

# » **THE DEVOLUTION PARLIAMENT**

**DEVOLVING POWER TO ENGLAND'S  
REGIONS, TOWNS AND CITIES**

**Luke Raikes**

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# SUMMARY

## A DIVIDED ECONOMY

For decades, Westminster government has enabled deep divisions to grow in this country: divisions between whole regions of England; divisions between cities, towns and villages; and divisions within places, between people. London and the South East – home to just one-third of the England’s population – has accounted for almost half (47 per cent) of the country’s increase in jobs in the last decade. The UK is the most regionally unequal country in the developed world: inner London is one of the most productive areas in the whole of the EU, while, in other parts of the UK, productivity is similar to Poland, Hungary and Romania.

But London’s people are also excluded by Westminster’s policies. The capital may appear highly productive, but its economy is also exclusive and extractive: almost two-thirds of the increase in jobs since 2010 have been managers, directors, senior officials, or professionals, while many other jobs are insecure and low paid. The economic growth of London is disproportionately reliant on profit and rents, and house prices have risen to 13 times the average annual earnings – when they are only 5.5 times the earnings in the North East. London has the highest rates of poverty and inequality in the country.

This is the reality of the so-called ‘North-South divide’. Our economy isn’t working for *any* part of England – not even the capital. This situation is unique in the developed world, and it is increasingly unsustainable.

Several different solutions are often proposed. People rightly argue that the country needs a place-based industrial strategy, or that regions outside of London need a far larger share of central government investment in innovation, R&D, infrastructure, education, and skills if they are to prosper. People also rightly argue that our second-tier cities like Manchester, Birmingham and Bristol should be developed and connected together more efficiently – as should our towns, villages, and the many other economic assets that work together to create more prosperous economies and a better quality of life.

But the underlying cause of this problem is over-centralisation, and therefore devolution presents a major opportunity to improve economic prosperity across the country. In other developed countries, there are powerful subnational governments invested in the success of their region, town or city. But, in England, it is the Treasury that decides the fates of our regions. As a result, successive governments have focussed investments and economic policy on London and the South East as if it’s the ‘economic engine’ of the country – a region that can maximise short-term GDP growth and tax returns for the Treasury. Devolution within England would enable regions, towns and cities to invest in their strengths.

## THE CASE FOR DEVOLUTION

There is a strong case for the devolution of political and economic power within England. Devolution brings power closer to the people, and away from Westminster, where many damaging policies have originated. But there is a strong, positive case for devolution too: research shows that local policymakers are able to give a higher level of attention, responsiveness and insight; that they are

more accountable, transparent and traceable; and that they are more efficient coordinators of economic policy within a place – better able to integrate land-use planning, transport and housing; or skills, education and employment support, for example. Like any policy, there are many things that need to be considered – particularly concerns about local, regional and national identity that must be respected. But if devolution is done properly, and if devolved governance and institutions are strong, then it could lay the foundations of a far more inclusive and prosperous economy in all of England’s regions.

### THE FLAWS IN THE CURRENT DEVOLUTION PROCESS

But the most recent process of ‘devolution’ is deeply flawed. Since 2014, some powers have been **decentralised** or **delegated** to mayors, combined authorities and regional transport bodies, and this has been branded as ‘devolution’. Fundamentally, however, the current process is not real devolution – real power has remained with central government, while other important areas of policy have actually become centralised and local government capacity has been cut severely.

The current problems with devolution have a root cause: the process of devolution has itself been centralised. It has been subject to the whims of individual ministers in Whitehall – especially George Osborne in the Treasury – conducted through opaque backroom ‘deals’, and often held back by Westminster politicians’ manoeuvrings. While deals between Whitehall and city-region leaders arguably helped unblock devolution and build momentum in certain places, this will now need to change: devolution must be delegated to a fair process, and taken forward by a partnership between local and central government.

The government have pledged to ‘level up’ the UK, by reducing the inequalities between regions. Committing to a comprehensive programme of devolution could provide a strong system of governance at a sub-regional level.

### RECOMMENDATIONS

Delivering a ‘**devolution parliament**’ is crucial and requires bold reforms at all levels of government – from the national, to the regional, subregional and local tiers. A devolution parliament would deliver a four-year programme that would put power and resources into towns, cities, and regions across England.

To achieve this, the government must act on five priorities.

- 1. Roll out an inclusive devolution process for all of England**
  - set out a coherent plan for a devolution parliament
  - set up a Convention on Devolution in England
  - set up a long-term devolution framework and a joint devolution panel.
- 2. Devolve fiscal powers in phases, in a fair and sensible way**
  - reverse austerity and re-found fiscal devolution on progressive principles
  - devolve real fiscal powers, with appropriate safeguards, in phases
  - build up and devolve an inclusive growth and resilience fund.
- 3. Develop a locally led regional tier of government**
  - devolve powers to regions that complement those of combined authorities
  - develop regional institutions at a scale appropriate for England’s economic geography and the global economy in which it operates
  - develop regional capacity, drawing on existing capacity and from central government
  - evolve regional governance as powers are taken on.

#### **4. Devolve economic powers to city regions and non-metropolitan areas**

- support subregional reform into more accountable structures, such as combined authorities, and enable more citizen involvement
- devolve real economic power where appropriate to subregional combined authorities, and other reformed subregional authorities
- set up a capacity fund to pump prime the capacity of new combined authorities and other reformed subregional authorities
- rationalise, reform and integrate local enterprise partnerships.

#### **5. Permanently reform central-local relationships with a new constitution**

- set up a National Economic Council that includes regional representation
- reform the House of Lords, through a constitutional convention, to ensure regional representation is embedded in national government permanently.

# INTRODUCTION

## A DIVIDED ECONOMY

Our centralised political and economic system has enabled deep geographical divides to develop. Whitehall has supported London and the South East to adapt far more effectively than the rest of the country to globalisation, by developing policies and investing disproportionate amounts of public money in these regions. As a result, they are far more prosperous (Raikes 2019a; Raikes et al 2019). This divide is an everyday reality, which is reflected in fewer opportunities, lower wages and poorer health outcomes in the rest of the country (ibid).

The UK has grown far too reliant on a handful of extremely productive sectors in this one corner of England. Over the last century, as manufacturing and extraction industries in the rest of the UK have shed jobs, London has become a global financial centre, and the wealthy South East has benefited from this too (Raikes 2019a).

As a consequence, the City of London and neighbouring Westminster are among the most productive areas in the developed world, while parts of England have productivity levels below Hungary, Slovakia, and Slovenia – as well as parts of Poland, Romania, and southern Italy (Raikes et al 2019; Brown 2016). This is often referred to as the ‘North-South divide’, although the picture is far more complex, as this report will show (Raikes et al 2019).

In contrast to the UK, most major countries across Europe and the developed world have several centres of prosperity. As a result, they tend to have healthier, more resilient national economies with higher productivity and greater inclusion (McCann 2016; Di Cataldo and Rodríguez-Pose 2016).

## THE ORIGINS OF THE DIVIDE

Different reasons are often put forward to explain this situation. It is rightly argued that places outside London haven’t had enough central government investment in innovation, R&D, infrastructure, education and skills to prosper (IPPR North and the NEFC 2012). It is also rightly argued that our second-tier city regions like the West Midlands and Greater Manchester aren’t dense or networked enough, to allow for spillovers and agglomeration benefits to accrue (Cox and Longlands 2016). It is also rightly argued that, despite their significant assets and potential, many post-industrial towns have not been supported to adapt to globalisation (Centre for Towns 2017).

But there is an underlying cause of all our geographical divides. This pattern of economic prosperity is rooted in the other unique attribute of England’s political economy: our politics is more centralised than in any comparable nation, and economic power is concentrated within central government – in the Treasury. The de facto economic strategy has been to maximise short-term *national* productivity growth and tax revenue. As a result, central government has enabled globalisation to have a highly uneven impact on the country. While this centralisation has worked well for some people – many of them concentrated in London and the South East – it has left many people, in *all* regions of England, without the powers they need to adapt.

This situation is increasingly unsustainable. The economic consequence of this arrangement was at its clearest in the 2008 financial crisis, which had its roots in



the global finance industry concentrated in London but caused severe economic damage to the rest of the country. And while resentment toward the capital city is neither new nor is it uniquely British, it is now growing to crisis levels (Rodríguez-Pose 2017; McCann 2019). Clearly, the current wave of populism isn't unique to the UK; it is also complex and not purely economic. But there is far too much truth to the sentiment – felt both in London and in the rest of the country – that both political power and the benefits of economic growth are hoarded among a few people in the capital (ibid). Our current 'settlement' is obviously far from settled.

## TOWARDS A NEW SETTLEMENT

In the context of devolution to Scotland, Wales, and Northern Ireland in the late 1990s and 2000s, there has been an ongoing debate about devolution of powers in England. The referendum which rejected a regional assembly in the North East was an important milestone which suggested that there was a lack of appetite for devolution on the scale that had been rolled out in the nations. However, as commentators have suggested, the referendum offered only a very weak tier of new politicians with few powers, designed by Westminster politicians (Sandford 2009). Arguably, it was set up to fail; and unsurprisingly the people of the North East decisively rejected this offer. Meanwhile, overlooked by many, there was a strong popular campaign for an assembly in Cornwall which was ignored by central government (Willett and Giovannini 2013). Real devolution in England stalled.

There now remains an England-shaped hole in the democratic institutions of the UK, which, over time, has been filled with a fudge of partial solutions and incoherent arrangements: English Votes for English Laws in parliament, a patchwork of underpowered local enterprise partnerships (LEPs), and only a handful of combined authorities and mayors with insufficient sets of delegated powers across the country.

The new government made a commitment in its manifesto to address regional inequality arguing that: “there are parts of the country that feel left behind. Talent and genius are uniformly distributed throughout the country. Opportunity is not. Now is the time to close that gap – not just because it makes such obvious economic sense, but for the sake of simple social justice” (Conservative Manifesto 2019).

Buoyed up by its success in former Labour strongholds, the government has pledged to repay voters' trust in their party by investing in infrastructure such as HS2 and delivering more devolution during the government's term in office. To this end, the long-awaited 'devolution framework' is expected to be unveiled in a white paper published in 2020.

In this report, we will show that devolution to England's regions is vital if our economy is to become more prosperous and inclusive. Devolution is important in its own right: it would remedy an unjust imbalance of political, social and economic power which has damaged society for so long. But devolution is also a great *enabler* of economic prosperity and inclusion. It is not a magic bullet – it is a necessary but not a sufficient condition – and certainly it is no *short-term* fix. But evidence from across the developed world has shown the great potential it has. And while the current process of devolution is deeply flawed, a better alternative can and should be developed.

This report makes a simple argument for a new settlement in England, and covers the following points.

1. Centralised governance has enabled deep regional inequalities to grow, and all our regions are held back as a result – even the capital.
2. To date, so-called ‘devolution’ has been a deeply flawed process, which has been controlled by central government to the exclusion of many people and communities.
3. Devolving economic power can support the prosperity of people and communities across the country.
4. The objections to devolution are often myths or misconceptions, or simply issues with the *current* form of devolution – not devolution itself.
5. Therefore, England urgently needs a programme of coherent and inclusive devolution whereby central and local government work together to devolve significant political and economic power.

# 1. CENTRALISED ECONOMIC POLICY AND REGIONAL INEQUALITY

This chapter analyses England's complex economic geography and the role of centralised governance in shaping it. We begin by showing how all regions are currently disadvantaged – albeit in different ways. We then investigate the causes of this situation before focussing on the dominant role of central government in enabling these regional inequalities to grow and persist.

## ALL REGIONS EXPERIENCE DOWNSIDES AS A RESULT OF CENTRALISED GOVERNANCE

Economic output and productivity remain an important starting point for measuring economic performance. They should never be analysed in isolation, and should not be conflated with wellbeing, prosperity or inclusion (Colebrook 2018). But places' differing ability to 'add value' as efficiently as others is at the heart of our economic challenges and inequalities.

When analysing UK productivity at the subregional scale, we find the following.

- **London and the South East dominate England:** these regions contribute 41.1 per cent of England's output<sup>1</sup> and account for 41.1 per cent of businesses and 36.1 per cent of jobs, despite being home to only 32.2 per cent of the population (ONS 2019a, 2019b, 2019c, 2018). London's productivity is significantly higher than the rest of the England's, at £44.90 per hour compared to £34.10 per hour nationally – 31.5 per cent more productive than the England average, and almost half (46.6 per cent) of the increase in jobs over the last decade has been in London and the South East (ONS 2019d).<sup>2</sup>
- **The wider South East benefits from proximity to London and investment in innovation:** proximity to London appears to be a factor in an area's productivity, and investment in R&D is overwhelmingly concentrated in the golden triangle of London, Cambridge and Oxford (Centre for Cities 2015; ONS 2019e).
- **This regional divide is unmatched in any major developed country.** As figure 1.1 shows, while parts of inner London are the most productive in the EU, in other parts of England such as Lincolnshire and Cornwall, productivity is similar to Slovakia, Slovenia, parts of Poland and southern Italy (Raikes et al 2019; UK2070 Commission 2019). Despite other countries being home to dominant 'world cities', such as Paris in France and Tokyo in Japan; despite a significant, historic East-West divide in Germany, and a North-South divide in Italy, the UK is still more unequal than these countries. The only countries in the OECD that are more unequal are rapidly developing states such as Eastern European countries (Poland and Romania) or South Korea (ibid).
- **This is not a purely economic divide** – the UK is also highly unequal in terms of health and wellbeing; and it is divided politically too (Raikes et al 2019; Giovannini and Rose 2019).

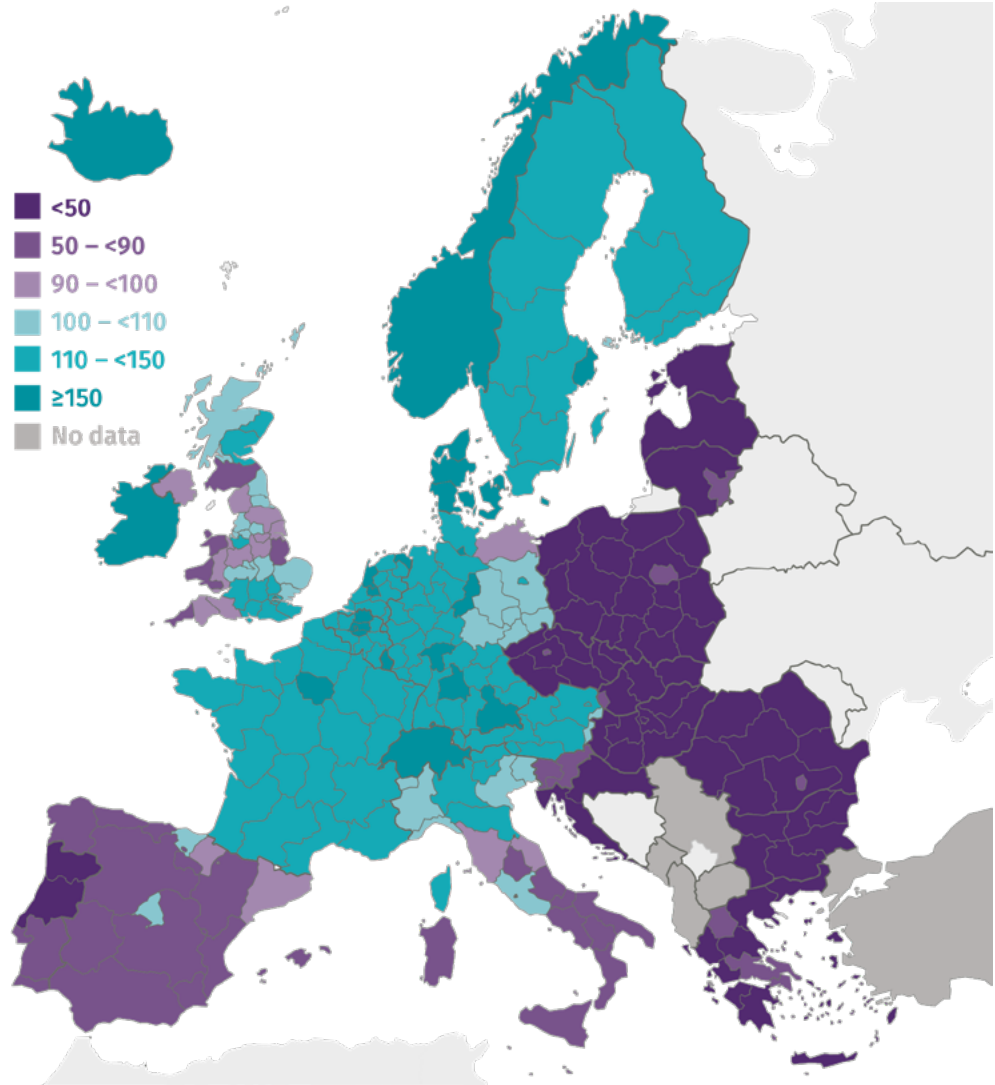
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1 Gross value added – similar to GDP at a regional level

2 Gross value added per hour worked

**FIGURE 1.1: THE UK HAS SEVERE REGIONAL INEQUALITY IN PRODUCTIVITY**

Labour productivity (GVA per hour) by NUTS2 subregions in 2016, UK and selected EU countries, Index EU=0



Source: Eurostat 2019

However, it is important to note that London isn't working as an 'engine' for the overall UK economy as is often assumed. The divergence in productivity between our regional economies is actually increasing – London, the East of England and the South East are diverging from the rest of England, Wales, and Northern Ireland (McCann 2016; Iammarino et al 2018). Policies that privilege London based on its supposed ability to benefit the rest of the country are therefore profoundly misjudged.

But, while public debate often focusses on a 'North-South divide', this is not a wholly accurate description of the UK's economic geography. For example, while London as a whole tends to be more productive than the rest of the country, there is actually a significant geographical divide *within* London: inner London west (which contains the City of London and Westminster) is 38.8 per cent more productive than outer London south; whereas the productivity gap between outer London south and the UK is only 8.2 per cent (ONS 2019d). There are also relatively

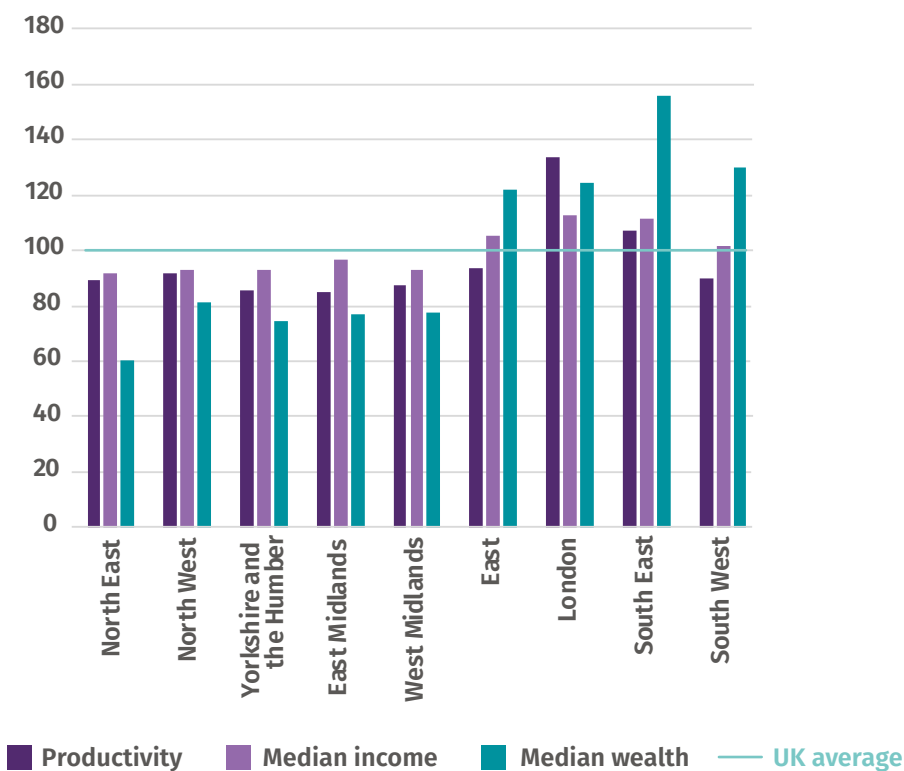
productive ‘hot spots’ in some regions: for example, Cheshire, Edinburgh, and Solihull all have above average productivity. Finally, and most notably, some of the least productive and poorest areas in England are actually in the South West – as figure 1.1 above shows.

This level of centralisation has deep and severe consequences for prosperity and inclusion across all of England’s regions – in the North, Midlands, South West, and London and the South East. Productivity in one part of the country tends to mean that this part of the country will have higher average wages, income and wealth; clearly, this has little direct impact on jobs and wages in other parts. This is shown in figure 1.2 below; the most productive regions, London and the South East, also have the highest wages and incomes and have accumulated a great deal of wealth.

- Median pay is 20–25 per cent lower for residents of the North, Midlands, and South West compared to London (ONS 2019g).
- Median incomes in the North, Midlands, and South West are 10–20 per cent lower than in London. Even after housing costs are considered, there remains a gap of around 5 per cent between incomes in these regions compared to London (DWP 2019).<sup>3</sup>
- Wealth is concentrated in the wider south and East of England: 65.2 per cent of aggregate household wealth is in London, the East the South East and South West – home to just 53.3 per cent of England's population (ONS 2019h).

**FIGURE 1.2: LONDON AND THE SOUTH EAST ARE MORE PRODUCTIVE AND HIGHER INCOME REGIONS, WHILE WEALTH IS CONCENTRATED IN THE WIDER SOUTH OF ENGLAND**

Median income (BHC), median wealth and productivity by region compared to the UK/GB (=100)



Source: ONS 2019d; DWP 2019; ONS 2019h

3 Except the South West, which is 2 percentage points above London's.

**FIGURE 1.3: LONDON IS ALSO THE MOST UNEQUAL AND POOREST OF THE UK'S REGIONS AND NATIONS**

Wealth inequality (Gini), income inequality (Gini) and poverty (per cent with less than 60 per cent of contemporary median household income after housing costs) by region



Source: ONS 2019h; OECD 2016a; DWP 2019

However, this account obscures the inequality between all people *within* these regions. Local economic growth is not feeding through to people living in high-growth areas, let alone to people living in other regions. During the post-war years, productivity, jobs and wages were quite closely aligned. However, the major restructures of the 1980s embedded severe inequalities in income and wealth, and, in recent years, economic growth has become detached from wages and job quality (CEJ 2018). The analysis presented in figure 1.3 shows how acute this problem is at the regional level, and the missing link between *local* growth and *local* inclusion – especially in London.

- London has the highest rate of poverty after housing costs, with 28 per cent living below the relative poverty line. Notably, it has one of the lowest poverty rates if housing costs are excluded (15 per cent) (DWP 2019).
- London has the highest rate of income inequality, with a Gini coefficient of 0.39, compared to a UK value of 0.32 (a higher value indicates greater inequality) (OECD 2016a).<sup>4</sup>
- London has the highest rate of wealth inequality, with a Gini coefficient of 0.70, compared to a Great Britain value of 0.63 (ONS 2019h).
- House prices in London are 13 times the average annual earnings of first-time buyers, compared to 5.5 times in the North East (ONS 2018).

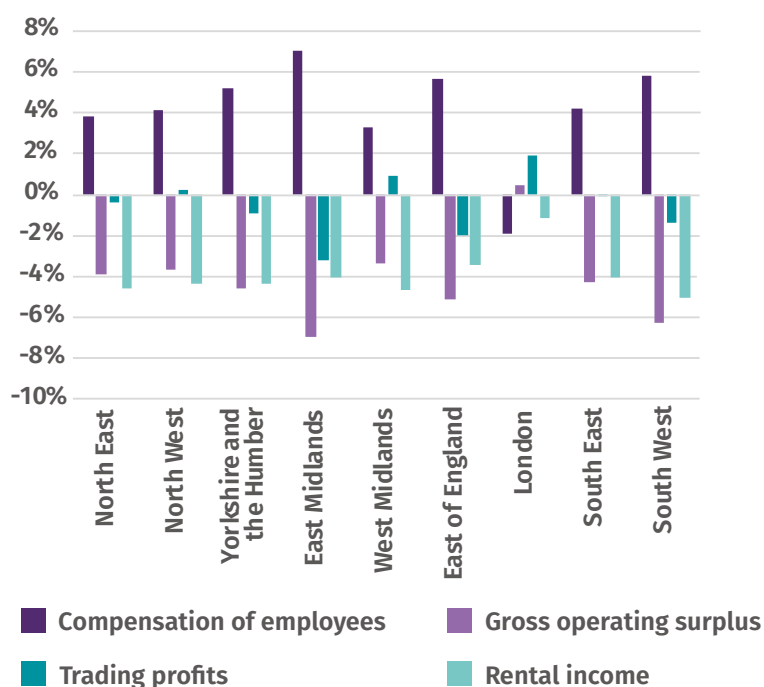
This distributional inequality within regions is partly due to changes in the labour market. The labour market tends to produce either jobs that are high-pay and

<sup>4</sup> The Gini coefficient is a standard measure of income inequality, see: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/methodologies/theginicoefficient>.

exclusive, or low-pay and competitive, with little in between. This has a strong regional dimension: the high value-adding sectors – including high-tech, digital economy, tradeable finance and the creative industries – are concentrated in London, and are known to have high barriers to entry for new employees (Clarke and Lee 2017; Green et al 2017). Of the 1 million net new jobs in London since 2010, two-thirds were higher-skilled occupations (such as managers, professionals and associate professionals) and more than one-third were in banking, finance and insurance (ONS 2019i).

**FIGURE 1.4: EMPLOYEES HAVE LOST THEIR SHARE OF ECONOMIC GROWTH IN LONDON, IN CONTRAST TO ALL OTHER REGIONS, WHILE COMPANIES HAVE GAINED MORE IN PROFITS**

Percentage point change in key components of GVA per worker in 2008–2018



Source: Author's analysis of ONS 2019a

But the benefits of economic growth are increasingly detached even from the skills and occupations of employees – again, especially in London. When the regional output gap is broken out into its component parts, it becomes clear that much of London's output is in profits rather than accruing to employees and, as shown in figure 1.4, this problem has worsened in recent years.

- The share of London's economic growth (GVA) made up by compensation of employees (such as wages and pensions) has slipped by 1.9 per cent since 2008, while it has risen in every other region and nation (ONS 2019a).
- Gross trading profits have increased their share of growth by 1.9 per cent in the same 2008–2018 period (ibid).

Given that the share of economic growth taken home by workers in London is decreasing over time, it is little surprise that many of the capital's residents are living in poverty. The capital's economy is clearly not working in the interests of many people living there.

## THE 'AGGLOMERATION' OF CITIES OFFERS A USEFUL BUT INCOMPLETE THEORY FOR UNDERSTANDING LONDON'S DOMINANCE

Economic policy in recent years has actively sought to encourage agglomeration as the 'fix' to encourage growth in London and elsewhere. Proponents have argued that the density and scale of cities produce additional productivity benefits (Glaeser 2011; Overman 2013). According to these theories, the cities outside of London lack connectivity to help maximise economic output and the unproductive nature of the UK's cities is a primary cause of regional inequality (Core Cities 2013; Cox and Longlands 2016). But these theories offer only an incomplete framework for understanding how regions grow, as the evidence shows:

- Across the EU15 countries, larger cities grew only slightly faster than smaller cities between 1996 and 2001 and grew at the same rate between 2001 and 2006. The recession appears to have hit cities harder than intermediate areas and those close to cities (Dijkstra et al 2013; Dijkstra et al 2015).
- City growth is found to be highly dependent on contextual factors such as country size, infrastructure, industrial structure and the presence of strong institutions (Frick and Rodriguez-Pose 2017).
- Predominantly rural regions grew at a higher rate than predominantly urban regions between 1996 and 2007, and national economic growth has often been driven by previously lagging intermediate or rural regions (OECD 2009; OECD 2012).
- Modelling indicates that a UK city with double the population of another comparable UK city will only be 1.6 per cent more productive – far less than in many similar countries (Ahrend et al 2014).
- Only in the south of England is there a relationship between urbanisation and productivity. In the North West, rural areas are significantly more productive than urban areas, and there is no clear relationship between productivity and the density of towns and villages, as figure 1.5 shows (ONS 2017). The evidence also shows that the presence of high-productivity finance and low-productivity agriculture industries make up all the difference between urban and rural productivity outside of London (ibid).
- Large cities also tend to be more unequal. Despite the job opportunities that tend to be concentrated in large cities, they also tend to concentrate inequalities in income and wellbeing (OECD 2016b).

Major cities are better conceived of as regional centres, which undertake a vital but interdependent role within a wider economic geography (Dijkstra et al 2015; McCann 2016). Industries and their supply chains often stretch across regions; the north of England's energy, advanced manufacturing, health innovation, and digital sectors, for example (SQW 2016; IPPR North 2016). As noted earlier, the UK's economy is already working in a more 'regional' way: London, the East and the South East's economies are closely aligned; the rest of England, Wales and Northern Ireland appear to function in a similar way (Rodriguez Pose et al 2017; McCann 2016).

This has important implications for the governance of economic policy at the subnational tier. City regions working in isolation will be unable to benefit from the economic geography of the wider region. This is why many regions are already collaborating: pan-northern cooperation began in 2004 with the Northern Way, followed by Rail North, One North, Transport for the North and the Northern Powerhouse agenda (these cover a region of 15 million people); the Midlands Engine brand is less well developed but covers 10.5 million people. The importance of this regional tier has also been noted in the government's industrial strategy white paper, which acknowledges the importance of 'regional corridors' (BEIS 2017). However, the most effective regional cooperation is currently one which



has no formal governance structure, and is instead managed intensively by central government – the ‘golden triangle’ of London, Oxford and Cambridge.

**FIGURE 1.5: THE RELATIONSHIP BETWEEN PRODUCTIVITY, TOWNS, CITIES AND DENSITY IS MORE COMPLEX THAN IS OFTEN SUPPOSED, AND VARIES BY INDUSTRY**

Average GVA per worker of cities, towns and villages by sparsity, 2014



Source: ONS 2017

**THE DIFFERENCE IN REGIONAL SECTOR COMPOSITION IS ALSO AN INSUFFICIENT EXPLANATION FOR THIS PATTERN**

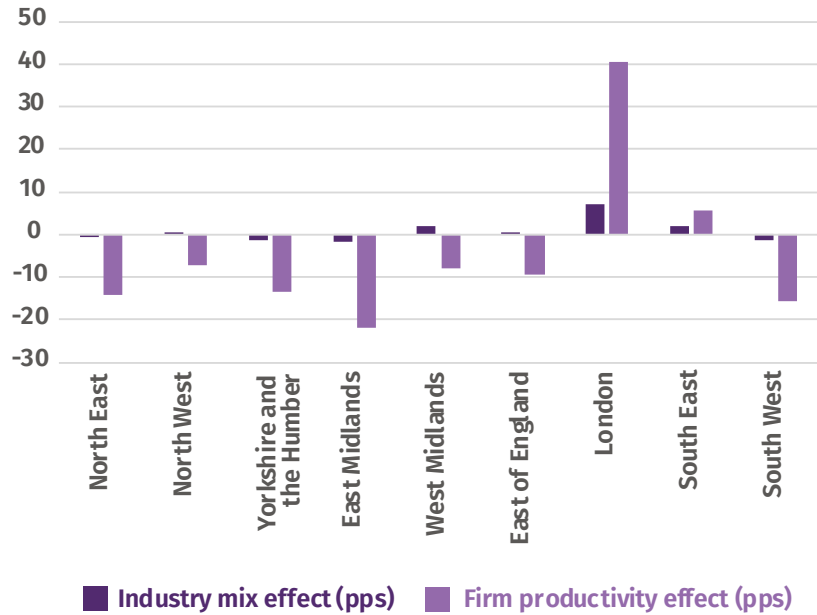
The different concentrations of sectors in different regions is also often put forward as an explanation for the regional divide; but evidence for this is also unclear. Figure 1.6 shows the extent to which industrial structure relates to productivity in each region, and the extent to which firm-level competitiveness plays a role. It shows that, when the economy is divided into large industrial ‘sections’ (groups of industries), businesses in the same broad sections are less productive outside London. It appears to show that regional disparity is less to do with sectoral composition, and more to do with a combination of other factors related to firm productivity: the more narrowly defined sub-sectors within those broad sections and the occupations people hold in those sections (Beatty and Fothergill 2019; Abreu 2019).

The role of London’s financial, professional services and real estate sectors is a crucial consideration in the regional productivity puzzle. London’s finance sector has a global reach: it handles financial dealings between wealthy individuals, businesses and countries across the world. The property boom associated with London’s economic growth, unleashed by flows of both finance and people from overseas into the capital, has also boosted its real estate sector and property wealth. This has ramped up both the concentration and the ‘productivity’ of these industries compared to the rest of the country; compared to the UK as a whole, London’s financial and insurance activities sector is twice the size (in output) as

a proportion of its economy, and 1.4 times more productive than the national average (ONS 2019a; ONS 2019d). London also dominates in other related services sectors, such as professional, scientific, and technical activities, and information and communication.

**FIGURE 1.6: LONDON'S PRODUCTIVITY APPEARS TO BE MORE CLOSELY RELATED TO INDIVIDUAL FIRM PRODUCTIVITIES THAN TO ITS INDUSTRY COMPOSITION**

Firm productivity and industry mix effects on aggregate average productivity, England's regions and countries, 2015



Source: ONS 2018

**REGIONAL INEQUALITY HAS BEEN EXACERBATED BY A CENTRALISED SYSTEM OF GOVERNANCE**

Our regional productivity gap has been exacerbated by the economic policy of successive governments. These governments have adopted policies which have – in effect – taken the form of a powerful industrial strategy, and an implicit regional strategy, to the benefit of a handful of industries in the South East: finance, professional services, and real estate in London; and life sciences concentrated in the ‘golden triangle’. The automotive and aerospace sectors are notable exceptions – they are often based outside of the South East and are supported by government industrial strategy interventions. London’s economic success has been underpinned by the centralised nature of the UK’s political decision-making process which has privileged investment in the capital which in turn has crowded in private investment as discussed below.

**Central government decisions**

Areas of public spending closely associated with economic growth are disproportionately spent in the capital, and in some cases its hinterland, or the ‘golden triangle’ it makes up with Cambridge and Oxford. Spending on ‘economic affairs’<sup>5</sup> is summarised in figure 1.7, which shows that London

5 A category of spending which tends to support economic growth.

receives £416 per capita (54.8 per cent) more than the UK average. There are several reasons for this.

- London's transport network benefits from a combination of factors which have enabled disproportionate amounts of public investment in the capital compared to other regions. Central government's 'green book' appraisal methodology has often been blamed for this situation. Some have argued that this methodology benefits London by taking only a narrow scope of potential economic returns that benefit high-income, high-dense areas like the capital (Coyle and Sensier 2018). But London also benefits from political leadership, Transport for London (TfL)'s institutional capacity and its own bespoke suite of transport powers that are denied to all other parts of the country – most notably, the power to regulate its bus network.<sup>6</sup> These are arguably more of a factor than the green book methodology, which is only a small component of the centralised decision-making process, and which actually has been overridden many times to favour London (ibid). These factors all contribute to a situation where transport spending has been consistently twice as high per capita in London compared to the rest of the country – something which has actually got worse in the past two years (Raikes 2019b).
- The 'golden triangle' regions dominate government's R&D investment. All public funding for R&D is centralised, and basic research – towards the beginning of the innovation process – is prioritised. This funding tends to benefit institutions in London, Cambridge and Oxford, while those elsewhere in the country have strengths in applied R&D – for example, in health innovation (Raikes 2016). Furthermore, because funding builds capacity in these institutions, and because allocation does not consider geography, this advantage has accumulated over many years and it has become increasingly difficult for institutions outside the golden triangle to challenge their dominance. As a result, London, the South East and the east of England receive 63.7 per cent of government spending on R&D in England (ONS 2019e).
- Monetary policy also has a regional impact. Recent evidence has shown that, because of the regional concentration of wealth, a disproportionate share of the benefits of quantitative easing (QE) was felt in London and the South East alone (Bunn et al 2018).

### Private sector investment

Government policy in support of economically successful areas like London has 'crowded in' private sector investment in particular sectors and regions over time. Martin et al (2016) show that, between 1950 and 2010, bank lending to industry fell from 65 per cent to 15 per cent, while lending to financial companies increased from 10 per cent to 38 per cent, and mortgage lending rose from zero in 1950 to 40 per cent (Martin et al 2015). This is a particular problem for small and medium-sized enterprises (SMEs). As noted by Sensier (2017), 80 per cent of current accounts are with our four major banks, which, because they are chasing share price increases, ration credit for SMEs during downturns and overcharge during upturns (Buttzbach and Mettenheim 2014).

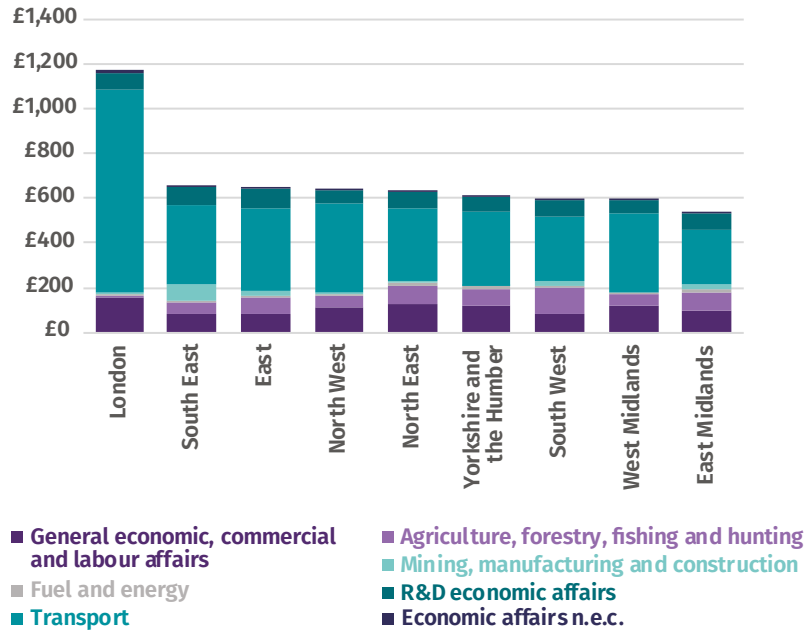
These changes in private investment over time have a strong regional dimension. There is evidence that finance is geographically biased: capital will tend to flow from areas without capital endowments to those that do have them (Klagge and Martin 2005; Hakenes et al 2015; Sensier 2017). This is evident in the venture capital investment represented in figure 1.8 – London alone accounts for 52.1 per cent of venture capital investment (BVCA 2018).

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<sup>6</sup> A power now granted to mayoral combined authorities, if they go through a long, expensive and challenging legal process.

**FIGURE 1.7: ECONOMIC AFFAIRS SPENDING IS SKEWED TOWARDS LONDON**

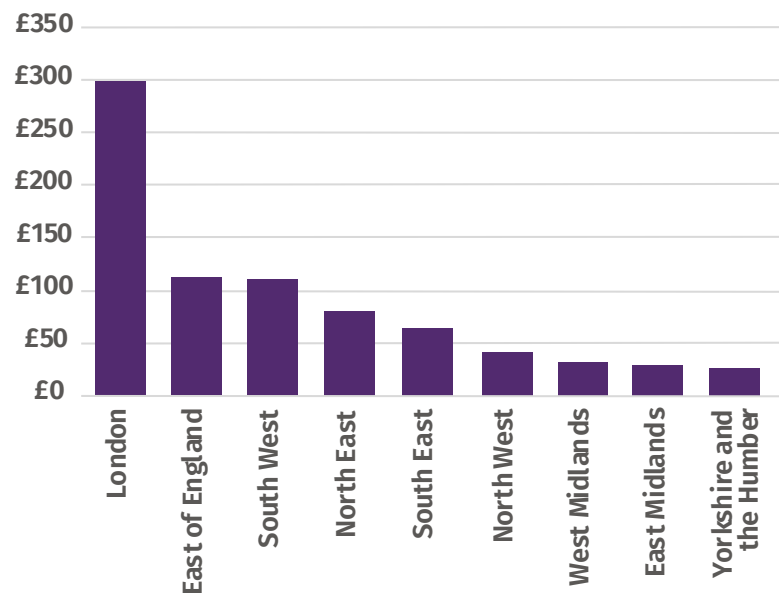
Economic affairs spend per capita by region, 2014/15–2018/19 average



Source: HM Treasury 2019

**FIGURE 1.8: LONDON ACCOUNTS FOR MORE THAN HALF OF ALL UK PRIVATE VENTURE CAPITAL**

Ventura capital investment per (total) business in the region



Source: BVCA 2018; BEIS 2019

## EU investment

The other flow of investment into regions has come from the EU. European structural funds have been designed to encourage greater regional convergence across the bloc. Between 2014 and 2020, the UK will have received €10.9 billion that is directed towards the UK's 'poorer' areas<sup>7</sup> – with Wales and the South West receiving more than the South East of England, for example. These funds are also devolved, where possible, to regional governments across the EU. However, England's patchwork system of subnational governance means that only some authorities have been legally able to allocate the funding themselves – LEPs have not had the necessary 'intermediate body status' and nor do most councils, and so central government has made these decisions in consultation with them. This means there is no democratically accountable vehicle for funds outside the combined authorities.

The government is developing a shared prosperity fund to replace EU structural funds. IPPR have previously recommended that this fund should be distributed on the basis of a wider set of measures than GDP per capita, that its management should be devolved to the local level, that local communities should have direct input into how the funds are designed and delivered, and that some of the funds should be directed to help foster community wealth-building at the neighbourhood level (Henry and Morris 2019; Alakeson and Hunter 2019).

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This section has shown how England's regional divides have been largely enabled and exacerbated by centralised governance. Centralised economic policy has supported high productivity sectors in London and the South East to adapt and develop in response to globalisation. But the benefits of this growth have not even been felt by many of the citizens living within these regions, and this has also left many of our towns, cities and regions unsupported. As a consequence, we have the most regionally divided economy in the developed world in terms of productivity, income, job opportunities, and health outcomes (Raikes et al 2019).

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7 Defined by GDP per capita, which is not a particularly good measure of poverty – see Henry and Morris (2019).

## 2. ECONOMIC POWER AND DEVOLUTION IN ENGLAND

As the previous chapter showed, centralised governance has, over time, enabled severe economic divides to grow across England. This chapter analyses the governance of England's economy. We first discuss the problem that power is concentrated within central government (Coyle and Sensier 2018). But we then go on to discuss centralisation – the primary cause of regional economic divides – and the recent attempts to resolve this.

### POWER IS CONCENTRATED WITHIN CENTRAL GOVERNMENT

Central government holds almost all of the economic power in England,<sup>8</sup> and this power is highly concentrated within central government itself. The reality is that the Treasury leads our national economic strategy – although other departments, such as the Department for Business, Energy, and Industrial Strategy (BEIS), have an important role. The Treasury is a finance ministry, not an economic development ministry, and as such it has sought to prioritise net aggregate growth and tax revenue rather than regional economic development (Berry et al 2016). There is also evidence to suggest that the industries based in London have disproportionate sway on policy (Davies 2017; Lavery et al 2017). It is this structural problem which has facilitated the Treasury's control over investment, resulting in a disproportionate spend in London. Other countries have a second chamber which is representative of regions and can help to guard against policies which benefit one region to such an extent – see box 2.1. The government appears to have moved to address the Treasury's dominance of economic policy – in the recent reshuffle, the prime minister shifted the centre of gravity within Whitehall toward No 10, apparently as be part of a wider centralisation of power within government.

#### Box 2.1: Regional representation in central government

Regional representation in central government is another way in which the UK is out of alignment with other countries. Here, the upper house is highly unrepresentative in several well-known ways. Importantly, it is unrepresentative by region: in 2016 (the last time this data was published), 45.5 per cent of peers had their registered address in London or the south east of England; only 13.4 per cent were registered in the north of England; in the east of England it was 9.3 per cent; in the South West, 8.6 per cent; in the West Midlands, 4.5 per cent; and in the East Midlands, 2.3 per cent (HoL 2016).<sup>9</sup>

<sup>8</sup> And most of it within the UK.

<sup>9</sup> East of England, 9.3 percent; South West, 8.6 percent; Yorkshire and the Humber, 5.5 percent; North West, 5.1 percent; West Midlands, 4.5 percent; North East, 2.8 percent; East Midlands, 2.3 percent;

There have been calls for a second chamber to represent the nations and regions of the UK for many years. In 1991, IPPR proposed a new constitution with an elected House of Lords, and, in successive elections, the Labour Party has proposed an elected senate of the nations and regions (IPPR 1991; Labour Party 2015; Brown 2016). The new Conservative government has also raised the prospect of reform in this area (Payne and Parker 2019).

In stark contrast to the UK – where the second chamber entrenches the advantage of the political centre – other countries use their second chambers for the opposite: to ensure all regions are fairly represented. Many other countries have ‘territorial’ second chambers to represent the interests of specific regions in central government, to provide a forum for debate between regions, and to provide a link between central and subnational government. A territorial second chamber is the most common form generally, and all federal states have this form of second chamber (Garland and Pelese 2019; Russell 2001).

These chambers naturally vary dramatically in size, composition and role. This role is shaped by very different and often painful historical events and processes – such as civil wars, world wars and economic depressions. It is important to note that the nature of a state isn’t set in stone (several states changed from unitary to federal states in the 20th century); indeed, some, like Italy, which have tried to federalise for some time, have not yet become fully federal.

Federal states offer helpful examples of how second chambers can work. These states are clearly very different to the UK, but they offer lessons in how to integrate devolved governance with regional representation at the centre.

Perhaps the example most well-known in the UK is the US, where the Senate ensures no state is side-lined, protecting regions from geographical majoritarianism by hosting two senators from each state regardless of size (Russell 1999). In Australia, each state directly elects 12 senators (two small states elect two each) on the basis of a single, transferable vote, balancing out the lower house’s majoritarianism (ibid). And in Germany, members of the Bundesrat are appointed by state governments from among their members (ibid).

But the UK can also learn from unitary and quasi-federal states. Italy, which could be described as ‘quasi-federal’ or ‘federalising’, has a senate of 315 representatives directly elected in each of the regions, within a system of asymmetrical regionalism where some regions have ‘special status’ and full fiscal autonomy. Spain, another quasi-federal state, has a second chamber of 266 members,<sup>10</sup> which combines the direct election of four representatives from each province. Between one and three are directly elected from the insular provinces and combined direct election; the remainder are indirectly elected from the autonomous communities (Garland and Palese 2019).

Second chambers of this nature are not on their own a solution to regions’ disenfranchisement; in many of these countries, the upper house tends to vote along party lines rather than according to territorial interest (Russell 1999). The model which appears to work best for territorial representation is indirect election, as in India, France and Germany (ibid). Only in Germany does the second chamber engage in negotiation with the central government, but this works particularly well where the federal constitution empowers them to

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10 Variable

do so. Other countries have different arrangements for interactions between the houses, such as the Council of Australian Governments or, in Canada, the minister for federal-provincial relations (ibid).

If a new second chamber is to be taken forward, then the UK will of course need a bespoke solution. Clearly, there are currently no regional institutions to nominate representatives to such a chamber in England. And, while there is a lot to learn from other countries, there will be no template that can be applied wholesale to the UK from overseas.

## **‘DEVOLUTION’ IN ENGLAND HAS BEEN CHAOTIC AND INCOHERENT**

England’s lack of subnational governance – at the regional and subregional tier – has exacerbated regional inequalities. Successive governments have attempted to introduce the devolution of power in England, but these efforts have yet to change the balance of power within England. As of 2019, England’s subnational governance has the following principal features.

### **London**

The capital is the only part of England to have enjoyed any significant devolution – although this is still not at the level necessary to resolve its severe problems. London has undergone successive changes to its governance throughout history, and pan-London governance was only restored in 2000. Unlike elsewhere in England, it has been established by primary legislation rather than ad-hoc deals (and secondary legislation). Today, the Greater London Authority has an executive – the mayor of London – who holds little power over locally delivered services, but significant powers over transport, crime, policing, housing, and planning. The mayor is scrutinised by an elected Greater London Assembly of 25 members. The London boroughs and the City of London also organise at the Greater London scale, and there are other cooperative initiatives within London – such as Central London Forward.

London has pressed its advantage in capacity and political representation very effectively. For example, London’s buses have been kept within public control, while in all other parts of the country they have been left to the free market, which has caused severe fragmentation of the transport networks (Raikes et al 2016). London also has control of the Underground and Overground – and a long legacy of significant capital investment from various sources. The capital has consistently received more than twice the transport spending per person than the national average and this is projected to continue with the government’s current pipeline (Raikes 2019b). These factors combine to make parts of London – especially inner-London – extremely productive, but, as chapter 1 showed, this growth excludes many Londoners and has driven up housing costs, meaning London is also the most unequal of all the regions.

Devolution to London is arguably incomplete. London has the power to pump prime its economy with locally and centrally funded transport infrastructure. But it doesn’t have the power or funding to build much-needed social housing at scale, or to take full control of employment support, training and education. There are also limits to integration within London, as there is no a structure which aligns sub-regional with local governance – as in combined authorities.

### **Combined authorities and the (lack of) alternatives**

It was a Labour government which, in 2009, passed the legislation that has allowed combined authorities to develop across England. The Coalition government passed the secondary legislation that instituted these in



practice from 2011 onwards, and, in 2016, the Conservative government passed additional primary legislation to enhance their capabilities. This enabled combined authorities to take on more power and develop their governance models further, including with directly elected mayors. There are now 10 of these, covering 27.6 per cent of England's population.

In many ways, combined authorities are a step forward for subnational governance and economic development. Unlike the regional development agencies (RDAs), they are accountable from the 'bottom up' to their constituent local authorities rather than purely central government impositions. They can be constructed to cover the important travel-to-work form of functional economic geography,<sup>11</sup> as many, such as Greater Manchester and the West Midlands, already are. And compared to LEPs they offer a far stronger, democratic institutional framework that can be the basis of public service reform, capital investment, and fiscal devolution.

But there are some significant issues that need to be resolved with combined authorities. The executive is overwhelmingly strong with few checks and balances in place. In addition, while some combined authorities do conform to economic geographies, others do not.

Current policies for the subregional tier have created a particularly difficult set of challenges for devolution to non-metropolitan areas. Policymakers often overlook these in favour of large city-regions, but they are significant economies with an important role in public service reform (Cox and Hunter 2015). These areas may want to take on power but are unable to map a combined authority onto their economic geography, which is not metropolitan, or their current governance model, which often already has two tiers (ibid).

The major issue with combined authorities, however, has been the process of 'devolution' itself. Devolution has been a centralised process, undertaken at the discretion of individual ministers who make specific demands (such as requiring directly elected mayors) or use 'unwritten rules' to maintain control of the process. Arguably this has been a pragmatic way forward – not holding devolution back by seeking an unattainably perfect devolution settlement across all of England before proceeding.

But this process has also undermined the democratic legitimacy of local government itself, as well as overriding the interests of local areas. The process has not been transparent to many of the wider stakeholders involved, such as councillors, civil society, trade unions and businesses – let alone the public, who have been almost entirely excluded from consideration (Hunter 2017; Prosser et al 2017).

Not only is the current devolution process flawed in principle, it has produced an incoherent picture across England and is now holding further devolution back because the powers on offer aren't clear or consistent, and there aren't any alternatives to combined authorities or directly elected mayors. In fact, it could be called inaccurate to describe the transfers of powers and funding since 2014 as 'devolution' – rather, it has been a process whereby central government has delegated certain responsibilities to combined authorities.

Local leaders who signed such deals managed to use this to their advantage in some parts of the country – extracting powers, such as bus franchising, which have long been forbidden. They have potentially helped pave the way for a more coherent programme of devolution now.

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11 This is not the only form of functional economic area, but it is the preferable option for devolution of most economic policy areas related to jobs, housing and transport.

Subregional governance is vital, but it must be improved, and the process of devolution is in urgent need of reform. Combined authorities have many strengths, but they do need to change, and alternative solutions must be offered for areas where this governance model isn't appropriate. Most importantly, the process of 'devolution' must change. There has long been talk of a devolution 'framework' that would consolidate and clarify the situation in England, as IPPR North has previously recommended (Hunter 2017). The precise nature of the government's framework has been subject to debate and it has been delayed for many years. A devolution white paper is now expected in 2020, which will set out this framework. However, in order for government to devolve in an inclusive way, the white paper will need to offer a flexible set of principles that allows different types of places to come together to take on more power, and introduces coherence and clarity the (inevitably) asymmetrical levels of devolution within England (ibid; Raikes and Giovannini 2019). It will also need to instil a 'place-based' focus across all Whitehall departments.

### **Local enterprise partnerships**

When RDAs were abolished in the first weeks of the Coalition government, there was a scramble to replace them. At the time, the Department for Communities and Local government (DCLG – now MHCLG) was averse to any discussion of 'regions' and sought to put business in a leading role in local economic development (Burton 2016). LEPs were their solution. These are governed by a board of leaders from local authorities and major local businesses and vary dramatically across the country in their capacity and governance.<sup>12</sup>

Businesses have been involved at the strategic level of local economic development for many years and this is common practice in other countries too. However, trade unions, civil society and important 'anchor institutions' are often absent – in other countries, notably Germany, the contribution of trade unions through a social partnership model is very important (TUC 2012). In some areas, LEPs cover the (relatively sensible) travel-to-work areas, and at best align geographically with a combined authority and work closely with them to deliver economic policy.

But LEPs are also in need of reform. Their geography can be artificial, and they even overlap in parts of the country. LEPs are fundamentally limited in their abilities; as business-led bodies, they are not well-placed to draw up comprehensive, inclusive strategies and investment priorities on their own. Despite adding value to local economic policymaking, LEPs simply cannot legally take on real economic power themselves – and certainly fiscal devolution to LEPs is out of the question. In 2018, the government published a proposed way forward for LEPs, which included closer working with combined authorities, rationalising their geographies and reforming their governance (MHCLG 2018).

### **Pan-regional initiatives**

The regional tier often exercises an important function in other countries, as tables 3.1 and 3.2 in the next section show.

But the regional tier in England has never been fully embedded. The last Labour government experimented with centrally designated regions and a 'top-down' approach to regional economic development via RDAs, but failed to transform these into regional assemblies. The subnational review developed this thinking, and, with the resurgence of the cities agenda globally, the subregional tier emerged as important and the legal entity of the combined authority was introduced (see above).

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<sup>12</sup> Some areas, such as Sheffield City Region, include trade unions on their LEPs, but this is rare.

The Coalition government abolished the regional tier and instead set up LEPs and combined authorities, leaving a significant gap at the regional and pan-regional level. After four years, the larger-scale region re-emerged in the form of the Northern Powerhouse agenda. This agenda recycled and rebranded many of the ideas that had been developed by the last Labour government under the Northern Way banner since 2004, but had been scrapped in 2010 with the abolition of the RDAs.

Initially a catchphrase coined by George Osborne during a speech at Manchester's Museum of Science and Industry, it was quickly picked up by northern leaders and businesses and quickly gained momentum, despite being undercut by his austerity programme (Raikes and Johns 2019). The Midlands Engine soon followed. These pan-regional initiatives have taken institutional form in some cases, such as Transport for the North, the NP11 and Convention of the North; and the Midlands Observatory and West Midlands Rail. There are also transport bodies emerging in places such as England's Economic Heartland and Transport for the South East. The prime minister recently indicated that a pan-northern 'growth body' would be developed – although details of this have yet to emerge (Johnson 2019).

The current focus of devolution is rightly on the subregional combined authorities, but policymakers increasingly recognise that the regional scale is also vital – as discussed in chapter 1 (BEIS 2017; McCann 2016). Regions benefit from economies of scale, strong branding, and common vision, and there is a specific set of economic policies which are better exercised at the pan-regional tier: inter-city transport, trade and investment, innovation, and supply chain development. The case for the regional tier is explored further in Raikes (2019) and later in this report.

The pan-regional tier must therefore develop, but – like the subregional tier – it needs a framework in order to do so. It will also need legislation to change if it is to take on formal powers to spend money, raise any taxes and deliver other forms of economic policy. Currently, 'nested' combined authorities are not possible, and subnational transport bodies can't develop into other areas of policy (ibid).

### Centralisation

Outside devolution policy itself, the years since 2010 have actually been marked by significant centralisation across government and in particular policy areas. Capacity has been centralised as local government has borne the brunt of austerity: central government funding for local government has fallen by half (49.1 per cent) since 2010 (NAO 2018).<sup>13</sup> Education has been (further) centralised by the academies programme; this sees central government taking responsibility for schools via academy trusts, and the number of people employed by academies has risen by 572,000 since March 2010 (ONS 2019f). This is one major reason why, since March 2010, local government employment has fallen by 900,000 (30.7 per cent),<sup>14</sup> while central government employment has actually *risen* by 385,000 (13.6 per cent) to 3.2 million – the highest level since comparable records began (ibid).

Economic power in England is *centralised* geographically within the country and *concentrated* within government in the Treasury. Since 2014, so-called 'devolution' has mostly been *delegation*. Subregions and regions need a clear framework of principles that would enable them to move forward with further devolution.

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<sup>13</sup> Figures are UK-wide.

<sup>14</sup> Headcount/number of people employed, not full-time equivalent (FTE).

### 3.

## HOW DEVOLUTION CAN HELP TO ADDRESS ENGLAND'S REGIONAL DIVIDE.

This section makes the case for devolution. We argue that devolution presents the opportunity for economic prosperity and inclusion across England. Stronger systems of devolved decision making make for stronger regional and subregional economies.

There are many advantages to devolved economic policy. Unlike the machinery of Whitehall, local and regional leaders are better positioned to adapt to either global or local economic shocks and long-term shifts (McCann 2016). They may also be able to draw on local knowledge and understanding of a place so as to use public and private resources more efficiently, and coordinate investments and policies that relate its economy – such as transport and housing, or employment support and health (Paun and Macrory 2019).

In addition, there has been much written about how the mayors in devolved authorities are using their 'soft power' to build consensus and develop new partnerships (Johns et al 2019; Paun and Macrory 2019). This can be used very effectively to build a sense of optimism for the future in an area, thereby encouraging new opportunities for investment as well as wider benefits of social inclusion. Mazzucato (2013) describes this as the "entrepreneurial state" which can act as a market actor to 'crowd in' and 'dynamise' private sector resources in an area.

This section explores these ideas further by examining the devolution settlements of other similar countries, before setting out two arguments, based on the evidence, for devolving economic power: first, for the purpose of greater economic prosperity and inclusion, and, second, for the purpose of democratising economic policy.

### HOW OTHER COUNTRIES DEVOLVE ECONOMIC DECISION-MAKING

England is unique in holding such a concentration of economic power in central government. Almost all countries in the OECD and the EU have tiers of government at the regional level, the subregional level, and usually both. Tables 3.1 and 3.2 summarise the powers held at the regional level in other countries. It is important to note that the tiers of government in other countries don't exercise such power exclusively or in isolation from each other: powers are exercised 'concurrently' and policy is often 'vertically integrated' – meaning that municipalities, regions and central government often collaborate by acting together to achieve shared goals.

There are several reasons why these powers are devolved, including that many countries were founded as federations or have evolved from various constituent communities. But, as these tables show, there tends to be a standard suite of devolved powers over public services and the economy.

Not only is a far greater level of devolution commonplace in other countries, but, as box 3.1 shows, formerly centralised countries such as Japan have undertaken programmes of devolution which offer important lessons about how this can be practically delivered (Cox et al 2014).

### Box 3.1: Japan's programme of devolution

Japan recently undertook a 15-year programme of decentralisation (see Cox et al 2014). Before this programme got underway, governance was simultaneously highly fragmented and highly centralised; over 3,000 municipalities were charged with delivering central government functions (Barrett 2000). A consensus arose by the 1990s that there was need for reform (Shunichi 2003). This proceeded in three waves.

- 1. 1993–2000:** This period saw resolutions passed in central government legislatures. In 1995, a Decentralization Promotion Law was enacted with cross-party support and a 'Decentralization Promotion Committee' was established (Shunichi 2003).
- 2. 2000–2005:** The 2000 Omnibus Decentralisation Law devolved 64 different central government functions to prefectures and municipalities (Niikawa 2001) and replaced the 'agency-delegated functions' with 'local autonomy functions', along with more limited national technical advice (Yokomichi 2001). It set out a rolling programme of amendments to over 300 laws to curtail the extent of central involvement in local affairs (Barrett 2000). It also made provision for the merging of municipal authorities and the creation of 'special cities' (population 200,000-plus) with additional devolved powers (Shunichi 2003), and set up a process for the independent mediation of central–local disputes.
- 3. 2005–2010:** From 2005, under a process known as 'trinity reform', Japan moved toward fiscal devolution by transferring some sources of tax revenue and collection to local government, rationalising the system of redistribution, and allowing local authorities to introduce some local taxes and vary certain tax rates (Ikawa 2014).

There has been a step-change in the role and capacity of municipal authorities – not least in the 'special cities' – with significant efficiencies in administrative and financial operations and improvements to local services and wider wellbeing (Wataru 2013).

Adapted from Cox et al (2014)

**TABLE 3.1: BREAKDOWN OF RESPONSIBILITIES ACROSS SUBNATIONAL GOVERNMENT LEVELS: A GENERAL SCHEME**

Municipal level	Intermediary level	Regional level
<p><b>A wide range of responsibilities:</b></p> <ul style="list-style-type: none"> <li>• general clause of competence</li> <li>• eventually, additional allocations by the law.</li> </ul> <p><b>Community services:</b></p> <ul style="list-style-type: none"> <li>• education (nursery schools, pre-elementary and primary education)</li> <li>• urban planning and management</li> <li>• local utility networks (water, sewerage, waste, hygiene etc)</li> <li>• local roads and city public transport</li> <li>• social affairs (support for families and children, elderly, disabled, poverty, social benefits etc)</li> <li>• primary and preventive healthcare</li> <li>• recreation (sport) and culture</li> <li>• public order and safety (municipal police, fire brigades)</li> <li>• local economic development, tourism, trade fairs</li> <li>• environment (green areas)</li> <li>• social housing</li> <li>• administrative and permit services.</li> </ul>	<p><b>Specialised and more limited responsibilities of supra-municipal interest.</b></p> <p><b>An important role of assistance towards small municipalities.</b></p> <p><b>May exercise responsibilities delegated by the regions and central government.</b></p> <p><b>Responsibilities determined by the functional level and the geographic area:</b></p> <ul style="list-style-type: none"> <li>• secondary or specialised education</li> <li>• supra-municipal social and youth welfare</li> <li>• secondary hospitals</li> <li>• Waste collection and treatment</li> <li>• secondary roads and public transport</li> <li>• environment.</li> </ul>	<p><b>Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs unitary).</b></p> <p><b>Services of regional interest:</b></p> <ul style="list-style-type: none"> <li>• secondary / higher education and professional training</li> <li>• spatial planning</li> <li>• regional economic development and innovation</li> <li>• health (secondary care and hospitals)</li> <li>• social affairs, eg employment services, training, inclusion, support to special groups etc</li> <li>• regional roads and public transport</li> <li>• culture, heritage and tourism</li> <li>• environmental protection</li> <li>• social housing</li> <li>• public order and safety (eg regional police, civil protection)</li> <li>• local government supervision (in federal countries).</li> </ul>

Source: OECD/UCLG (2016)

**TABLE 3.2: COMPETENCIES EXERCISED AT THE REGIONAL LEVEL IN SELECTED EU COUNTRIES**

France	Germany	Italy*	Spain*
Economic development	Legislation	International relations with other regions and with the EU	Territorial development
Territorial development and planning	Public administration	Trade	Civil engineering
Transport	Police	Health	Economy
Education: secondary schools	Homeland security	Land development	Agriculture
Job training programmes	Taxation	Transport	Culture
Culture	Justice	Manufacturing and distribution of electrical energy	Social policies
Tourism	Culture	Urban planning	Environmental management
	University education	Agriculture	Development of economic activities
	Education		Health
	Environment		Education
	Legal supervision of local self-government		

Source: CEMR 2016

\*Note: Italy and Spain have asymmetric forms of regionalism – meaning that not all regions have the same powers.

As figure 3.1 shows, these responsibilities are often matched by spending power. Sub-central economic affairs spend in Germany is 2.5 times as high as a proportion of GDP than it is in the UK (OECD 2019a). In addition to regional government, Germany has a solidarity surcharge which has funded investment in the run-down

East, and productivity has caught up significantly to overtake many of the English regions (see box 4.2 in the next chapter). Productivity in Germany is now 20 per cent higher than in the UK and, while it still has many challenges, the country has more a diverse, resilient and inclusive economy (OECD 2017).

The fact that other countries are more devolved is not in itself a reason to for England to follow suit. But as this section will now show, this does tend to produce greater prosperity, equality and inclusion.

**FIGURE 3.1: LOCAL CONTROL OF ECONOMIC POLICYMAKING IN THE UK IS LOW BY INTERNATIONAL STANDARDS**

Subnational tax as a per cent of total tax (X axis); subnational government expenditure on economic affairs as a per cent of GDP (Y axis); bubble size=population<sup>15</sup>



Source: OECD 2019a; OECD 2019b

### DEVOLVING ECONOMIC POWERS CAN DELIVER INCLUSIVE ECONOMIES AND REGIONAL CONVERGENCE

In England, local authorities have long sought to regenerate their local areas and make the places they govern more inclusive in various ways. For example, Manchester and Preston’s city councils have pioneered ‘progressive procurement’ – using local authority and ‘anchor institution’ spending to support local economic development, for example, by requiring contractors to employ local people or pay a real living wage (Johns et al 2019; CLES 2018). This work, sometimes referred to as ‘community wealth building’ has seen a surge in interest recently.

Small-scale local industrial strategy interventions are also sometimes undertaken in England – Manchester City Council and the Greater Manchester Combined Authority recently announced a partnership with the University of Manchester, the

<sup>15</sup> Measuring fiscal devolution is complex, and interpreting these figures should be undertaken with caution, see: <http://www.oecd.org/regional/regional-policy/Subnational-Governments-Around-the-World-%20Part-1.pdf>.

NHS, and global diagnostics firm Qiagen. This sees the GMCA lend £3 million to the joint venture, and Manchester City Council directly investing up to £21 million, in order to establish a world-leading genomics centre in the city's enterprise zone (MCC 2018).

### **The specific importance of fiscal devolution, governance and institutional quality**

There is evidence that fiscal devolution can lead to a broad range of positive economic and social outcomes, provided institutions and governance structures are strong.

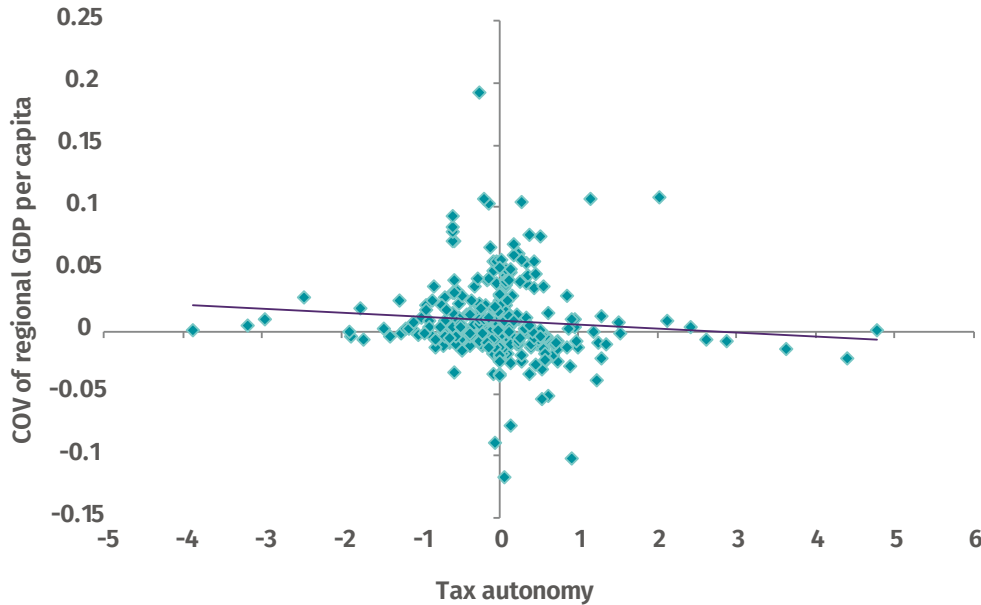
- 1. Fiscal devolution tends to mean more equal outcomes.** Fiscal devolution usually results in higher equality across the income distribution, improved wellbeing, better education outcomes, and improved social welfare (Goerl and Seiferling 2014; Huhne 2007; Jeffrey 2011; CURDS 2011 via Cox et al 2014; Blöchliger et al 2013).
- 2. Fiscal devolution is strongly correlated with progressive investment decisions.** Blöchliger et al (2013) find that countries with greater fiscal devolution tend to also invest more in education and infrastructure.
- 3. Fiscal devolution can improve economic growth.** GDP and GDP per capita tend to be higher with greater fiscal devolution, although identifying the transmission mechanism and measures is a theoretical challenge, and there is also some evidence that there is no relationship (Rodriguez-Pose Kroijer 2009; Blöchliger et al 2013; Baskaran et al 2016; Baskaran et al 2009).
- 4. Fiscal devolution can improve public services.** Local governments tend to have greater allocative and productive efficiency because they are incentivised toward being more responsive and effective (Rodriguez-Pose and Ezcurra 2010).
- 5. Fiscal devolution can reduce regional inequality.** Regional disparities reduce in countries where more local spending is financed by local taxes, because sub-central governments are more inclined to spend on economic development (Bartolini et al 2016). As figure 3.2 shows, an increase in the sub-central own revenue share by 10 percentage points is associated with a reduction of the regional GDP coefficient of variation between 3.6 and 4.3 percentage points. Increasing the tax share by 10 percentage points reduces disparities by 2.4 to 2.8 percentage points. Conversely, areas where a higher share of resources were not financed by their own expenditure had wider disparities.

There are, of course, exceptions to this. Any public policy has potential downsides and devolution is no exception. Moreover, devolution by its very nature involves increasing the choices available for policymakers and of course this doesn't always lead to good outcomes. What is clear, however, is that there is a distinct relationship between devolution and more positive decisions and outcomes – particularly regarding economic inclusion – and that this is closely related to the quality of governance and of institutions (Ketterer and Rodriguez Pose 2016; Di Cataldo and Rodriguez Pose 2016; Ezcurra and Rodríguez-Pose 2014; Kyriacou et al 2013).



**FIGURE 3.2: TAX AUTONOMY TENDS TO BE ASSOCIATED WITH LOWER DISPARITIES IN GDP PER CAPITA**

**Tax autonomy and regional GDP disparities**



Source: Blöchliger et al 2016

Note: The sample covers 20 OECD countries (19 for tax autonomy) and the years 1995 to 2011.

**The case for devolution to both subregions and regions**

Across the world, subnational governments develop strategies to manage their economies and demonstrate the benefit of devolution. Because countries' economies and constitutions vary, so do the scale of their regions and the economic policies that they deliver.

- There are many smaller-scale regional governments that implement industrial strategies and deliver economic policies. In France, the Pays de la Loire has a population of 3.7 million and the regional government undertakes a great deal of effective interventions in the economy – and in this unitary state these, are often integrated with the national industrial strategy (Zaparucha and Sadeski 2018). In Catalonia, which has a population of 7.5 million people, the regional government has implemented a regional industrial strategy based on smart specialisation principles and strong interventions in innovation and internationalisation (Potau 2018).
- The larger scale regional tier is particularly effective in Germany. For example, Baden-Württemberg is home to 11 million people and regional industrial policy has been highly effective. Strong regional governments collaborate with unions and businesses to modernise industry with primarily 'horizontal' interventions as well as technology-specific support (Johann and Enenkel 2018). North-Rhine Westphalia is home to 18 million people and has an industrial past similar to that of the England's North, West Midlands and Wales, but it has used its devolved powers to modernise and diversify its industrial base and it has dense transport networks that support its economy (Bross and Walter 2010; Raikes 2019b).

As well as general economic or industrial strategies, there are some particular powers that are closely associated with achieving economic prosperity at a subnational level. Below, we set out a case-by-case rationale for devolving specific

powers to two tiers of government based on economic arguments. As discussed above, most similar countries already do work at comparable levels.

- **Subregions:** These may vary in population and even area, but there is an economic case for holding powers over local economic policy covering a functional economic area in which people live, commute and work. While the precise boundaries of these can and should be debated, in the case of England these can align with combined authorities and counties. For the purposes of the following two tables, that is the approximate geography to which we refer.
- **Regions:** These are larger than subregions but smaller than England. The scale and shape of regions can and should be debated, but there is a *general* economic case for collaboration at a scale larger than city regions and counties. And, as the evidence below will show, there is a *specific* case for exercising particular economic policies at this tier. The scale of region we discuss in the next section is that of the North (North East, North West, Yorkshire and the Humber), the Midlands (East Midlands and West Midlands); the East and South East (including London), and the South West. Before proceeding, it is important to note that the case for the respective regional geography and for devolution to the regional tier devolution will vary in strength between each of these blocs (for instance, there is a strong case for transport policy at the regional tier in the North, but this is less obvious in the Midlands). Some advisory powers are beginning to be exercised at this tier in England through initiatives such as the Northern Powerhouse and Midlands Engine, but, compared to overseas, they remain underdeveloped.

We will now make the case-by-case economic argument for devolution to each of these tiers and draw on examples from overseas. Devolving power to these tiers of government does not *necessarily* 'drive' growth or prosperity, but there is evidence and theory to support their ability to do so.

### **The subregional tier of government**

Tables 3.3 and 3.4 set out the case-by-case rationale for devolving specific powers and responsibilities to subregions (combined authorities and areas of similar scale).

**TABLE 3.3: THE CASE FOR DEVOLUTION TO SUBREGIONAL TIERS SUCH AS COMBINED AUTHORITIES AND SIMILAR AREAS**

Power	Rationale	Precedent
Employment support (including that which is currently delivered by JCP)	<p>Labour markets vary across the country and policy needs to account for this</p> <p>Hardest to help claimants need wrap-around support that devolved authorities are better placed to provide (Davies and Raikes 2014; LGA and LWI 2017)</p>	<p><b>Within England:</b> Co-commissioning of the Work and Health Programme; the Working Well programmes already in operation within Greater Manchester; MyGo service in Suffolk</p> <p><b>In other countries:</b> Netherlands, Denmark, US, Canada (to provinces), and Germany (mixed model)</p>
Adult skills, apprenticeships and lifelong learning capital and revenue funding (not accreditation and regulation)	<p>Labour markets tend to operate at this level, so this allows supply and demand to be coordinated most effectively</p> <p>Adult skills must also be integrated with other local services (especially business support) and aligned with industrial strategy and transport policy (as well as other skills and education policies – see below) (ibid)</p> <p>(Round 2017, Raikes 2015)</p>	<p><b>Within England:</b> Devolution of adult skills (capital and revenue) to some combined authorities is already underway</p> <p><b>In other countries:</b> Netherlands, Denmark, US, Canada (to provinces), and Germany (to Länder) (Vogler-Ludwig 2012)</p>
Careers advice, work experience, job guarantees	<p>Labour markets tend to work at this level, and therefore policy can align advice to the local labour market and coordinate work experience and job guarantees within a sensible geography (Davies and Raikes 2014; Raikes and Davies 2016)</p>	<p><b>Within England:</b> None (responsibility of schools)</p> <p><b>In other countries:</b> Finland and France (to regions)</p>
16–19 education and apprenticeship capital and revenue funding	<p>Labour markets tend to work at this level, and at this age young people need to be orienting their education toward their career choices</p> <p>Colleges’ and other providers’ courses must complement one another within a labour market instead of competing inefficiently (Round 2018)</p>	<p><b>Within England:</b> None</p> <p><b>In other countries:</b> Finland</p>
Schools commissioning	<p>Schools catchment areas and ‘travel to learn’ patterns are inherently local, with many crossing district boundaries (Raikes 2017)</p>	<p><b>Within England:</b> None (place planning and commissioning some services)</p> <p><b>In other countries:</b> Finland</p>
Early years capital and revenue funding	<p>Most labour market problems have roots in the first five years of education</p> <p>Whole-system accountability is necessary: further education (FE), secondary and primary schools struggle to resolve problems developed in early years, and the gains of early years investment accrue throughout an individual’s lifecourse (Goodman and Sianesi 2005; Cattani et al 2014; Murray 2017)</p>	<p><b>Within England:</b> Statutory duty to ensure access to childcare</p> <p><b>In other countries:</b> Netherlands and Sweden</p>
Primary and secondary school funding and coordination	<p>Education policy is currently fragmented, but schools must cooperate across their local areas on many issues (especially transition management) and should be distributed in a strategic way across a place. The most effective way to do so is for funding to be pooled at this level and made conditional on cooperation (Greany and Higham 2018)</p>	<p><b>Within England:</b> None (place planning and commissioning some services)</p> <p><b>In other countries:</b> Denmark, Netherlands, Finland, Norway, and Sweden</p>

Transport capital infrastructure funding	<p>Most journeys for work, leisure, or other purposes are contained within city-regions or counties, so this is the ideal tier of governance</p> <p>It also enables transport to be aligned with skills, housing and industrial strategy within a functional economic area</p> <p>Central government has a particularly poor record of investing outside of London (Raikes 2016)</p>	<p><b>Within England:</b> London, and small scale transport authorities in city-regions and counties</p> <p><b>In other countries:</b> Germany and France</p>
Intra-city/county transport policy, integration and franchising (bus, tram, BRT, tram-train, suburban rail)	<p>Most journeys for work, leisure or other purposes, are contained within cities or counties, therefore this is the ideal tier of governance</p> <p>It also enables transport to be aligned with skills, housing and industrial strategy within a functional economic area (Raikes 2016)</p>	<p><b>Within England:</b> Transport for London, major cities have some powers, small light rail 'networks' operated by several major cities, mayoral combined authorities and Cornwall can now franchise bus markets</p> <p><b>In other countries:</b> Germany, France, and Sweden</p>
A package of powers and funding to drive up the number and quality of homes	<p>Housing markets are inherently (very) local in their nature and occupy distinct roles within a city or county's economy</p> <p>Housing developments must be aligned with infrastructure and skills priorities (Snelling and Davies 2016)</p>	<p><b>Within England:</b> Some spatial planning and mayoral development corporation powers</p> <p><b>In other countries:</b> France, Germany, and Belgium</p>

Source: Author's analysis

### The regional tier

Tables 3.3 and 3.4 summarise the powers that should be considered for devolution to the larger regional tier of government – regions such as the North, Midlands, South West and the East and South East (as defined above). In some of the examples below, the scale of regions is different than the regions we propose in England, but they are nonetheless useful examples to inform a bespoke solution required in this country.

**TABLE 3.4: THE CASE FOR DEVOLUTION TO THE REGIONAL TIER, SUCH AS THE NORTH, MIDLANDS, SOUTH WEST AND SOUTH EAST**

Power to be devolved	Rationale	Precedent
Pan-regional rail franchising	<p>England's towns and cities must connect with one another and integrate with intra-city connectivity in order to function at their best</p> <p>Centralised policy has often resulted in pessimistic forecasts which have led to overcrowding (Cox and Raikes 2015)</p>	<p><b>Within England:</b> Transport for the North and West Midlands Rail influence and manage franchises</p> <p><b>In other countries:</b> Germany, Sweden, and France</p>
Pan-regional rail infrastructure	<p>Centralised policy has historically channelled investment disproportionately to London based on narrow value for money assessments</p> <p>Rail infrastructure needs to align with rail franchising and management, as recent experience in the North has shown (Cox and Raikes 2015)</p>	<p><b>Within England:</b> Transport for the North (advisory) and other emerging transport bodies</p> <p><b>In other countries:</b> Germany, Sweden, and France</p>

Major road network (investments, improvements and management)	The task of ensuring people and goods can get to and from the region's major cities, ports and airports needs to be integrated across a region (TfN 2019)	<b>Within England:</b> Transport for the North's major road network  <b>In other countries:</b> Netherlands and Germany
Trade and investment – regional coordination and cooperation	The regional tier is the right scale for much trade and investment activity: small enough to promote specific interests, and big enough to register as significant markets in the eyes of the major trading powers and megacities  Regional institutions can also support investment regional assets (such as energy infrastructure) and align with regional industrial strategy (IPPR North and the NEFC 2012)	<b>Within England:</b> None currently  <b>In other countries:</b> Belgium (fully devolved but centrally coordinated), Italy, and Norway
Research and innovation funding (concurrently)	Applied R&D is especially important for regional economic development  Regional innovation assets need the space to develop their own strengths and complement national innovation strategies  Most innovation funding is concentrated in just three regions (the 'Golden Triangle') which benefit from historic pump priming in the spatially blind allocation process (Eickelpasch 2013; OECD 2012; Raikes 2016)	<b>Within England:</b> None currently  <b>In other countries:</b> Germany
Deciding labour immigration rules	Different regions have very different demands for immigrant labour, but this is not accounted for by the current centralised system  Flexibility at the regional and local level would enable much better alignment of supply and demand (Griffith and Morris 2017)	<b>Within England:</b> None currently  <b>In other countries:</b> Canada, New Zealand

Source: Author's analysis

## DEVOLUTION CAN DEMOCRATISE ECONOMIC POLICY

The Brexit referendum revealed the long-standing political alienation, and genuine anger, felt by many toward central government and other 'elites'. People who voted to leave the EU tend to have the least trust in political institutions – and especially Westminster (Swales 2016). One of the major drivers of this is the feeling people have that central government, in many cases, left their community, town, or city to slip into decline (Jennings et al 2018; Rodriguez Pose 2017). This sentiment is not unique to England or centralised forms of government – the “revenge of places that ‘don’t matter’” has been observed in many developed countries (Rodriguez Pose 2017). But it does appear to be linked to democratisation and concentrations of power, and the right programme of devolution offers part of a solution to this problem.

And there is a democratic argument for devolution within England. It isn't the most prominent; until recently, arguments in favour of devolution in England have tended to rest on the idea that it will 'drive economic growth' or enable more efficient public services, and they are rarely based on the need to have more say or control over policy (Lyall et al 2015; LGIT 2014). But devolving power in itself increases the influence of the individual citizen in the decisions made - although this depends on the form of governance as well as other considerations (Polverari 2015).

This democratic case for devolution becomes clearer when the current situation in England is considered. As noted above, the current models and processes of devolution do need to be improved. But still, it is far more ‘democratic’ for a decision about Greater Manchester’s skills funding to be made by a metro mayor, directly elected by that city region’s residents in conjunction with a cabinet of elected local leaders from that city region’s districts, than it is for such a decision to be made by a secretary of state appointed by the prime minister who is indirectly elected by members of parliament from across the whole of England. The democratic argument for devolution in England is even stronger when it comes to the role of quangos, and many of the powers recently devolved to Greater Manchester were formerly held not by elected politicians, but by the unelected officials of the Education and Skills Funding Agency (ESFA). In fact, it is surprisingly common to find that important economic powers are not exercised by elected politicians but by these arms-length bodies that are even less accountable to the public. Devolving power can therefore address the situation in which important decisions that have a major impact on people’s lives are taken by remote, indirectly elected politicians and quangos who live in a profoundly different city a great distance away, by people who don’t know the local area, and won’t have to live with the consequences of their decisions.

Devolution can also democratise policy by strengthening ‘territorial policy communities’ and can even foster ‘regional citizenship’. The effect of this varies, but Keating and Wilson (2014) find that the creation of regions in some European states has resulted in an emergence of regionalism, too – whereby interest groups, media, business organisations or trade unions also organise themselves at this scale. In some countries where power has been decentralised, ‘regional citizenship’ has emerged based on these new geographies (Hepburn 2011).

Devolution can also be an enabler of participation and democratic reform. Proximity to decision-makers can enable more citizen participation (Polverari 2015). It also enables inclusive forms of democratic innovation, such as participatory budgeting and citizens’ forums – major world cities such as Paris and New York City are already spending significant sums of money through participatory budgets (Raikes 2017).

This section has shown how countries overseas devolve large swathes of economic power to regions and subregions of varying sizes, and that there is a wealth of evidence that shows that this enables economic prosperity in the right circumstances.

Moreover, devolution is an important opportunity to democratise economic policy and introduce new forms of accountability into policymaking.

## 4.

# DEVOLUTION: MYTHS AND REALITIES

Despite a strong case for devolving power – and general support *in principle* for devolution across all major political parties, businesses, civil society, and trade unions – England remains centralised.

One major reason for this is that there are some arguments often made against devolution *in practice* which have great traction with policy makers. It is perhaps to be expected that a highly centralised model finds reasons to hold power at the centre – this is often expressed in a patronising attitude toward local government, and a ‘Whitehall-knows-best’ culture. This chapter presents a discussion of the six major arguments against devolution and addresses the challenges they pose.

### MYTH 1: "DEVOLUTION CAUSES 'POSTCODE LOTTERIES'"

Some people raise the concern that ‘postcode lotteries’ will result from devolution: that a local or regional boundary might introduce an unfair disparity between citizens living on each side of it (Diamond and Carr-West 2016).

Consistent, universal rights underpin our welfare state. The welfare state was founded on the principle that all citizens would have equal access to public services (Cox et al 2014). But this concern is rooted in a fundamental misunderstanding of both the current situation and what devolution means.

- England currently has significant ‘postcode lotteries’; where you live determines your job opportunities, as well as the quality of education and health services on offer. The inequality in health services in the UK is profound, and health inequality in the UK is the most severe of any nation for which comparable data is available (Thomas 2019; Raikes et al 2019). It is centralised and/or spatially blind policy that has helped cause these inequalities – almost £1 in every £7 cut from public health services has come from England’s 10 most deprived communities, compared to just £1 in every £46 in the country’s 10 least deprived places (Thomas 2019). This is what centralisation means in practice. In contrast, devolution could help to address these problems. There is a wealth of evidence for place-based public services and, while it can be difficult to achieve in practice, there has been a proliferation of initiatives to that end (Wilson et al 2015).
- The real postcode lottery is that citizens in some parts of England have more democratic power than others over their locality or region, and that there is currently no justification for this.

**Devolution is, in fact, a solution to the ‘postcode lotteries’ we already have, because a targeted or bespoke intervention is more likely to result in an equal outcome. Devolution is also a solution to a real postcode lottery in democratic power – by introducing coherence to the devolution settlement across England, the postcode lottery in democracy can be addressed.**

## MYTH 2. 'DEVOLUTION IS AN EXCUSE FOR CUTS'

In recent years, the public discourse on the left of British politics has often highlighted the relationship between devolution and austerity. There has been some resistance to devolution on the basis that it is a distraction from the government's austerity agenda, or because the government's intention is to pass the blame for austerity onto local government (Rehman 2018). This can take several forms: devolving in order to conceal cuts – for example, cutting and then devolving council tax benefit to councils; or devolving functions without the required funding to deliver them – for example, cutting then devolving the adult education budget to mayoral combined authorities. There is also a more general sense in which the rhetoric of devolution may have been used to provide cover for local government austerity and, in effect, the centralisation of public sector capacity in England.

This has been further compounded by the fact that George Osborne was both the driving force behind devolution and was responsible for severe cuts to local authority funding. This is relatively recent, however, and it could be argued that Labour's national leadership lost interest in devolution post-2004 (its local leadership of course remains forthright in support). The national leadership of the party has also, particularly since 2015, had a strong tendency toward statist – and centralist – solutions for the challenges people face (despite rhetoric to the contrary).

Given that local government austerity has been a major feature of the government's policy since 2010, this point is understandable: in real terms, local government funding from central government has fallen by half (49.1 per cent) since 2010, and spending power (accounting for council tax) has fallen by 29 per cent (NAO 2018). As a consequence, many local authorities have had to cut their revenue budgets in half, and the current trajectory is towards an almost exclusive focus on delivering social care (ibid).

**But that devolution is an excuse for cuts is not an argument against devolution per se; it is an argument for a different programme of devolution, and an argument against austerity. It is also an argument for local and regional governments to have more control over their finances, not less: if we had a fair and healthy system of fiscal autonomy and transfers, and a robust constitutional settlement which delineated local, regional and national powers, then it would not be possible for central government to load their austerity programme onto local government in the way it has.**

## MYTH 3. "DEVOLUTION IS ASYMMETRICAL AND INCOHERENT"

Devolution is sometimes objected to on the basis that it is asymmetrical: that one place has more power than others and that there is little justification for these differences (Hunter 2017). This concern has applied to the four constituent nations for some time but has become more of a concern within England recently.

It is understandable that this asymmetry gives rise to concern. However, asymmetry itself is not the issue – incoherence and unfairness are the real problems. Many countries have some regions which hold more power than others. The difference between the current situation and these other countries is that there is a historic, cultural or practical reason for this difference. The issue in England is that this asymmetry has resulted from a centralised process, whereby ministers have cut deals with local areas, and created a contested and contingent situation.



**Incoherence is the real problem with England's current devolution settlement, not asymmetry. Any future programme of devolution must therefore set out a clear framework of principles that account for any asymmetry that arises, rather than allowing ministers to make a series of ad-hoc deals. In the current context of Brexit and disillusionment with Westminster more generally, transparency and coherence is essential. The current approach needs to change. It is important, however, that places are not held back – the alternative 'all or nothing', through which all places level up at the same speed, is likely to result in a very slow devolution process.**

#### **MYTH 4. "THERE IS NO PUBLIC SUPPORT FOR DEVOLUTION AND THERE ARE NO REGIONAL IDENTITIES IN ENGLAND"**

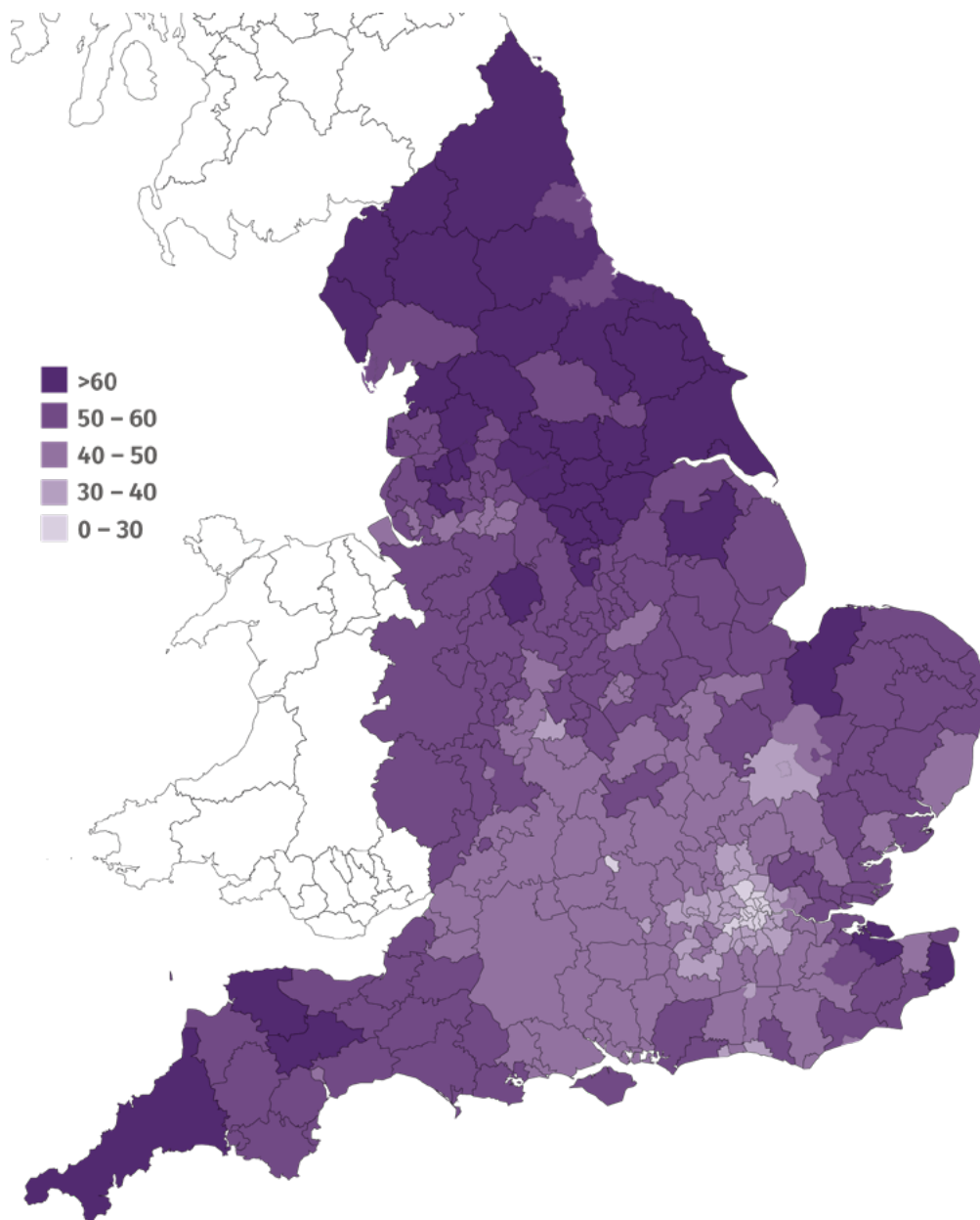
Some have argued that there is no demand for devolution in England – that voters rejected a North East regional assembly decisively and rejected city mayors in 2012 (see Cox et al 2014). People argue that regional and local identities may exist within England, but they are clearly very different to the national identities in the rest of the UK and to the English national identity itself. And while regional parties do exist – such as the Yorkshire Party and Mebyon Kernow – they do not have significant traction with government. It might therefore be concluded that there is little demand for devolution to regions in England.

But identity should not be presented as an immovable obstacle to devolution. Devolution can sometimes be the result of a strong sense of identity, for example in the devolved nations, and it might seem reasonable to require the same conditions in England. But these are not the only arguments in favour of devolution – as the rest of this report shows.

Furthermore, it is a profound mistake to misinterpret the above as signals of a lack of support for the principle of devolution. The evidence shows the opposite to be true; there are strong signs that devolution enjoys general support.

- There is a high level of disaffection with the Westminster system throughout the country, and a strong desire to change the current balance of power between central and local government: 72 per cent of people think system of governing needs 'quite a lot' or 'a great deal' of improvement, and this has risen by 12 percentage points since 2004 (Hansard Society 2019). When asked whether they think the current balance of power between central and local government is about right, only 18 per cent of people agree (PwC 2014).
- Large majorities of people in all regions feel they don't have much of a say over decisions made in Westminster, and that they have more of a say over decisions made by local government (YouGov et al 2012). One in three people feel they have influence over local councils, whereas only one in five feel they have influence over central government (Populus and the RSA 2018). 78 per cent of people feel that people in their area have either not very much, or no opportunity at all, to influence the central government decisions that affect the place that they live, compared to 68 per cent for local government. And people in London have said they think that local government has more influence in London, where there is a long-standing elected mayor, than they do in other parts of the country (YouGov et al 2018).
- 80 per cent of survey respondents said that they felt a strong attachment to their 'local area', compared with 75 per cent who felt an attachment to England and 66 per cent to the UK (Cox and Jeffery 2014).
- In London and the devolved nations, people tend to be more content with their institutions (Cox and Jeffery 2014).

**FIGURE 4.1: IN ENGLAND, LOCAL IDENTITY STRENGTHENS FURTHER AWAY FROM LONDON**  
Percentage identifying strongly or very strongly with an English County (modelled)



Source: YouGov et al 2018

Note: The council level estimates shown are based on the poll and a statistical procedure called multilevel regression and post-stratification or MRP.<sup>16</sup> The technique produces estimates for small areas based on a limited amount of data. It uses the people from each local authority to predict that area's results, but, to ensure that this small amount of data is representative of the wider population, the estimates are balanced out using comparable data from the poll from the rest of the country and the census on the demographic make-up of the local authority in question. As with all models, the figures are subject to uncertainty.

16 See: <https://yougov.co.uk/topics/politics/articles-reports/2017/05/31/how-yougov-model-2017-general-election-works>

- Local identity is much stronger outside London, as figure 4.1 shows. Twice the proportion of northerners (61 per cent) identify fairly strongly or very strongly with an English county compared to Londoners (30 per cent); and 74 per cent of those in the North East identify strongly or very strongly with their region. There is also a notably strong sense of identity in Cornwall. Crucially, both English and British identity also tend to be stronger in the North than in London – reflecting the fact that these are, of course, not mutually exclusive identities for people (YouGov et al 2018).
- Regional parties only emerged within the North in 2004, but they have grown in recent years and, despite being a relatively new party, the Yorkshire Party received 30,000 votes across 28 constituencies in the 2019 election (Giovannini 2016; Cox 2020).

**Identity is currently sidelined in the devolution process. ‘The economy and ‘identity’ are seen as separate, and the economic rationale has been the overwhelming driver for the creation of devolved institutions around functional economic geographies. The economic case remains fundamental. But, moving forward, it is important that devolution becomes more inclusive and flexible – allowing, where there’s a desire for it, to build on ‘communities of belonging’ rather than just on functional economic constructs. This should be acknowledged in the upcoming devolution white paper and underpin the public consultation that is required for devolution to be taken forward. A convention on devolution would also help to address this (see box 4.1).**

#### **Box 4.1: Constitutional conventions**

Major changes to the way people are governed require in-depth engagement and consultation with the public. A UK-wide constitutional convention is often mooted as a way of moving this forward (Brown 2016; Labour Party 2017). This could be a way of addressing the necessarily complex discussions about devolution.

A convention is defined as “a representative body, brought together to draft a new constitution or to design or approve changes to an old one” (Crane and Conaghan 2008, via HoC 2013). The House of Commons Political and Constitutional Reform Committee investigated this issue in great detail. They note the precedent for a UK-wide constitutional convention in the Kilbrandon Commission, which ran from 1969 to 1973. Its terms of reference are particularly relevant. They were:

- to examine the present functions of the present legislature and government in relation to the several countries, nations and regions of the United Kingdom
- to consider, having regard to changes in local government organisation and in the administrative and other relationships between the various parts of the United Kingdom, and to the interests of the prosperity and good government and our people under the Crown, whether any changes are desirable in those functions or otherwise in present constitutional and economic relationships
- to consider also whether any changes are desirable in the constitutional and economic relationships between the Channel Islands and the Isle of Man.

(RCC via HoC 2013)

This convention also recommended devolution to the nations and regional bodies to advise UK government (ibid).

Constitutional conventions can take many forms and include different constituencies. They have been used for different purposes in many countries:

- Iceland's constitutional convention, which ran from 2010 and was highly inclusive. A National Forum of 950 people was selected randomly, a new constitutional assembly was elected, and new media was used to great effect.<sup>17</sup>
- Preceding the 2004 referendum on the North East assembly, there was a North East constitutional convention. However, this was less successful than other examples as it focussed more on lobbying central government than harnessing support in the region (Willet and Giovannini 2014).
- The Irish constitutional convention saw an assembly of 100 participants meet between 2012 and 2014 to discuss a wide range of issues. All of these received a formal response from parliament; some were taken forward by parliament (such as legalising same-sex marriage), while others were rejected (Involve 2014).

(HoC PCRC 2013)

These forms of deliberation can be very useful and inclusive ways to support decision making when issues are controversial. Like any engagement method they come with their own limitations. They can be too technocratic (as in the North East example), or lead to indecision, delay and, by their nature, they require further democratic processes if they are to be implemented (as in the Ireland example). The Political and Constitutional Reform Committee concludes this review of conventions with the following point: "Looking at examples of how constitutional conventions have worked in other countries shows that they are most effective when they have a clearly defined remit, contain representatives from a range of sections of society, and engage the public with their deliberations" (ibid).

## MYTH 5. "FISCAL DEVOLUTION WILL NECESSARILY BE UNFAIR FOR POORER PLACES"

The evidence shows that towns, cities and regions tend to benefit from control over taxes and freedoms to spend funding as they see fit (see chapter 2). This makes fiscal devolution vital for any programme of devolution, but it is often opposed.

England is one of the most fiscally centralised developed nations. Even among countries with a unitary rather than federal governance structure, the UK makes relatively few economic spending decisions at the subnational level, particularly given its size (OECD 2018; Raikes et al 2019).

But, despite our overwhelming centralisation, the idea of fiscal devolution often sparks some concerns. In principle, some argue that redistribution from wealthy to deprived areas is a fundamental part of our social union (HoL SCC 2016). Others argue that, because of the contribution London and the South East make to our finances, fiscal devolution would, in practice, mean austerity for the already-poor areas (Sandford 2017). There are further concerns about introducing variation to regulations that would undermine the UK's internal market, although parliament's dominance in these issues is rarely challenged by devolution even to the devolved nations (McEwen 2017).

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<sup>17</sup> Although this was invalidated due to procedural technicalities.

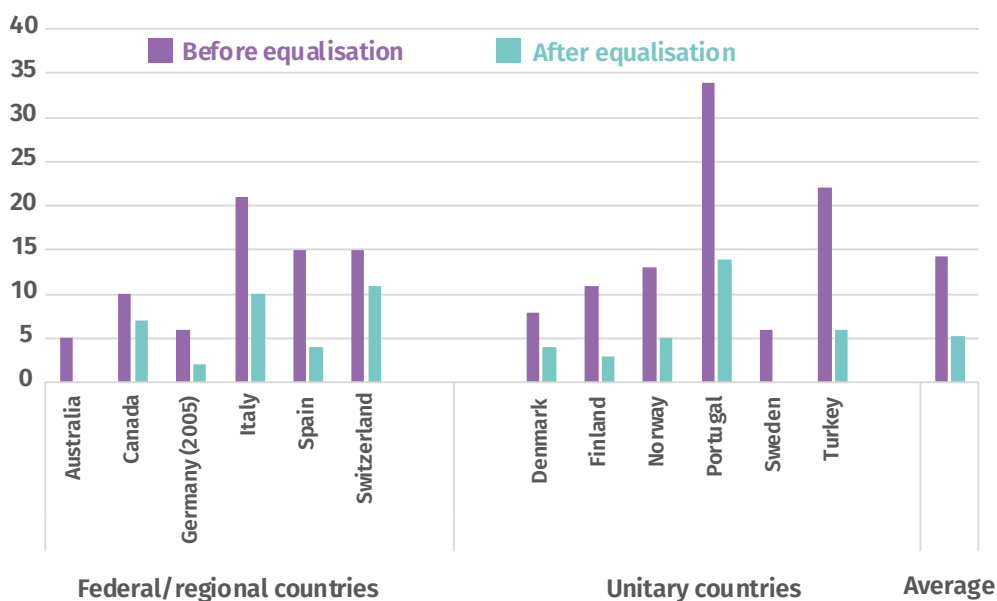
These concerns are justified given that the *current* fiscal devolution debate is incoherent and ad-hoc, and within England is focussed on business rates. But, as discussed in chapter 2, there is in fact a wealth of evidence that fiscal devolution specifically can be highly progressive. The evidence from other countries shows that fiscal devolution enables local areas to invest in education and infrastructure, leading to regional convergence, equality, and improved job prospects for the lowest skilled. The devolved nations have shown how these powers can be used for progressive outcomes.

In practice, some of the challenges presented by fiscal devolution can be overcome by having regional institutions that enable transfers *within* regions as well as *between* them. While fiscal powers themselves are better exercised at the subregional and local tier, cooperating and redistributing funding at the regional tier (as well as nationally) means that places can have more autonomy from central government. The variation in terms of revenue raised between regions tends to decrease when these are larger blocs of authorities – the disparities within these geographies then become larger than those between them (LFC 2015). Working at a larger geographical scale will therefore reduce the need for redistribution by central government – instead, regional government would take on this role and the whole system would be more devolved.

Most developed nations have far greater local and regional fiscal autonomy than England and simply combine this with a form of redistribution. All countries have an economic geography that is uneven and therefore some areas raise more tax than others, while others have higher demand on services. But these countries simply have mechanisms for redistributing finance between their regions (see figure 4.2). Germany is a prime example (see box 4.2), but many other countries have such systems of redistribution – Sweden, France, and Canada, for example (ibid; McGough and Bessis 2015). Redistribution is simply the “natural companion to fiscal decentralisation” (Blöchliger et al 2007).

**FIGURE 4.2: MANY DEVELOPED COUNTRIES USE FISCAL TRANSFERS TO REDUCE INEQUALITIES IN SUB-CENTRAL FINANCIAL CAPACITY**

**Fiscal disparities and disparity reducing effect of fiscal equalisation, 2004**



Source: Blöchliger et al 2007

The concerns around fiscal devolution demand a fair and sustainable solution. Fiscal devolution is vital; it underpins the exercise of devolved power, and is associated with more spending on economic development, greater equality, higher GDP per capita, and improved education outcomes. But it does introduce fiscal risks and issues of fairness, and this needs to be accommodated with a system of horizontal and vertical fiscal transfers that share risk and equalise revenue – this is common practice in other countries. This also makes a strong case for a pump priming of economies outside of London, potentially funded from a ‘solidarity surcharge’ (see box 4.2).

### Box 4.2: Germany and regional redistribution

Germany is 20 per cent more productive than the UK, utilises its regional assets more effectively, and is generally more inclusive as a result (CEJ 2017; OECD 2017). This is underpinned by high levels of fiscal autonomy, which allows German Länder to deliver interventions in support of their industrial strategies and economic development policies. But this fiscal autonomy is combined with a well-developed system of fiscal equalisation, in which tax revenue is transferred between the three tiers of government: municipalities, Länder, and the federal government. Germany is far from perfect and retains significant regional challenges, but it is much more regionally equal than the UK (Raikes et al 2019).

Generally, tax legislation is the competency of the federal parliament, but the Bundesrat (which represents regions in central government) have to give their consent if the tax applies to them in any way. States and municipalities have the power to legislate on some taxes independently, such as taxes on consumption and expenditure, and can determine the rate of real estate transfer tax. Municipalities also fix the multiplier for the trade tax, inheritance and gift tax, real estate tax, and real estate transfer tax.

But, as table 4.1 shows, a system of horizontal and vertical transfers embeds a high degree of fiscal equalisation. The system is designed so that the *order* of financial capacity per inhabitant doesn’t change as a result of this redistribution, but the *magnitude* changes substantially – in some cases, going from 70 per cent of the average to 97.5 per cent of the average per capita finance. The Länder are then responsible for local government finance and this is taken into account.

**TABLE 4.1: EQUALISATION OF THE DIFFERENCES IN FINANCIAL CAPACITY BY APPLYING THE SYSTEM OF FINANCIAL EQUALISATION AMONG THE LÄNDER AND THE GENERAL SUPPLEMENTARY FEDERAL GRANTS**

Financial capacity per inhabitant before financial equalisation among the Länder as a % of the average financial capacity per inhabitant	Financial capacity per inhabitant after financial equalisation among the Länder as a % of the average financial capacity per inhabitant*	Financial capacity per inhabitant after financial equalisation among the Länder and the general supplementary federal grants as a % of the average financial capacity per inhabitant
70.0%	91.0%	97.5%
80.0%	93.5%	98.0%
90.0%	96.0%	98.5%
100.0%	100.0%	
110.0%	104.0%	
120.0%	106.5%	
130.0%	109.0%	

Source: BFM 2018

\*Note: Numbers for the rich states (financial capacity > 100%) neglect the (above mentioned) factor ensuring the correspondence of the adjustment payments with the adjustment amounts.

One of Germany’s most notable features is its ‘solidarity fund’ and the ‘solidarity surcharge’ that funds it. In 1991 after the Berlin Wall fell, German unification needed financing, and East Germany needed modernisation and investment. The solidarity surcharge provides some of the financing for this by adding a small surcharge on income tax, capital gains tax, and corporation tax, which nudges up effective tax rates by a small amount:

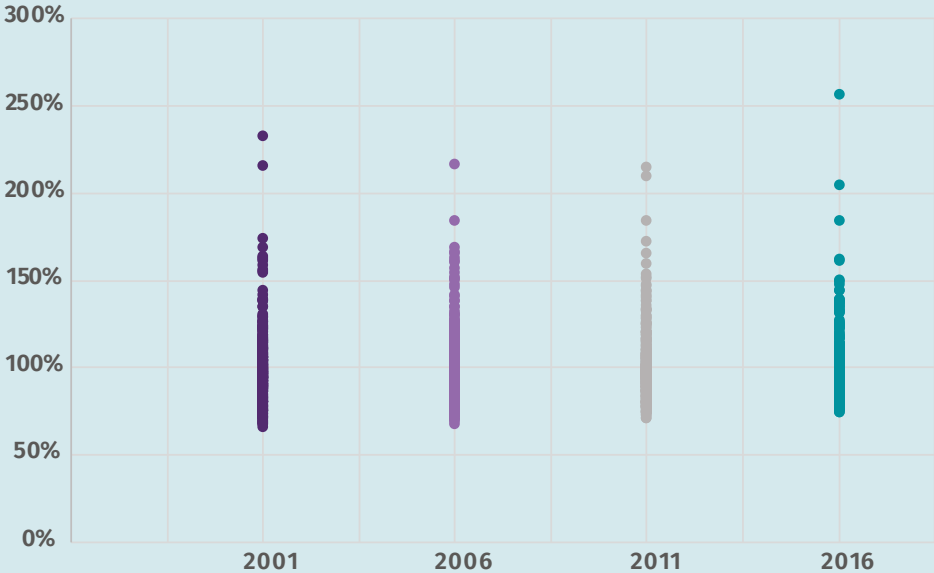
- dividends and interest: from 25 per cent to 26 per cent
- royalties: from 15 to 16 per cent
- corporate income tax: from 15 per cent to 16 per cent
- income tax: from 45 per cent to 47 per cent

(Deloitte 2017)

In 2018, this funded a €18.9 billion funding pot and has helped to drive convergence in German regional performance (Weddige-Haaf and Kool 2017; Carter 2019). Germany’s lagging regions have caught up relative to the rest of Germany, and even East Germany is now more productive than most English regions: figure 4.3 shows the lagging regions catching up over time. The solidarity surcharge has recently been abolished for 90 per cent of taxpayers – a move which was resisted by opposition parties in Germany (Carter 2019).

A number of other developed countries, including Japan and France, have also introduced ‘solidarity taxes’ on the wealthy to fund infrastructure after crises (EY 2015). England’s regions are already in economic crisis, with many regions underperforming East Germany; Brexit is likely to make this worse. There is a strong case for a surcharge in this country too.

**FIGURE 4.3: GERMANY’S LAGGING AREAS HAVE CAUGHT UP SIGNIFICANTLY WITH THE REST, EVEN THOUGH SOME OF THEIR AREAS HAVE SURGED AHEAD**  
 Distribution of regional productivity of NUTS3 regions, Germany (GVA per worker as a proportion of the national average)



Source: OECD 2019

## MYTH 6. "THERE IS NO CAPACITY TO DELIVER ECONOMIC POLICY AT THE LOCAL OR REGIONAL LEVELS"

Some commentators have raised concerns about the capacity of regional and local government to deliver policy: Randall and Casebourne (2016), for example, have argued that local government needs to demonstrate analytical, technical, delivery, and political capacity.

It is true to say that there isn't *currently* the local capacity required to deliver the full range of devolved policy required. After 10 years of severe austerity, local government capacity has been severely weakened – and in some cases it is critically low (NAO 2018). Furthermore, central government's capacity to devolve has also been eroded: the Ministry of Housing Communities and Local Government (formerly DCLG) has been severely weakened since 2010, and is currently engaged in the challenging local government 'Fair Funding' review. This has implications for the resourcing and timescales of devolution.

However, recent experience shows that capacity can be built in different ways in different places.

- Combined authorities have developed capacity in very different ways in different parts of the country. Greater Manchester Combined Authority has evolved from the Association of Greater Manchester Authorities (AGMA) over decades, and has the resources and personnel needed to deliver some economic and social policy in the city region (see Lowndes and Lemiere 2017). In 2018/19 it spent an annual budget of £270 million in capital (GMCA 2019). The West Midlands Combined Authority, which doesn't have Greater Manchester's long history of collaboration, has in a relatively short space of time built the capacity to deliver a revenue budget of £169 million and £116 million financing capital expenditure in 2018/19 (WMCA 2018). These two examples show that institutions evolve very differently, and are highly dependent on context – especially on the individuals and authorities involved (Lowndes and Lempriere 2017). This also shows the importance of building on the institutions, social capital and identities specific to each place, as opposed to a 'one-size-fits-all' model.
- Transport for the North, which only came into being in 2014, now has statutory status as the first subnational transport body, employs more than 100 staff and is developing a wide-ranging transport plan. It has brought forward a £70 billion investment pipeline (TfN 2019).
- But the best lesson in regional capacity can be learned from England's only regional government and its related institutions: the Greater London Authority group employs more than 1,000 people, and in 2018/19 spent more than £5.2 billion on capital and £11.4 billion a year in revenue (GLA 2019a; GLA 2019b). London has undergone successive changes to its governance throughout history, and pan-London governance was only restored to London in the year 2000.



**Capacity is essential if devolution is to deliver on its promise. In many cases, this can be transferred from existing departments as power is devolved. Ultimately, real capacity will require some investment, and central government will have to trust the subnational level with real power and funding. This report has already shown that this investment and trust are likely to result in more positive outcomes.**

Devolution is subject to many myths and misconceptions – perhaps more so than any other area of policy. But the fear of ‘postcode lotteries’ and the association with austerity are not valid objections to devolution.

The other concerns described here demonstrate the need to undertake a better programme of devolution. The process of devolution must be coherent and inclusive; it must be undertaken in a way which respects local, regional and national identities; fiscal devolution must be accompanied by redistribution; and capacity must be built and sustained for devolution to be effective.

# 5. A NEW SETTLEMENT FOR ENGLAND'S REGIONS, TOWNS AND CITIES

This report has shown that England's severe economic divides have been enabled by the centralised governance of its economy. It has shown that an inclusive and coherent programme of devolution is an opportunity to address these major divisions.

Devolution to date has been marked by successive tinkering: RDAs, a referendum on a North East assembly, overlapping LEPs, and ad-hoc devolution deals to mayors and combined authorities. Now, English devolution must be addressed as a top priority. In this chapter, we set out a potential way forward.

We will now set out a blueprint for a '**devolution parliament**' – a series of bold, interconnected reforms to central government, as well as to the regional and subregional tiers.

We make five overarching recommendations for the government to take forward in its forthcoming devolution white paper.

## 1. ROLL OUT AN INCLUSIVE DEVOLUTION PROCESS FOR ALL OF ENGLAND

The current process of devolution is deeply flawed. As this paper has discussed, it consists of a series of ad-hoc deals struck at the whim of central government and is held back by partisan lobbying of government ministers. This has introduced severe incoherence; no broad principles have been used across England to devolve. This cannot be sustained, but nor can it be changed all at once without due process.

The government must therefore introduce coherence to the devolution process from this point onward. Crucially, this coherence does not require that all places move at the same pace on the path toward devolution, it merely requires that there is a clear set of principles to govern the process – that there is a **good reason why** some places have more power than others. Each locality should have access to devolution at their own pace, and at the scale that suits specific local realities.

And while this report has focussed on the economic case for devolution, this has major implications for the way we are governed. And the governance of England cannot be overhauled without due process – especially given the current levels of disillusion.

In the forthcoming devolution white paper, the government must delegate devolution to a fair decision-making process and introduce complete transparency and coherence. To achieve this, they should do the following.

### A. Set out a coherent plan for a devolution parliament

We recommend that the government undertakes a comprehensive and process of devolution to regions, towns and cities over this parliament, incorporating a

convention on devolution at its start. Below, we set out how this could work in greater detail.

### **B. Set up a Convention on Devolution in England**

The government should convene a time limited, inclusive **Convention on Devolution in England** that resolves the issues of identity, geography, and scale of devolution by bringing citizens into the process from all parts of the country to develop an England-wide framework, albeit one that's applied in different ways in different parts of the country.

It is important that this convention is focussed, meaning that it shouldn't seek to resolve all the country's constitutional problems at once. This should not continue indefinitely or be used to put off difficult decisions – devolution needs a deadline.

The convention should be set up along the following broad principles:

- its purpose should be to develop a plan and to do so with a degree of legitimacy and buy-in from across England
- it should be time limited
- it should have a tight remit (the basis of which is set out in the following sections)
- it should be focussed on 'how' rather than 'whether' to devolve power and explicitly rule out any centralisation
- it should be inclusive of citizens, elected representatives, civil society and unions, and based on international best practice
- it should be supported by government but politically independent — each political party should then draw on this convention and build its work into their policies and positions
- the recommendations which follow should feed into this convention and be refined by that process.

### **C. Set up a long-term devolution framework and a Joint Devolution Panel**

The government's forthcoming white paper on English devolution should set out a '**devolution framework**', clearly outlining the principles of the process, and the powers and funding on offer, but allowing for significant flexibility and the discretion of the Joint Devolution Panel. The framework should be open to metropolitan and non-metropolitan areas based on the needs and ambitions of each place. It would cover the full range of potential devolution possible, from the small-scale devolution seen in some deals with combined authorities, through to a high degree of fiscal devolution (alongside redistribution – see recommendation 2). The Convention on Devolution in England would develop this further in a way that includes and empowers local government.

These packages of powers would be devolved by a '**Joint Devolution Panel**' – a transparent and inclusive decision-making process for devolution, with equal representation of local and central government. As well as making the decisions about what should be devolved, this panel would also oversee the creation of the devolution framework itself.

Reasonable time limits and bedding-in periods would be agreed for the implementation of new powers, meaning that places would need to wait a period of time before moving to the next level of devolution.

Crucially, this would mean that – once the devolution framework is set out and a Joint Devolution Panel is in place – regions and subregions would no longer be at the whim of central government ministers for further devolution. It would put an end to the reactive, ad-hoc bilateral and opaque 'deals' that have marked

devolution in England to date. It would also put an end to central government's exclusive control of the devolution process.

## **2. DEVOLVE FISCAL POWERS IN PHASES, IN A FAIR AND SENSIBLE WAY**

Fiscal centralisation has enabled severe local government austerity. Because of the power central government has over tax and spend, it has passed on the most difficult cuts to councils across the country, leaving them with no choice but to cut services they know are vital to their residents. Fiscal centralisation is also one of the main reasons why the tax base is so low in the first place – other countries have local and regional taxes as well as central taxes and can invest more sustainably in public services and infrastructure (Raikes et al 2019). While there are understandable concerns about fiscal devolution, it must be a priority for devolution and a way forward must be found.

The government must fundamentally change how public funding is raised and spent across the country and address the severe imbalance of power that creates this situation. The opportunity to do so is in the forthcoming budget, the devolution white paper and in the spending review due later in 2020. The government should do the following.

### **A. Reverse austerity and re-found fiscal devolution on progressive principles**

Devolution must be based on a strong fiscal foundation; therefore, as a starting point, local government austerity must be reversed. Only when economic development isn't forced to compete with child protection for funding will local government have the real power to make their local economies more prosperous.

Going forward, fiscal devolution must also be founded on strong progressive principles. Fiscal devolution is currently premised on the idea that it can incentivise local competition and growth. This is a poor foundation in practice and in principle, as discussed above. In future, it should be founded on the principle of democratising taxation, and on the premise that both the redistribution of wealth and the investment in common infrastructure are better enabled within localities and regions than they are at a national scale.

Fiscal devolution should be underpinned by the following principles:

1. the objective should be greater equality and resilience across all of England's regions, towns and cities
2. risk must be pooled and managed, and safeguards must be in place to ensure that places are protected from exogenous factors (such as recessions)
3. budgets and financial decision-making should accompany the devolution of powers – the associated funding stream should follow in full, but without any ring-fencing once devolved
4. redistribution should balance the following considerations: the need to reward sound, long-term, sustainable economic policy; the need for strategic investment in all regions for resilient growth; and the need for deprived areas to have transformative investment to adapt to globalisation
5. decisions about redistribution should be made jointly between local/regional government, and central government at the national level.

### **B. Devolve real fiscal powers, with appropriate safeguards, in phases**

The government should roll out fiscal devolution in phases. Firstly, the functions of local government must be met with the funding to deliver them, as well as the flexibility needed to improve delivery. There are also quick wins for fiscal devolution – allowing local taxes and charges (such council tax and the business

rate supplement) to be taken forward without central government control. But in the long term there are major challenges that can only be met by setting up an official Fiscal Devolution Commission to implement fair local and regional redistribution within a new constitutional settlement.

We propose that fiscal devolution proceeds as follows.

### **Phase 1: Unlock small-scale fiscal devolution**

- Current restrictions on council tax are lifted.
- Combined authorities and councils are given the power to levy new taxes and charges related to their areas of responsibility without central government consent: workplace parking levies, hotel bed taxes, congestion charges, and business rate supplements.
- Budgets follow powers as they are devolved.
- Borrowing caps are raised to invest in social housing, transport infrastructure, and energy infrastructure.
- An inclusive growth and resilience fund replaces EU funding, is devolved to regions, towns and cities, and used to invest in social and physical infrastructure.

### **Phase 2: Set up an Independent Fiscal Devolution Commission across England to resolve the challenges of fiscal devolution and redistribution**

- Government tasks Independent Fiscal Devolution Commission to set out a blueprint for fiscal devolution with fair redistribution, and commits to implementing its recommendations.
- Independent Fiscal Devolution Commission draws on the experience of previous commissions,<sup>18</sup> and reports to government on devolving tax powers alongside a system of transfers between the regions and central government.
- Government develops and implements these proposals.

### **Phase 3: Roll out a system of fair fiscal devolution and redistribution across England**

- A new system of fiscal autonomy rolled out alongside reforms to governance at the local and central level.

## **C. Build up and devolve an inclusive growth and resilience fund**

As it stands, England has a serious economic divide, and one which is likely to get severely worse as our relationship with the EU fundamentally changes. The government also underinvests in infrastructure even before regional disparities are considered, but poor infrastructure is especially acute in regions outside London. The UK needs to invest significantly more, and this investment needs to be focussed on areas which have lacked central government attention for decades.

The replacement for European structural funds is a good starting point for this fund. The Conservative government has proposed a 'shared prosperity fund' to replace the €10.9 billion funding stream.

The new government also has £100 billion to invest in regions, and much of this should be devolved. If further funding is required, then this could be further boosted by a 'solidarity surcharge' or similar measure, which has been used in other countries at points of crisis. The funding for this investment should be drawn primarily from those who have benefited most from the regional disparities we currently have but must also be progressive along the income distribution. This

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<sup>18</sup> Such as the London Finance Commission, and the Independent Commission on Local Government Finance.

should be devolved to the subregional tier to be spent by combined authorities or groups of local authorities where these don't yet exist (see Henry and Morris 2019).

### **3. DEVELOP A LOCALLY-LED REGIONAL TIER OF GOVERNMENT**

This report has set out how city-regions and counties should take precedence. But it has also shown that the England's divides aren't primarily due to the under-sized city regions at which these combined authorities function – rather, it is the regional economic scale that the UK needs to develop (McCann 2016).

This means that economic strategy and certain economic powers need to be exercised or coordinated at this tier, and these regional functions require regional form: England needs regional institutions to deliver the appropriate economic policies. Even the largest combined authorities can't be said to operate at this scale, while, at a population of 55 million, England is far too large and some form of England-wide government would just replicate the current problems we have with centralisation. The development of combined authorities and emerging regional institutions to date has shown that developing capacity and collaborating strategically at this scale is perfectly feasible and often won't start from a blank slate, especially in the North and Midlands.

The evolution of the regional tier keeps getting held back by central government – the RDAs and the Northern Way were wiped out in 2010 at the flick of Eric Pickles' pen, but the Northern Powerhouse and Midlands Engine initiatives have seen this larger tier of government re-emerge, albeit slowly, and with clear limitations (Raikes 2019a).

In the forthcoming devolution white paper, the government must bridge current gaps and support the regional tier to develop in a way that's sustainable for the long term; that's integrated with and accountable to local government; that respects people's sense of identity; and that includes the necessary stakeholders in economic policymaking. To achieve this, they should do the following.

#### **A. Devolve powers to regions that complement those of combined authorities**

Regions should take on a set of powers appropriate to their scale. As chapter 2 showed, most other countries hold a common set of economic powers at a subnational tier, whether at a regional or subregional level. These are often exercised concurrently and in collaboration, vertically integrated between tiers of government. As discussed, these powers should include:

- pan-regional rail franchising
- pan-regional rail infrastructure
- major road network (investments, improvements, and management)
- trade and investment – regional coordination and cooperation
- research and innovation funding (concurrently)
- deciding labour immigration rules.

These powers should be used to deliver on regional industrial strategies. Regional industrial strategies would focus on areas of economic policy – such as innovation, trade and investment, and transport – that are most appropriate at this scale; on supporting the specialisms and supply chains that operate at the regional scale; and would also be used underpin coordination between the local industrial strategies (developed by combined authorities) and the national industrial strategy (developed by central government).

## **B. Develop regional institutions at a scale appropriate for England's economic geography and the global economy in which it operates**

English devolution should explore the option to operate in a more coordinated way at the regional tier to help better co-ordinate key strategic decisions. This new regional tier must also account for the status of emerging regional institutions. This report has shown how London, the South East and parts of the East of England work very differently to the rest of England and has described the emergence of Transport for the North and the Midlands Engine.

For the purposes of this report, we propose using this **illustrative** economic geography as a starting point, and initially using the closest corresponding groupings of government office regions as a basis for discussion. These geographies need to be developed in partnership with people and leaders in each region, and, before any decisions are made, these geographies should be subject to a Convention on Devolution in England.

### **The North**

There is a strong economic argument for uniting the North West, Yorkshire and the Humber and the North East together as one for economic policy. This would be an economy of 15 million people and £361 billion of GVA (bigger than all the devolved nations and most EU countries) (ONS 2019a). It is particularly important to connect Greater Manchester and Leeds City Region, which together are home to almost 6 million people and work together as a professional services hub serving the North's economy (Raikes 2016). The North, branded as the Northern Powerhouse, is of a scale that is recognised internationally, and the Northern Way paved the way for collaboration at this level. Transport for the North and the NP11 span the three 'old' regions already, and this has fostered collaboration as well as building vital institutional capacity. With five major city-regions, no one of them can dominate.

### **The Midlands**

There is a strong economic case for much closer collaboration between East Midlands and West Midlands, which is already emerging under the rubric of the Midlands Engine. This is home to 10.5 million people, an economy of £250 billion in GVA (ONS 2019a). It encompasses 20 universities and 20.5 per cent of the UK's manufacturing output (Midlands Engine 2017). Birmingham's economy does dominate, but less so than if it were placed within a West Midlands region alone. The smaller cities and towns of the East Midlands would benefit from the international connectivity and professional services that Birmingham provides.

### **The South West**

The South West is perhaps the more challenging part of England to group together at scale. Cornwall has a very strong regional identity which is often overlooked by policymakers, and it is crucial that, in devolving power out of Westminster, this sense of identity is duly respected. That said, there is an economic case for grouping the South West together, due to the economy of scale and the resilience that comes with an area that is more socially and economically diverse.

Taken as a whole region, the South West would be home to 5.6 million people. With annual GVA of £139 billion, it would be the smallest English region, but it would have an economy twice the size of Wales. This region would unite the high-productivity city of Bristol, its affluent commuter belt, high-tech clusters, and universities with the rural Devon and Cornwall, with their natural assets and tourism economy. There are significant disparities in income and wealth between Cornwall and Gloucestershire for example; and there is currently a great deal of geographical fragmentation too. Bristol has been working closely with

Cardiff recently in the Western Gateway project and such cooperation should be encouraged rather than impeded by any new governance structure in England.<sup>19</sup>

However, all these factors could be better addressed by more cooperation within this region. The region could work at scale to reduce economic disparities and to enable better connectivity, and could also use devolved power to forge stronger partnerships across the Severn estuary. Given the strong economic case for working at a regional tier, this appears to be the best starting point for this part of England. However, economic arguments can only take policy so far, and identity must also be respected. The area may therefore benefit from a bespoke governance solution and more powers devolved to Cornwall than to subregional authorities elsewhere.

### **The South East**

This would cover London, the East of England and the South East. This would encompass not only London but also its commuter belt, the high-productivity towns and cities in the South East, clusters along the M4 corridor, and with Oxford and Cambridge it would connect the whole 'golden triangle' under one institution. These three regions are one of the few clusters of regions which have positive spatial autocorrelation – nearby regions tend to have similar values of GDP per capita (Roses and Wolf 2018). London would dominate, but would only be home to one-third of this region's population. It would be home to 23.9 million people and comparable in scale to the world's megacities (although it would operate very differently). With an economy of £892 billion in GVA it would generate just under half (54.3 per cent) of England's output, and as such it would of course dominate the economy – as it already does. While this dominance might raise concerns, this proposal merely formalises an institution to account for the dominance that already exists. This will enable policy to be properly coordinated by regional government, instead of by central government as is currently the case – especially in transport and innovation policy. It will also pave the way for fair funding between England's regions (see recommendation 2). It is essential that this region evolves alongside other regions, in order to avoid repeating the current problems at the regional tier and thereby exacerbating the dominance of London.

This strictly illustrative suggestion is represented in figure 5.1. As with any configuration, these suggestions are likely to be controversial, and the above is merely a recommended starting point. But England needs to start thinking at this tier of geography if the country is to prosper; at some point in the future, the regional tier needs to take form.

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<sup>19</sup> See: <https://www.gov.uk/government/news/cross-border-western-gateway-will-form-new-powerhouse-in-uk-economy>



**FIGURE 5.1: ILLUSTRATIVE MAP OF POTENTIAL REGIONAL GEOGRAPHIES IN ENGLAND**



Source: Author's analysis

### **C. Develop regional capacity, drawing on existing capacity and from central government**

Regional capacity should be encouraged and supported by central government and by local and combined authorities, but central government needs to take on the financial responsibility for doing so.

As functions are transferred from central government to regional authorities the simple starting point should be that staff and resources are transferred to match – in theory only the lines of accountability need to change.

In practice, there may be additional costs, and there are many precedents for central government funding the core capacity of emerging devolved institutions.

Local and combined authorities must also contribute through collaboration at this tier. Economic development functions have been hollowed out or eradicated in many local authorities due to austerity. But, as has been the case with combined authorities, pooling capacity at a higher tier of authority can introduce economies of scale.

### **D. Regional governance should evolve as powers are taken on**

Regional governance must evolve if these institutions are to exercise the autonomy they need. Before setting an unnecessarily high bar for the governance of devolved institutions, it should be acknowledged that a great deal of economic power is currently exercised by arms-length quangos only loosely accountable to central government – the ESFA and Network Rail, for

example. It follows that the governance reforms required to take on some of these agencies' powers need only be minimal in theory, although devolution should aim to radically democratise decision-making.

Transport for the North is an excellent starting point for regional governance. It is indirectly accountable to local leaders within the North and is developing transport projects and strategies at this tier already. Similar transport bodies should be rolled out across all of England as soon as possible.

As the powers broaden beyond transport, some form of 'regional combined authority' could be the basis of further devolution over the parliament. This would see indirect election to a regional cabinet of leaders from the constituent combined authorities. It would enable vertical integration between the constituent subregional combined authorities and the regional tier. It would also ensure that 'form follows function' – a tier of new elected politicians is hardly necessary in the first stages of the development of the regional tier, which involves mostly cooperative and strategic policymaking. This would require amendments to the legislation to allow for 'nested' combined authorities.

But regional institutions must be more accountable if they are to exercise significant economic power. Priority should be given to preserving vertical integration between constituent combined authorities and the regional tier alongside greater democratic accountability. The current combined authority model again offers a useful blueprint: just as directly elected mayors are integrated with local leaders, so could a directly elected regional tier be integrated with indirectly elected representatives from combined authorities. There are clearly a range of options: from regional assemblies to directly elected regional governors. These options should be explored by the Convention on Devolution in England.

These institutions must be geared toward the wholesale democratisation of local economic policy from the outset. They should embed robust checks and balances in the way they are governed and introduce more citizen engagement alongside the devolution of powers.

In addition, regional government should learn from the success of German governance, and set up a tripartite social partnership model which includes unions and businesses alongside politicians in making policy – as has already been implemented by the board of Transport for the North.

#### **4. DEVOLVE ECONOMIC POWERS TO CITY REGIONS AND NON-METROPOLITAN AREAS**

City regions and other, non-metropolitan subregions are the economic building blocks of devolved policy in England, and combined authorities are a good foundation for governance in many areas. These are usually (although not always) closely aligned with functional economic areas – the geographies at which people tend to live and work – and therefore the level at which policies that improve the labour market, transport and housing policy are best coordinated. They are firmly established by legislation and precedent: they are already set up across more than a quarter of England's population and can legally take on any public service function. They have clearer lines of accountability than LEAs or RDAs – especially where they have mayors. And, finally, many have the scale to be significant economic powers in their own right: Greater Manchester and the West Midlands have economies larger than those of Wales and Northern Ireland. While a regional tier is vital (see recommendation 3), experience of RDAs suggests that, if policy begins with top-down centrally designed regional institutions, they

will not be integrated with local government and can be disbanded with relative ease by central government.

That said, there are important concerns with regard to the subregional tier to take into account. England has a diverse geography, and there is no single 'correct' model for local governance. Combined authorities are the right structure for some parts of England, but they are inappropriate in others. They do not always map onto local economic geographies or identities. They are also a one-size-fits-all governance model that may work for city regions where unitary authorities can come together, but in many areas there are different -tier structures in place already, and a single mayor can introduce a problem for more polycentric areas, made up of several towns.

These issues aside, the main problem at the moment is that, even where they are appropriate, mayoral combined authorities are still far too weak. Even the most powerful ones don't have the power and funding they need over important areas such as intra-city transport, skills, education, and housing. Meanwhile, non-metropolitan areas have been left at the margins of the process.

In the forthcoming devolution white paper, the government must build on the devolution that has already taken place by devolving large swathes of economic policy to city regions and counties. To achieve this, they should do the following.

#### **A. Support subregional reform into more accountable structures, such as combined authorities, and enable more citizen involvement**

As part of the new devolution framework, subregional authorities (such as combined authorities) should reform their governance when taking on new powers. Directly elected mayors may be appropriate for some areas but needn't be the only model for devolution: non-metropolitan areas could be reformed to suit their local circumstances, and new electoral models should be developed (Hunter 2017).

These combined authorities must have effective scrutiny. As a greater degree of executive power is devolved, the right checks and balances must be in place for executive decisions to be inclusive of communities' concerns and avoid error or even corruption (Raikes 2017; CFPS 2016). It is therefore essential that scrutiny committees are:

- focussed on specific policy areas – not generic as in some combined authorities
- powerful and independently resourced, with dedicated support officers
- representative of gender and diversity within the area (Raikes 2017; Gains 2019).

Finally, combined authorities should democratise economic policy by embedding new models of citizen inclusion and democratic deliberation. Devolution should be seen as a catalyst for democratising local economic policy. In practice, this means spending a proportion of devolved expenditure via participatory budgeting or using citizens' assemblies as part of decision-making processes.

## **B. Devolve real economic power where appropriate to subregional combined authorities, and other reformed subregional authorities**

Combined authorities (and their equivalent structures) should be given the powers and funding they need over local commuter transport, aspects of skills and education policy, and the local elements of industrial strategy. This autonomy can begin early on quite easily and develop further over time. The following powers should be considered for devolution to combined authorities:

- employment support (including that which is currently delivered by JCP)
- adult skills, apprenticeships and lifelong learning capital and revenue funding (not accreditation and regulation)
- careers advice, work experience, and job guarantees
- 16+ education, and apprenticeship capital and revenue funding
- schools commissioning
- early years capital and revenue funding
- primary school funding and coordination
- secondary school funding and coordination
- transport capital infrastructure funding
- intra-city/county transport policy, integration, and franchising (bus, tram, BRT, tram-train, suburban rail)
- a package of planning powers and funding to enable delivery of good quality homes.

As responsibility for any particular area of policy is transferred, the associated funding stream should follow in full, but without any ring-fencing once devolved. Much greater fiscal devolution needs to occur but must sit within a wider system of fiscal transfers between nations and regions (see recommendation 2).

## **C. Set up a capacity fund to pump prime the capacity of new combined authorities and other reformed subregional authorities**

Central government is responsible for cutting local government budgets in half since 2010, and should therefore fund the capacity needed to restore and enhance some of their functions at the combined authority tier. Furthermore, as they transfer functions to those combined authorities, the associated budgets for staff, offices, and other resources should follow. While the government has previously made funds available to build capacity, they have been ad-hoc and short term. These need to be sustained for a longer period so that these new institutions can find their feet.

After this initial period of pump priming capacity, combined authorities can take on more responsibility for their own capacity. This should form part of a new fiscal settlement between nations and regions (see recommendation 4).

## **D. Rationalise, reform and integrate local enterprise partnerships**

LEPs should have a role in subregional governance but this needs to be appropriate. The role of LEPs is important but can only ever be advisory – they are not democratically accountable or legally instituted in such a way as to take on any real devolved power.<sup>20</sup> They also often overlap with each other and with combined authorities, complicating local governance. Finally, their membership does not gear them toward delivering broad-based prosperity.

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20 The government have recommended that they become companies limited by guarantee so most of them have some form of legal identity. What they lack is democratic accountability.

The government is seeking to reform LEPs, and as part of this process we recommend that they are:

- **rationalised:** they should not overlap with one another and conform to the geography of combined authorities and other reformed subregional authorities<sup>21</sup>
- **reformed:** they should include trade unions and civil society; all members should be ‘anchor institutions’<sup>22</sup> and sign up to local employer charters (Raikes 2017)
- **integrated:** they should undertake an advisory function for their local subregional authority and their role should be to challenge decisions, but they should hold no formal power.

## 5. PERMANENTLY REFORM CENTRAL-LOCAL RELATIONSHIPS WITH A NEW CONSTITUTION

The relationship between central and local government is one of the many flaws with our current constitution. It has allowed central government to push local government around, and force austerity on some of the poorest parts of the country.

Central government’s economic policymaking also needs a radical overhaul. Even with the programme of significant devolution proposed in this report, central government will make the major economic decisions, and these will have a profound effect on regions – as they do now. This understanding must be reflected in central government decision-making – so that central government doesn’t overlook the negative impact of its decisions on different places, and so that all assets are mobilised in the national interest.

The next government must therefore fundamentally address the relationship between central and local government. To achieve this, they should do the following.

### A. Set up a National Economic Council that includes regional representation

Nations, regions, and combined authorities should be represented on the National Economic Council. IPPR has previously recommended that a National Economic Council (NEC) is created to open up decision-making and to give a voice to regional representatives (and in the case of the nations, their governments) (CEJ 2018).

This would be chaired jointly by the chancellor of the Exchequer and secretary of state for Business, Energy and Industrial Strategy, and would include from the leaders of major business, trade unions, and relevant civil society organisations. This NEC would advise on economic policies and draw up and agree a coordinated 10-year plan for the UK economy (ibid).

### B. Reform the House of Lords through a Constitutional Convention, to ensure regional representation is embedded in national government permanently

The second chamber must be reformed. The arrangements already outlined in this report would help to ameliorate the tendency of central government to favour the capital and overlook the potential of other parts of the UK. But if regional growth and resilience are to be a national priority, regions must be formally represented in the national legislature. In many countries, the upper house ensures representation of all regions and often puts these on an equal footing regardless of their size.

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21 In line with government’s recommendations.

22 Large and long standing organisations such as universities, leading firms and sporting and cultural institutions, see: <https://hummedia.manchester.ac.uk/institutes/mui/igau/IGAU-Consultation-Report.pdf>.

We recommend that:

1. the Convention on Devolution in England makes recommendations about the nature and location of the House of Lords
2. a Constitutional Convention is undertaken to refine these proposals in the context of broader constitutional questions
3. these proposals are implemented toward the end of the parliament.

No other country tolerates the inequalities of power and prosperity that divide England. The status quo might appear sustainable to those making policy in Whitehall, but from all corners of the country it is now apparent that England's governance needs a radical overhaul. This paper has laid out the case for change. It is a strong and uncontroversial case that shows how the country could benefit from the right programme of devolution in England.

Finally, this paper has shown that this is possible. We have drawn on the experience of other countries and set out what a coherent and inclusive programme of devolution could look like. The next step is now clear: a Convention on Devolution in England needs to take place as a matter of urgency, so that the citizens of England can have a say in how they are governed.

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# ANNEX

## ALMOST HALF OF ENGLAND'S JOB INCREASES IN THE LAST DECADE WERE IN LONDON AND THE SOUTH EAST

### Workforce jobs and population by region in England, 2009–2019

	September 2009	September 2019	Increase in jobs (net)	% of total increase	% of population 2018
North East	1,183,604	1,222,331	38,727	1%	5%
North West	3,411,666	3,849,466	437,800	11%	13%
Yorkshire and the Humber	2,562,135	2,752,926	190,791	5%	10%
East Midlands	2,174,701	2,448,166	273,465	7%	9%
West Midlands	2,621,140	2,963,654	342,514	9%	11%
East	2,817,113	3,244,409	427,296	11%	11%
London	4,822,265	6,053,568	1,231,303	32%	16%
South East	4,381,050	4,945,862	564,812	15%	16%
South West	2,718,978	3,063,092	344,114	9%	10%
<b>England</b>	<b>26,692,652</b>	<b>30,543,474</b>	<b>3,850,822</b>	<b>100%</b>	<b>100%</b>
<b>London and South East</b>	<b>9,203,315</b>	<b>10,999,430</b>	<b>1,796,115</b>	<b>47%</b>	<b>32%</b>
<b>North (North East, North West, Yorkshire and the Humber)</b>	<b>7,157,405</b>	<b>7,824,723</b>	<b>667,318</b>	<b>17%</b>	<b>28%</b>

Source: IPPR North analysis of Office for National Statistics [ONS] (2020)



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