Summary & Key Recommendations

- Over the last decade, a series of reforms to sub-national structures in England have created a patchwork of governance arrangements across the nation. The spatial focus of reform has oscillated between localist, regional and national approaches.
- The introduction of elected ‘metro’ mayors has provided welcome accountability and visibility for local leaders. However, the wide disparities in powers between different combined authorities has resulted in confusion amongst the public about what local leaders are responsible for.
- Of particular concern is the deal-based approach to sub-national devolution in England that has emerged over recent years. Negotiations between individual government departments and local authorities over investment in areas such as transport and skills are hugely time consuming for local government officers and civil servants.
- We propose a longer-term approach to sub-national devolution in England which establishes a roadmap for devolution that will provide local and combined authorities with more power and responsibility, flexibility over budgets and more ability to raise and manage their own money. Over recent years an overarching aim of English devolution has not been adequately articulated by central government. More clarity is needed for the general public on why devolution is required, over what spatial scale it will be pursued, and a timeframe for reform.
- The combined authority model and elected mayor model is now established and should be extended across England. The aspiration should be for all parts of the nation to be covered by a combined authority of sufficient scale to manage strategic policy over areas such as transport, spatial planning and R&D.
- Key factors to consider in the establishment of new combined authorities include local and regional identities, economic geography such as commuting patterns and housing markets, and population size. The Boundary Commission should play a role in reviewing combined authority boundaries.
- Local authorities have experienced significant budget cuts over the last decade that continue to hamper their ability to deliver local services. Any future reform of sub-national governance must also address the local authority funding gap.
- As part of any review into further decentralisation, moves towards greater fiscal devolution should be considered. England is highly fiscally centralised by international standards and local authorities have few revenue raising powers. Reform of property taxes should be a priority area, along with consideration of the stabilising measures needed to transition to a more fiscally devolved environment.
- Alongside devolution, more consideration is needed on how relations between local, sub-national and central government could be improved. An English Intergovernmental Forum should be established, including leaders and mayors of the combined authorities, representatives from the sub-national transport bodies, and UK government ministers.
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 Reform.

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 in recent years can shape the city region’s economy and society. In 2019, 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 (Parkinson et al 2019).

Since the emergence of the COVID-19 crisis, we have published a series of policy papers addressing issues related to devolution and local governance, in the context of the social, economic and health impacts of the pandemic. Relevant issues covered include:

- Principles for Uncertain Times: Building an Effective Post-COVID Economy in Liverpool City Region
- Devolution in England after the pandemic: time to ‘level up’ and ‘fill out’
- Building back better: what role for the Liverpool City Region economic recovery panel?
- After Covid-19: is Liverpool still beyond or back on the brink?
- Intergovernmental relations in England: bridging the central-local divide

This submission utilises extensive research on devolution and decentralisation to propose a series of long-term reforms. We have previously submitted evidence to a number of parliamentary inquiries and consultations, including the recent Public Administration and Constitutional Affairs Committee inquiry into English devolution, and this response utilises and builds on these submissions. The proposals included here are aspirational and acknowledge that moving power out of Westminster must be done carefully and with recognition of the varying circumstances of cities and regions across England. However, we believe it is important to establish a roadmap for devolution and for government to set out the overarching aspirations for its levelling up agenda.

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Review of current devolved structures in England

Over the last decade, there has been a high degree of institutional churn in sub-national governance structures in England. Following the abolition of the Regional Development
Agencies and Government Offices for the Regions in 2011, new regional and city-regional institutions introduced in the period since include:

- Local Enterprise Partnerships: 38 in England representing a wide spectrum of geographies include city-regions, single counties and multi-county areas, some of which are overlapping
- Police & Crime Commissioners: 41 in England, some of which have been subsumed into combined authority structures
- Clinical Commissioning Groups: Currently 135 in England
- Combined Authorities: 10 in England, mainly covering metropolitan areas but also including the non-metro area of Cambridgeshire and Peterborough, and the partial metro area of North of the Tyne
- Elected ‘Metro’ Mayors: Eight in England, with a ninth to follow in West Yorkshire in May 2021
- Pan-Regional Transport Bodies: Seven pan-regional bodies, including Transport for the North (which has statutory status) and Midlands Connect, England’s Economic Heartland and Transport for the South East (which do not have statutory status)

This patchwork of devolved structures has been developed through various pieces of legislation, most notably the Local Democracy, Economic Development and Construction Act 2009, Localism Act 2011, Cities, and Local Government Devolution Act 2016. Alongside these structural reforms, there have been a series of policy agendas set out by government, expressing various ‘spatial imaginaries’ – ways of representing and talking about places to reflect a set of particular preferences or underpinning beliefs. Over the last decade, these have oscillated between:

- **Localism**: a preference for services to be designed and delivered at the community scale, reflected most prominently in the introduction of Neighbourhood Planning.
- **Rebalancing the economy**: a belief that imbalance in the UK economy, particularly an overreliance on London’s financial services industry, was an important contributor to the 2008 global financial crisis, and that this imbalance should be addressed by the creation of jobs and investment outside the capital and wider South East (Berry & Hay 2016; Froud et al 2011). This was an important narrative in the early years of the 2010-15 coalition government.
- **The Northern Powerhouse**: an initiative launched by then-Chancellor George Osborne in 2014 promoting the potential of an interconnected Northern England, initially emphasising the economic potential of its largest urban conurbations, particularly Greater Manchester. The establishment of Transport for the North followed in 2015.
- **Brexit**: the 2016 referendum saw a renewed focus on national sovereignty and, following the Leave vote, extensive discussion about the need for greater policy emphasis on ‘left behind’ places, particularly post-industrial towns in Northern England and the Midlands.
- **Levelling Up**: Emerging from the post-Brexit agenda, this concept was central to the Conservative Party’s re-election campaign in 2019 and continues to resonate in political debate.

Devolution arrangements 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
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 cumulative outcome of these changes to sub-national structures and the deal-based approach to their introduction is a complex, spatially variegated patchwork of institutions across England. In some areas, particularly city-regions with strong local identities such as Liverpool City Region, and those with established cross-boundary governmental structures such as Greater Manchester, sub-national devolution appears to be broadly supported and, to an extent, understood by the wider public. The introduction of elected mayors in these and other areas has provided a welcome platform for engagement with central government and civil society more broadly. However, amongst the public at large there appears a degree of confusion about what combined authorities, elected mayors and other sub-national bodies do, and in some cases which places they represent. This lack of clarity has come to the fore during the recent Covid-19 crisis, when restrictions on movement, social interaction and economic activity have been implemented differently across England.

Any reform of local and sub-national government through the forthcoming white paper should therefore acknowledge that the current situation is sub-optimal, that deal-based approaches to devolution are hugely time-consuming for both central and local government, and that they have added unnecessary friction to intergovernmental relations in England. The proposals offered in this response are therefore based on four overarching principles:

- **Subsidiarity**: policy should be designed and delivered at the plausible local level, usually local authority or combined authority, with a role for pan-regional bodies such as Transport for the North in broader cross-boundary strategic issues.
- **Consistency**: devolution policy should seek to establish a clear roadmap for all parts of England to have the same powers and per capita funding on a long-term basis.
- **Autonomy**: devolution should aim to deliver greater autonomy for local and combined authorities to determine policy and spending priorities.
- **Stability**: devolved institutions should be given time to design and deliver long-term plans, and moves towards greater fiscal autonomy must ensure existing regional disparities are not exacerbated.

### Structure and geography of future devolution settlements

By May 2021, when West Yorkshire will elect its first mayor, 40% of England’s population will be governed by directly elected regional mayors. While combined authorities have emerged as the main focus of decentralised governance over the last decade in something of an ad hoc and uneven manner, they nevertheless form the bedrock on which future English devolution reform should be built. A return to the institutional churn which saw regional offices abolished at the beginning of the 2010s should be avoided, and existing institutions should be nourished and developed rather than replaced.

The question is therefore how to expand the combined authority and elected mayor model to the rest of England, particularly areas with no clear metropolitan 'centre' or other easily defined spatial focus. We support Lord Heseltine’s proposal in his 2019 Empowering English Cities
report that the Boundary Commission should be tasked with reviewing Combined Authority boundaries along with its current role of regularly assessing parliamentary constituencies. Government should establish an objective for all parts of England to be covered by a combined authority by 2030, with a clear preference for directly elected mayors where this is agreed with local leaders. Proposals to abolish county councils and establish a single layer of unitary authorities across England will undoubtedly meet some political resistance. Nevertheless, there is a clear case for simplification of the current patchwork of sub-national governance structures. This should extend not only to local authorities but to organisations such as LEPs which do not appear to be well understood by the general public. Future devolution should seek to bring further clarity in this area, where possible bringing institutions such as LEPs under the control of democratically accountable combined authorities and elected mayors.

In reviewing the geography of potential new combined authorities, the Boundary Commission should take into consideration the following factors and acknowledge the need to balance local democratic accountability, governmental effectiveness, and the need for stable and consistent sub-national arrangements.

**Identity**

Devolved institutions are unlikely to be sustainable in the long-term if there is significant local opposition to their introduction. Powerful regional and sub-regional identities have helped to facilitate the development of larger-than-local government structures in areas such as Cornwall (Everett and Aitchison 2008) and Greater Manchester (Haughton et al 2016; Ward et al 2015; Hincks et al 2017). However, mismatches between political geographies and local identities have stymied previous attempts at sub-national devolution, most notably in the case of the failed attempt to establish a North East Regional Assembly via a referendum (Sandford 2009). It is therefore essential that combined authority boundaries reflect local support and do not unnecessarily cut across physical or imagined boundaries. It is also important to acknowledge that local political boundaries are often contested, particularly in peripheral areas.

**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 an extent some 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.

**Governance**

A directly elected mayor and combined authority structure provides strong and accountable leadership on strategic issues, while protecting the integrity and existing functions of local
authorities. By drawing together previously fragmented powers on transport, economic development and skills, this model has over recent years demonstrated the ability to align policy priorities and spending. The elected mayor and combined authority model also aligns with the principle that city regions are greater than the sum of their parts and can act on strategic issues that cross local authority boundaries. This will be particularly important as local areas recover from the COVID-19 pandemic.

Powers and funding

Recent years have seen extensive steps taken to deliver more flexibility for mayors and combined authority leaders to determine local priorities and deliver on their manifesto pledges. For example, Liverpool City Region Combined Authority uses its devolved policy making to align funding streams at the local level (via its Strategic Investment Fund) and prioritise spending. However, in comparison to other nations in Western Europe, sub-national government in England has little ability to raise revenue itself, and is therefore highly reliant on central government grant funding. In Germany for example 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%. Even in 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. The case for greater fiscal devolution to local and combined authorities in England is also strengthened by the recent transfer of powers over property taxes in Wales and income tax in Scotland (Bosetti and Brown 2017).

In addition to this disparity between the UK and the majority of OECD countries in how tax revenue is collected and distributed, local authorities face severe financial shortfalls, even before the impact of COVID-19 is taken into account. In 2019/20, local authorities in England faced a cumulative deficit of £19.4bn (NEF 2019). 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 Greater Manchester, while significant improvements have been made in Liverpool City Region, the West Midlands, West Yorkshire and Tees Valley) than others. However, 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).

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 (Arnold et al 2019), the UK2070 Commission (Falk 2019) and the IPPR Commission on Economic Justice (Murphy 2018).

Finally, government should devolve a significant share of the national Research & Development budget to local and sub-national institutions. The UK government has set a target of 2.4% of GDP to be spent on R&D by 2027. Spending on R&D has significant implications for local economies, so it is therefore essential that accountable local leaders are involved in determining where research funding is invested. Nesta recommends giving control over 25% of UK R&D funding to the devolved nations, regions and localities to bridge the research funding gap between the ‘Golden Triangle’ of London, Oxford and Cambridge and the rest of the country (Falconer 2019). In return for more powers over R&D spending, local and sub-national institutions should enhance partnerships with higher and further education, and the private sector, with a particular focus on ‘mission-orientated’ research directed towards tackling key societal challenges such as climate change, industrial strategy, automation, skills, improving care for older people, building homes for the future and, in light of the COVID-19 crisis, planning for future pandemics.
Improving intergovernmental relations

The COVID-19 crisis and its widely differing effects on different parts of England have highlighted the need for improved co-ordination between central and local government. Discussions regarding the movement of areas between ‘Tiers’ in the autumn of 2020 were hugely time-consuming, resource intensive and in some cases politically charged. The implementation of a relatively modest set of intergovernmental structures would help to improve relations. In England, sub-national government is tasked with managing and delivering a range of centrally designed and funded programmes, yet relatively little attention is paid to the mechanisms that facilitate efficient relations between different levels of government.

Intergovernmental relations are fundamental to multi-level systems of government and already play an important role in the UK in the case of interactions between the UK government and the devolved administrations of Scotland, Wales and Northern Ireland. Work by the Bennett Institute for Public Policy and the Centre on Constitutional Change has highlighted the need to improve not only intergovernmental relations between the nations of the UK, but more broadly to recognise the reality that the UK is now a multi-level political system (McEwen et al 2018). In some nations, particularly federal or highly decentralised states such as Belgium, Italy and Spain, formal structures for intergovernmental relations are articulated explicitly in the constitution (McEwen et al 2020). While we recognise that such formally embedded arrangements may not be considered appropriate for England, more flexible arrangements can be utilised to improve intergovernmental relations.

Intergovernmental forums are a common institutional fix for coordinating relations between national and sub-national governments in many nations. In parliamentary systems, a form of ‘executive federalism’ is common, whereby interaction between central and sub-national government can involve a range of councils and committees, along with regular discussions between officials (Phillimore 2013). Until its very recent abolition during the COVID-19 crisis this year, Australia’s Council of Australian Government (COAG) was one of the most prominent examples of formal intergovernmental interaction. COAG consisted of the prime minister, leaders of the six Australian states, chief ministers of the Australian territories, and the head of the national association of local governments.

An equivalent English intergovernmental forum could include: the prime minister or a senior government minister; the mayors/leaders of the combined authorities; the chief executive and chair of the strategic transport bodies (e.g. Transport for the North); and the chair of the Local Government Association. The forum could meet quarterly or every six months, with the objective of identifying and debating strategic issues related to devolution and local government. In addition, more formal and regular structures should be developed to facilitate relations between ministers and local leaders on specific policy areas where local government has responsibility for delivery, such as transport, public health, education, housing and social care.

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