

DECENTRALISATION DECADE

A PLAN FOR ECONOMIC PROSPERITY, PUBLIC SERVICE TRANSFORMATION AND DEMOCRATIC RENEWAL IN ENGLAND



REPORT

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Institute for Public Policy Research

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Other outputs from the 'Decentralisation Decade' programme of work can be found on <http://www.pwc.co.uk/localgov2014>

WITH THANKS TO



SUMMARY

Over the past century, England has become one of the most centralised nations in the developed world. It was not always this way. England's great cities were founded upon the initiatives of industrial and municipal leaders and civic institutions justifiably proud of their capacity to deliver excellent infrastructure and efficient public services. Even in recent times, powers have been handed from the Westminster government to Scotland, Wales and Northern Ireland which few would now consider taking back. And perhaps the greatest part of England's success in the 21st century has been London, a city with a directly elected mayor and the unusual privilege of holding a range of hard and soft powers that are envied outside the capital.

There is a well-established body of evidence suggesting that centralisation is a problem.

- **Economically**, seven of the eight English 'core cities' outside London have consistently performed below the national average in terms of GDP per capita. This is atypical. In Germany, Italy, Sweden and even France, so-called second-tier cities have been at the forefront of economic growth, wielding clear regional policies and devolved economic development powers to outperform their capital cities. Beyond the English core cities, there is a widespread understanding that the national economy needs regional rebalancing.
- **Public service improvement and efficiency** is a longstanding goal of any government, but is especially pertinent in a nation looking to reduce its fiscal deficit. Nevertheless, the 'new public management' approaches which characterised the 2000s – strict top-down targets and performance management regimes – been eased back on account of their tendency to stifle innovation and local flexibility and to generate service fragmentation, perverse incentives and poor outcomes.
- And **politically** a quiet storm is brewing. Public discontent with the Westminster bubble – politicians, civil servants, media, bankers – is being expressed through a collapse in political party membership, decreasing electoral turnout and the rise of the populist parties. A political system that has been captured by a small group of highly 'professionalised' politicians has led increasingly to deep political inequality in society.

Is decentralisation the answer? In this report, we argue that it is. England's 80-year-long experiment with centralisation has failed. It is time to embark on a new journey: a programme of decentralisation that will liberate the nation, drive prosperity and growth, and provide a new platform for more innovative and effective public service reform and a society which is more equal.

Building on evidence from Japan and Germany, new polling data and findings from a series of high-level roundtables, we make the case for why a 10-year programme of decentralisation, spanning parliaments and built on cross-party support, is urgently required. This is our plan for a 'decentralisation decade'.

Our programme is based upon:

- a set of **principles and lessons** for a phased and asymmetrical yet purposeful approach that offers different powers and responsibilities to different parts of subnational government over a 10-year period
- a series of **safeguards** to ensure that a programme of decentralisation avoids major risks

- some limited **changes to the ‘architecture’ of subnational governance**
- a **clear timetable** for enabling the decentralisation of nearly 40 key administrative, fiscal and political functions of government.

Main recommendations

- Central government should embark on a 10-year programme of decentralisation with a clear timetable and whole-of-government approach.
 - Powers and responsibilities over economic development and key public services should be passed to combined authorities, local authorities and other local bodies as and when they are ready to assume them.
 - Fiscal devolution should be a central plank of the comprehensive spending review to take place in 2015, with five-year funding settlements agreed and an independent body established to take forward further central–local funding reforms.
 - A new wave of combined authorities should be established, including ‘county combined authorities’ in two-tier areas, with all combined authorities setting out clear plans for partnership-working and enhanced democratic accountability.
 - Decentralisation must be underpinned by new legislation to strengthen the constitutional status of local government and its other subnational partners, similar to the Scotland and Wales Acts.
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Challenges to decentralisation

Despite the weaknesses in the status quo, it cannot be automatically assumed that passing power down from central government to subnational tiers will bring about better outcomes or increased efficiencies. Indeed, there are significant obstacles and objections to consider, four of which stand out:

1. **Local government lacks the competence and capacity** to take on new or additional powers and responsibilities.
2. Decentralisation will create **‘postcode lotteries’ and diminish equality.**
3. **Decentralisation is too difficult and complex** – the proper geography of local decision-making is complex and requires action at different tiers, some of which are overlapping and contested.
4. **The public is not interested** in who provides or makes decisions about public service provision and economic growth.

In each case, there is a growing body of evidence which challenges these objections. Local government has led the way in driving public service efficiencies. A growing number of studies show that ‘overcentralisation’ is now a major cause of inequalities in developed nations. Modern government is sophisticated enough to deal with the complexity of ‘multilevel’ governance. And we have uncovered new evidence that, far from being ambivalent or uninterested, the public is unhappy with the status quo.

Attitudes to decentralisation

As part of our research programme we have drawn upon two new surveys of the general public. We also drew upon the most recent PwC survey of local authority leaders and chief executives and carried out interviews with senior civil servants in key government departments. The details of this new research are set out in chapter 3.

Some of the main findings from this research include:

- The public believes that there is something wrong with the status quo, whether this is the nature of the devolution settlement with the devolved nations compared with England, the imbalance of power between central and local government, or the lack of meaningful English institutions at nation or local level.

- People have a strong sense of attachment to their local area which, although lacking precise definition, is expressed in a greater sense of local efficacy and greater trust in local politicians and local agencies than in national ones.
- People know where real power lies. In both 2009 and 2014, our *Who's Accountable* surveys with PwC found that respondents do notice administrative changes and change their attitudes to public accountability in response to policy change in government.
- There is a strong appetite among local authorities for a new deal between central and local government. Financial reform tops the list of their demands, with a view to investing in infrastructure, regeneration and housing to drive local economic growth. Concerns do exist, however, about their workforce capacity to take on power responsibilities at a time of growing demand for local services.
- Senior civil servants in Whitehall departments, interviewed anonymously, showed cautious support for a process of decentralisation but identified three essential ingredients to enable the kind of step-change in speed and scope that we propose:
 - strong political leadership on the issue
 - coordinated action across government
 - appropriate accountability mechanisms.

Principles for decentralisation

Against this background, then, we believe that five principles should underpin our programme of decentralisation.

1. **Decentralisation must be for a broad and clear purpose.** Although specific proposals to decentralise one function or another may each demonstrate evidence of achieving particular policy aims, a programme of decentralisation must set ambitious goals and demonstrate that it can achieve long-term outcomes in order to gain broad-based support.
2. **Decentralisation must be joined up.** Achieving long-term outcomes requires a coherent and coordinated approach across different departments, at different spatial scales and between a wide range of public, private and voluntary actors, as well as enthusiastic citizens. As a crucial change to current practice, there should be a presumption in favour of decentralised rather than centrally driven policymaking.
3. **Decentralisation will necessarily be asymmetrical.** The appetite and capacity to take on new powers and responsibilities will differ from place to place, and those that are ready to move forward with greater levels of decentralisation should not be constrained by the slower ships in the convoy. This is particularly true for those city-regions where city deals and the formation of combined authorities have already grown the capacity and appetite for change.
4. **Decentralisation takes time.** It has taken over a decade for powers in Scotland, Wales and Northern Ireland to be embedded and for practices and attitudes to take new shape. A decade is the shortest time required for the necessary adaptations to take place centrally and locally and for capacity at subnational levels to grow once again.
5. **Decentralisation requires cross-party support.** The best chance of securing the time needed to implement and embed a real programme of decentralisation is to garner cross-party support and to ensure that national and local governments work in unison rather than in conflict.

Safeguarding against the risks of decentralisation

No genuine transfer of power between tiers of government can be completely without risk. These risks exist on both sides, both for central government in handing

over powers and functions and to those subnational bodies in taking them on. We have identified four key risks for central and local government and other subnational bodies, and set out a series of safeguards to mitigate these risks, both in principle and in practice.

Safeguard 1: An asymmetrical and long-term approach

Concerns about the capacity of local government and other subnational bodies to take responsibility for key functions of government are widespread. But for too long the pace of decentralisation has been dictated by the slowest movers and fears of the worst-case scenario. This has held back those with the greatest potential for growth or with a strong track record of public service efficiency and effectiveness. Not every area will want or be able to proceed at the same pace, but this should not negate the potential benefits that decentralisation can bring to those who are ready to take greater responsibility and control. We propose that:

Recommendation 1: Central government should embark upon **a phased, asymmetrical programme of decentralisation over a minimum of two full parliaments** with clearly identified powers and responsibilities for combined authorities, local authorities and other subnational bodies as and when they are ready to assume them, supported by a **five-year funding settlement**.

We propose that local and combined authorities, depending upon their readiness, should draw down different ‘packages’ of powers and responsibilities at key milestones within the next two parliaments. The details of this programme are set out in chapter 6.

Safeguard 2: Rigorous financial controls and redistributive mechanisms

The corollary of such an unprecedented approach to transferring powers is to ensure that new local freedoms do not expose central government to high levels of financial risk and macroeconomic instability, and that there remains the scope for a level of equalisation and redistribution between more and less prosperous areas. At present the formula used to achieve the local government finance settlement is convoluted and open to political interference, and many of the fiscal benefits of local improvement accrue to the centre rather than more locally. We make three recommendations to provide the necessary fiscal safeguards and a level of transparency, certainty and incentive to subnational bodies.

Recommendation 2: Combined authorities, councils and other subnational bodies seeking any form of fiscal devolution should set out clear plans for **openness, public accountability and local scrutiny** within their governance arrangements. Such a commitment could take a variety of forms, such as a directly elected mayor, combined authority assembly or local public accounts committee.

Recommendation 3: Ahead of the comprehensive spending review in 2015, a new government should set up an **independent review of central–local funding settlements** with a remit to deliver further fiscal devolution but which looks at (a) achieving greater transparency in funding formulae, (b) a reassessment of local need and resources, (c) how to better incentivise growth and investment, and (d) arrangements for any ‘levy’ on disproportionate growth and periodic reassessment or ‘resetting’ of the system.

Recommendation 4: Building on the proposals of the communities and local government select committee, we propose the formation of an **independent body for local fiscal management** with responsibility for overseeing central–local funding arrangements, including subnational financial probity, local borrowing and investment, settlement negotiations, equalisation and redistribution, and periodic revaluation, resetting and review.

Safeguard 3: Core outcome entitlements and a light-touch performance regime

A programme of decentralisation should not be seen as a matter of central government abdicating responsibility for economic or social priorities and outcomes. Neither should it be a mandate for local areas to do what they want. Nonetheless, centrally driven programmes and performance management regimes are ill-equipped to deal with the complexities of local growth and service delivery. In order to achieve a proper central–local balance in performance monitoring and outcomes, we propose:

Recommendation 5: Ahead of any general election, national political parties should outline a small number of **outcome-based ‘core entitlements’** as part of their manifesto commitments (which might then be refined if and when they form a government).

Recommendation 6: Combined authorities, local authorities and other local agencies must set out **clear plans for how they will measure, monitor and evaluate their performance** concerning these core entitlements and how they will seek continual improvement and innovation.

Safeguard 4: Formal codification of central–local arrangements

In its recent report, the political and constitutional reform select committee (PCRC) noted that ‘English local government lacks some of the most basic constitutional protections that are available to some of its counterparts in a number of other mature European democracies’ (PCRC 2013). The fortunes of central and local government are interdependent, and powers and responsibilities need to be seen as shared. This requires a more mature approach to the central–local relationship (Cox 2010). This has been the subject of considerable debate in the past decade, but we support the initiative taken by the PCRC in putting forward a draft ‘code’ comprising 10 articles to initiate a wider debate about the future role of local government.

Moreover, we would go further and recommend:

Recommendation 7: Following the consultation currently being carried out by the PCRC on a codified relationship between central and local government, we propose legislation is brought forward, during the first legislative session of the next parliament, to **strengthen the constitutional status of local government and its other subnational partners** with a view to enabling genuine culture change in the central–local relationship.

Despite the importance of achieving cultural change, our programme of decentralisation should not stand or fall on this recommendation. The majority of our proposals can be achieved without formal codification.

Defining decentralisation

One of the major criticisms of any programme of decentralisation is that it appears too complex and thus too risky. In part, this is because the term ‘decentralisation’ is often used to encompass a wide range of possible types and forms.

Literature on decentralisation defines three main types of decentralisation – broadly **administrative, fiscal and political**.¹ While there is some overlap between each of these types, it is important that for any programme of decentralisation, all three are present in order to ensure a genuine decentralisation of functions, finances and autonomous decision-making.

1 See section 4.2; for more detail, see Triesman 2007.

Equally, decentralisation can take different forms:

- **deconcentration** – where the centre prescribes the goal, the method and runs the delivery agency
- **delegation** – where the centre prescribes the overall goal but allows subnational partners to determine the method and delivery
- **devolution** – where subnational bodies are responsible for the goal, the method and the delivery, with no direct accountability back to the centre.²

As we develop our programme of decentralisation in the course of this report, we clearly identify the different types and forms of decentralisation proposed and the significance of the ‘spread’ of proposals that constitute it.

The architecture of decentralisation

One of the main questions surrounding decentralisation is at which geographical ‘tier’ it is appropriate for different state functions to lie. The principle of subsidiarity – that power should be exercised by the least centralised authority capable of effective dealing with the matter – open up a wide range of possible interpretations for many government functions, and as a result power is exercised as much by historical accident as by purposeful design. There can be no perfect answer to this question any more than there can be a perfectly designed subnational system to which powers should be devolved.

It might be supposed, then, that the architecture needs significant structural change. This is not the case. Although many would make a good case for local government reorganisation, this should not inhibit significant progress being made within current structures. We know from various studies that there is no ideal subnational architecture and that the most important factor in enabling local economic success is a stable and coherent foundation upon which institutional relationships and strong local leadership can be built.

In the previous section, as one of our safeguards for decentralisation, we argued for a minimum amount of institutional change after the first legislative programme of the next parliament, and for cross-party consensus on the matter. This allows that there may need to be some small changes to the existing architecture, and that government may need to introduce some ‘enabling measures’ to allow subnational bodies to develop their own forms of governance and accountability. This aside, however, the onus of our proposals is clearly on supporting stability and incremental improvement within current arrangements, not wholesale reorganisation.

With this and other principles in mind,³ we propose modest changes within four particular tiers of subnational governance.

A ‘mezzanine’ level

In almost any other developed nation it would be thought inconceivable that the state could function without a ‘regional’ tier of government. In England, however, there appears to be little appetite on the part of the public or politicians to return to ‘regions’. Nonetheless, we do believe that there are a number of areas where collaboration across and above the level of local enterprise partnerships (LEPs) would be beneficial. We propose that a small number of enabling measures should be put in place to allow for this kind of ‘para-LEP’ collaboration on key economic development functions where there is mutual interest in doing so.

² See section 4.3.

³ See section 5.1 for more detail.

We propose that:

Recommendation 8: Government should enable **partnership bodies between combined authorities and local authorities** at a ‘mezzanine’ level across geographies that extend beyond the areas currently bounded by local enterprise partnerships. Such bodies should only be created as required on specific issues such as transport, innovation or inward investment.⁴

Functional economic areas / city- and county-regions

Recently there has been renewed interest in the importance of city-regions in the global economy, the role of functional economic areas,⁵ and ensuring that there is the right institutional framework to support economic prosperity. This has found its most comprehensive institutional expression in the formation of 39 LEPs that cover the whole of England.

Alongside LEPs, there have also been significant moves in the five northern cities towards reconstituted governance, in the form of combined authorities. Based on the formation of Greater Manchester Combined Authority as a statutory body in 2011 – the so-called ‘Manchester model’ – government approved the formation of combined authorities for West Yorkshire, Sheffield, Liverpool and the North East region in April 2014.

These collaborations of contiguous local authorities hold out great hope for better strategic planning around economic development, regeneration and transport, but also, crucially, around more social policy areas such as housing, health and wider public service transformation. The current set of arrangements raises three questions:

- What is the proper relationship between LEPs, combined authorities and other subnational bodies?
- What should happen to those areas that do not fall under a combined authority?
- Are these arrangements suitably robust and accountable to cope with the suite of functions and fiscal powers that a programme of decentralisation should bring?

In response to these questions, we make a number of recommendations.

Recommendation 9: Combined authorities, counties or other upper-tier authorities have a responsibility to set out clearly the partnership structures and their dynamics at the subnational level in a **subnational Partnership Plan** which is reviewed on a regular basis.

Given the impetus behind the combined authority model, and the clear advantages garnered by the mayor of London and the Greater London Authority, it is right to ask whether the combined authority model should be extended beyond the five northern cities. We believe there are compelling reasons why it should, but to those places where local authority collaboration over a functional economic area could bring clear benefits. There is a particular opportunity for counties and districts to enhance their relationships, such that rural areas and other towns and cities can enjoy the benefits that decentralisation might bring. For these reasons we propose that:

Recommendation 10: Central government should create a further **window of opportunity for the formation of a new wave of combined authorities** during the first year of the new parliament. These must be based on clear functional economic geographies with the full consent of all partners and set within wider Partnership Plans (see recommendation 9). After this, in the interests of stability, there should be no further subnational reorganisation until the next full parliament.

⁴ Normally it would be expected that such areas are geographically contiguous, but provision could also be made for partnerships that do not necessarily exist within a single boundary.

⁵ There is no tight definition of a functional economic area. Most commentators see these as approximations of labour market or ‘travel-to-work’ areas.

In order for the proposals set out here to have full effect, there are some important ways in which combined authorities and LEPs could be further strengthened.

At present, combined authorities are governed by a committee or board comprising the constituent local authority leaders. Their democratic legitimacy is therefore indirect and their operations tend to be largely invisible to the general public. A range of ‘models’ is available by which these bodies could enhance their democratic legitimacy – including the idea of a directly elected ‘metro mayor’⁶ – but given that different models will suit different situations there should not be any top-down prescription as to the precise steps that should be taken. We recommend therefore:

Recommendation 11: Combined authorities should bring forward plans for **enhanced democratic accountability arrangements** in advance of receiving any additional powers to raise and spend tax revenues at the subnational level, ideally involving some form of direct election. To enable this to happen, government must lay down legislation to permit a variety of different forms of combined authority accountability, including provision for directly elected metro mayors.

There are also numerous ways that LEPs could be strengthened, many of which have been set out in recent reports. We would summarise these as follows:

Recommendation 12: Government needs to **clarify the purpose and functions of LEPs** in a simple, high-level statement that sets out their core remit but leaves specific priorities and other details for LEPs and their partners to determine. This should be backed by **modest levels of core funding**, to complement the core funding and human resource committed by local partners, and a window of opportunity during the first year of the next parliament for a **review and rationalisation of LEP geography**.

Local authority areas

The forms and functions of English local government have accreted over centuries, leaving a complex patchwork. We do not believe that any structural reform is necessary at the local authority level; nonetheless, we agree with ideas developed by the Centre for Public Scrutiny and the recommendation set out by the Local Government Innovation Taskforce. We therefore propose:

Recommendation 13: Local authorities should set up **local public accounts committees** with powers to scrutinise value for money and performance for all public services in their areas.⁷

Neighbourhoods and local communities

The Coalition government has gone some way to encourage neighbourhoods, and communities now have an increasing number of entitlements at their disposal. Nevertheless, there is a great deal of inconsistency across the country as to the nature and quality of neighbourhood governance, particularly in urban areas, where parish and town councils are very often absent. In order to extend the benefits of neighbourhood governance and to broaden their scope, we propose the following:

Recommendation 14: Cross-party support should be given to proposals to **make it easier to form parish, town or neighbourhood councils** and local authorities should be encouraged to support and adopt such proposals. Measures should also be introduced to streamline the process of becoming a ‘quality council’ to enable neighbourhood structures to garner greater local powers.

6 The term ‘metro mayor’ is used to distinguish it from a ‘city mayor’. The former term could apply to any combined authority area (metropolitan or county); the latter term refers to the type of mayor who covers a single local authority boundary, a form that was largely rejected by many cities in referenda held in 2012.

7 Committees would cover the largest electoral division in an area, unless there were statutory or other formal cross-boundary arrangements for place-based budgets, such as combined authorities, in which case committee boundaries would reflect those areas.

Recommendation 15: Quality councils should get **more rights to draw down responsibilities and resources** to take over specific services currently run by local authorities. Such councils would need to draw up a clear plan of how they would deliver the service, why it represents value for money, and how local people would be involved.

A programme of decentralisation

In this report we set out the need to go beyond partial and piecemeal measures to pass power down from central to local government. Drawing upon evidence from countries such as France, Germany and Japan, we have taken inspiration from systemic attempts to make decentralisation a cross-cutting principle for governing.

In order to ensure that our approach in developing a programme of decentralisation is systematic, we carried out an analysis of 13 different government departments and their ‘functions of government’. In total, we identified 83 separate functions; for each of these, we applied eight decentralisation tests.⁸

Having identified a long list of decentralisation priorities, we then explored what outcomes each might achieve, to set the high ambitions and long-term focus that we believe is crucial to the overall project. In doing so we built on the Scottish approach,⁹ but with the intention of agreeing a smaller set of core outcomes than Scotland’s 15.

At the end of this process, we identified seven illustrative outcomes for decentralisation:

1. A better educated, more highly skilled and productive population
2. A more balanced economy
3. More relational public services and a more effective criminal justice system
4. A more inclusive labour market
5. Greater environmental sustainability
6. Higher quality homes and integrated communities
7. Higher levels of democratic participation and accountability

Finally, following detailed consideration of every government function, we identified nearly 40 separate priority ‘actions’ for decentralisation. In each case further analysis was undertaken to consider:

- Which **tier** should this function be decentralised to?
- What **type** of decentralisation could this be described as?
- What would be the most appropriate **timetable** for this aspect of decentralisation to take place over a 10-year period?
- And which **department** would need to ‘let go’?

The summary of the results of this analysis is presented in table A1, here focused on the timetable for functions and actions. It is important to stress that, despite being a 10-year programme, urgent and important action can be taken ahead of the general election and that, while the programme includes some legislative and constitutional measures, there is nothing to stop significant strides being taken in the first days of a new parliament.

A full account of all priorities is laid out in chapter 6, and in tabular form in the annexes to this report.

⁸ See section 6.1 for more details.

⁹ See section 6.2 for more details.

Table A1
Timetable for a decentralisation decade

Prior to general election		
FUNCTION / ACTION	TIER	REFERENCE / DEPARTMENT
National political parties should each commit to a long-term programme of decentralisation with clearly identified powers, responsibilities and milestones to different tiers of subnational government and commitment to a five-year funding settlement for local government.	National	Recommendation 1
National political parties should outline a small number of outcome-based 'core entitlements' as part of their manifesto commitments	National	Recommendation 5
First 100 days of a new government		
FUNCTION / ACTION	TIER	REFERENCE / DEPARTMENT
Government to create a window of opportunity for the formation of a new wave of combined authorities including 'county combined authorities'	Combined authorities	Recommendation 10
A package of economic development measures are offered to combined authority areas and emerging 'mezzanine' partnership bodies including transport, innovation, inward investment, sector-based strategies, energy generation and efficiency (see also spending review 2015 measures below).	Combined authorities / Mezzanine bodies	Details set out in chapter 6
Clarification of the purpose and function of local enterprise partnerships with a window of opportunity for the review and rationalisation of current LEP geography	Combined authorities	Recommendation 12
Sub-national bodies to set out clear Partnership Plans including their plans for openness, public accountability, local scrutiny and how they will measure, monitor and evaluate their performance against national 'core entitlements'.	Combined and local authorities	Recommendations 2, 6 and 9
Combined authorities should bring forward plans for enhanced democratic accountability arrangements in advance of receiving any additional funds or powers to raise and spend tax revenues at the subnational level.	Combined authorities	Recommendation 11
Government to instigate an independent review of central-local funding and form an independent body for local fiscal management	National	Recommendations 3 and 4
First legislative programme		
FUNCTION / ACTION	TIER	REFERENCE / DEPARTMENT
Bring forward legislation to strengthen the constitutional status of local government and its other subnational partners with a view to enabling genuine culture change in the central-local relationship	National	Recommendation 7
Government creates the legislative framework to enable partnership bodies between combined authorities and local authorities which extend beyond the areas currently bounded by local enterprise partnerships at a 'mezzanine' level	Mezzanine	Recommendation 8
Enable local authorities to innovate and institute their own electoral arrangements including alternative voting systems, lowering the voting age etc	Local authorities	CLG
Establish local schools commissioners to commission schools	Combined and local authorities	DfE
Strengthen and simplify the role of health and wellbeing boards	Local authorities	DoH
Take forward proposals to make it easier to form parish, town or neighbourhood councils and provide for more rights to draw down responsibilities and resources to take over specific services currently run by local authorities	Neighbourhood	Recommendations 14 and 15
Creation of local justice panels and restorative justice arrangements	Neighbourhood	Home Office
Spending review 2015		
FUNCTION / ACTION	TIER	REFERENCE / DEPARTMENT
Substantial five-year place-based budgets for economic developments rolling up a wide range of funds including many listed below...	Combined authorities	HMT
Devolve a package of skills and education funding measures including: – apprenticeships, further education and adult skills – all 16–19 EFA funding and responsibilities for careers service	Combined authorities	BIS / DfE – details in chapter 6

Devolve a package of DWP / employment support measures including: – responsibility for ESA employment support – co-commission employment support for JSA claimants with a history of JSA claims (currently Work Programme) – responsibility for services for under-21s, integrated with the job guarantee and youth allowance	Combined and local authorities	DWP – details in chapter 6
Introduction of ‘welfare earnback’ to provide further incentives to keep the benefit bill under control	Combined authorities	DWP / HMT
Extend ‘transport earnback’ and devolve local major transport funding	Combined authorities	DfT
Devolve a series of housing measures including: – housing earnback deals – broad rental market area variation – Affordable Housing Fund and housing capital budgets	Combined and local authorities	CLG – details in chapter 6
Introduce a range of measures to free up local government finances including: – introducing a five-year financial settlement – remove controls on council tax – extend business rate flexibility and retention – freedom to borrow within the prudential code	Combined and local authorities	Recommendation 1b; details in chapter 6
Formation of local public accounts committees	Combined and local authorities	Recommendation 13
Later in Parliament 2015–2020		
FUNCTION / ACTION	TIER	REFERENCE / DEPARTMENT
Decentralise bus and rail regulation	Combined authorities	DfT
Review and rationalise regional police forces	Mezzanine	Home Office
Devolve custody budgets and probation services , starting with under-18s	Local authorities	Home Office
Parliament 2020–2025		
FUNCTION / ACTION	TIER	REFERENCE / DEPARTMENT
Introduce a new system of property taxes and business rates devolved to combined authorities	Combined authorities	HMT / CLG
Assign a proportion of income tax to combined authorities	Combined authorities	HMT

The costs and benefits of decentralisation

Decentralisation is both an art and a science. It would be impossible therefore to set out a detailed or comprehensive cost-benefit analysis of the measures outlined in our programme of decentralisation. However, in the wider context of ongoing fiscal constraint, consideration must be given to the potential costs of a ‘decentralisation decade’, alongside the benefits that we expect it could bring.

The proposals set out in this report have been designed to ensure there is no net cost to the taxpayer over the 10-year period. Indeed, the guiding principle behind the whole approach is that decentralisation will lead to higher economic growth¹⁰ and increased public service efficiency, and so bring significant income and savings to the exchequer.

We have not proposed any systematic reorganisation of subnational government, nor have we proposed the formation of a ‘new layer of bureaucracy’. Our proposals concerning local government reorganisation are deliberately modest and outcome-focused. Where there may be direct costs incurred these have been balanced against the benefits that will accrue over time.

One of the biggest concerns about the fiscal dimensions of the decentralisation programme (that is, the handing-over of fiscal powers to subnational levels) is that these changes may increase the tax burden at the local level. In part, central government must accept that greater subnational autonomy entails the legitimate

¹⁰ According to recent Treasury estimates, if every region of the country was performing economically at the national average, the nation would be £56 billion better off (Osborne 2014).

right of democratically elected local authorities to gather a mandate to set tax rates and then stand or fall on their own decisions. Having said that, our proposals do set out a range of safeguards against wider fiscal risks.

Returning to the three fundamental challenges to centralisation which spur calls for a decentralisation decade – focused on economics, services and politics – let us consider both the benefits that might accrue should our systematic approach be adopted and the kind of country that could evolve over the next 10 years.

First, there is widespread recognition that sustained and balanced economic growth will only come if there is devolution of key economic powers and functions to the drivers of a modern economy: the cities. There is no good reason why, 10 years from now, English cities should not be driving forward UK growth, rivalling the best metro-regions in Germany, France, Spain and the US, and at the same time narrowing the productivity gap with London.

Second, evidence from various rounds of experimentation and innovation in public service improvement at the local level provides great encouragement. It is time, however, to move beyond experimentation. In health and social care, policing and restorative justice or education and skills, there is huge potential to drive systemic improvements at the local level – and to deliver significant savings along the way. In some respects, economic recovery and public service improvement are two sides of the same coin. As the economy grows, some of the upward pressures on acute public services may fall; in this environment, local areas will be able to take the lead on redirecting scarce resources into more preventative services, rather than just meeting acute need and top-down targets.

Finally, it has often been said that the problem with local government is that it is neither local nor government. Ten years from now, with the careful and steady devolution of powers and responsibilities, there could be a revitalisation of politics and policymaking at the local level. We could see a new wave of the brightest and the best entering local government, serving as officers and councillors who are dedicated to driving forward their local area or city-region; innovative, passionate, collaborative, well-known civic leaders contesting mayoral elections, with bold plans for their places and a mandate to improve the performance of local services; and a revived sense of civic passion, with local people better connected to and informed about the decisions that affect their day-to-day lives, and holding the power to both challenge and get involved where it counts.

All of this is possible if power is passed down, not just from the centre to combined authorities, but from combined authorities to local councils and from councils to neighbourhoods and communities. We have set out here a bold and ambitious plan for change – it now falls upon the next government to set the snowball in motion.

IDEAS to CHANGE BRITAIN

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