

# Progress on devolution in England inquiry

Housing, Communities and Local Government Committee

August 2019

The British Academy is pleased to respond to this inquiry. The key points we want to raise are that:

- Devolution deals were more likely to be successful in places with a clear identity, which can be nurtured and develop over time.
- Healthy relationships between key players are necessary but not sufficient for a successful deal.<sup>i</sup>
- The original purpose of devolution was to enhance economic growth. Over time the integration of services has assumed a greater prominence, leading to a lack of clarity around the purpose of devolution.
- Too often, the ‘Manchester model’ was assumed to be the preferred or only template. It may not be suitable everywhere.
- Greater use of place-based policy offers opportunities for integrating and matching services more directly to local needs but has implications for national standards.
- Council tax and business rates are inadequate for funding local government, not least because the areas with the greatest needs tend to realise the lowest yields.
- Any efforts to devolve taxation must be treated with caution due to the potential impact this has on the pooling and redistribution of funds.

## **Introduction**

1. The British Academy is the UK’s national academy for the humanities and social sciences. It is an independent fellowship of world-leading scholars and researchers; a funding body for research, nationally and internationally; and a forum for debate and engagement.
  2. The humanities and social sciences and those who study them enrich and deepen our understanding of the world around us. Since its creation, the British Academy has celebrated these subjects and demonstrated their contribution to the understanding of humanity, economies and societies. We bring both the expertise of our fellowship and insights from these disciplines to bear on public policy issues.
1. This response draws on work which the British Academy carried out between 2016-2018. [Governing England](#) explored questions about England’s [governance, institutions and identity](#) in 2016-17 and [public services](#) in 2018 through roundtables across England attended by local politicians, businesspeople and officials from central and local government. These roundtables form the basis of this response. Another publication explored issues around [Devolution and Funding](#) (2018).

## **Place matters**

2. Across our roundtables, many attendees supported greater devolution but felt it needed an identity and key actors working together towards a shared goal to be matched with stronger political structures.

3. Greater Manchester and London were often cited as examples of a place with coherent identities which allow political institutions to be built. Identities and institutions reinforce each other over time. Area identity is not spontaneous but can be nurtured and developed.
4. Policies should not be designed as if the places where services are delivered are all the same.<sup>ii</sup> Our attendees were supportive of place-based policy, integrating public services in an area. One referenced the positive correlation between health and economic growth having been a motivating factor in the Greater Manchester deal. Other issues impact on health, such as housing, jobs and future prospects and integrating these within an area, such as Greater Manchester, allowed them to be tackled together.<sup>iii</sup>
5. The logical extension of place-based services is an end to national services, or at least services run and directed from the centre. Attendees at our health roundtable believed that the NHS is already national in name only and that this should be embraced. Taken to its logical conclusion this would be a service focused on outcomes in places, not national standards.
6. Organising services at the level of the place should allow greater focus on outcomes, rather than providers. Greater Manchester seeks to assess service provision in the round at the level of a 'unit of delivery' of around 30,000-50,000 people rather than focusing on the delivery of the outputs of one organisation in isolation.<sup>iv</sup>

### **Success and scope of devolution deals**

7. IFS Associate Director David Phillips has assessed the literature on devolution which shows that there is no definitive answer as to whether devolution is 'a good thing'.<sup>v</sup> Rather it can be made to work if certain conditions are met.
8. The deal-based model of devolution in England was originally underpinned by a desire to enhance economic growth. Since then the integration of services has become a more prominent motivation. Both are reasonable aims but require different approaches and each have their own implications.<sup>vi</sup> This lack of clarity of purpose has undermined the deals and caused confusion.
9. We heard repeatedly that Whitehall and Westminster are too remote. Too often the priorities of central government are unsuitable for other areas. To that end many felt the deals were no more than a promising start as authorities still lack the tools needed to tackle the problems in their areas, especially when the needs of the local employers not being met by the skills and qualifications of the local population.<sup>vii</sup>

10. There was no consensus about how beneficial the deal-based devolution was likely to be. Participants were divided, some favourable to the passing of powers over skills and infrastructure to Combined Authorities. Others saw the offers as little more than administrative decentralisation with few powers and less resources.
11. Where the devolution is piecemeal and limited in impact, it was seen as unlikely to change the asymmetries of economic and political power across the regions of England. Another concern was that a reduced role for the centre in redistributing resources would mean poorer areas would be even worse off.<sup>viii</sup>

### **Geography lessons**

12. The most suitable geography for devolution will depend on the purpose of devolution. Greater clarity of purpose assists progress.
13. If devolution is to grow the local economy, following the ‘Powerhouse’ model, then Functional Economic Areas (FEAs) are a logical basis. However, devolution for democratic reasons, for service provision or for administrative convenience may utilise other geographic bases. Each of these has merit but clear purpose is required.
14. The FEA approach suits some areas better than others. FEAs may be better for urban centres such as Manchester and London. Semi-rural areas in particular were felt to be unsuitable for the FEA such as the North East or the West of England beyond greater Bristol.
15. The distinction between urban and rural is relevant to governance too. For example, the Cornwall devolution deal does not include either a Combined Authority or a mayor, unlike all other devolution deals. This flexibility for one case (Cornwall) may undermine the FEA-based approach which some local politicians at our roundtables felt was applied as a ‘one size fits all’ model, even when unsuitable, as “we are not all Manchester”.<sup>ix</sup>

### **Identity and coherence**

16. Concerns over geography have not prevented all deals from coming to fruition. Semi-rural Cambridgeshire & Peterborough (C&P) agreed and concluded their deal, electing James Palmer as metro mayor. The success of that deal was attributed to the sense of cohesion, which arose, in part, from all the areas having been in one county. The C&P deal follows the logic of administrative convenience as it is based on the old county council, fire and police authority boundaries.

17. A lack of cohesion was seen as being behind the collapse of the initial East Anglia deal. The coherent C&P area then forged its own deal while the rest did not. The 23 councils which were to be under the East Anglia deal across Cambridgeshire, Suffolk and Norfolk could not cohere around a single identity under a mayor.
18. The experience of Cambridge contrasts with that of Oxford. Cambridge City Council is surrounded by South Cambridgeshire District Council. Oxford, by contrast, is a hub with radiating spokes (South Oxfordshire, Vale of the White Horse, West Oxfordshire and Cherwell). The Liberal Democrat (later Labour) councillors around Cambridge were able to work with the Conservative-led South Cambridgeshire council to progress their mutual interests around a deal. Labour Oxford has not been successful at striking a deal with the four Conservative-held councils that surround it. It has been left to the National Infrastructure Commission to make the case for the infrastructure improvements which might bring about the Oxford-Cambridge corridor, a project supposed to be comparable to the 'Northern Powerhouse'.<sup>x</sup>
19. The issues of identity and coherence have also prevented progress in Yorkshire. While the South Yorkshire mayor has taken office, authorities in that deal have signalled their preference for the One Yorkshire proposal.<sup>xi</sup>
20. While some have looked to London or Greater Manchester as large coherent areas, these have developed over a long time. Institutions such as London County Council and the Greater London authority have both reflected and helped to build the identity and coherence of London. Similarly, the Manchester deal has been some two decades in the making. London and Greater Manchester seem to show what can be achieved over the medium to long term.<sup>xii</sup>

### **Governance and accountability**

21. Our roundtables, coupled with polling data, revealed limited public enthusiasm for the new metro mayors. To a large extent this has been due to public scepticism about more politicians and what would really change.<sup>xiii</sup> Some attendees believed that devolution cannot achieve a transformation in governance as long as the system for funding public services and local government remains highly centralised.
22. Central government has advocated mayors as a single point of accountability and contact. The mayor should, in theory, provide a strategic overview in areas such as infrastructure. But mayors have not proved popular. Concerns over the mayor saw North Somerset council pull out of the West of England deal, while those who did proceed expressed concerns that a new mayor may upset their well-functioning relationships.<sup>xiv</sup>

23. Narrow party politics is also partly to blame. The proposed deal in West Yorkshire fell apart, in part due to significant resistance from politicians. In some cases, this was a fear that a party other than their own might win.<sup>xv</sup>
24. Some local authority figures, elected and not, felt that they had been ‘ambushed’ and forced to have a mayor. In and around Hampshire a fragile coalition had collapsed under government insistence on a mayor.<sup>xvi</sup>
25. The public have yet to engage with the issue of devolution. Polling data presented at our roundtables by Professor Sir John Curtice shows a lack of public enthusiasm for constitutional change<sup>xvii</sup>. However, the question is asked, most of the public ‘don’t know’ or have soft views either way. This should not be a surprise as elected mayors have tended to be rejected by the public when offered a vote.<sup>xviii</sup> The charts below are typical of polling data across England.

Figure 1<sup>xix</sup>

## Devolution and A Mayor

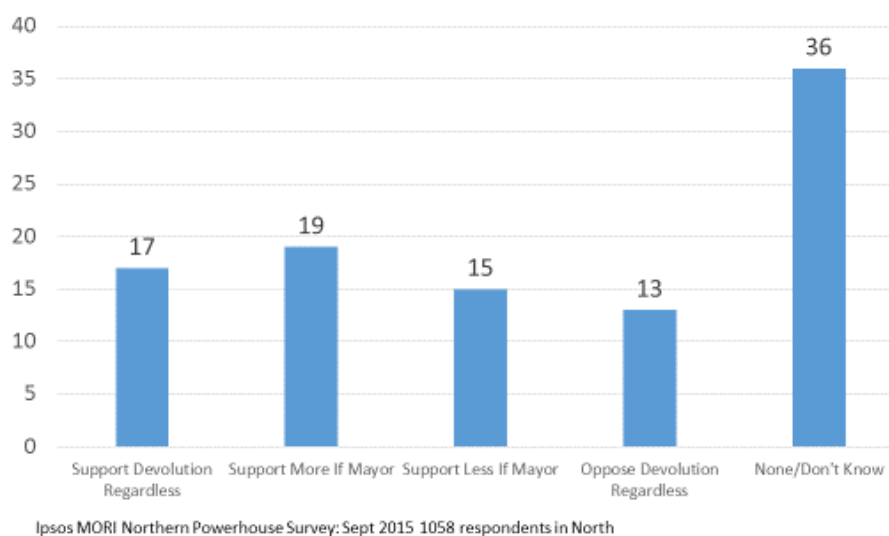
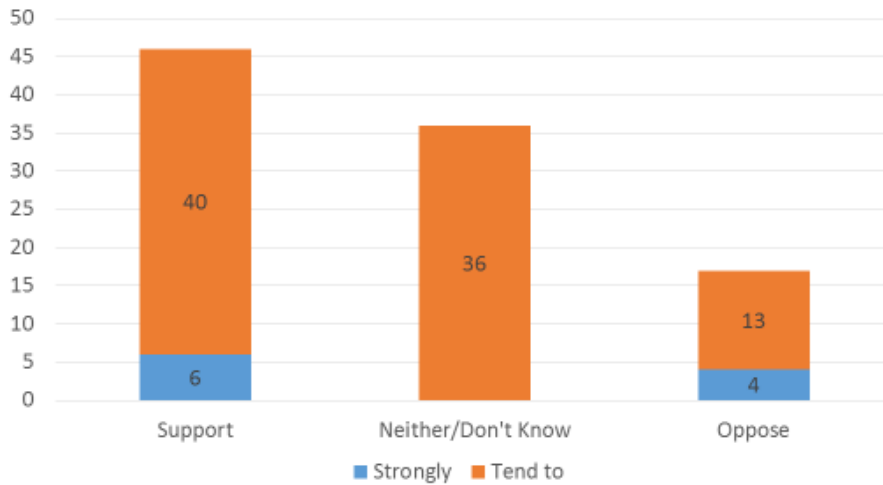


Figure 2<sup>xx</sup>

## Support More Decision-Making Powers to Local Areas

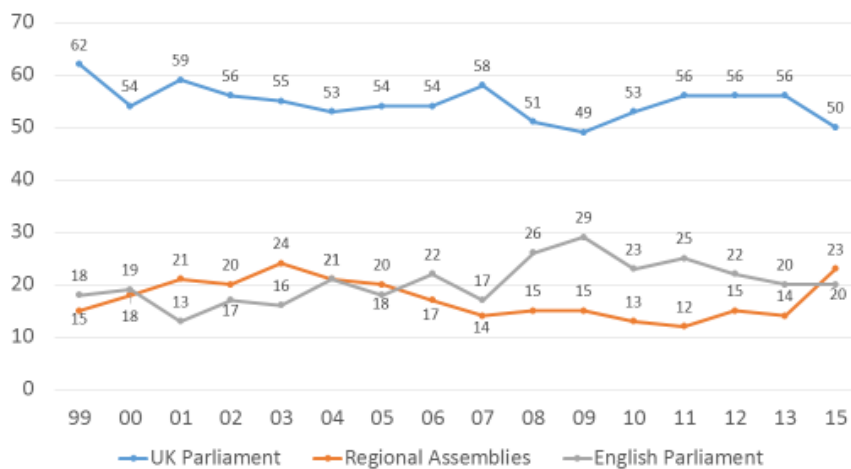


Ipsos MORI Northern Powerhouse Survey: Sept 2015; 678 respondents in South East. Smaller Sept. 2016 survey found 43% in favour; 19% opposed

26. Further polling data shows that most English people want their political decisions to be made by the UK parliament.

Figure 3<sup>xxi</sup>

## Does England want Devolution?



Source: British Social Attitudes: Respondents in England. When Ipsos MORI asked the question in June 2014, they got 44-23-26

27. Local politicians tended to take a more pragmatic approach. For many, the greater money and powers on offer from central government was worth the imposition of a mayor. Many entered into these negotiations expecting more powers and resources at a later point, but these may not be forthcoming given recent political upheaval.<sup>xxii</sup>
28. There is little public understanding of the various levels at which decisions are made and at which accountability lies. This is not surprising considering that some areas have parish, district and county councils and a Combined Authority.
29. The uneven patchwork of political structures across England has been characterised as ‘soft’ devolution because it is ad hoc, uneven and deal-based. Some areas have deals, others do not. Some places, such as Bristol, sit under two mayors but others have none. Several attendees pointed to Local Enterprise Partnerships which play leading roles in some areas and yet have no formal accountability structures.<sup>xxiii</sup>
30. The issue of accountability is most acute in health. It is one thing to assign blame for bins not being emptied, or skills not meeting the needs of local employers. But when it comes to health services those on the receiving end may suffer greatly. It is perhaps no surprise that politicians and officials in the centre have been reluctant to devolve power when they are blamed when things go wrong.

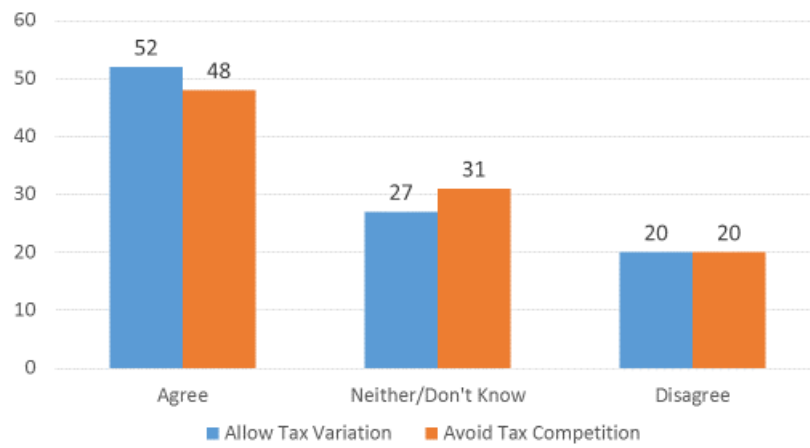
### **New sources of income**

31. The current devolution deals have attracted criticism for the relatively small amounts of money attached to them. The headline figures are spread over several years and roundtable attendees were sceptical as to whether it would all be delivered. The Cambridgeshire and Peterborough deal committed the government to around £20 million per year over 30 years. The £30 million per year pledged to the North East Combined Authority was not enough to make that succeed.<sup>xxiv</sup>
32. The move to greater retention of business rates has created controversy. In part this is because of the perverse incentives created. Because rates are levied on property rather than output, councils have incentives to allow and encourage large out of town distribution and shopping centres rather than housing or small businesses. Greater retention means less role for the centre in redistribution, leaving councils more dependent on a small number of large employers who may threaten to leave or be forced to do so by wider economic conditions.<sup>xxv</sup>
33. Pooling business rates centrally allows risk to be pooled, but greater retention allows divergence and risks tax competition. The public support the power to vary taxes but oppose the tax competition that would likely follow. There is also the question of how supportive the public might be of the service variance that may result from a divergent taxation regime.<sup>xxvi</sup>



Figure 4

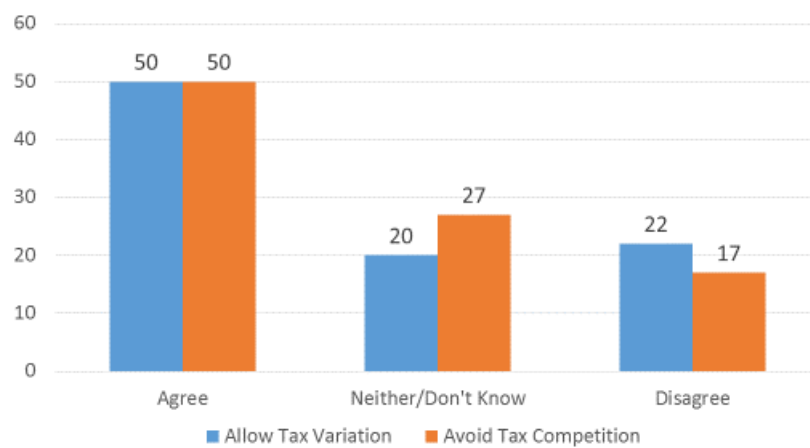
## Different Tax Rates?



Opinium: August 2015: 859 respondents in North

Figure 5

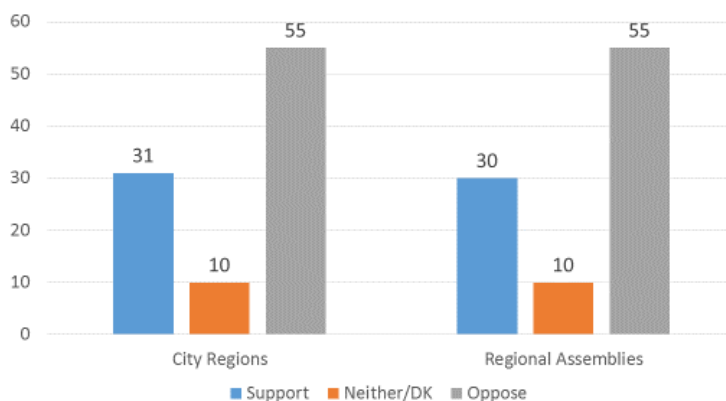
## Different Tax Rates?



Opinium: August 2015: 674 respondents in South and East

Figure 6

## Devolving Tax Powers



Ipsos MORI: June 2014.

34. Fiscal devolution increases the risk that some authorities may become financially unsustainable. Northamptonshire should be a lesson on the impacts of less redistribution. A more comprehensive approach to fiscal devolution could include the structure of property taxes and income tax.
35. As council tax and business rates have significant shortcomings, basing taxation on land values may be a more equitable, effective and efficient way to raise resources. Land Value Tax (LVT) would address many equity shortcomings. There are three main reasons why LVT is appealing:
- 1) Land doesn't move.
  - 2) Land is scarce because no more can be created.
  - 3) Taxing 'unimproved' land does not distort transactions.
36. LVT is more progressive than council tax. Council tax is not based on earnings or wealth – it is set according to what the owner's property, often someone else's in places like London, was worth in 1991. It could be made more progressive by having it start with a zero rate up to a certain point, taxing the owner rather than the occupier, taking account of the ability to pay and being based on current values.

### Existing sources of income

37. Since the Elizabethan Poor Law localisation and redistribution have been in conflict as the areas with the greatest needs have the fewest resources. Knowsley has a lower tax base and higher needs than Kensington. Retaining more tax locally, whether business rates or another tax, would not solve this. The two main sources of council

taxation income, council tax and business rates, are not levied according to ability to pay.<sup>xxvii</sup>

38. Current sources of income are a suboptimal way of funding councils. As Aileen Murphie points out, business rates yield varies due to ‘accidents of history and geography’. Factors that determine the yield include how built up an area is, the proportion of commercial rather than domestic property in an area, how rural it is and the wider picture of economic activity. Need is correlated with deprivation.<sup>xxviii</sup> The chart below shows that the statistical ratio between business rates yield and need is precisely zero.

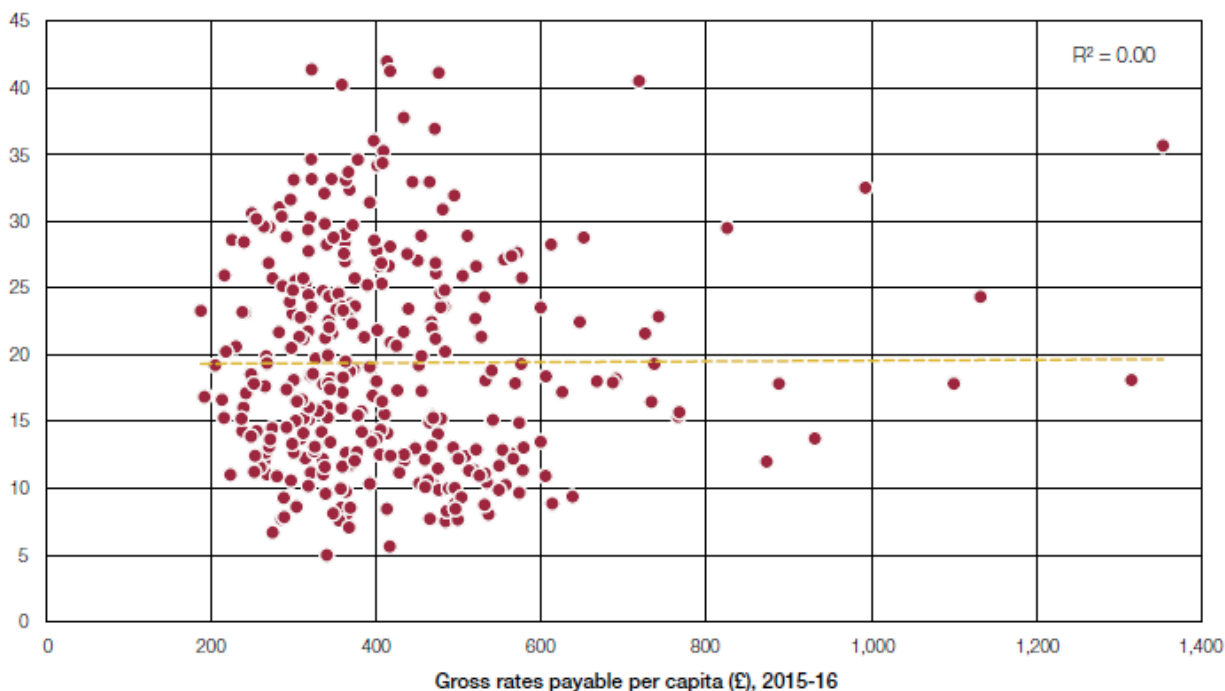
39. Most of the authorities with the greatest revenue from business rates are in London: Westminster, Kensington & Chelsea, Camden, Islington, and, notably, Hillingdon (Heathrow is within its boundaries). When revenues are pooled centrally that is not a problem. It becomes a problem when greater retention means greater divergence between need and ability to pay. Any moves towards greater retention will reduce this redistribution. This may be acceptable to the public, but it may not. Whether the current redistribution measures are replaced is currently unknown.<sup>xxix</sup>

40. The dotted line in Figure 7 is a regression line which shows no correlation between need and yield.<sup>xxx</sup>

Figure 7 Level of deprivation and gross rates payable per capita by billing authority.

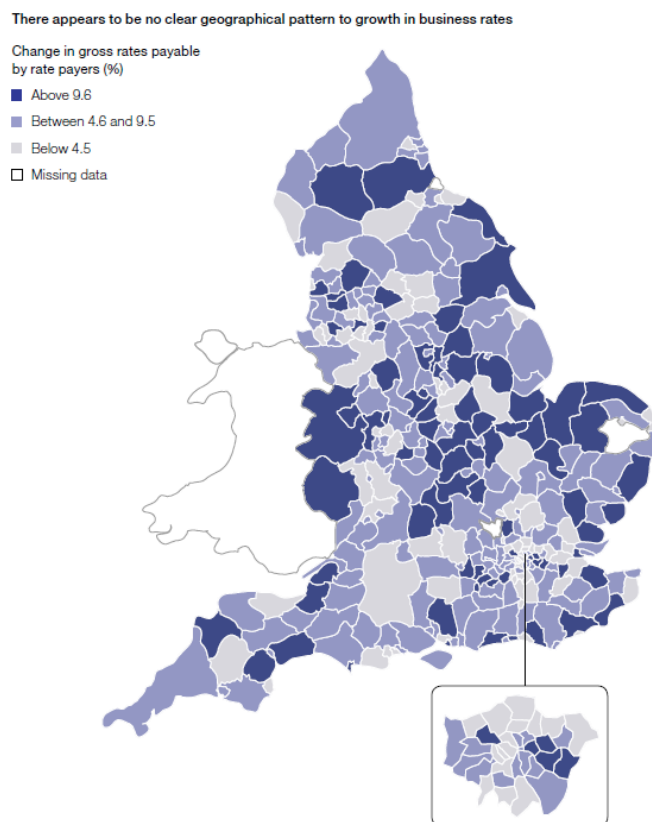
The scale of an area’s business rates tax base (per capita) does not necessarily match its level of need for local services

Indices of multiple deprivation (average score), 2015



41. Attempting to grow business rate income is problematic. There is no direct link between economic activity and business rate yield. The relocation of a business from one area to another may result in a change in rate yield due to different rates on different premises. Some types of activity may not see any increase in yield, an influx of students for example as councils get no council tax from students nor business rates from their accommodation. Modern technology-based firms may be very wealthy but use little physical space, yielding little directly to the local authority.<sup>xxxii</sup>
42. Business rate retention may incentivise councils to grow their tax base, which is not the same as economic activity. A tax base can be grown via increasing floor space locally for firms to move into; better management of ratings lists to ensure councils are maximising tax take or refurbishment of existing properties. While these are valuable, they may not necessarily result in economic growth.<sup>xxxiii</sup>
43. The available data do not indicate definitively whether retention has incentivised authorities to adopt pro-growth policies or succeeded in bringing about growth. Different areas will have different capacities to grow and recent changes in rate yields show no clear pattern.
44. Figure 8 shows the change in business rates tax base in England 2010-11 to 2015-16<sup>xxxiii</sup>

Figure 8



## References

- <sup>i</sup> <https://www.thebritishacademy.ac.uk/governing-england-devolution-mayors> p4
- <sup>ii</sup> [https://www.thebritishacademy.ac.uk/sites/default/files/WWLN%20Making%20the%20case%20for%20place-based%20policy\\_web.pdf](https://www.thebritishacademy.ac.uk/sites/default/files/WWLN%20Making%20the%20case%20for%20place-based%20policy_web.pdf)
- <sup>iii</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20public%20services.pdf> p5
- <sup>iv</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20public%20services.pdf> p7
- <sup>v</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p40
- <sup>vi</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20public%20services.pdf> p5
- <sup>vii</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20public%20services.pdf> p2
- <sup>viii</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20public%20services.pdf> p2
- <sup>ix</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20mayors%20in%20England.pdf#page=8>
- <sup>x</sup> <https://www.thebritishacademy.ac.uk/governing-england-devolution-mayors> p6-7
- <sup>xi</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20mayors%20in%20England.pdf> p30
- <sup>xii</sup> <https://www.thebritishacademy.ac.uk/governing-england-devolution-mayors> p9
- <sup>xiii</sup> <https://www.thebritishacademy.ac.uk/governing-england-devolution-mayors> p2
- <sup>xiv</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20mayors%20in%20England.pdf> p7
- <sup>xv</sup> <https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20mayors%20in%20England.pdf> p7
- <sup>xvi</sup> <https://www.thebritishacademy.ac.uk/governing-england-devolution-mayors> p5
- <sup>xvii</sup> Also see How Do People in England Want to Be Governed? by John Curtice in *Governing England: English Identity and Institutions in a Changing United Kingdom*, 2018, Print ISBN-13: 9780197266465.
- <https://britishacademy.universitypressscholarship.com/view/10.5871/bacad/9780197266465.001.001/upso-9780197266465-chapter-012>
- <sup>xviii</sup> <https://www.thebritishacademy.ac.uk/governing-england-devolution-mayors> p5
- <sup>xix</sup> Figure 1 was presented by Professor Sir John Curtice to our Newcastle roundtable in November 2016. As the event was in Newcastle respondents are taken from the North of England but the data are typical of polling data across England.
- <sup>xx</sup> Figure 2 presented by Sir John Curtice to our roundtable in Bristol in April 2017. Those polled lived in the South of England, but the data are typical of those in all regions.
- <sup>xxi</sup> This data was presented by Professor Sir John Curtice at all of our roundtables.
- <sup>xxii</sup> <https://www.thebritishacademy.ac.uk/governing-england-devolution-mayors> p5-6

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<https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20public%20services.pdf> p9

xxiv [https://www.thebritishacademy.ac.uk/sites/default/files/Devolution and mayors in England.pdf](https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20mayors%20in%20England.pdf)

p10

xxv [https://www.thebritishacademy.ac.uk/sites/default/files/Devolution and mayors in England.pdf](https://www.thebritishacademy.ac.uk/sites/default/files/Devolution%20and%20mayors%20in%20England.pdf) 10

xxvi

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p35 Figures 4-7 were presented by Professor Sir John Curtice at our Governing England roundtables 2016-17.

xxvii

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p7

xxviii

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p56

xxix

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p8

xxx <https://www.nao.org.uk/wp-content/uploads/2017/03/Planning-for-100-local-retention-of-local-business-rates.pdf> quoted in

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p58

xxxi

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p60

xxxii

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p58-9

xxxiii <https://www.nao.org.uk/wp-content/uploads/2017/03/Planning-for-100-local-retention-of-local-business-rates.pdf> quoted in

<https://www.thebritishacademy.ac.uk/sites/default/files/Governing%20England%20Devolution%20and%20Funding.pdf> p59. Note: data include billing authorities only.