

London Finance Commission – 21 October 2016 (Birmingham)
Transcript of Discussion with Panel One

Professor Tony Travers (Chair): Good morning, one and all. First let me say a couple of words by way of opening. I am Tony Travers from the London School of Economics. I am chairing the London Finance Commission (LFC) that Sadiq Khan, the Mayor of London, has reconvened, it having sat for the first time between 2012 and 2013. It reported then with a set of proposals for modest - although by British standards radical - devolution to London and with an explicit view given that, while we were a London commission, if it worked for London there was no reason it should not happen for other city regions as well. Indeed, we had Stephen Hughes, the then-recently former Chief Executive of Birmingham City, on the Commission. That is a little bit of background.

This meeting is on the record, for the avoidance of uncertainty. We are taking both written evidence - we have commissioned some work - and oral evidence in London, already in Manchester and today in Birmingham. The reason for coming to Birmingham is that obviously London is not the only city in the UK so we are going to see devolution moving in different ways in different places. It would be eccentric, even for a London commission, not to think about the way the rest of the country sees it. We also know that the West Midlands and the Birmingham City region has itself embarked upon radical devolution and of course the election of a mayor next May, therefore there is a lot in common. That is by way of introduction.

I should say, for the record, we are an all-male room. This is an accident. We have volunteers coming from our Commission and have ended up with an all-male panel, for which I apologise. We should also say there is an element of self-selection in all of this, so I apologise for that. It is not purposeful by any means, quite the opposite.

The idea of devolution to city regions carries with it a logic not only of public services being more appropriately and better delivered because of such devolution, but also the possibility to incentivise more powerful economies. Certainly in the first LFC report we were very interested in the idea of allowing devolution that would allow the local tax base to be extended and increased by local authorities and the Mayor, working to do that with a view to creating a larger tax revenue over time, that could, for example, then be reinvested in infrastructure. These are not uncommon ideas in other regions as well.

As an opening gambit, just for me to get going, really. Given that I think we can agree it has been the most important political happening in the UK in modern times, do you think that the Brexit decision strengthens, weakens or has no impact on the case for city region devolution? Please feel free to volunteer and my colleagues will then volunteer to chip in as well.

Professor John Bryson: Brexit is an opportunity for devolution. Central Government has to focus on another matter in terms of negotiations with the European Union (EU) and other trade deals. The eye of Whitehall is going to be removed from the regions and potentially devolved to administrations, therefore now is the time for the devolved administrations to produce local plans to release and unlock local economic growth. It is not just about economic growth; it is about better outcomes for people living in these places. I would assume over the next five, ten or 15 years, if it is not done locally, Whitehall is going to be distracted and will not have the time to do it.

It is worth noting that in academic terms there is no proven justification that devolution works because it cannot be measured. However, that does not mean one should not do it because intuitively local decision-making appears to make more sense than committee decision-making based in a central location.

Professor David Bailey: I echo that and I would also add that depending on the form of Brexit, there will potentially be some profound implications for regional economies. If there is a harder Brexit there are going to be real issues, for example, in several of the sectors that the West Midlands does very well, like manufacturing, because 10% of the manufacturing workforce was actually born in another EU country. Depending on the type of Brexit, there could be issues about whether we need to be doing much more locally in terms of skills development and need more control over that, for example, whether we should be keeping the Apprenticeship Levy, to make those decisions ourselves. Also, depending on the form of Brexit, there is likely to be an economic shock. There is disagreement about how big that will be, ranging from very small - if we are still in the single market and so on - right through to quite intense if it is a harder Brexit. That in turn raises the issue of how do we assist companies and industries in coping with that, raising the issue of industrial policy. If we are going to have one, it should be place-based so that sectoral and place-based policy joins up. That again raises an issue as to what the resources and instruments are and whether all of that be done locally.

There is also a political issue as well. Scotland will clearly make the most of this in terms of greater devolution. That will raise questions in English cities of, "Can we not have some of that, please?"

Professor Tony Travers (Chair): Just to expand that, do you think that therefore the individual sectoral negotiations about the future of Britain's trade relations country by country - as it will be - will have sub-national implications that might have a different impact in one city region than another?

Professor David Bailey: Exactly. If we think about the automotive industry, which we do very well in this region, it is one of the industries that is the most vulnerable to hard Brexit issues around the single market and the ability to hire skilled workers. If you go to some of the factories in the supply chain not very far from here, the signs in the factory are in English and Polish, for obvious reasons. There are going to be some important implications here that will play out differently in different regions.

Professor Tony Travers (Chair): It is not only tariffs, but migration rules linked to the negotiations about whether or not there are tariffs?

Professor David Bailey: Exactly.

Professor Julian Beer: For me that emphasises the point you made about skills. In our Growth Deal 3 bid on devolution we are putting in some radical proposals about skills and our own skills development in this area, bent and targeted at the needs of the Combined Authority in the Midlands Engine. To be able to take control over things like the Apprenticeship Levy is absolutely crucial for us so we can have some control over that. We are trying to work through how that looks.

I agree with the other members here as to whether Brexit has an impact on devolution. It is even more important that we have devolved powers now for regions. For me, being a Cornishman and living in Cornwall for many, many years, we had the advantage in Cornwall of a second set of eyes, if you like, smoothing the whole economy. That was not just from a Whitehall view, but we had an objective and independent arbiter in Europe actually giving funding to Cornwall that potentially London would not have done because of the lack of population and peripherality etc. It is less important for Birmingham, being the first or second city, depending on how you classify London! It is more important that city regions actually grab their own opportunity to make their own futures. That is absolutely crucial post-Brexit.

Professor Nigel Driffield: I do not want to repeat what has been said. One way of illustrating what David was talking about is, for example, when you look at London from the outside there are two things that make you distinct. One is the nature of your labour market and the other one is the importance of financial services. There are equally things that make other cities distinct. It is those cities who understand what a hard Brexit or a soft Brexit might mean. Whitehall does not understand what that means yet.

I was talking to somebody who was explaining the different ways that the World Trade Organisation (WTO) will treat aluminium and the point at which country of origin rules stop treating it as a bauxite and start treating as a manufactured good. That becomes a nightmare if you are trying to produce the wings of aircraft in the UK, for example, compared to other sectors, where they think the WTO is fine. The only people who understand that are the people who are on the ground actually dealing with stuff like that. They are not in Whitehall.

Even on issues to do with the bigger picture that the UK Government is involved in there is a regional element to understanding, "If we sign up to this particular trade deal with whoever, what does that mean for local companies? What support do those local companies need?" That needs to be done at a regional level as well as then understanding the greater impact and the importance of local labour markets and whatever. It just multiplies.

Professor Tony Travers (Chair): Very interesting, thank you. That is very clear and very helpful.

John Dickie: I have two unrelated questions off the back of those answers. There is a very good rational case for devolution being boosted by Brexit. What is it about that case that will actually make Whitehall let go?

Secondly, I would be very interested at a top-line level what you felt were the city region's priorities from Brexit negotiations.

Professor Nigel Driffield: This city region or your city region?

Professor Tony Travers (Chair): Feel free to deal with it, because it is interesting for us to hear.

Professor David Bailey: We had a workshop straight after the referendum result where we got various sectors together from different industries, including automotive and some of the mayoral candidates. It was quite clear there was a view from them - I am not speaking on behalf of the region in any sense - about the need to retain access to the single market, particularly from the point of view of this region. It is not just about - Nigel knows much more about this than I do - overcoming the uncertainty that firms are facing about whether to fund direct investment in the UK, given the uncertainty of our trading relationships. It is also particularly about being able to manage their value chains across borders in as frictionless a way as possible. That is not something that was really properly picked up by the media. It is not just about tariff barriers, but non-tariff barriers and all the other things that get in the way.

John Dickie: Is that the customs union point as well?

Professor David Bailey: Exactly, it is linked to that. That is one element. The other point is about the ability to be able to hire skilled workers from overseas. We have particular skills issues in this region that go back many years. John [Bryson] and all of us have done research on this. We have not been doing enough to invest in skills in emerging industries and also the industries we are good at. We have got particular skills issues, given that we are having to hire workers from overseas and particularly from the EU. If anything gets in the way of that, that is going to put companies here at a competitive disadvantage.

Professor Julian Beer: For me the biggest challenge facing us is skills. I was on a cross-Whitehall group on devolution where we were debating this. For the Northern Powerhouse it was exactly the same issue, it is access to talent and skills. I was with the Confederation of British Industry (CBI) earlier this week talking to its mid-range companies. They were all talking about access to talent and skills. That is the biggest challenge that faces us as the Midlands; not just the West Midlands, it is also common right across the country. There is systemic failure in education and supply-side in terms of how we link with businesses and industry. We are trying to do something about that in our own deal and trying something very novel to try to overcome that. One of the challenges we are going to have - we did a lot of background research on this - is the pull to London of talent. We had a long debate on the cross-Whitehall group about whether High Speed 2 (HS2) is going to be positive or negative for Birmingham in terms of will more people head your way or our way. There is an interesting piece of work to be done there. However, for companies, access to skills is one of the biggest challenges.

Professor Tony Travers (Chair): When this came up in Manchester one of the witnesses was convinced it would have the opposite effect, the one that has hitherto been thought - at least by the Government - to be the case. The fact it is even argued tells us something. That is a personal view of this, by the way.

Professor John Bryson: Two points. We need to look at the trading relationships of the West Midlands. They are very interesting: (1) the US, (2) China - it is the only part of the UK with a trading surplus with China - (3) Germany and (4) Ireland. If you look at the history of those trading relationships, what you see is in some years 200% growth in the US, 40% growth in the US, and to Europe 0.4% and 0.2%. There has been a gradual disentangling of the trading relationships from this part of the UK to Europe. That reflects centres of economic activity and growth. Europe needs to get its wider economy sorted, which it has not done due to a minor problem.

As to the skills issue, we have produced a place-based model for the Combined Authority. It is an attempt to produce an integrated modelling tool that tries to include everything you can possibly model. We have done an analysis of skills and how we understand what the skills explanation is. On another project, I am one of the Principal Investigators (PIs) in one of the Urban Living Partnership pilots that is ongoing. What we are interested in is diagnostics of challenges that face city regions. We work on the basis that most policy is like going to a doctor. When you know you have got a major problem and you go into the GP's waiting room, the GP does not look at you, write you a prescription, hand it to you and say, "This will sort you". There is no diagnostics if you just think, "It is a political problem so let us have a political solution". You do not know where the problem is.

In the Urban Living Partnership pilot we have been trying to do two things. One is to see what the quantitative evidence can tell you about integrated challenges. We are not interested in skills. We are interested in all the things that link together to produce the skills problem, that produce an unemployment problem or a health problem. What are the connections and chains of processes and causalities? We have been working on 248 national datasets that you can use to explore Birmingham. There are skills databases, housing databases and consumption and behaviour databases. All of them are isolated. We have managed to get them to work together. We did this yesterday when the computer finally produced sensible information.

The model we have produced for the Combined Authority, plus the diagnostics we are doing through Urban Living Partnership, shows that skill interventions are not the problem. If you want to solve the skills problem across the West Midlands you need to have an integrated approach in which the Combined Authority and the local authorities understand the chains of causalities. You cannot do that in London because no one in London has spotted where the problem is. Therefore if you want to solve the skills crisis, it is the housing shortage. There are particular parts of the West Midlands economy where housing is not in place. It is not in place because of political problems linked to, "We do not want it. It has to go somewhere else." There is a

problem with the balance of different types of housing in particular places. No matter how much you invest in skill interventions we are missing 300,000 housing units across the Combined Authority. The people are not there, the people cannot live there and the housing units are not there. The Combined Authority needs to use devolution and fiscal devolution. If you want to address skills, it is a housing investment and a skills investment. You need to do both.

It is an integrated approach to policy intervention that you cannot do in Whitehall because of the silo nature of decision-making across the departments within Whitehall. You also get the similar sort of silo thinking at a local level. Therefore the local level needs to become a lot less 'silo-ed' and more focused on understanding the nexus of complex interrelationships that drive particular problems in particular places. That is a local solution with local understanding.

Professor David Bailey: We used to be a lot better able to do that when we had a Regional Development Agency. I will not go over old ground, but it was a fundamental mistake getting rid of it.

Professor John Bryson: We used to do it. If you go back to 1873, the building behind us - the extension to this building - was an innovative financial fiscal solution. During his three years of being Mayor, [Joseph] Chamberlain argued that what he was going to do was to have a policy that was about "sagacious audacity". What he did was produce local innovative fiscal solutions that Whitehall would not accept, but he would then sort out Whitehall because he had the right network within Whitehall. The building behind us was built because Chamberlain forced, or persuaded, the councillors to purchase the local gasworks. He purchased all of the local gasworks. What he wanted was the revenue. The revenue generated what he thought was going to be £30,000 a year profit. It generated a £50,000 a year profit in the first year. All of that profit was used to leverage additional lending. A lot of that profit went to building that particular building which is part of the Birmingham Museum and Art Gallery. If you look at the foundation stone it says, "From industry into art". Industry is nothing to do with manufacturing base. It is all to do with the profits that came from the gasworks. Corporation Street in Birmingham, 1875, the first tax increment financing (TIF) on this planet. You think about TIFs being California in 1952, introduced by the coalition Government in 2011. That is completely wrong. They were invented by Chamberlain in 1875. What he did was borrow £1,500,000 to buy 48 acres in a central part of the city and put in place a TIF scheme based on rates to pay off that particular debt. The city still owns the freehold for that land, therefore 40% of central Birmingham is owned by Birmingham City Council (BCC). That provides a continual stream of revenue into the city and also means any single major development within the city has the BCC as a facilitator or intervenor behind that, mostly producing a better outcome for the city, but there is also a fiscal outcome. Grand Central Station, an investment of £90 billion to buy back a leasehold, generated a profit of £30 million for the city that was then invested into other services. It is a standard BCC approach to fiscal management that goes back to Chamberlain.

Professor Tony Travers (Chair): We are agreed then that there is more likely to be a more enterprising approach if the decisions are made locally and you showed that.

John O'Brien: John, your last contribution was probably getting into the territory I was going to go to, but let me frame it slightly differently. How intrinsic is fiscal devolution to achieving those wider devolution ambitions that you spoke about, such as having the levers in order to make the difference to skills, productivity or reforming public services? Do you have a vision about how far that needs to go in this city region? John, you have just talked about that. I get a sense from what you said about how far you think that needs to go. I am wondering collectively about your views around that.

Professor Nigel Driffield: This is a personal opinion that possibly lots of people will disagree with. I am not thoroughly convinced that fiscal devolution is at the heart of this. There is a lot of discussion about the fiscal gap within UK regions. I am not sure that is an appropriate way of looking at things in the context of

devolution, particularly because of where corporation tax or different forms of personal taxation ends up. Within the context of the current tax system, it is not clear to me that fiscal powers do anything other than offer political solutions. Scotland can say, "We have got tax-raising powers. We can choose to have a slightly higher tax rate and slightly higher public spending because we are of a different political persuasion from the English Government". I am not personally convinced that fiscal powers do anything other than demonstrate a desire to for a different political persuasion.

Professor Tony Travers (Chair): To challenge that a little bit, do you not think - given the West Midlands Combined Authority has a gross domestic product (GDP) bigger than Wales does - the way you are putting it implies that inevitably decisions about public spending in the West Midlands, in each of the constituent districts, will overwhelmingly be made by civil servants in Whitehall?

Professor Nigel Driffield: Yes, because of the way the tax system works. If you look at where profits are physically made and where revenues are reported, they are two very different things. There is a Tesco just around the corner that generates however much money it generates. The profit - assuming Tesco pays tax --

Professor Tony Travers (Chair): They do, in fact.

Professor Nigel Driffield: I am sure it does. The corporation tax on that activity in Tesco is probably reported in London.

Professor Tony Travers (Chair): However, other taxes are much easier. If we just park corporation tax, almost all other taxes are capable of a degree of sub-national identification.

Professor Nigel Driffield: Absolutely. Let us take universities. My university and your [John Bryson] university are, give or take, £0.5 billion big, which, based on what universities spend their money on, would probably suggest £20 million to £25 million a month in salary, of which 24% is paid in pension, some tax deductible and some paid by the university. Under the current financial arrangements of the UK, all of that money ends up in London, where people do clever things with it, hire very clever people on very large salaries and they pay income tax. Based on the teaching of the Masters students that I do that pays my salary, 24% of that tax base ends up in London, where there is the financial sector. They do things with it, reinvest, generate wealth and lots of sensible things - I am not for a minute suggesting you do not - and then those people who do that pay tax and it is identified in London.

If we had a more American pension system, where if you are in California the chances are your pension fund is in California, if you are in New York the chances are your pension fund is in New York and lots of other places such as Omaha all have the same, there would not be this 'sucking' process - I know some of it goes to Edinburgh, do not get me wrong - of largely a very large amount of individual wealth. My pension fund is managed in London. The people who manage that get paid for it and they pay tax. However, it is my activity that is driving the tax bill in London. My argument essentially is that with that system, any form of fiscal devolution is really just tinkering around the edges. You put that with what I have already said about corporation tax and what you are left with are business rates.

Professor David Bailey: I would very much agree with that. I would like to see things like the pension system rewired, in many ways. Following on what from Nigel is saying, when we then look at some of the forms of fiscal devolution that take place - where it is earned back in Manchester - yes, they are very exciting but they are pretty tiny in the big scheme of things, so let us be realistic about what we are asking for here. If you want us to spell out to you a series of small steps that will be useful, we are more than happy to do that. However, let us not pretend it is going to be a game changer. Let us be realistic. Where you might be able to identify significant taxes that can be identified regionally - and there is potential to then earmark those and

retain locally - it is probably through the National Insurance system. That is an easily identifiable tax. We know where it is paid. That would be one part of this tax system that you could pick off first and make significant difference.

Ben Rogers: There are two questions then. One is in the first LFC we identified property taxes as being the ones that were most suitable for devolution for various reasons, including the fact that it is very hard to gain property taxes. You can move your headquarters to somewhere with a low tax rate, but you cannot move your house or your office. I am surprised you seem to think it is as hard as you do to identify taxes that are local.

John, you suggested that you are in favour of devolution with Brexit, where the argument is stronger that there is almost an opportunity here because central Government was going to be very preoccupied with negotiating our departure from the EU, which made the case even stronger for devolution. I am wondering about the politics of this. How do we make that argument effectively? How do we work together as cities and regions to do that? What role might London play, or should it just keep it quiet because it is not a helpful voice in all of this? I suppose that goes to how London is perceived more generally. The question is how well have we done in the past in making the case and how can we do it better?

Professor John Bryson: There is an issue here that the best way of politically playing the argument is for it to be led by Newcastle, Birmingham or Manchester, otherwise the London dominance is seen as a problem. I know some of my colleagues - not in Birmingham, but elsewhere - would be wanting an equal allocation of infrastructure investments, forgetting the contribution that London and the South East make to the wider economy, which would produce all sorts of interesting and strange distortions to the economy over a five or ten-year period. My view is functional devolution must come with fiscal devolution, otherwise you have got nothing. It is a question of how much fiscal devolution you get. Property taxations that are generated locally should be devolved. There is no question about that. It is here. The national taxation issue should be used to compensate for those places that do not have sufficient local ability to generate local revenue and local taxes, otherwise you are going to end up with an incredibly polarised country. What about the Herefords or Mid Wales of this world that do not have that property base or local taxation ability? That is one of the key drivers behind this within central Government.

The issue is that if one gets far down the track towards full local fiscal devolution, there is a problem that each devolved administration has to take the consequences for its own action. There is never any ability for any central Government to step in and to bail a particular place out because it made the wrong decisions. It has to sort it out. That means if London goes bankrupt, it goes bankrupt. Central Government should not step in. It should do what happened with Detroit, which effectively became bankrupt in 2012/13. Otherwise fiscal devolution is nothing, because you are saying you are devolving it, but really responsibility is still held centrally. I know from various committees I have chaired in the public service that unless you have full control of budgets, you still are controlled by Whitehall because Whitehall will take you to one side and say, "This is what you need to be doing".

Professor Tony Travers (Chair): This has come up almost three times now. What about the Apprenticeship Levy that Julian mentioned? Do you all think that - I do not want to put words in your mouth - the Apprenticeship Levy would be better used in the West Midlands, and indeed London, by its own political system than if Whitehall spent it? That is rather a loaded question, but you see where I am going. Tell me why you think that the political and business elite here represented this morning and others would use the money better than if Westminster and Whitehall use it.

Professor David Bailey: Going back to the argument of how do we make Whitehall let go, if you look at the performance of the West Midlands economy over the last 30 years, it has gone from being a relatively rich region to a relatively poor region. Every time there has been a recession we get harder hit. We never quite got

back and we got further and further away until the last recession, when we actually recovered more quickly than some other regions. Some of that is luck; some of that is some good decisions that were made. We have grown quite quickly, particularly the manufacturing base, and there are now some severe supply-side constraints in the region: skills, infrastructure and housing. We need a regionalised joined-up approach to that. We are much better placed to make decisions about what we need to do than some quango in London. I do not even know what that body is. Is it the Skills Funding Agency (SFA) or has it changed its name again? They have very little idea of what is going on locally. We are better-placed to make the decisions about public service spending in a whole range of different areas and how it can be joined up. That goes back to what you said in your original report about accountability, the ability to make better decisions and also to stop wasting time bidding for stuff all the time, but actually to have a control over a pot of resources.

Professor Julian Beer: For me - picking up on a number of points - although John made a very good point about the holistic nature of the system, that you have to have housing and everything else for medium to long-term planning and trying to get some of these systemic problems in our system solved, there are short-term challenges as well that I do not think John acknowledged. We do have relatively high rates of unemployment in some of our populations. We also have a potential workforce at not even level 2 in terms of qualifications. There are some short-term interventions we can do whilst solving the long-term problems that we have. These people are already living here. They are not waiting for houses. They are living in houses already of some description or another. We have some very short-term challenges we have to solve whilst dealing with the whole system issues that we face as a region.

If you take skills, it is one that I am quite close to with a project we call the Skills Engine. It was called the Virtual Polytechnic until most vice-chancellors objected to the word 'polytechnic'! If you look at education and the way education is funded, it is funded vertically in systems. You have Adult Skills Budget, SFA, Student Loans Company and private sector provision for skills that the private sector puts in. Through our supply-side system the individual goes through those vertical pillars of funding in education. We are talking to hundreds and hundreds of employers from the big corporates who have signed up right the way to chamber and micro-businesses. Often what is needed alongside the educational system that we currently provide is the ability for an individual to have packages of skills and competencies with them going through the system horizontally.

That means negotiating with all those Government departments for one individual, the learner, for an outcome that is a job. They need a bit of the Adult Skills Budget over here, they need a bit of SFA funding over here and they need a bit of the Student Loans Company funding. You see where I am going. The individual cannot do that; the company cannot do that. Devolving or hypothecating some of those funds from the centre to us locally so we have a hypothecated bundle of funding to make sure that we can solve our short-term skills gaps, everyone has told us is too hard and too difficult. It is not. If we had those powers and ability to do that short-term we could solve some of the issues and the crisis that we have got in terms of skills. The Apprenticeship Levy is just one of those mechanisms.

Professor John Bryson: The issue with your Apprenticeship Levy is the same as property tax. If it is predominately a local issue, it should be under local control. We know from the model we built for the Combined Authority and all the research that has been done on apprenticeships that apprenticeships tend to be for local people. They live locally and are trained locally because of the nature of the apprenticeship scheme. As a consequence, the Apprenticeship Levy should be local. Level 2 [training] is predominately a local issue. The graduates issue is a national issue because of the mobility there. For anything that is devolved, you need to prove the case for it being a significantly local issue so you have a very strong case. Then it is a question of developing a particular fiscal solution to that particular issue. If you want to maximise economic growth and better outcomes, it is developing an integrated approach. Understanding the chains of causality is where you need to develop joined-up thinking and you cannot if it is centrally controlled.

I do have an advantage here, because I am one of these 'foreign European migrants that are taking British jobs'. I come from a very small country with a population of 5 million. Decision-making was much easier; everything was more joined-up. It was possible to do the sort of thinking that you cannot do in a country of this size. Therefore really what we want to do is to cut the West Midlands out of the UK as a West Midlands devolved mini-state and see what would happen, in the same way that you could do for London. It is all about working out what decisions should be made locally. That is all about the place-based nature of those processes. Some are national, some are international and some are very place-based at a city level or a board level. It may not be a city level, but may be much lower than that.

John Dickie: To return to my earlier question, for those of us for whom devolution, local government and local ways of running economic systems, is what we do for a living, this is all very compelling. The question is what can we do - it is just as much a problem for London as it is if you are in the West Midlands - to get power to shift from all the people with the power in Whitehall. We have been making, in various ways, a compelling case since before Chamberlain and we are where we are. What can move those along, do you think?

Professor Nigel Driffield: Can I give you a really trivial example? My research area as an academic is inward investment. Then I have a role that plays into the local economy and helping the Combined Authority. Therefore I span two areas in the sense that I have people, not very far away, asking me to contribute to things like an inward investment strategy and at the same time also looking at issues on skills. The most common question I am asked by a small firm when they discover what I am or who I am is, "How can you help me get into the supply chain of 'insert company of choice'?" The most common question I am asked when I am with Marketing Birmingham talking to potential investors is, "Can you tell me about the nature of the supply chains we might find locally?" On the one hand there is a supranational issue of large multinationals who can choose wherever they want to go in the world wanting to know about the local economy, and on the other the local economy trying to figure out how to attract them and what sort of offer they need to make. I do not mean fiscal offer but what is the nature of the skills that they will find locally. You have got the local economy trying to think of how to portray itself and what sectors we want to push. We do not all want to be chasing digital media and green technology, because in that way lies madness. However, there are certain sectors that we want to have as our offer where we have strengths, where we have got the answers from John [Bryson] or we have got the answer from what David [Bailey] knows about what sectors are doing well and where we are exporting. That is what we are putting out to the world.

At the same time, the fundamental job of a university is to connect the worries of parents of 16-year-olds with what employers will need in six years' time. If you are thinking about people who are doing a degree in order to further their employability rather than their interest, that is what universities are trying to do. We are all trying to do that. Those universities that are focused on the local economy and training, particularly local people, they need to be part of that process. They need to be part of the discussion over, "Right, we have a skills issue. These are the sectors where we have a skills issue, which we know locally. These are the sectors that we are trying to build that we can observe we can attract new investment in for whatever reason because of our previous comparative advantage", whatever it might be. That is where we need to put the emphasis, on skills at level 2, 3, 4, 5, 6, graduate apprenticeships. All of that has to happen locally, because to be blunt, otherwise you are talking - as we have said - across six different Whitehall departments who all want national policy.

Professor Tony Travers (Chair): Just to summarise that, at the very least devolution would offer the capacity to remove the competitive silo-based nature of Whitehall. That would allow resources to be better used which, next step, would make it more likely that the West Midlands/Birmingham City region economy would strengthen over time. Is that a fair way of putting it?

Professor Julian Beer: Yes. You said, “What would convince Whitehall?” This is not just a West Midlands problem.

Professor Tony Travers (Chair): No, absolutely.

Professor Julian Beer: This is a UK plc problem and we have been around the houses so many times. I have been involved in skills research and sectors and economic research for decades, and I do not need to do the research any more with companies because the answer is the same as it was 15, 20 years ago. We need something radical and we need something different in not just the skills arena, but in other arenas as well.

At the Conservative Party conference a couple of weeks ago, we were pitching the Skills Engine to one of the Ministers and he said, “That is quite radical. That is different”. We said, “Actually, it is what we need”. We need to change it because the system works in parts, so the system supply and demand, the skills. In the middle bit, the system we have currently with universities and with further education works, but there are gaps at the edges. Those gaps are the ones that we need to do something about to actually systemically change what we do in terms of supply and demand. That is not our argument, it is not your argument, it is all of our arguments.

Professor David Bailey: Just coming back to the opportunity and how do you sell it to Government, some of the work that we have been doing looking at the changing nature of value chains and where manufacturing is investing, we found about one in six manufacturers in this region are doing some sort of re-shoring, bringing activity back to the UK. There is a further opportunity around that post-Brexit, by the way, with the devaluation of sterling if sterling settles down at a lower rate. There is an opportunity to bring some manufacturing back, not the same as before, but in certain areas where we can do things very well.

When we looked at this, the barriers to pushing that forward we found from companies were issues about, “We cannot actually find the land to build on”. Therefore there are issues about how we make land available for manufacturing and other economic activities. Energy costs: we are probably not going to do much about that locally; that is more of a national issue. Skills was a big one and access to finance. There are some fundamental barriers to enabling our manufacturing base to re-shore and bring some activity back to this region and we would be better off solving those locally, for all the reasons that we just heard.

Just one other quick point. When we have had control over these things in the past in a more joined-up way, we think about both the anticipation of, and the response to, the Rover crisis, which was a big shock to the local economy. You had a taskforce before and after, which did all sorts of interesting things in helping diversify the economy and prepare it for a shock, but also pick up the pieces. You had a pot of money, about £150 million, that could be used in lots of different ways and produce terrific outcomes in retraining workers, getting them back into work and developing the skills they need. We can show when we work together in joining up, we can do it.

Professor Tony Travers (Chair): We are coming towards the end of this very excellent and helpful session. I do not know if any of my colleagues have anything they would like to ask which we have not touched on so far, or more to the point, whether there is anything/any messages you would like to convey to us. Remember, we will be reporting about London, but the report will make every effort to say things which will work for all the other city regions as well. John?

Professor David Bailey: Yes, I think it goes back to tax. What each of the devolved administrations needs to think about is the challenges and problems that are very local, but also think about the national challenge. What one needs to do is deliver in both of those boxes positive ticks.

The national challenge, which is a local solution, is that the devolved functions and the devolved fiscal processes enhance the tax take nationally. If one can show there is going to be an enhancement of that tax take at the same time as a reduction in central taxation expenditure, you are on a win-win. This part of the UK is in deficit in terms of tax and we consume more than we generate. If you can go some way to reconciling that particular deficit and even converting into a surplus because you have devolved functions, processes and fiscal, no one is going to argue against that. The question is showing whether that is going to be possible and how it is going to be possible. It ultimately goes back to tax because that is the key central issue, apart from Brexit and other various negotiations.

Professor Nigel Driffield: If I may say so, that is Joe Anderson, Mayor of Liverpool, who has had an interesting political journey to where he is talking about entrepreneurship and the need to promote business. I have known Joe Anderson for 30 years. A lot of that is driven by the fact that without doing something, the City of Liverpool was bankrupt and they were heading for Detroit. It is business rates in this context essentially, and he started to ask, "OK, what can we do locally to increase the business base of the economy, because without that, Liverpool is heading for the same direction as Detroit?" I think that is part of your answer and that again has to be a joined-up process. In his context, it involved a degree of intervention from the city council in terms of bringing businesses in, but it was a response to a crisis version of what John has just said.

Professor David Bailey: There is a lot of talk about 'inclusive growth' now from Government. Put bluntly, you are not going to increase your growth unless you devolve some of the decisions over some of those aspects down to a more local level.

Professor John Bryson: The final point is that although you will be battling for London obviously, join us in the skills lobbying, because it is equally important to every region in the UK.

Professor Tony Travers (Chair): OK. We are obviously a London commission, but as I keep saying, we want this to be sensitive to other city regions who are taking the same journey. Thank you very, very much for coming along. It is very clear and very helpful to us and highlighted a particular set of skills and Apprenticeship Levy issues and the need for consistency in public policy, which I think is hugely helpful and must be true in every city region across the country. Thank you all very much.