APPG for Devolution

Levelling Up the UK: Call for evidence

Response from the Heseltine Institute for Public Policy, Practice & Place, University of Liverpool

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Summary & Key Recommendations

- The *Levelling Up the UK White Paper* represents a welcome attempt to review current sub-national devolution policy in England and to assess the state of the UK's current regional inequalities. The 12 missions included in the paper recognise the need for government policy across all departments to address regional economic and social imbalances, and aims to embed Levelling Up as a core objective of government.
- The introduction of a new devolution framework providing guidance for local and combined authorities on how they can achieve more funding and powers is welcome. However, sub-national devolution will be easier to agree in places with relatively straightforward and agreed geographies. To properly and sustainably roll out devolution outside city-regions, a more formal role for the Boundary Commission or Local Government Boundary Commission will be required.
- More consideration is needed on how sub-national government in England can develop long-term funding mechanisms, including fiscal powers. We recommend that government establish a formal objective to deliver more fiscal devolution to combined authorities by 2030. The terms of fiscal devolution should be established by an independent commission, with clear and achievable goals targets in governance and institutional capacity agreed by central and sub-national government.
- The commitment in the white paper to reducing the gap in Healthy Life Expectancy between the highest and lowest performing areas is welcome, but there is insufficient detail on how this target will be achieved and measured. It is also unclear what role local and regional public health organisations will play in meeting this target. A clear and tangible target for narrowing the gap in Healthy Life Expectancy (HLE) between the highest and lowest performing areas should be established, and the role of local and combined authorities defined.
- Further work is required – through the Levelling Up Taskforce and via the 12 identified Levelling Up 'missions' – to build more secure and resilient communities, and to address long-term challenges such as improving education outcomes, tackling crime and halting the 'vicious cycle' of entrenched deprivation.

About the Heseltine Institute for Public Policy, Practice & Place

The Heseltine Institute is an interdisciplinary public policy research institute which brings together academic expertise from across the University of Liverpool with policy-makers and practitioners to support the development of sustainable and inclusive cities and city regions.

The Institute has a particular focus on former industrial cities in the process of regeneration, such as the Liverpool City Region (LCR). Through high impact research and thought leadership, knowledge exchange, capacity building, and evidence based public policy, the Institute seeks to address key societal challenges and opportunities pertaining to three overarching themes: 21st Century Cities, Inclusive and Clean Growth, and Public Service Innovation.

This submission is based on work undertaken by the Heseltine Institute over several years. Working with local partners, including Liverpool City Region Combined Authority and the elected mayor of LCR, we have helped to develop local understanding of how English sub-national devolution can shape the city region's economy and society. In 2016, a review of Liverpool City Region's devolution journey by Professor Michael Parkinson of the Heseltine Institute and colleagues from Liverpool John Moores University identified strong support amongst local leaders for further devolution over key policy areas, and in turn a commitment to be held accountable for local policy successes and failures. In 2021 we published the first report of the Liverpool City Region All Party Parliamentary Group which made a series of recommendations on how the city region could contribute to the Levelling Up agenda, and the powers and resources it would need to achieve this. Earlier this year, we published a further research paper for the LCR APPG, detailing how 'prosperity' can be delivered in the city region. Our work has regularly been cited in a range of government and public inquiries, including by the Productivity Commission, the Public Administration and Constitutional Affairs Committee and the BEIS Committee inquiry into post-pandemic economic growth.

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1. How does the White Paper encourage structures which will see tangible decision-making devolved to local areas, with the powers and funding needed to achieve long-lasting improvement to people's pay, jobs and living standards?

The white paper represents a welcome attempt to review current sub-national devolution policy in England. The last decade has seen a high degree of institutional churn in sub-national governance structures, characterised by a large number of new organisations, often with overlapping boundaries. These include: Local Enterprise Partnerships; Combined Authorities; Police & Crime Commissioners; Sub-National Transport Bodies; and Metro Mayors. We welcome the attempt, in section 2.2.4 of the white paper, to provide a set of principles for developing a successful, long-term approach to tackling regional inequalities. We are particularly supportive of the commitment to embed longevity and cross-departmental coordination into devolved structures. We also strongly support the white paper's commitment to subsidiarity and agree that "a levelling up regime needs to empower local leaders, subject to appropriate accountability and provided they have effective leadership" (p. 116).

We broadly welcome the introduction of a new devolution framework for England, based on the four principles of effective leadership, sensible geography, flexibility and accountability. The devolution framework provides more clarity than had previously been the case about what powers are available to combined authorities if they fulfil certain criteria. Previously, devolution deals had been based largely on geographies covered by a single functional economic area. It is welcome that the new framework recognises the importance of identity, place and community in determining new devolved structures. However, balancing different considerations when creating new sub-national geographies requires careful deliberation between local authorities, communities and central government, particularly outside city-regions with relatively clear external boundaries.

Recommendation 1: We therefore support the proposal put forward by Lord Heseltine in his 2019 Empowering English Cities report to give a formal role, when required, for the Boundary Commission or Local Government Boundary Commission in reviewing Combined Authority boundaries.

In reviewing new and revised combined authority structures, the commission should take into account the following factors and aim to balance the objectives of local democratic accountability, governmental effectiveness, and stability:

- Identity: Mismatches between political geographies and local identities have stifled previous attempts at sub-national devolution, most notably in the case of the 2004 North East regional assembly referendum. It is therefore essential that, as far as is practicable, combined authority boundaries reflect local support and do not unnecessarily cut across physical or imagined boundaries.
- Economic Geography: The Cities and Local Government Devolution Act 2016 removed a number of restrictions on the geography of combined authorities and allowed local authority areas not immediately adjacent to each other to be part of a combined authority. While this greater flexibility is welcome, combined authority boundaries should ideally have some basis in functional economic areas, and reflect the reality of economic life for residents in the area. Considerations should include: housing market areas; transport patterns; local health and social care provision; and the labour market.
- Population: There is currently a wide divergence in population size between the largest combined authorities (West Midlands, Greater Manchester, West Yorkshire) and smallest (Cambridgeshire & Peterborough and North of Tyne). While to some extent these differences are inevitable, there should be a level of consistency in the size of devolved administrations, and the rationale for geographic selection. An exception could be made in the case of large, sparsely populated rural areas with distinct identities, such as Cornwall.

The white paper is less clear in how devolved institutions will develop long-term, sustainable funding mechanisms to ensure local leaders have sufficient power to tackle policy challenges in their area. It is disappointing that the white paper does not discuss the potential for fiscal devolution to provide elected mayors and combined authorities with greater ability to raise funds. Recent years have seen steps taken to deliver more flexibility on funding for local leaders, and Liverpool City Region was an early adopter of deeper devolution with greater responsibility and accountability. For example, the Combined Authority uses its devolved powers to align funding streams at the local level (via the Strategic Investment Fund). However, compared to other nations of comparative economic size, England is highly centralised and sub-national governments have little ability to raise and spend their own revenue. In Germany, all three levels of sub-national government (local municipalities, districts, and Länder/states) have extensive tax raising powers, and over 30% of tax revenue is taken at the sub-national level compared to under 5% in the UK. In Spain, local and regional taxes account for 23.6% of total tax income, in Italy the figure is 16.5% and even France, historically regarded as a highly centralised state, 13% of tax revenue is taken locally (OECD 2020). While London has more extensive income generating powers than other English cities, particularly through the operation of its public transport network, 70% of its revenue comes from central government compared to 26% in New York, 16.3% in Paris and 5.6% in Tokyo.

Local authorities have experienced significant cuts to their budgets since 2010 as a result of reductions in government grant funding. Local authorities in Liverpool City Region lost 28% of funding, equivalent to £336 per resident – almost twice the England average of £188. The increased use of project specific, one-off funding does not represent a sustainable replacement for these significant reductions in local government budgets. It is particularly concerning that many of the recently announced funds, such as the Towns Fund and Levelling Up Fund, are designed solely for capital projects, undermining the ability of councils to coordinate programmes and spending to address local needs and priorities. We welcome the acknowledgement in the white paper that the current funding landscape for local and combined authorities is overly complex and burdensome. The commitment to "set out a plan for streamlining the funding landscape" (p. 128) to reduce the proliferation of individual funding pots is welcome, and we looking forward to seeing the review of this area later this year. It is imperative that this review outlines practical steps that can be taken quickly to simplify the funding environment for local and combined authorities. Only by streamlining funding processes can sub-national institutions plan and invest for the long-term.

However, we also call for a review of how sub-national governments can, over time, develop more powers to raise and spend their own revenue. While plans have been in place for a number of years to allow local authorities to keep all revenue from business rates, a wider and more flexible range of taxation powers will be needed to ensure different places can tailor their approach to fiscal decentralisation in the most locally appropriate ways. An immediate and rapid move towards fiscal decentralisation is likely to be impractical. Institutional capacity varies significantly between combined authorities and governance structures are better established in some areas (notably city-regions such as Greater Manchester, Liverpool City Region and the West Midlands) than others. We recommend that allowing local and combined authorities more power over taxation and spending should be an underpinning objective of sub-national devolution in England. In 2014, IPPR North recommended a time frame of two full parliaments to deliver a phased programme of decentralisation, setting out clear milestones along the path and providing five-year funding settlements for sub-national bodies to provide stability (Cox et al 2014). More recently, the UK2070 Commission recommended the establishment of an independent commission to assess how fiscal devolution should be achieved and the necessary fiscal stabilisers needed to underpin the transition to a new funding model for sub-national government (UK2070 2020).

Recommendation 2: As part of the Levelling Up agenda, establish an objective to deliver more fiscal devolution to combined authorities by 2030. The terms of fiscal devolution should be established by an independent commission, with clear and achievable goals targets in governance and institutional capacity agreed by central and sub-national government.

It will be important to consider the potential for fiscal devolution to have regressive impacts that could exacerbate inequalities between different parts of England. Long-standing disparities in wealth and income mean London and the South East have a wider tax base to draw on in the event of fiscal devolution. In London, for example, 22.9% of taxpayers pay a higher or additional rate of income tax. In the North West, this figure is 10.7%. All English regions apart from London, the South East and the East of England currently have net fiscal deficits (ONS 2019). It is clear that many areas of England do not have sufficient institutional capacity to accept greater fiscal responsibility. Fiscal transfers will still then be required to smooth any transition to greater sub-national fiscal autonomy, and these stabilising measures should be an important part of a review into how fiscal devolution could be carried out. In addition, the review should consider the institutional reforms needed to deliver more sub-national tax and spend powers over the next decade. Discussions with those currently operating in local and sub-national government should form an important part of this analysis. A series of options for specific fiscal powers to be devolved have been debated over recent years, including:

- Local control over Air Passenger Duty, already devolved in Scotland and Northern Ireland
- Local sales taxes, e.g. allocation of a percentage of VAT for sub-national governments
- Local hypothecation of Vehicle Excise Duty revenue for improvements to strategic roads, public transport and walking and cycling infrastructure
- Tourism taxes, providing local government with the option to levy a charge on visitors similar to Edinburgh's proposed Transient Visitor Levy
- Charges to support action to tackle climate change: current taxes to mitigate the environmental effects of business activity such as the Climate Change Levy could be devolved
- Powers to issue municipal bonds

The area in perhaps most urgent need of reform is the property tax system. A comprehensive review of Council Tax should form an important part of any review into rolling out fiscal devolution. Council Tax levies are still based on 1991 property values and therefore have little basis in the reality of land and property values today. Options for reform include revaluation under the current system or the addition of more council tax bands. However, more comprehensive reform could come in the form of a land value tax (LVT), which has received significant political support in recent years. A range of proposed LVT models have been put forward in recent years, including by the New Economics Foundation (2019), the UK2070 Commission (Falk 2019) and the IPPR Commission on Economic Justice (Murphy 2018).

Devolution arrangements over recent years have tended to be organised through various 'deals' between central government and local political leaders. Devolution deals have been characterised as "contract-style agreements between central government and local public bodies, to pursue agreed outcomes in discrete policy areas where a common interest can be identified" (Sandford 2017: 64), and as a menu of policy options in which a number of devolved powers are available as standard to most areas, but with each deal consisting of some unique elements (Sandford 2020). Powers devolved to all or most combined authorities in England include: adult education; aligning business support (e.g. growth hubs); spatial planning and some powers over housing; public transport, including bus franchising in some areas; and transport infrastructure through the Transforming Cities Fund. Bespoke deals have been agreed with West Midlands CA, GMCA and West of England CA on funding for affordable housing. Two devolution deals (Greater Manchester and Cornwall) include significant powers and funding for health and social care.

The Levelling Up white paper includes a welcome review of the processes underpinning devolution. It commits to "extend, deepen and simplify devolution across England" (p. xxvii) with a clear commitment that every part of England that wants a devolution deal will have one by 2030. We await the outcomes of ongoing discussions with Greater Manchester and the West Midlands regarding their 'trailblazer' status but welcome the commitment to further and extending devolution in areas such as skills, housing and transport. It will be important that government demonstrates flexibility in negotiating devolution deals, and provides stability and commitment once deals are agreed. Where possible, devolution should provide combined and local authorities with single pot funds providing discretion over how spending is directed and delivered.

2. How effectively does the White Paper address the need to improve health outcomes, and outline solutions that give local areas the right tools to do the job?

Poor health outcomes are the result of multiple, intersecting factors reflecting policy failures and broader political and economic trends. The 2010 Marmot Review identified the social dimensions of poor health outcomes including In Liverpool City Region, average life expectancy is around two years lower than the England average, and almost one in four people report having a limiting long-term illness or disability.

In Liverpool City Region, there is a particularly strong link between employment and health outcomes. Underlying health issues caused by higher than national average rates of smoking and obesity contribute to the prevalence of long-term health conditions such as COPD and other respiratory diseases. Meanwhile, higher than average rates of unemployment and insecure work contribute to poor mental health outcomes.

In the years before the COVID-19 pandemic, Liverpool City Region saw a reduction in the proportion of residents who are economically inactive, with particular progress amongst those with long-term health conditions. In line with the national trend, this progress is now beginning to reverse. Liverpool City Region Combined Authority's new *Plan For Prosperity* promotes an integrated approach to addressing poor health and acknowledges that providing secure, sustainable employment is crucial to this. Additionally, in 2021 the Institute of Health Equity (IHE) was commissioned by the Population Health Board of the Cheshire and Merseyside Health and Care Partnership (HCP) to support work to reduce health inequalities in the region. The IHE report *All Together Fairer: Health Equity and the Social Determinants of Health in Cheshire and Merseyside (2022)* suggests that in order to address the deep routed and persistent causes of health inequality changes in approach, allocation of resources and strengthened partnerships are needed.

The report highlights a number of interventions taking place in the city region, which bring together the NHS, Local Authorities and Community & Voluntary sector to offer integrated and novel approaches to help people - particularly those with health issues - to enter or remain in good quality jobs. One of the interventions featured is the LCRCA Households into Work Programme (HiW), a joint pilot with the DWP. The Heseltine Institute's evaluation of HiW highlights the importance of social infrastructure (community activity, welfare advice, wellbeing services) in promoting improved employment and health outcomes. We also identify the potential for improved integration of health services within communities to operate at the local footprint.

The white paper commits to narrowing the gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest by 2030, and increasing HLE nationally by 2035. The white paper notes the relationship between deprivation and health outcomes and highlights the important role of public health programmes. However, there is to date insufficient detail on how the target to narrow the HLE gap will be achieved, and it is disappointing that a more specific target has not been established at this stage. The role identified for local authorities, combined authorities and other sub-national bodies in tackling health disparities is also unclear. Local government has extensive expertise in public health and bringing this expertise into the Levelling Up agenda will be vital in addressing the health issues identified in the white paper. Aligning the work of public services at the local level will also be crucial, in particular when focusing on prevention rather than addressing the most acute needs. Many government departments and agencies, such as the Department for Work and Pensions, and Job Centre Plus, have a significant local footprint. Integrating these services more effectively with the work of local government can contribute to Levelling Up.

Recommendation 3: Establish a clear and tangible target for narrowing the gap in Healthy Life Expectancy (HLE) between the highest and lowest performing areas, and identify a clear role for local and combined authorities in meeting this target.

3. How well will the White Paper embed strong, safe, and resilient communities through high quality local leadership, which will allow areas to stand up for themselves and make their voice heard when seeking investment and opportunity?

We welcome the recognition within the Levelling Up White Paper that successfully closing economic performance gaps across the UK will be preconditional upon developing stocks of six, interdependent and complementary, 'capitals' – physical, intangible, human, financial, social and institutional – within all places (Section 1.5). This capitals framework for Levelling Up the UK acknowledges that improving national growth and productivity will require deep investment in the skills, health, infrastructures, and institutions that together provide fertile soil for more dynamic and successful local economies to develop across the country. This approach also demonstrates awareness that levelling up is more than a purely economic project, but one also concerned with addressing inequalities in quality of life, sense of place, and local leadership. Addressing these long-standing and deep-rooted inequalities will be critical to (re)building strong, safe, and resilient communities and, in turn, promoting longer-term productivity uplift across local economies – particularly in places, such as Liverpool City Region, that currently underperform significantly relative to international comparators (see Heseltine Institute, 2021).

The capitals framework, and the more holistic approach towards conceptualising prosperity that this supports echoes recent research led by the Institute for Global Prosperity (IGP) which found that 'Secure Livelihood Infrastructure' (SLI) is often the most important factor to people's sense of prosperity and wellbeing within their local communities (Woodcraft and Anderson 2019). SLI describes the various assets, services, and networks that overlap and work together to support - or undermine - people's opportunities for a prosperous life, as well as the strength and resilience of their local communities (Woodcraft et al. 2021). Bridging physical, economic, social, and political domains, this research has in particular highlighted the importance of:

1. Regular and good quality work that provides a reliable and adequate income;
2. Genuinely affordable, secure, and good quality housing;
3. Access to public services;
4. Social and economic inclusion.

However, in many places, such as LCR, this Secure Livelihoods Infrastructure needs significant strengthening and reinforcement. Without this reinforcement, the resilience and prosperity of many communities will continue to suffer. For example, recent analysis by IGP and the Heseltine Institute (Moreno and Hickson, 2021) found:

1. LCR has low jobs and business densities, and low rates of average pay, with consequences for household finances and neighbourhood deprivation.
2. Housing quality is low in LCR, with many aging, inefficient homes – particularly in the private rental sector – contributing to high rates of fuel poverty and poor health.
3. Local education services are struggling to provide a high standard of education, with low levels of maths and English attainment among local pupils representing a particular concern. The public transport system also presents some challenges, with LCR's bus network considered particularly complex, expensive and unreliable.

4. Poor public health, areas of high crime, and entrenched structural racism present particular challenges to social economic inclusion.

This chimes with the white paper, which recognises that, for too long and for too many, our socioeconomic system has helped to perpetuate multiple vicious cycles within communities (outlined in Figure 1.62, p.88). These vicious cycles not only undermine performance and resilience, but also make local sense of prosperity and quality of place more precarious and fragile. Meaningful, committed intervention is required to (re)build local stocks of all six capitals necessary to disrupt these vicious cycles. However, as all places will face a unique constellation of needs, interests, challenges, and opportunities, we suggest that this process is best driven from local, rather than national, level.

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