in which it will be funded. All constituent councils are required to approve the Scheme and

governance review for submission to the Secretary of State for Communities and Local Government.

4. Finally, the Secretary of State will consider the Scheme and undertake a formal consultation. If he is satisfied with the proposals a draft Order will be laid before both Houses of Parliament for adoption by affirmative resolution. To approve a Scheme the Secretary of State must be satisfied that (in accordance with section 91(5) (for Economic Prosperity Boards) or 110(1) (for Combined Authorities) of the 2009 Act) that improvements are 'likely' if the Scheme proposed is adopted.

Flexibility and Control

A Combined Authority or an Economic Prosperity Board is not a merger or a takeover of existing local authority functions. Instead they seek to complement local authority functions and enhance the effectiveness of the way they are discharged. In particular, it is the enhancement of collaboration, strength of decisions and accelerating growth across the region at a strategic level.

Once established both Combined Authorities and Economic Prosperity Boards have wide general powers. However, the mechanisms by which those powers can be exercised, the functions to be discharged and the resources available will be determined by the members through the drafting of the constitution.

Creating the right governance arrangements for growth

The further purpose of this governance review is to consider ways to secure greater influence over key levers and resources affecting local growth that are currently in the control of central government.

The Growth Deals that have been agreed in the region have sought to capitalise on the region's strengths to attract investment into the area and create additional jobs. However, other areas have shown that in order to maximise opportunity to enhance local growth a strengthened governance model is required.

In the absence of improved governance, the West Midlands risks lagging behind areas which have taken this step and will not meet its ambition to support the re-balancing of the UK economy. The establishment of the region's ITA demonstrated the desire to work together on strategic issues. However, this does not provide a legal link between decisions made in relation to economic development/regeneration and transport and therefore makes the current governance model ineffective. By joining up governance in a more transparent and effective decision making process, decisions will be made in a more effective and efficient way. Any new

governance arrangements must eliminate time consuming bureaucracy in the making of strategic decisions for the benefit of the region.

The West Midlands

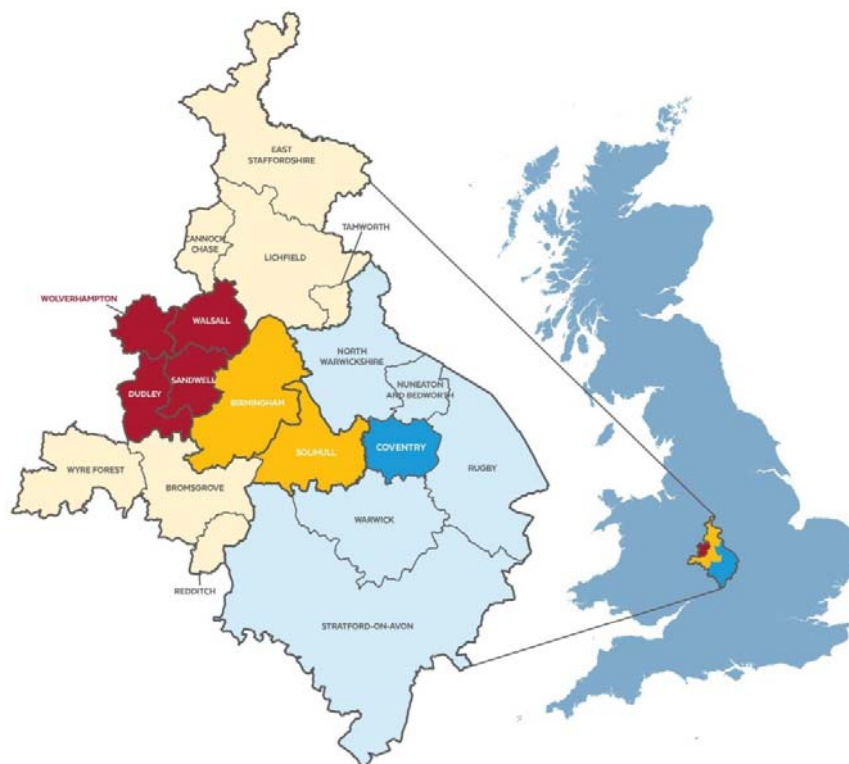
Geography

This governance review covers the seven local authority areas of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton ('the West Midlands').

Leaders of all the seven Metropolitan Councils are committed to collaboration across the West Midlands. In addition, they agree that collaboration over a much wider and important geography across the three Local Enterprise Partnerships area is crucial. This could involve thirteen more local authorities.

The Local Enterprise Partnerships are partnerships between public and private sector. This collaboration has been responsible for the setting of strategic objectives and the development of innovative and cost effective delivery models, leading to growth and job creation in the area.

The three LEP area is shown on the map below:



Local context

The three LEP area shown in the map above make up a major economy of national significance with an annual Gross Value Added (GVA) of £80bn. GVA measures a specific area's contribution to the national economy, and is a measure of the value of goods and services produced in that region. In 2012/13, the area's output grew by more than 4%; one of the fastest growth rates in any region of the UK, demonstrating the impact of our growing public and private sector collaboration. The area has 1.7 million jobs and over 130,000 businesses. The region houses just 6% of the UK population but provides 10.5% of its exports. While 40% of the area's exports are to the EU, the top international markets for the area are China and the USA. There were 172 inward investment projects in 2013/14 (74% rise), creating over 9,000 jobs.

There is a world class higher education and further education offer with eight Universities across the area. The Universities have particular strengths in digital technology and computer science, healthcare, business administration, engineering and technology, and education. Additionally, the area has a range of internationally recognised research institutions. These specialise in fields such as automotive design and development, polymer research, ceramics and science and technology.

The area is England's manufacturing heart, home to a critical cluster of the UK's most important and biggest manufacturing businesses and leading centres of advanced engineering research. There are 300,000 jobs in high value manufacturing in the area. It is also home to one of the largest professional and financial centres outside of London, burgeoning creative and cultural industries and is the location of choice for world leading companies such as Cadbury, Deutsche Bank, Jaguar Land Rover, JCB, Aston Martin, BMW, Eon, Rolls Royce and Carillion PLC.

The area lies at the heart of the nation's transport network. The location at the centre of the UK's motorway and rail network means that it is within four hours travel time of 90% of the UK's population and business.

There are ambitious plans to build on the strong foundations, as the largest infrastructure project in Europe, high speed 2 (HS2) will be an economic catalyst for the West Midlands. Complemented by a local connectivity programme to ensure its benefits ripple out across the region, HS2 will attract and develop new skills, generate new jobs, reshape the region's road and rail networks and stimulate significant growth in supply chains.

Challenges to address in the West Midlands

Despite the many positive features highlighted above, the West Midlands is not maximizing its potential to grow output and productivity. There are a number of challenges that will need to be overcome. These are summarised below.

A Skills Deficit

The West Midlands suffers from a significant shortage of skills both at the lower and higher ends of the skills spectrum. The region's share of people with no qualifications is higher than the national average. The percentage of the population with skills training at or above level 4 is only 21% of the population, significantly worse than the average across England and Wales at 27%. The skills deficit across the region is reflected in the high level of unemployment (9.3%) across the seven Metropolitan Authorities.

If unemployment across the West Midlands was to fall to match the England average there would be some 14,500 less claimants resulting in a saving in excess of £35 million per annum in benefit spending. If the skills profile of the West Midlands was to match just the England average, so that an additional 19,000 people were qualified to level 4, GVA would increase by an estimated 1.7%. Furthermore, raising the skills levels to be best in class would increase GVA by 9.9%.

Addressing the region's skills deficit is a priority. The proposed establishment of the West Midlands Productivity Commission indicates the dedication to tackling the relatively low levels of productivity in the area and the causes for them. Innovative work aimed at tackling low skills levels is already being conducted by the Greater Birmingham and Solihull LEP and there is an ambition to spread this best practice more widely across the region.

A Legacy of Worklessness

The region has an economic activity rate of 74.1% compared to a national average of 77.2%, meaning that there are 77,700 people out of the labour market. There are encouraging signs of improvement with the unemployment claimant count across the West Midlands falling to 67,078 in May 2015 from a high of 146,160 in 2010.

There are excellent examples of innovative employment initiatives in operation across the West Midlands, such as the recently announced Work Coaches programme. However, the area has not recovered at the rate of comparable locations and more needs to be done to address the

issue. There is a need to collaborate regionally on the underlying causes of worklessness, which are often inter-related and wide ranging. Driving economic growth and increasing the understanding of these issues will move more West Midlands residents into work permanently.

A Public Service Challenge

Financial pressures are mounting. Traditional ways of running services seem not to help people out of dependency and reducing budgets create the need to look again at how costs can be reduced and outcomes improved. That means tackling the hard issues: complex dependency, mental health and the challenges of ageing well.

The seven Metropolitan Leaders propose to deliver the West Midlands Commission on Mental Health. It will take an innovative approach to Public Services to tackle the issues which give rise to a number of social and employment challenges. Collaboratively, it will examine best practice and pilot new ways of working to test effectiveness of interventions, as well as advising on how to best use public sector reform to make real change.

A Connectivity Challenge

The region does not have an effective fully integrated rail and rapid transport network that connects its main centres with quick frequent services, and that increases the number of people who can readily access HS2 stations and main centres. By delivering this, there will be a reduced impact on the environment, improved air quality, reduced carbon emissions and improved road safety. The resulting network will enable the efficient movement of goods to support businesses to connect to supply chains, key markets and strategic gateways.

Review of the economic evidence

Overview

The initial step for the governance review was to underpin the case for change with the preparation of a detailed review of economic evidence. This section summarises this evidence which addresses the following key question:

- Can the geography be understood as a ‘functional economic market area’?

Analysis of functional economic market areas (FEMAs)

Introduction

The Department for Communities and Local Government (DCLG) define FEMAs as, “the area over which the local economy and its key markets operate”. They vary in size and boundary, depending on the issue under consideration (e.g. labour market, housing markets) and the criteria used to define them.

FEMAs reflect the real world in which the economy operates; they do not respect the boundaries of administrative areas. Collaboration across these borders is therefore essential to deliver transport and economic development and regeneration in the most effective way.

The seven Metropolitan authorities commissioned a study to consider whether the following geographies could be considered to be FEMAs:

- The seven authorities that make up the West Midlands (Coventry, Solihull, Birmingham, Wolverhampton, Sandwell, Dudley and Walsall);
- Each of the Black Country, Coventry & Warwickshire, and Greater Birmingham & Solihull LEPs individually and on a combined basis. On a combined basis, this comprised the seven unitary authorities noted above, and 13 other local authorities.

The study analysed three separate metrics:

- Travel to work areas (TTWA) as an effective definition of the local labour market;
- Migration data as a tool for analysing the local housing market, and;
- Industrial specialization.

Each of these is discussed in more detail below.

Travel to Work Areas

A TTWA is a collection of areas for which "at least 75% of the resident economically active population work in the area, and also, that of everyone working in the area, at least 75% live in the area". The ratio of the population who live and work in the area is known as the self-containment ratio.

Our work considered whether (a) the areas of the seven Metropolitan authorities, (b) each of the individual LEP areas of the Black Country LEP, Coventry & Warwickshire LEP and Greater Birmingham & Solihull LEP, and (c) the three LEP areas combined are a TTWA. The results of this work is shown in the table below:

Area	Resident in-work population working with the area	Total resident in-work population	Self-containment ratio
Black Country LEP	298,000	419,000	71%
Greater Birmingham & Solihull LEP	514,000	677,000	77%
Coventry & Warwickshire LEP	263,000	341,000	77%
7 metropolitan authorities	837,000	976,000	85%
3 LEPs combined	1.29m	1.44m	90%

Each of the three LEPs broadly meets the definition of a TTWA, with self-containment ratios varying between 71-77%. However, the self-containment ratio rises considerably when the seven metropolitan areas are considered as a TTWA to 85%, and to 90% when the three LEP areas are combined.

The table below shows how these self-containment figures compare with established Combined Authorities:

Area	Self-containment ratio
North East CA	93%
West Yorkshire CA	91%
West Midlands 3 LEPs	90%
Greater Manchester CA	89%
West Midlands 7 Metropolitan authorities	85%

Sheffield CA	85%
Liverpool CA	83%

The conclusions drawn from this work is that TTWAs exist at all three levels considered in this study – at LEP level, at seven Metropolitan authority level, and at the three LEP combined level. The three LEP geography has the highest rate of self-containment.

The travel to work relationships between Birmingham and the Black Country, and between Birmingham and Solihull, are particularly strong and so form the basis of any consideration of a functional economic market area. Whilst Coventry's travel to work relationship with the Greater Birmingham & Solihull and Black Country LEPs areas is less strong, there are important commuting routes into and out of both Birmingham and Solihull which are evidence of the shared labour markets between these areas. Almost 10,000 commuters travel daily between Birmingham and Coventry, and more than 7,000 people commute daily between Coventry and Solihull.

It is evident from the analysis of individual travel to work patterns that there is a high level of inter-connectivity across the seven metropolitan authorities and a higher level of connectivity across the three LEP area. It is precisely this level of interconnectivity that provides the evidence of employers in one area accessing labour pools in a connected area, and is the basis for the conclusion in respect of the existence of TTWAs across our area.

Migration data

Migration data is derived from an analysis of where individuals were moving to and from in the year preceding the 2011 Census. It broadly replicated the pattern of the TTWA data, although with a considerably smaller number of transactions. Again, there was a very strong linkage evident between the Black Country and Greater Birmingham & Solihull. Coventry's principal relationship was with Warwick, but again there were important linkages between Birmingham and Solihull with Birmingham being the third most popular destination for Coventry residents to relocate to.

Industrial specialisation data

In order to look at industrial specialisation a data set called "location quotients" is considered. These compare the number of people employed in a particular industry in an area to the national average. The industrial specialisation data demonstrated that the area has a particularly strong representation in the manufacturing, wholesaling and automotive sectors. To put this into context, there are 60,000 more people employed in the manufacturing sector than would be expected from a comparison with the UK average. In addition, the three LEP area employs 25% of all Great Britain's automotive manufacturing workforce.

All three LEP areas are particularly closely linked in these three sectors, showing Location Quotients well in excess of 1, indicating there is a significantly above average employment level across the sector compared to the rest of the country. These Location Quotients are evidence of both the clustering effect evident in these industrial sectors and the impact of the supply chains for many of the end user manufacturers which extend across all three LEP areas.

Conclusion

A FEMA exists at the level of the seven unitary authorities. This gives a positive rationale for collaborative working in a stronger governance arrangement in this area. The strongest self-containment figure in the region comprises of the three LEP area.

Under the current legislation relating to Combined Authorities and Economic Prosperity Boards, not all local authorities are able to join as constituent members. However, since the three LEP area can be seen as a stronger FEMA, if an alternative model of governance is chosen as the way forward, there is an ambition to collaborate across this boarder area.

In some instances, economic markets extend beyond the three LEP boundaries, and in formulating its economic strategy, these linkages and markets will need to be taken into account.

The current governance arrangements and the case for change

Introduction

This chapter sets out the current arrangements in relation to the local government functions that are the subject of this review and seeks to establish if an alternative model of governance is likely to improve:

- (a) the exercise of the statutory functions relating to transport in the area;
- (b) the effectiveness and efficiency of transport in the area;
- (c) the exercise of statutory functions relating to economic development and regeneration in the area; and
- (d) the economic conditions in the area.

The alternative models of governance considered were as follows:

- Option 1 – status quo;
- Option 2 – establish an Economic Prosperity Board; and
- Option 3 – establish a Combined Authority.

Current governance in relation to transport

Integrated Transport Authorities (previously Passenger Transport Authorities) are a type of joint authority established with responsibilities for transport strategy and passenger transport across metropolitan areas. It is worth noting that the original ITAs in Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear and West Yorkshire have been dissolved as part of the move to Combined Authority status in those areas, with the Combined Authorities taking on the role of the ITA. The West Midlands Integrated Transport Authority (“WMITA”) is the only remaining ITA.

The WMITA, (formerly the West Midlands Passenger Transport Authority), was established in 1986. The WMITA comprises the Leaders of the seven Metropolitan Authorities of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton. It also includes a non-voting representative from each of the LEAs. The ITA is currently chaired by the leader of the City of Wolverhampton Council, Councillor Roger Lawrence.

The ITA is responsible for formulating the transport strategy and policy for the Metropolitan Area, incorporating strategic highways, freight, rail, bus and rapid transit networks. The ITA is

directly supported by the Policy and Strategy Team, who are producing a new Strategic Transport Plan which will align with LEPs Strategic Economic Plans, to connect people and places and support economic growth and jobs. The ITA has an important role as the Local Transport Authority for the West Midlands.

Following a review of the transport governance in November 2013, an improved set of governance arrangements were established for the ITA.

The changes were specifically designed to improve the co-ordination and delivery of transport in the West Midlands, and the integration of policy on economic development, planning and transport priorities. The ITA, with the Leaders as its members, has a:

- Stronger focus on the role of transport in supporting economic development and regeneration, through effective collaboration between the Leaders, supported by a Secretariat with resources to provide expert advice;
- Strong interfaces with the LEPs: the seven Leaders are active on the Boards of the three LEPs and, alongside the LEP private sector representatives, are central to ensuring that the LEPs' growth priorities are fully reflected in the planning, commissioning and delivery of transport in the West Midlands.
- Stronger focus by Leaders on the whole of the West Midlands transport network, including roads, to ensure effective connectivity to address the needs of our future economy, whilst connecting communities in greatest need with future opportunities;
- Proven expertise of the Leaders in taking strategic decisions to drive transport forward in the West Midlands;
- Streamlining of decision-making facilitating more rapid and efficient decision-making;
- Strong shared commitment from the Leaders in working together to deliver the best outcomes for the West Midlands.

As part of the November 2013 governance review the establishment of a Combined Authority, with a strong focus on transport functions, was considered. The Combined Authority option was not pursued at that point as it did not have the necessary stakeholder support to ensure that the option was deliverable. This position has now changed and the Combined Authority receives broad support, which in turn removes the barrier in terms of deliverability. The next logical step now is to formally cooperate on strategic transport, economic development and regeneration to support economic growth and job creation in the West Midlands.

The option pursued in November 2013 (in respect of transport responsibilities) was to change the membership structure of the ITA. The seven councils appointed a single member to the ITA in accordance with the provisions of schedule 10 of the Local Government Act 1985 (as amended). This also included three non-voting members from the Greater Birmingham & Solihull, Black Country and the Coventry & Warwickshire LEPs. The Secretary of State for Transport made a Parliamentary Order in exercise of the powers conferred by section 29(2) of the Local Government Act 1985(a) with the West Midlands Integrated Transport Authority (Decrease in Number of Members) Order 2014 coming into force on 4 June 2014.

Current governance in relation to economic development and regeneration

Currently, there is no overarching body which deals with economic development and regeneration across the region. However, there is already successful collaboration on this issue across the region, examples of which are detailed below.

The West Midlands Joint Committee

A joint committee for the West Midlands comprising the seven Metropolitan councils of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton was established in 1986 following the abolition of the West Midlands County Council. The Committee is a joint committee for the purposes of Part VI of the Local Government Act 1972. The Constitution was updated to reflect changes as set out in the Localism Act 2011 in relation to strategic planning and cross boundary infrastructure matters which must now be dealt with via the Duty to Cooperate.

The overall objective of the joint committee is to co-ordinate actions on important issues affecting the local authorities in the West Midlands. Key functions have focused on collaborative working with the West Midlands Joint Authorities for example the WMITA and Police and Fire & Rescue Authority. Following the creation of the Police & Crime Panel in 2012 (established under the Police Reform & Social Responsibility Act 2011) and the establishment of the new ITA in June 2014, the Council Leaders as the voting members of joint committee have maintained their close relationship through membership on both these bodies. The joint committee makes nominations or appointments to key partner bodies i.e. appointing to the five balancing places of both the West Midlands Police & Crime Panel and ITA Overview and Scrutiny Joint Committee.

More recently, the focus of the joint committee has been closer collaboration on social policy activities/issues affecting the conurbation. For instance, the protection of vulnerable children and adults, preventing Child Sexual Exploitation as well as health and social welfare issues. The joint committee provides a vehicle for communicating these joint actions and their needs to Government and other influential bodies.

Other functions of the joint committee relate to the exercise of the Metropolitan councils' powers and rights as shareholders of Birmingham Airport Company Ltd as well as making nominations/appointments to other bodies.

The current joint committee has been set up as a formally constituted body with some delegated powers and can agree its level of delegated responsibilities as it sees fit with the agreement of the seven metropolitan districts. However, it is not a 'body corporate', but is an arrangement for collaborative working. These arrangements have not been set up on a permanent nor binding basis and could, in theory, be wound up by the members. As such, the Joint Committee cannot hold funding in its own right, nor can it take on devolved powers from Government. It is not an accountable body within the definitions of the LDEDC and as a result, any decisions, outside of the functions in the joint committee constitution, still need to be taken through individual, constituent local authorities.

Accordingly, the Leaders of the authorities considering changing governance arrangements do not believe that the joint committee governance provides them with the opportunity to respond to the potential freedoms and flexibilities offered through devolution.

The Local Enterprise Partnerships (LEPs)

The seven Metropolitan councils sit within three LEPs: the Black Country, Greater Birmingham and Solihull, and Coventry and Warwickshire LEP. Although three separate growth deals have been agreed, the LEPs have worked collaboratively across the region on issues such as transport, access to finance, supply chains, business growth hubs, housing, inward investment, skills, and enterprise zones.

The Chairs of the three LEPs meet with other regional LEP Chairs on a quarterly basis to drive forward shared agendas. These working relationships are key to effective collaboration across the region. The senior LEP Executives also meet on a bi-monthly basis to support cross-working. There are West Midlands' wide groups for Transport and Finance. These groups have respectively developed a joint Transport Statement, working with the East Midlands LEPs in support of the broader Midlands' transport strategy, "Midland Connect" and are taking forward Joint European Resources for Micro to Medium Enterprises proposals having already collaborated on an Advanced Manufacturing Supply Chain funding initiative.

The Greater Birmingham and Solihull Supervisory Board

The nine Local Authority Leaders that form the Greater Birmingham and Solihull LEP have established a Supervisory Board to ensure there is effective decision-making and clear political accountability for the management of significant funding streams such as the Local Growth Fund and business rates retained through the Enterprise Zone.

The Supervisory Board is a Joint Committee and each local authority has delegated to it the economic development functions covered by the general power of competence contained in Section 1 of the Localism Act 2013. The GBSLEP Chair is a member of the Board (using the power to co-opt non-authority members on to a committee contained in Section 102(3) of the Local Government Act 1972) but is non-voting.

The Black Country Joint Executive Committee

The Black Country Joint Executive Committee was established by Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Walsall Metropolitan Borough Council and City of Wolverhampton Council. It acts as a strategic body in relation to the City Deal and Growth Deal – with full delegated authority from each of the four applicable Local Authority Cabinets to make decisions on setting and reviewing objectives for strategic investment across the Black Country. It provides a coherent single position on the major strategic City Deal and Growth Deal issues, agreeing the allocation of spending and major priorities. The four local authorities and Black Country Consortium Limited have entered into a Collaboration Agreement that establishes a legal framework for joint working in relation to the functions of the Joint Committee. This agreement places equal responsibility on all four Black Country Local Authorities and the Black Country Consortium for the underwriting of the Joint Committee programme.

Joint Committee for Growth and Prosperity

A formal Joint Committee for Growth and Prosperity was created in Coventry and Warwickshire as part of the City Deal process and now operates closely with the Coventry and Warwickshire Local Enterprise Partnership. This Joint Committee is made up of Coventry City Council; Warwickshire County Council, North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Rugby Borough Council, Stratford-on-Avon District Council, Warwick District Council and Hinckley and Bosworth Borough Council. This reflects the geography of the Coventry and Warwickshire Local Enterprise Partnership and the Coventry and Warwickshire Growth Deal.

The Coventry and Warwickshire City Deal was signed with central government in January 2014 and covers the area of Coventry and Warwickshire and also the adjacent district of Hinckley and Bosworth (in Leicestershire) to reflect the close economic links and innovation assets across this area in advanced manufacturing and engineering, particularly in the automotive sector.

The City Deal also committed these councils to work together to form an Economic Prosperity Board with an ultimate aim of creating a Combined Authority for this geography – recognising

that this was difficult because Coventry City Council was part of the West Midlands Integrated Transport Authority.

The functional economic market assessment has made the case that the wider area covered by the three LEP area would give greater economic self-containment and that working together at this scale would yield greater benefits from agglomeration.

Regardless of the final membership arrangements of the Combined Authority, a close working relationship will be maintained between the members of the Joint Committee for Growth and Prosperity.

Options analysis

Preservation of the status quo

The leaders of the seven Metropolitan authorities are committed to the pursuit of collaborative working. Under the status quo there is not strong enough governance arrangements in place for the more ambitious agenda for the region. This option would leave the region without a single strategic transport and economic development decision-making body at the West Midlands level. The region would miss out on the benefits of working collaboratively on economic regeneration/development and transport issues which are inherently closely linked.

Maintaining the status quo would leave the region behind a number of other parts of the country who have already, or are in the process of, strengthening and aligning their decision making process in relation to transport and economic development/regeneration.

The deficiencies of the current joint committee i.e. the fact that it is not a body corporate nor can it hold funding in its own right would remain. The lack of a formal link between development, regeneration and transport would also continue.

The current arrangements are insufficient to take advantage of the move towards greater devolution from central government to the regions.

Establishing an economic prosperity board

An economic prosperity board would be a statutory body and would share many of the features of a combined authority. It would be a basis for taking on devolved powers and funding relating to economic development and regeneration. However the integrated transport authority would remain as a separate entity and the benefits of bringing economic development/regeneration and transport together would not be realised.

This does not align with the aspiration held across the region to fully exploit the potential to unite economic development/regeneration and transport and reap the benefits of a joined up approach to transport strategy.

Establishing a combined authority

The existing governance arrangements in the West Midlands can be improved. The governance structures in the West Midlands have worked well to date through a series of ad-hoc and informal arrangements. However, the ambition set out in this document and those reflected in the 'launch statement' requires stronger governance to deliver the agenda. Specifically, there is not a single strategic transport and economic development decision making body at the West Midlands level. These benefits would be best realised through the creation of a Combined Authority.

A Combined Authority governance model would ensure long-term effective engagement with the business and other sectors. Engagement and integration with the three LEPs in a statutory body is likely to lead to more effective interventions and an improvement in the realisation of economic objectives. A Combined Authority would be an integral part of a 'Midlands Engine' which would build on the strong foundations which have been laid in the region over the past 20 years, and help to rebalance the UK economy.

A Combined Authority would bring together, in a single legally recognised body, the key decision making powers for strategic transport and economic development. The Combined Authority could act as the Accountable Body for funding to support economic development and regeneration. The relevant legislation allows the Combined Authority to take on devolved powers from Government. This would enable the Combined Authority to engage with Central Government to discuss the powers that will best serve the people of the West Midlands if they are held locally.

A Combined Authority would help maximise growth in output and jobs. A region-wide focus on productivity, competitiveness and raising skill levels would put the region in the best position to achieve its economic vision and economic goals. The three commissions proposed by the seven metropolitan Leaders, (Productivity, Land, and Mental Health and Public Services) will seek to address the underlying causes of some of the most challenging societal and economic issues in the area, on a collaborative and regional basis. In addition, a strong and effective West Midlands Combined Authority would seek to address misperceptions about public sector collaboration in the West Midlands and help in engagement with national agencies. It would also create the opportunity for various types of collaborative effort. Creating a Combined Authority would enable the former 'workshop of the world' to be reinvigorated to become part of the Midlands Engine, driving economic growth in the region.

Overview of the options

The following table sets out the assessment of the potential options considered.

Option	Evaluation	Rationale
Maintain status quo	✗	The current structures leave space for ambiguity and overlap between the various roles and functions of the sub-regional bodies. The opportunity to address the deficiencies highlighted in this review would be missed.
Establish an economic prosperity board	✗	The downside of this option is that it misses out on the opportunity to fully achieve coordinated transport and economic benefits.
Form a combined authority	✓	A Combined Authority affords the area the best opportunity to address its underlying economic needs. This is as a result of the creation of a legally independent and accountable body that combines powers in respect of economic development/regeneration and transport. In addition it provides for the potential for powers to be devolved from central government.

Conclusions

In conclusion, the recommendation of this review is that the functional economic area of the West Midlands will be best served by a Combined Authority model of governance, bringing together local authorities, LEPs and other partners to drive growth.

Coordination of economic development and transport is a central rationale for the statutory basis for a Combined Authority, and therefore fundamental to its creation in the area. The CA will be ideally placed to provide leadership and area-wide voice on key strategic transport issues. A Strategic Transport Plan integrated within economic strategy, will allow strong representation from the area on topics such as High Speed Rail 2 ('HS2'), the West Coast Main Line, franchising of local rail services, aviation connectivity, the development of the rail and rapid transport network and the strategic road system, the heart of which is in the West Midlands.

Transport is recognised as key to affecting real improvements and changes at a strategic level and will be a core function of a Combined Authority in the West Midlands. The seven local authorities are in a unique position in bringing together the existing West Midlands ITA. As an

aid to long term integration, key transport powers transferred to the Combined Authority could be exercised through a carefully designed integrated governance model by constituent authorities on certain key issues.

The skills of the workforce of the West Midlands will need to improve in order to benefit from the opportunities that arise. There is an opportunity to up-skill the region's workforce to take advantage of the existing job opportunities and those that will be created in the future. The West Midlands has some of the most deprived areas in the country. Nationally-led initiatives have found it difficult to allow certain areas to share in wealth creation. Unemployment rates across the region currently stand at 9.3% and only 21% of residents have qualifications level 4 and higher, significantly less than the national average. Therefore a key focus of the Combined Authority will be to address this issue at a more manageable local scale. Up-skilling the workforce in the West Midlands will be a priority in order that residents share in the growth that strengthened governance will lay the foundations for. The Combined Authority will ensure that the benefits of economic progress are distributed broadly across the West Midlands.

The Combined Authority Area

The Combined Authority Area will be the area of the seven Local Authorities of the West Midlands (Birmingham, Coventry, Dudley, Sandwell, Solihull Walsall and Wolverhampton). The broader three LEP area described earlier in this review covers an additional thirteen local authorities. These local authorities can be non-constituent members of the Combined Authority and can be engaged in the strategy for delivering growth in the three LEP area.

Many of the local authorities outside of the metropolitan area are considering their position at this time. The aspiration is for collaboration across the three LEP area.

Governance model

In order to maximise the use of available resources to the benefit of the whole of the West Midlands a new governance structure is required. The challenges of the region in respect of skills, job creation, and attractiveness of inward investment are not being tackled as effectively as they could be.

The Combined Authority option would afford the West Midlands the best prospect of improving the efficiency and effectiveness of economic development, economic regeneration and transport.

Summary of benefits

The Combined Authority will:

- facilitate closer partnership working;
- increase the effectiveness and efficiency of the relevant functions and improve outcomes for local people through a co-ordinated approach to tackling the area's priorities;
- improve the exercise of statutory functions through stronger centralised evidence collection and analysis function;
- lead to an improvement in the economic conditions of the area;
- bring together the Integrated Transport Authority functions with Economic Development and Regeneration.

LAUNCH STATEMENT
6 JULY 2015



WEST MIDLANDS
COMBINED AUTHORITY

GROWING THE UK ECONOMY THROUGH A MIDLANDS ENGINE

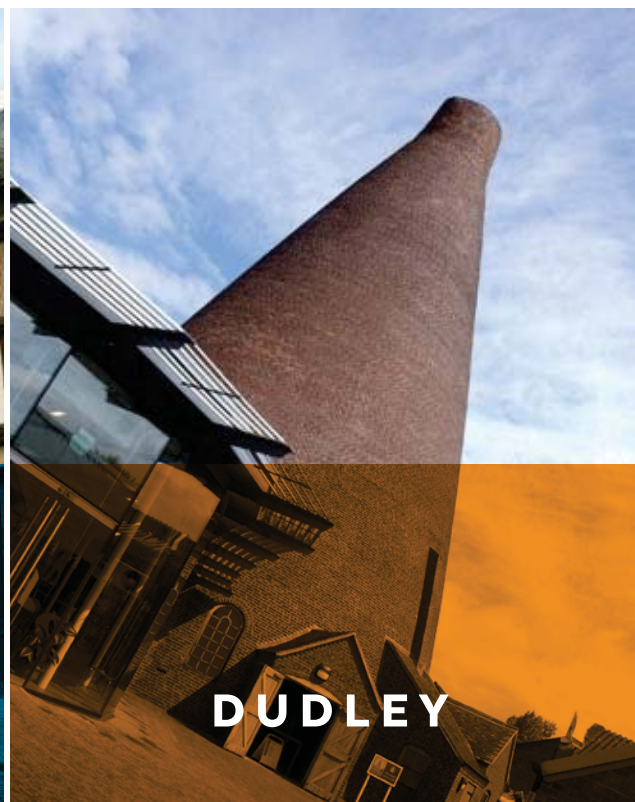
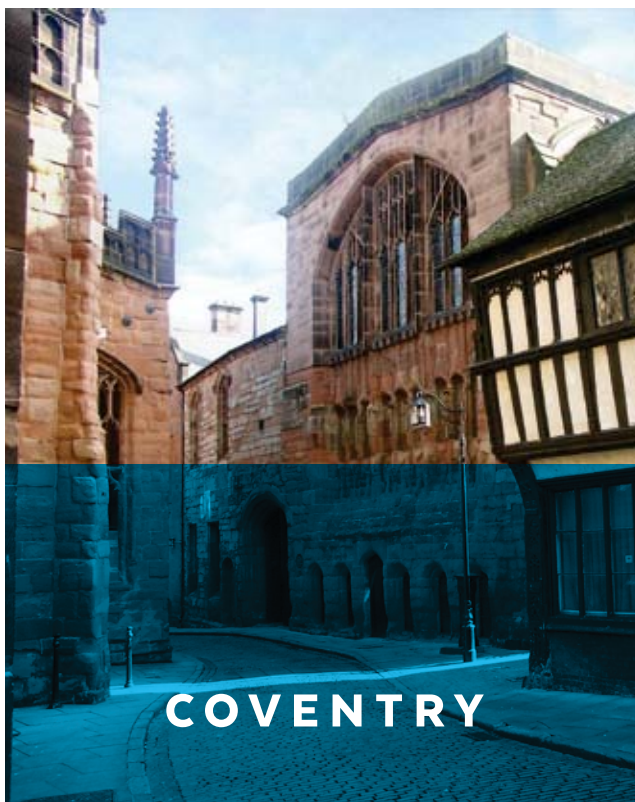
BIRMINGHAM • COVENTRY • DUDLEY • SANDWELL • SOLIHULL • WALSALL • WOLVERHAMPTON

Introduction **4**

Foreword **5**

Combined Authority – Statement of Intent **6**

The case for the West Midlands Combined Authority **7**



How the West Midlands Combined Authority will work

13

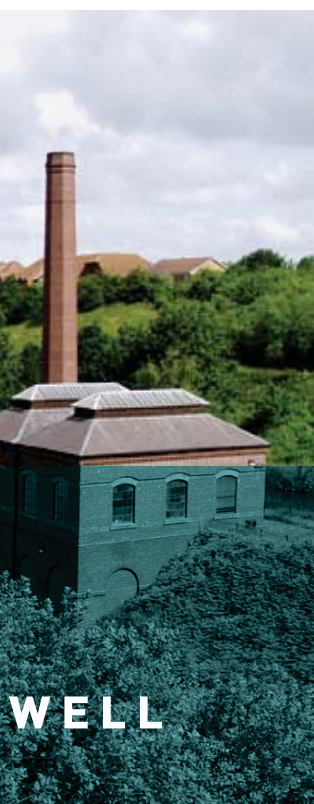
Early priorities for the West Midlands Combined Authority

14

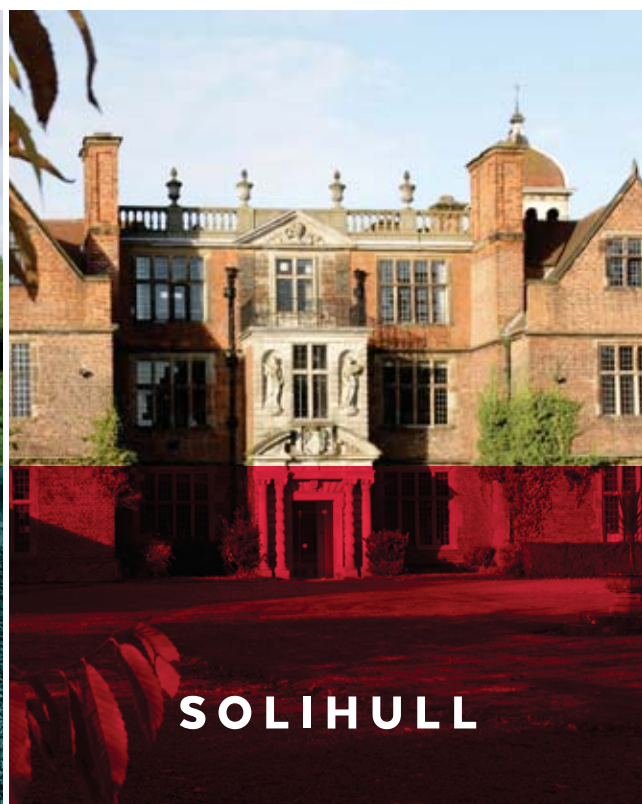
The consultation process

18

Find out more at www.westmidlandscombinedauthority.org.uk



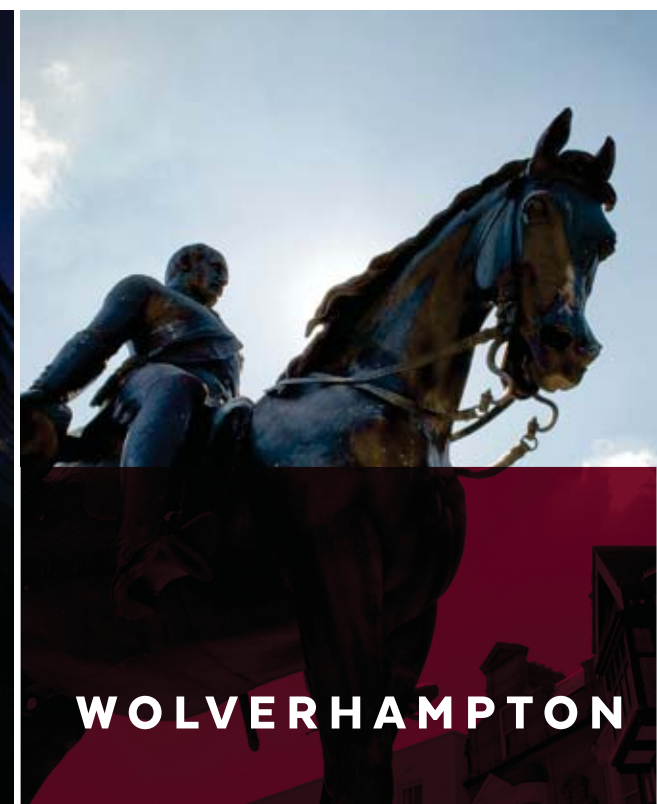
WELL



SOLIHULL



WALSALL



WOLVERHAMPTON



Growing the UK Economy through a Midlands Engine: the role of the West Midlands Combined Authority

Throughout this document, terms have the following meanings:

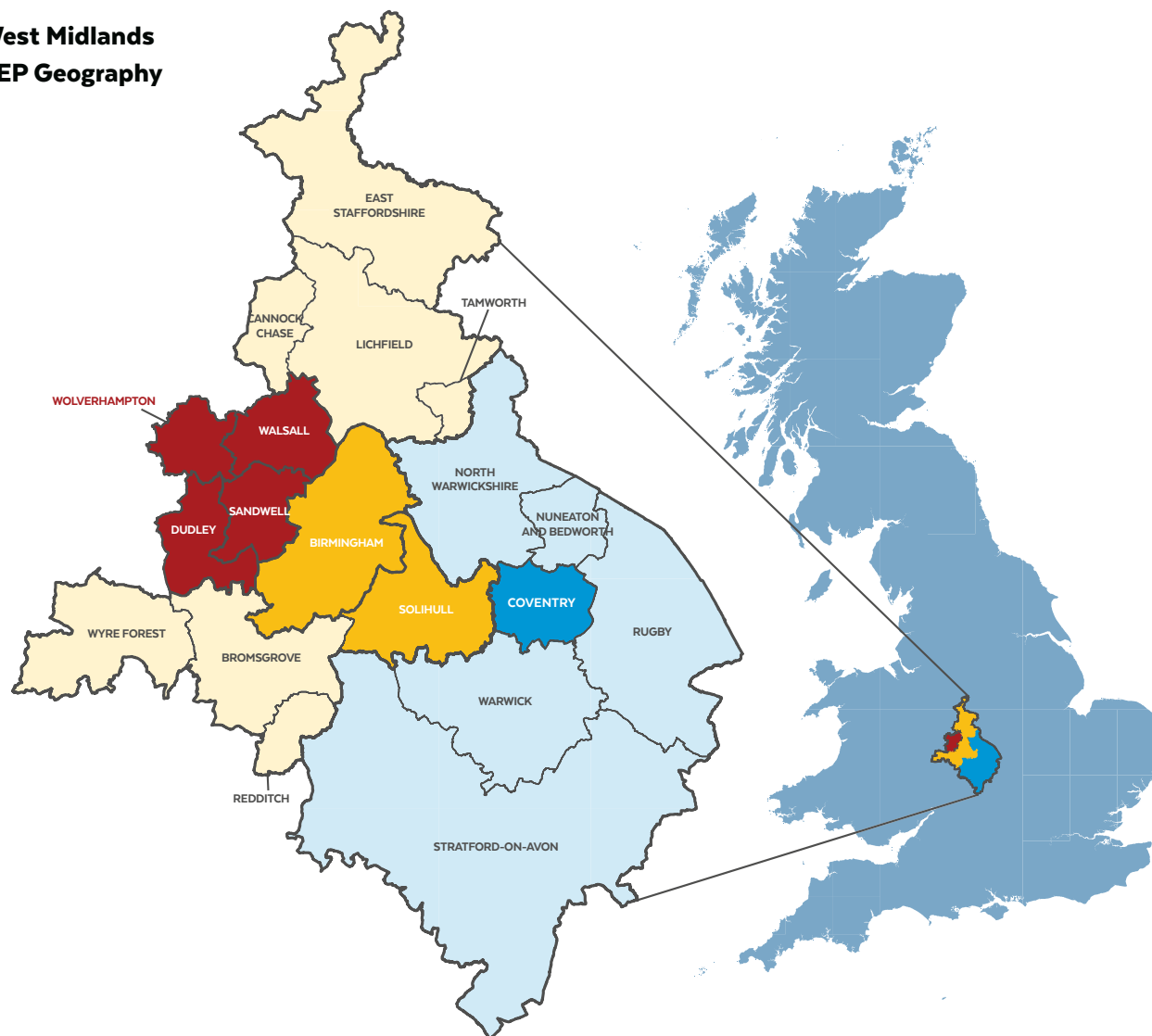
The West Midlands Combined Authority refers to the new governance structure being initiated for the West Midlands by the seven Metropolitan Authorities. It will initially consist of the Metropolitan Authorities. Leaders of the Metropolitan Authorities have made an open invitation to other West Midlands Councils to join the West Midlands Combined Authority.

The West Midlands refers to the area covered by the three Local Enterprise Partnerships: the Black Country LEP, the Coventry and Warwickshire LEP, and the Greater Birmingham and Solihull LEP.

The Midlands Engine refers to the growth and reform vision for the Midlands as articulated by the Chancellor in his speech on 1 June 2015.

Metropolitan Authorities (or Metropolitan Councils) refers to the seven Metropolitan Councils: Birmingham City Council, Coventry City Council, Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Solihull Metropolitan Borough Council, Walsall Metropolitan Borough Council, City of Wolverhampton Council.

West Midlands LEP Geography



Foreword

Historically, the West Midlands was the “workshop of the world”. Now the challenge is to become the engine of the British economy, driving jobs, prosperity and economic growth. In recent years we have made big strides towards this, with high growth, and record investment. But that’s against a background of lower growth in the 1990s and 2000s. Building on the strong foundations that have been laid, our ambition is for the West Midlands to help rebalance the UK economy, closing the £16bn output gap, and leading the Midlands Engine.

In stepping up to this challenge we need to work together across geographic boundaries and sectors, recognising the crucial role the private sector has to play in increasing competitiveness and productivity. This will deliver the conditions for business to flourish, creating more skilled and better paid jobs, bringing more investment into the area, improving health outcomes, reforming public services and reducing the region’s welfare bill. By doing this, the Midlands Engine will provide a better and fairer deal for people across the region.

The Leaders of the seven Metropolitan Councils of the West Midlands believe a Combined Authority – where every Council works in equal partnership alongside our Local Enterprise Partnerships – will establish a robust framework which will deliver the co-ordinated decision-making needed for modern economic governance.

A Combined Authority for the West Midlands is a critical building block in the delivery of our vision for a stronger Midlands engine.

Economic markets and the businesses serving them are no respecters of administrative boundaries. We believe the area being proposed for the West Midlands Combined Authority – covering the three Local Enterprise Partnership areas – represents a highly connected economic market area that can only benefit from close working on a number of key issues.

The proposals outlined in this statement aim to show how we can strengthen our relationships and focus on the issues that really matter to people and businesses in the West Midlands. The establishment of a Combined Authority provides us with a unique opportunity to drive forward a series of joint objectives in support of economic growth and progressive public sector reform. Our objectives must be to amplify the competitiveness, productivity and profitability of private sector enterprise which will be our engines of growth. By doing this we can create a strong and innovative partnership for economic governance second only to London.

Leaders of all seven Metropolitan Councils are committed to a Combined Authority for their area, but all agree that a Combined Authority covering the much wider and important geography across

the three Local Enterprise Partnership areas is crucial. This could involve 13 more councils joining the West Midlands Combined Authority. Currently District and County Councils are actively engaged in a dialogue around the creation of the West Midlands Combined Authority and are still working through the implications of joining. As we work to both develop the new economic strategic plan that will underpin the work of the West Midlands Combined Authority and the supporting governance structures, all Councils will work together over the coming months positively and constructively to deliver the very best outcome for the West Midlands.

We are ambitious for our region, its people and businesses. We value it for many things, not least for its diversity, its culture, its landscape and environment. But we will not over-promise. What is set out here is a deliverable set of initial propositions. We will build the trust and confidence of all those who choose to work with us. We are committed to partnership, innovation and enterprise. But above all, through the work programme the West Midlands Combined Authority will develop, we can lead our region to a better future and its rightful place as the engine of the UK economy.

Ministers visited the West Midlands recently to outline their challenge to us. This is our region’s response. It is our first statement, but by no means our final word. This is just the beginning of the journey.



BIRMINGHAM

SIR ALBERT BORE

Leader of Birmingham
City Council



COVENTRY

ANN LUCAS OBE

Leader of Coventry
City Council



DUDLEY

PETER LOWE

Leader of Dudley Metropolitan
Borough Council



SANDWELL

DARREN COOPER

Leader of Sandwell Metropolitan
Borough Council



SOLIHULL

BOB SLEIGH

Leader of Solihull Metropolitan
Borough Council



WALSALL

MIKE BIRD

Leader of Walsall Metropolitan
Borough Council



WOLVERHAMPTON

ROGER LAWRENCE

Leader of the City of
Wolverhampton Council



Combined Authority – Statement of Intent

We write as the Chairs of the Black Country, Coventry and Warwickshire and Greater Birmingham and Solihull Local Enterprise Partnerships (LEPs) to welcome your Statement of Intent to create a Combined Authority embracing our collective LEP areas. We recognise that this is an important step to enabling further economic growth at a faster pace for our areas whilst undertaking necessary public sector reform and, in due course, achieving further devolved powers from Government.

We believe there is already a strong economic foundation on which to build the Combined Authority, based on recent private sector led growth in our respective LEP areas. The economic statistics show that we are beginning to address many of the issues that have previously held back this region. This recent success has been based on a very strong collaboration between the public and private sectors, which has included the joint setting of strategic objectives and the development of innovative and cost effective delivery models.

STEWART TOWE, CBE

Chair, Black Country LEP



We have developed enduring partnerships and the Combined Authority offers us a further and exciting opportunity to show the country how public and private sectors working together can deliver jobs and growth. Maintaining this collaborative approach as the Combined Authority develops is a key principle for our collective success. Furthermore, a private sector that is the focal point of our future economic development decisions will allow effective interventions to be created that address the barriers to business growth and competitiveness. Jointly, we must work together to ensure that we gain greater economic outcomes than we can achieve as individual LEPs working collectively. In doing so, we should look to tackle the stubborn issues that remain within our economy, such as improving the levels of productivity and worklessness.

We are committed to work with you to assess and deliver this “economy plus” model and would be pleased to lead in the creation of an overarching Strategic Economic Plan (SEP) for the Combined Authority, based on a refreshing of our current SEPs and reflecting the benefits that can be achieved through a greater combining of our efforts. This will be a key document for the Combined Authority, which will clearly establish the economic and investment priorities for the future. Our approach will be based on a detailed economic analysis, an honest appraisal as to where

JONATHAN BROWNING

Chair, Coventry & Warwicks LEP



further opportunities for improvement lie, and the development of innovative joined up solutions for further private sector growth and investment and public sector reform that will underpin our future dialogue with Government.

We are pleased that, as Metropolitan Authorities, you have begun to engage with the District and County Authorities that make up our full LEP areas. Gaining the full commitment of all our local authorities should now be a top priority. We believe that a Combined Authority, including all of these partners, is critical to achieving maximum economic growth. We will continue to work with you to facilitate this full and nationally unique economic partnership.

In conclusion, we are pleased that the Metropolitan Authorities have come together to create a Statement of Intent around the formation of a Combined Authority. We look forward to working with you to evolve this further such that, working across our full LEP geographies, we create jointly an economy that is the strongest outside London and contributes fully to the Government’s vision of a wider “Midlands Engine for Growth”.

ANDY STREET

Chair, Greater Birmingham & Solihull LEP



The case for the West Midlands Combined Authority

We intend to create the most effective Combined Authority in the country in order to propel our economy to further growth than can be achieved at present. Working together as three Local Enterprise Partnerships and up to 20 Councils, we will achieve far more than any of us could ever deliver separately.

We are building on a sound base

The three LEP areas which make up the West Midlands annually contribute more than £80bn of Gross Value Added (GVA) to the UK economy. In 2012/13, the region's output grew by more than 4%, one of the fastest growth rates in any region of the UK, demonstrating the impact of our growing public and private sector collaboration.

The West Midlands is home to a number of the UK's most strategically important businesses including Cadbury, Deutsche Bank, JCB, Jaguar Land Rover, SCC, MG Motors, ZF Lemforder, Hydraforce, IMI plc, Tata, Aston Martin, BMW, Rolls Royce, Alstom, Ricardo, Lear, Meggitt, Unipart, Delphi, Bosch, Eon, GE Energy Power Conversion UK Limited, Tulip Limited, International Automotive Components Group Limited, Carillion PLC and Halfords Group PLC.

It is also home to some of the fastest growing SMEs in Britain according to the latest Inspire Britain 2015 report produced by the London Stock Exchange - these companies have on average doubled their revenue in the last four years, examples include In Touch Games Ltd, Select Health Care Ltd, Jerseytex Ltd, Fire Glass UK Ltd, G&P Group Holdings Ltd, Accura Group Ltd, Stoford Projects Ltd, Insurance Factory Ltd, E.sidwell, Norman Hay Plc,

Elmdene Group Ltd, Convergence (Group Networks) Ltd and Hardyman Group Ltd.

Renowned for its automotive and advanced engineering prowess, the West Midlands' economy has become more diversified in recent years with significant numbers of jobs created in the life science, financial and professional services, and digital and creative sectors.



An international economy

Our strong internationally competitive economy, our productive companies, sophisticated supply chain networks, our global businesses, and our location at the heart of the national transport network mean that we are uniquely well placed to deliver additional jobs and GVA for the UK economy. We are responsible for just 6% of the UK population but 10.5% of exports.

Our markets are truly global. While 40% of our exports are to the EU, the top international markets for the West Midlands are China and the USA. International investment is increasing as well. The number of foreign investments has increased by 73% in the last year, generating 9,168 new jobs. We need to build on this base to build an internationally focussed, high productivity economy.

An innovative economy

We are renowned for our innovation. Our businesses account for almost 10% of UK research and development (R&D) expenditure, much of which is delivered in partnership with local universities.

We have some of the best performing educational institutions in the country. Our universities have particular strengths in digital technology and computer science, healthcare, business administration, engineering and technology, and education.

Additionally, the region has a range of internationally recognised research institutions. These specialise in fields such as automotive design and development, polymer research, ceramics and science and technology.



An economy in transformation

We have ambitious plans to build on these strong foundations. As the largest infrastructure project in Europe, High Speed 2 (HS2) will be an economic catalyst for the West Midlands. Complemented by a local connectivity programme to ensure its benefits ripple out across the region, HS2 will attract and develop new skills, generate new jobs, re-shape the region's road and rail networks and stimulate significant growth in supply chains.

To complement the HS2 project, two world class stations for the high speed rail network at Curzon and UK Central will be delivered. In addition, we are investing £600 million in a major redevelopment of New Street Station, extending the Midland Metro tram network at a cost of £250m with the first phase set to complete in October 2015, and upgrading Birmingham Airport and the M42 nearby. We are committed to building a transport network that will match the best in Europe.

Metropolitan rail and rapid transit network map - the vision



1.7 MILLION

JOBS IN TOTAL
rising private sector employment

 **+43,000 JOBS**
BETWEEN 2009-2013



1.3 MILLION JOBS
in the
PRIVATE SECTOR



**£7 BILLION
EXPORTS**

OVER
130,000
BUSINESSES



**ONE OF THE TOP
PERFORMING AREAS**

FOR FOREIGN AND DIRECT
INVESTMENT (FDI) IN THE UK



172 INWARD INVESTMENT
PROJECTS IN 2013/14 (74% RISE)

CREATING OVER
9,000 JOBS

**THIRD LARGEST
EXPORTING REGION**
— IN THE UK —

£6.5BN
OF GVA
FROM
MANUFACTURING



**BILLION OF GROSS
VALUE ADDED (GVA)**

contributed to the UK economy

% OF EMPLOYEES IN
MANUFACTURING

IS **50%**

**HIGHER THAN
THE AVERAGE
FOR ENGLAND**



**FASTEST
GROWING**
LEP AREAS AT
4% GVA GROWTH

HOME TO
4 MILLION PEOPLE
LIVING IN 1.7 MILLION HOMES



300,000 JOBS
IN HIGH VALUE
MANUFACTURING





Even with these strong building blocks we face three major challenges.

1

The **international challenge** facing all cities because of the global urbanisation trend.

2

A **national challenge** to rebalance the UK economy through the Midlands Engine.

3

A **regional challenge** reflecting structural issues within the Midlands economy.

1. The international challenge

The world is in the grip of rapid urbanisation accompanied by an important gravity shift in the global economy both eastwards and southwards. More than 1.5 billion people live in the world's top 600 cities today. By 2025, that number will have risen to over 2 billion. Cities are the principal drivers of the world's economic growth: those 2 billion people will produce \$64 trillion of economic growth, that is to say 60% of global GDP. As a direct result of urbanisation, we are going to witness a very significant increase in global income from a current base of some \$20,000 per capita to a projected average of \$32,000 per capita in 2025.

The growth in purchasing power which will accompany the growth in per capita incomes will potentially open new markets for British products, but may also close doors as manufacturing is shifted closer to the source of consumption and supply chains are consequently realigned.

Our aim is to ensure that the Midlands economy is appropriately positioned to capture more than its share of this global GDP growth. To achieve this, size will matter more than ever before. Larger cities attract skilled individuals, capital for investment, and economies of scale. Our businesses need access to a highly skilled workforce, investment to finance their development, and first rate infrastructure. So in order to provide the essentials for our economic growth, we have to begin to consider and promote the region as one market area governed in a more joined-up fashion than is currently the case.

This is what will enable us to offer those who live in the Midlands the greatest access to skilled jobs, reasonably priced homes in the right places, and education and healthcare to be proud of.

2. The national challenge

The UK economy is out of balance. It is dominated by London and the South East. If the West Midlands economy grows at the rate of the London economy until 2030, rather than its slower trend rate, then this will add a further £24.6 billion to the regional economy. The problem is not that London is too big but that the Northern and Midlands cities have not grown strongly enough. They are too small. Nor is this about a zero sum game. It is not about merely shifting jobs and economic growth from one part of the country to another. It is about promoting and establishing the right conditions for economic growth.

The Chancellor opened this debate last year when he spoke of the need to rebalance the UK economy. He introduced the Northern Powerhouse concept. We are now responding in our own terms, through the creation of the West Midlands Combined Authority at the heart of a Midlands Engine.





3. The regional challenge

Britain is in the grip of what has been termed a productivity paradox. Growth has improved over the last couple of years. But because the level of employment growth has exceeded the growth in output we have seen a decline in UK productivity. This has also been true in the West Midlands.

The reasons for this are complex and inter-related. They are summarised below.

i. A skills deficit

The West Midlands suffers from a significant shortage of skills both at the lower and higher ends of the skills spectrum. The region's share of people with no qualifications is higher than the national average. The percentage of the population with skills training at or above level 4 is only 21%, significantly worse than the average across England and Wales at 27%.

The skills deficit across the region is reflected in the high level of unemployment (9.3%) across the 7 Metropolitan Authorities. If unemployment across the West Midlands was to fall to match the England average there would be some 14,500 less claimants resulting in a saving in excess of £35 million per annum in benefit spending. If the skills profile of the West Midlands was to match just the England average, so that an additional 19,000 people were qualified to level 4, GVA would increase by an estimated 1.7%. Even better, raising our skills levels to be best in class would increase GVA by 9.9%.

ii. A legacy of worklessness

The scars from economic change can be seen in an economic activity rate of 74.1% compared to a national average of 77.2%, meaning that there are 77,700 people out of the labour market. There are encouraging signs of improvement with the unemployment claimant count across the West Midlands

falling to 67,078 in May 2015 from a high of 146,160 in 2010. And there are excellent examples of innovative employment initiatives in operation across the West Midlands, such as the recently announced Work Coaches programme. But we know we need to do much more.

iii. A public service challenge

The public services have had an unprecedented period of investment. New hospitals and schools are a feature of many communities. Education standards are improving and people are living longer. But financial pressures are mounting. Cash constrained budgets are becoming more stretched. At the same time the pressures on public services are becoming more complex. As a result, services are less able to meet the service needs of our population. Old ways of running services seem not to help people out of dependency whilst the increasing costs of technology and reducing budgets combine to create the need to look again at how costs can be reduced and outcomes improved. That means tackling the hard issues: complex dependency, mental health and the challenges of ageing well. We have established a Public Services Board, co-chaired with West Midlands Police, to drive reform and look at system changes that can reduce demand, such as targeting re-offending and criminality.

iv. A connectivity challenge

We need a fully integrated rail and rapid transit network that connects our main centres with quick frequent services, and that increases the number of people who can readily access HS2 stations and main centres. By delivering this, we will reduce transport's impact on our environment, improving air quality, reducing carbon emissions and improving road safety. The resulting network will enable the efficient movement of goods to enable businesses to connect to supply chains, key markets and strategic gateways.



The economic geography of the West Midlands

The West Midlands Combined Authority is based on an extensive Functional Economic Market Area (FEMA) assessment, which tested whether the geographic area covered by the three LEPs was markedly more coherent in economic terms than each of the individual LEP areas separately. At the heart of this work was an analysis of Travel to Work Areas (TTWAs), migration data (to analyse where people move house to and from, which demonstrates whether housing markets are interconnected), and the interrelationship between these. Assessing these factors establishes what is called the “self-containment” ratio. This work was then extended with a detailed analysis of those industrial sectors in which all three Local Enterprise Partnerships have specialisations, and how the Midlands supply chain creates a coherent eco-system across the West Midlands area. This work further strengthens our case for the West Midlands to be considered as a Functional Economic Market Area.



90% OF THE POPULATION
OF THE PROPOSED
COMBINED AUTHORITY AREA
LIVE AND WORK HERE

The table below shows that each of the three LEPs individually has a self-containment ratio of between 71% and 77% (depending on the methodology applied).

Area	Resident in-work population within area	Total resident in-work population	Self- containment percentage
Black Country LEP	298,000	419,000	71%
Coventry and Warwickshire LEP	263,000	341,000	77%
Greater Birmingham and Solihull LEP	514,000	677,000	77%
WMCA (the three LEPs combined)	1.29 million	1.44 million	90%

When the three LEP areas are considered as a combined area, the self-containment ratio rises to 90%. Clearly, self-containment percentages tend to rise as the geographical area under consideration is widened. However, the 90% statistic is important. It effectively means that if a Combined Authority covering the three LEP area is established, decisions subsequently taken by that body, for example affecting transport or skills, will be effective in covering 90% of the labour force.

The 90% self-containment ratio is at the higher end of ratios for the five other Combined Authorities already in operation as shown below:

Combined Authority area	Self-containment percentage
North East	93%
West Yorkshire	91%
West Midlands	90%
Greater Manchester	89%
Sheffield	85%
Liverpool	83%

This section has shown why we think it's so important we work together for the benefit of all in the West Midlands. This is our commitment. The next section sets out our agreed principles, one of which is to ensure that all communities benefit. To seek to achieve this, we will demonstrate an objective means with which to assess interventions, or the design of programmes, so that these are aligned to our balanced economic outcomes for the West Midlands Combined Authority.

How the West Midlands Combined Authority will work

The West Midlands Combined Authority vision will require a high degree of collaboration between its constituent Councils and the three LEPs. But the collaboration does not stop there. In the private sector, key business leaders and employer organisations, such as the Chambers of Commerce, have a vital role to play. In the public sector, the police and health commissioners and providers of every kind are going to be vital to the delivery of our vision. The university sector, further education colleges and the third sector will also play a significant role. We are committed to finding the most appropriate means of involving all our stakeholders and progress with our proposals as we begin the delivery of our vision for the West Midlands and the establishment of the Combined Authority in April 2016.

The role of the West Midlands Combined Authority

A Combined Authority is the administrative form by which Local Authorities can act together to deliver their economic and transport objectives and coordinate the functions that deliver them. By working in this way, members focus on shared strategic priorities that are best addressed at a scale above local boundaries. Examples are transport and skills. People cross Council boundaries every day as they travel to and from work, education and their homes. It makes sense for local authorities to collaborate in these areas in such a way that opportunities for people to work, to learn, to enjoy their leisure time and to access public services are maximised. That in turn helps places to be more efficient, more prosperous, and more effective in delivering what people need.

So a Combined Authority is an important mechanism which enables cities and regions in England to both achieve the scale needed to compete internationally and to remove the boundaries to joined-up government and policy making.

Combined Authorities and the existing local councils

Combined Authorities do not take power away from local councillors or the individual communities they serve. On the contrary, the existing local authorities remain in place and collectively form the Combined Authority with their partners. They remain “sovereign” and the principle of subsidiarity, whereby decisions are made at the spatial level closest to the people ‘on the ground’, applies. The regions that have already established Combined Authorities have already shown themselves to be in a better position to negotiate with government the devolution of power and resources from the national to the local level.

The membership, the powers and the mode of operation of a Combined Authority are decisions for existing Councils to take.

Our working principles

We will have an approach based on partnership and collaboration. Our principles are clear:

- We are committed to collaborative working on the creation of a Combined Authority at the heart of a Midlands Engine covering the geography of the three LEPs
- The prize is strong economic growth for the West Midlands as part of a Midlands Engine and a rebalancing of the UK economy
- Growth requires smart investment, investment will be focused where the biggest outcome for the Combined Authority can be achieved
- Our pursuit of growth will be accompanied by an agenda of innovation and public service reform that will reduce the overall level of public spending
- We are committed to collaborative working with the private sector as the primary driver of economic growth and will work with them in establishing the economic priorities of the West Midlands Combined Authority
- All communities will benefit from growth, but not necessarily at the same time or in the same way

The delivery of the West Midlands Combined Authority and its cornerstone projects can't be done by us alone. The achievement of our goals requires new ways of working between the local authority partners, the three LEPs and a range of private sector and national government partners too.



Early priorities for the West Midlands Combined Authority

The West Midlands Combined Authority will have five early delivery priorities, which we set out below. Our approach to these will be driven by four overarching themes:

- collaborating to make the region act as one place
- creating the jobs of the future
- reforming public services to give people the help they need to succeed
- connecting the region more effectively internationally, internally and with neighbouring areas.

We will also establish three major independent Commissions to inform our future work which we expect to be co-commissioned with Central Government as they represent critical shared challenges.

a. Development of a Strategic Economic Plan

As part of the process of bidding for local growth funds, each of the three Local Enterprise Partnerships produced a Strategic Economic Plan in 2013/4 setting out their area's strategic economic priorities and establishing the case for investment in a number of key projects.

The three LEPs have agreed to work with Metropolitan Authorities to produce an overarching Strategic Economic Plan for the West Midlands, which will clearly demonstrate how the co-ordinated governance approach will add value to the region. At the same time, each of the three LEPs will also update and refresh their own Strategic Economic Plans. This family of plans, which will become key documents for the region, will clearly establish the economic and investment priorities for the future. The plans will then inform other relevant strategies including the preparation of a high level Capital Investment Programme, which will both identify the future financing requirements of the region, and provide a framework for the securing of those funds. The intention will be to complete this work by early 2016.

b. Access to finance and a Collective Investment Vehicle

Working closely with their Local Authority partners, the three LEPs have developed a strong history of delivering innovation funding vehicles, linked to growth deals with government and using mechanisms such as Enterprise Zones. They have also worked together to improve the availability of finance for local businesses.

Building on this, and other experience, the formation of the West Midlands Combined Authority will provide the opportunity for a fresh look at the way in which the constituent LEPs and local

authorities each source investment finance for the delivery of major regeneration and development proposals. It will focus on driving co-ordinated investment from both the public and private sectors.

The intention is to create a Regeneration and Development Growth Board to lead this work. This Board will oversee a portfolio of major development projects, considered critical for the Combined Authority to achieve its GVA growth target. Supported by a small team drawn from across the local authorities and the three LEPs, the Board will also build, and extend, existing relationships with investors, financiers and banks, and will be set a targeted figure for the external investment they will leverage into the West Midlands Combined Authority area.

A range of investment mechanisms will be devised including the Combined Authority's Collective Investment Vehicle. This will be a revolving fund, to either deliver schemes which might not otherwise attract sufficient third party investment or alternatively to accelerate the delivery of schemes which might otherwise come forward, but in a slower than desirable timeframe. Other investment mechanisms are also under consideration including one to bring economic benefit from re-using brownfield sites. Work is currently on-going to scope the development pipeline for these and the Collective Investment Vehicle.

c. Getting the transport offer right for the long term

The strategic transport network plays an important role in supporting economic activity and growth. It enables access to markets nationally and internationally, improves labour market efficiency, unlocks employment and housing sites, reduces the cost of doing business, stimulates business investment and innovation and attracts global economic activity. Conversely,

constraints imposed by the transport network act as barriers to growth in the Midlands and challenges exist such as traffic congestion, delays, poor journey reliability and the need to see further investment in rail and rapid transit networks. This is impacting on the competitiveness of both the Midlands and the wider UK economy.

We have a strong track record of delivering transport investment into the area, but more is needed. Midlands Connect and the West Midlands Strategic Transport Plan are key initiatives which are creating options for investment in our network to radically improve connectivity, accessibility to HS2 and beyond, business efficiency and our built and natural environment.

We are committed to develop a programme of transport interventions required to ensure we deliver our vision and it will be supported by an investment package for their delivery.

d. Creation of an economic policy and intelligence capacity

We have a bold agenda for change across the West Midlands based on what we already know about our region. However, we are also conscious that future strategic decisions should only be taken on the basis of the empirical evidence supporting both the problem and the solution. Economic expertise across the region is currently dissipated across the three LEPs, local authorities, universities, the private sector and other stakeholders. We plan to establish an economic intelligence hub which will gather the evidential data required to support better decision making. This unit will ensure that the economic data required to support the Combined Authority's growth and public sector reform agendas, as laid out in the new SEP, is appropriately gathered, analysed and presented to politicians to facilitate more informed decision making.

e. A joint programme on skills

The education, employment and skills system is highly complex and consists of multiple markets operating within funding and regulatory mechanisms that too often compete with each other and can drive unintended behaviours and consequences. The system is too complex for people or businesses to navigate without support and the limited support that is available is patchy and can be biased towards certain provision that may or may not be in the best interests of the individual or business being supported. There is extensive duplication of effort across the system leading to waste on a colossal scale as well as wide spread confusion and diffusion of impact.

The Greater Birmingham and Solihull LEP has been investigating and identifying opportunities for a radical change to the way that the skills system operates through a model of devolution that enables the alignment and simplification of support to both individuals and businesses with an explicit connection between the two. Key to the success of this approach will be a single strategic framework for employment and skills with a single set of KPIs that are adopted by the Combined Authority. Our strategy focuses on the identification of current and future employment opportunities and supporting local people to access those opportunities whether they are in formal education (Ignite), in work (Accelerate) or unemployed (Re-Tune).

The three LEPs have come together to refine this approach. Drawing on the Greater Birmingham & Solihull LEP work and the Wolverhampton Skills Commission, they will deliver a proposition to Government at the end of July 2015 outlining a model for radical reform of the whole skills system that will reduce unemployment, raise skills levels and make a significant contribution to raising productivity.

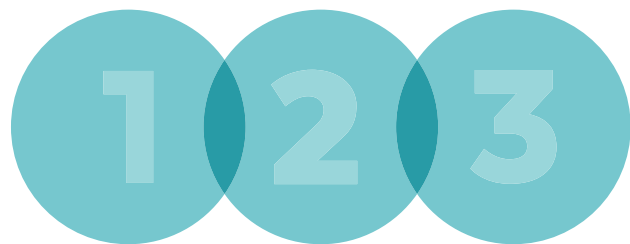




Appointment of West Midlands Commissions

Increasing the rate of growth of the West Midlands and addressing the national competitiveness and productivity challenge is a high priority. We need to support its economy, its businesses, and the people of the region to improve their skills and health as well as to make the best of the physical and other assets we have.

We take it as our number one challenge that we must grow our economy beyond the current projections. We must make our already world-class business base stronger and better still. We also know that we will need to look hard at some of the bigger and underlying issues we face to achieve this: to improve our competitiveness and productivity; to attract greater business investment; to develop our people's skills; to bring more land and buildings back into productive use; and to look at how, through improving mental health, we can make progress in some of the most intractable problems of public service reform.



WE PROPOSE TO ESTABLISH
**THREE MAJOR NEW
INDEPENDENT COMMISSIONS**
TO HELP US SHAPE THE AGENDA OF
THE WEST MIDLANDS ENGINE

We therefore propose to establish three major new independent Commissions to help us shape the agenda of the West Midlands Combined Authority. Support from the Government will be sought to deliver these Commissions, both through the appointment of a Chair, and with a commitment that Government Departments and Agencies will work with each Commission to deliver its objectives.

Each of these three independent Commissions will begin work immediately and independently to bring forward initial ideas for consideration later this year to inform the further development of our proposals for the West Midlands Combined Authority.

The West Midlands Productivity Commission

There is no one factor which explains the UK's productivity gap. The explanation lies in a blend of factors, including historically low levels of capital investment both in plant and machinery and public infrastructure, insufficient spending on research and development, and low skills levels across the workforce.

The West Midlands has not been immune from the productivity gap. The total output gap is some £16 billion which translates to output of £20,137 per head, some £4,000 lower than the national average. There is a big prize to go for in closing this gap, hence the setting up of this commission, whose remit will be to:

- Establish the true extent of the productivity challenge in the West Midlands
- Understand the component causes of the productivity challenge and the inter-relationships between them
- Make recommendations as to how these individual causes can be addressed
- Ensure appropriate plans are developed for the implementation of these recommendations and monitoring systems exist to review their effectiveness.





The West Midlands Land Commission

Ensuring a constant supply of land for housing and employment use that is commercially developable is critical. Whilst recognising the important roles that the three LEPs and the West Midlands Councils have taken in driving investment and development across the West Midlands, there remains a need to do more. We need to ensure that the supply of development sites can meet demand, and we need to find a way to bring brownfield land back into use. We need to ensure that the opportunities afforded for development on public sector-owned land are fully exploited. We also need to ensure that transport investment is properly linked to priority employment and housing sites.

To address these issues, a Land Commission for the West Midlands will be launched with the aim of:

- Compiling a comprehensive register of the development sites and available and vacant property available in the West Midlands region
- Preparing a comprehensive assessment of the viability of existing sites focusing in particular on the specification of a range of early opportunities for international marketing purposes
- Working with international, national and regional organisations on the identification of mechanisms which will enable sites and premises on a phased basis to be brought back into the most appropriate productive use
- Developing appropriate tools and partnerships to enable individual sites and premises to be remediated and further developed.

The West Midlands Commission on Mental Health and Public Services

Around one in four people in the UK experience mental health problems in any given year. One in ten young people experience mental health problems before they reach adulthood. We also know that mental health problems lie at the heart of a range of our most intractable public service challenges, including the present levels of worklessness. Despite this, mental health remains too low a priority for the National Health Service.

We do not believe it is possible to rise to the challenge of reforming our public services without looking properly at the role mental health plays in driving demand for those services. More than that, we believe that tackling mental health will enable us to reduce our spending in the long run. Poor mental health is the root cause of many of our social and employment problems as well as the size of the benefit budget. All our work with the police, courts and prisons, in families, domestic violence and with children in care tells us that tackling mental health problems as and when they occur is vital to the effective reform of public services and the fulfilment of our wider economic objectives.

The proposed Mental Health Commission will:

- Assess the scale of mental health problems in the West Midlands and their cost and impact across the whole system
- Examine best practice elsewhere nationally and internationally in both health and other services areas
- Establish the relative costs and benefits within the whole system of the application of this best practice to the West Midlands
- Pilot new ways of working to test effectiveness
- Make recommendations on how the findings of the Commission can best be taken forward to reform public services in the West Midlands.



The consultation process on the creation of the West Midlands Combined Authority

The Midlands needs to become an engine of growth within the UK economy. The West Midlands Combined Authority needs to make a full contribution to closing the output gap which exists between London and the rest of the country. This will not happen unless we all learn from past experiences and develop new and different ways to work together, both across the public sector and in partnership with the private sector.

The decision to proceed with the creation of a West Midlands Combined Authority is rightly in the hands of the elected leaders of the local authorities of the West Midlands. It is an important decision in which a variety of stakeholders have views which need to be fully taken into consideration.

There will therefore be a process of consultation and engagement between now and the formal launch of the West Midlands Combined Authority in April 2016.







WEST MIDLANDS
COMBINED AUTHORITY

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BIRMINGHAM • COVENTRY • DUDLEY • SANDWELL • SOLIHULL • WALSALL • WOLVERHAMPTON

Appendix 3- Local Enterprise Partnership Local Authority Membership

WEST MIDLANDS LEP GEOGRAPHY

