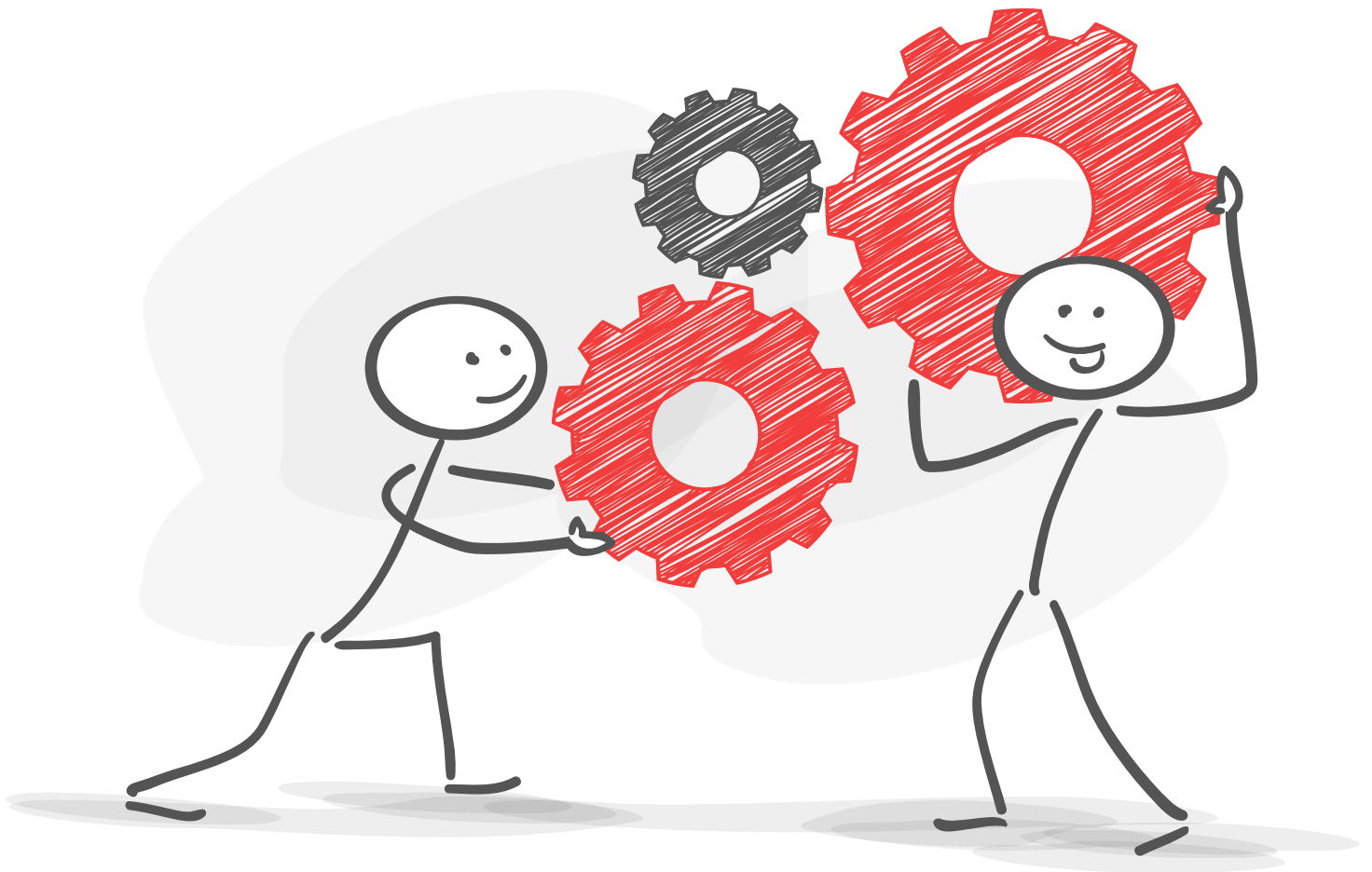


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# DEVOLUTION IN PRACTICE

ROUNDTABLE WRITE-UP

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In early 2016 NLGN, in partnership with Weightmans, held a roundtable in Leeds to discuss the status and progress of devolution deals. Leaders and Chief Executives were brought together from combined authorities and a number of metropolitan and district councils. In this paper we set out the themes of the discussion and provide context and analysis on the progress of the devolution agenda.

## HISTORIC CONTEXT OF DEVOLUTION IN ENGLAND

The appropriate tier from which to govern in the UK has been a source of contention for decades. As early as 1912, Winston Churchill decided to sketch a plan for a complete system of federalism in Great Britain. Lancashire, Yorkshire, the Midlands, London, and other districts would all have their separate parliaments.<sup>1</sup>

Over 100 years later, the constitutional question about the geographies of power and decision-making across Great Britain has not gone away<sup>2</sup>. Although devolving powers to English regions and areas is not a new idea, the political urgency for more English devolution has increased following

<sup>1</sup> See <http://archive.spectator.co.uk/article/14th-september-1912/2/mr-winston-churchills-speech-at-dundee-on-wednesda>.

<sup>2</sup> Jackson, A. (2014), *Shamrock and Saltire: Irish Home Rule and the Scottish Referendum, 1914 – 2014* Accessed, 24.02.2016: <http://blog.oup.com/2014/09/shamrock-saltire-irish-home-rule-scottish-referendum-1914-2014/>.

the Scottish independence referendum which sparked intense debate surrounding who gets what from whom, who contributes to UK plc<sup>3</sup> and in what ways. Today there is an added urban dimension, with the focus of devolution being predominantly city-led. England's core cities have consistently performed below the national average in terms of GDP per capita. By comparison eight of the largest German cities outside Berlin performed above the national GDP per capita<sup>4</sup>. This latest round of devolution is an attempt to change this.

English regionalism has a long history, most notably in historic county rivalries. But in terms of governance, the closest England came to regional devolution was the creation of the ten Government Office Regions under John Major's Conservative government in 1994. These were enhanced in 1998 under the Labour Government with the addition of Regional Development Agencies (RDAs) for each region and regional chambers with members appointed by local authorities.

The move towards English regional government culminated in the 2004 referendum in the North East. When this failed, the debate shifted towards city regions, reflecting a growing international debate about the importance of urban centres to overall national growth. Moves towards city regional working began under Labour but

<sup>3</sup> Moodey, G. & O' Sullivan, P. (2014) 'The impact of the Scottish Independence Referendum on Devolution and Governance in the United Kingdom' *Knowledge Exchange Seminar Series*.

<sup>4</sup> IPPR North (2014) *Decentralisation Decade* p.22

accelerated considerably with the arrival of the coalition government in 2010.

Britain lacks a layer of government that sits between the central state and the locality: there is no equivalent of the German *Land*, the Australian states or the Spanish regions. This has made it harder to devolve substantial economic power. Individually, councils are too small to effectively manage policy areas such as transport, but the nation state has proven too large and remote for the job to the benefit of local people. It is now hoped that the great cities (and, perhaps, shires) will take on new functions which will enable them to manage the process of development.

## THE BUILDING BLOCKS OF DEVOLUTION DEALS

Today's devolution deals cannot be seen in isolation from what has come before them. They are informed by an evolution of thinking surrounding governance in England. More recently however, it can be said that there are three major building blocks that have helped construct the policy architecture of devolution, following the abolition of the RDAs. These are the establishment of Local Enterprise Partnerships (LEPs), city deals and combined authorities. Each have contributed significantly to the enabling institutional framework that allows for the development of current devolution deals.

The first of these was the establishment of the LEPs. These were set up in 2011 by the Department of Business Innovation and Skills as voluntary partnerships between businesses and local authorities. It is thought that LEPs provide a more locally specific understanding of places and can deliver better outcomes. Lord Heseltine's 'No Stone Unturned' report recommended that funds should be given to LEPs to help drive growth in their areas and this led to the establishment of Growth Funds for LEPs<sup>5</sup>. As such, LEPs partially replaced the RDAs in terms of their functional role as enablers of local growth.

City deals were announced in 2011 and offered additional funding and powers to the UK's 8 'Core Cities' outside London in recognition that city-regions need greater decision-making powers to unleash and support economic growth. This was followed by a second wave of deals to a further 20 cities. The bidding process and institutional environment helped cities build up capacity that would help when it came to writing devolution bids.

The last building block of devolution deals was the establishment of combined authorities. These are associations of local authorities, which work together in a strategic partnership to direct joint goals across city-regions. There are currently five combined authorities – not all with devolution deals – the first being Greater Manchester, formed

<sup>5</sup> Lord Michael Heseltine (2013) *No Stone Unturned: in pursuit of growth*. Crown Copyright.

in 2011. Combined authorities provided a governance structure and a framework for receiving core cities funding. As of the 2011 Localism Act, combined authorities were granted the general power of competence, transferring powers from the Department of Communities and Local Government, directly to authorities. Such places now have an integrated transport authority, an economic prosperity board and can borrow from the EU Investment Bank to fund projects in line with EU development goals.

Despite the combination of LEPs, devolution deals and the establishment of combined authorities, England remains a highly centralised state. Very little decision-making and fund-raising power was actually transferred. For example, sub-national taxation in the UK comprises only 1.7% of GDP, compared to 5% in France and 15% in Sweden. In cities, around 95% of all taxes raised in a city go back to central government to be re-distributed. Compared to English cities the level of taxes controlled at the local or regional level is about 10 times greater in Canada, 7.5 times greater in the US, 7 times in Sweden, almost 6 times in Germany, and over 5 times greater across the OECD on average.<sup>6</sup>

As part of its response to ‘the English question’ that arose after the Scottish independence referendum, the government

announced that devolution would be given to combined authorities. Authorities had to present “devolution bids” to government and go into negotiation about the terms and conditions of these. This was made easier due to the institutional frameworks and previous capacities built up from LEPs, city deals and the pre-existing powers of the combined authorities.

## DEVOLUTION DEALS: THE CURRENT SITUATION

At the time of writing there are currently eight deals that have been signed, with Greater Manchester having the deepest and most far-reaching reforms, including devolution of its NHS budget.

There is a great variation amongst the agreed deals. Major issues that must be addressed stem in part from the legacies of the already established frameworks, but are also related to public service reform, governance models and lingering geographical inconsistencies. Many questions persist and were central to our discussion; Are devolution deals inherently biased towards cities? What can rural two-tier areas do to achieve successful bids? How do the bids tie in with governance structures? Does everyone need a metro mayor, or are chairs more relevant? And what levels of fiscal devolution can be achieved to realistically deliver the agreements in the deals?

<sup>6</sup> City Centred (2016) ‘FAQs’ Accessed on 24.02.2016: <http://www.citycentred.co.uk/faq/>

## GEOGRAPHIES

Every devolution deal is being created in a complex governance landscape including LEPs and various types of local authorities. In addition there is the added complexity of economic geography as measured in the Travel To Work Areas (TTWAs). Published by the ONS, these map the ‘real’ spatial economy of urban areas based on commuting patterns. Given these pre-existing complexities, how closely should devolution deals be aligned to existing geographic frameworks and how much does it matter?

The geography of places also has an impact on how easy devolution deals are to construct. It is easy to have a strong identity if there is no nearby competition and your city-region has an obvious boundary. However, one borough leader described being “pulled in all directions”, with the “Northern Powerhouse” to their north, and another major deal to the East. This, they felt, undermined the spatial integrity and identity of their own bid. In a two-tier authority, a leader said that his district is on the border of many dominant city-regions, and they have been asked to join four separate devolution deals.

It is easy for relatively centralised urban places to act as a legitimate centre for a wider region. But consider combined authorities where two dominant cities act as dual centres. What problems or opportunities does this afford? Taken further, there may be

Combined Authorities under two-tier counties who have a rural population with several small towns and cities of roughly equal size. Creating a coherent place identity for some devolution deals can thus be problematic.

However, residents themselves transcend geographical boundaries all the time. Many will work in one borough and live in another, reflecting the true functional economic areas, reflected in the TTWA. Understanding the economic geographies, led by evidence, may reduce the complaint that certain boroughs get more than others. A coherent story about place that residents see reflects their own lives and priorities is vital to success.

The geographies of the devolution deals then are varied, from established city-regions that have a long history of collaboration, to new ones that are seeking to define a new geography. Thus it seems they are an intermediate tier between the small LEP areas and the old large RDAs, known as a ‘mezzanine’ level<sup>7</sup>. In essence they are creating a sub-regional plan, with more realistic geographies, driven from a more bottom-up approach than the RDAs.

## COLLABORATIVE GOVERNANCE

A leader of a combined authority stated that “everything that happened in [their authority] has happened through good collaboration”

<sup>7</sup> IPPR North (2014) *Decentralisation Decade* p.53

between each partner organisation in the combined authority. But this authority has had several years of collaboration between what are now its constituent boroughs and so has had a long time to build up good relations relative to other combined authorities who are newly coming together and vying for deals. Good collaboration doesn't happen overnight. Nevertheless, moves towards a collaborative model between boroughs can open up a new culture of working, enabling a better response to local challenges.

Multiple authorities of course have divergent interests, notwithstanding differences in their social, political and economic compositions. But sometimes a strong evidence base can help overcome political issues. For example, evidence produced from one borough showed that in order to achieve economic growth, they should improve human capital such as skills and levels of social exclusion. When other boroughs saw the clarity of this evidence, it provided an extra stimulus to help shape the public services reform agenda within their combined authority. This meant that despite their social and economic differences, and local interests, the strong evidence enabled all authorities to agree on a common agenda for tackling social problems across the combined authority.

There are different types of leadership models for combined authorities. These range from civic mayors for example who act as figureheads, or more powerful executive mayors as is the case within Greater London.

Greater Manchester, the most established authority has a number of councils with strong local identities, each with their own leader. Under their governance framework, prior to devolution, there existed a chair of the combined authority who steered the group, but was not able to make executive decisions. There will be an election of a mayor in 2017, but currently the board of the authority must have broad consensus on strategic issues to make decisions, with at least 7 out of 10 members having to agree on plans for them to go forward. Although this may be seen as a 'weak' mayoral model since there isn't a strong leader, its strength lies in the fact that it is consensus based.

There are advantages to having a visible face of the authority. This both gives voters a democratic accountability – someone to hold responsible for decisions made but also presents an opportunity to represent the area on the national and international stage. London, Wales and Scotland already have these voices as devolved administrations, so it's important that the English cities and regions have that too. Such a role has benefits of attracting attention to the authority, but the flip side is the risk that national government can offload responsibility for unfortunate or unpopular decisions to the authority and the mayor representing it.

It is also important to note that at present, the government are making it very clear that their devolution plans depend on a commitment from combined authorities that there will be

a directly elected mayor. It will be up to the authorities and the individual chosen to lead them how they make that work.

## **PUBLIC SECTOR REFORM**

Where devolution deals have worked, they have enabled public sector reform in ways that central government departments can't. Working on policy areas as diverse as treatment of young offenders, elderly care, mental health and early years, it was noted that acute social issues are best tackled by local decision-makers. Sometimes within an area you might find a few families who cost millions of pounds each year in health, benefits and housing. A centrally driven departmental approach won't be able to overcome these entrenched problems. But local services offering a joined up, locally coordinated approach make it much easier to have a positive impact on people's lives as well as making savings by avoiding duplication of provision.

Many have previously claimed that a combined authority would have to be "mad" to have a devolved health budget. However, since some combined authorities had very specific health needs. One such example had found that its centrally run NHS services delivered some of the worst health outcomes in the country. The authority have started to bring health and social care into the same decision making process, breaking down

departmental silos, taking a system that was failing and changing it. This shows how public service reform runs alongside devolution to improve outcomes and services for users.

Combined authorities can also address broader issues that feed into health outcomes such as ensuring decent housing, good diets and all-round well-being. For example, the first time mental health trusts in one particular authority sat down together in a meeting, was with members from their local crime commission. This highlights the ways in which individual services had been caught between departmental structures and the ways in which devolution deals can bring players together in a better way.

## **FISCAL DEVOLUTION**

It is hard to see how these reforms can be implemented through a combined authority without some form of fiscal devolution. It was acknowledged that any form of partial fiscal devolution, for example, the forthcoming power to retain business rates, could lead to complex issues around necessary redistribution within a combined authority. There is likely to be a core authority which contains the business district of that region and thus brings in a very high proportion of business rate receipts. But such core authorities would not function without the workers, who often come from areas with



much lower business rate income. We should therefore look at combined authorities as functional economic systems, with net contributing financial authorities pooling with net recipient residential authorities. Not only would this help align finances with economic areas, but would also help to alleviate tension between boroughs.

If pooling did not happen, some members negatively anticipated competitive lowering of rates between boroughs to attract more businesses. Ultimately we don't want a situation where a race to the bottom "assures our mutual destruction" said one Borough Chief. As others have said, a proper assessment of Travel to Work Areas would be useful to address this<sup>8</sup>.

Future financial levers were also considered. Control over council tax would help to give more power to boroughs with low business rates, and would also contribute to the overall availability of money in the funding pool. Other ideas for raising money locally have included property taxes such as stamp duty and hotel taxes. Co-designing tax systems with central government was also considered but this would require a new relationship between combined authorities and the Treasury that is not currently on the table.

## CONCLUSION

Devolution in England is not a new concept, and devolution deals have emerged from a combination of LEPs, experience of city deals, and within the growing framework around combined authorities. Key themes which emerged at the roundtable centred on how to define geographies, what leadership models work best, public services reform and fiscal devolution. The roundtable reflected a spectrum of authorities in varying stages of devolution.

Ultimately these themes are inter-related. A clear geographic area and identity allows the discussion of fiscal devolution to take place. This is why collaborative governance is so important. Some combined authorities will have more complex geographic barriers than others, but working in collaboration with a view to clear objectives across the authority, can overcome these challenges.

Working in a collaborative fashion also makes it likely that public service reform will be implemented as authorities seek ways to overcome the silo thinking that is both typical and derivative of central departmental processes. Focusing on people and places, allows us to see the impacts of such thinking, and evidence to date has shown how place-based approaches enable more joined-up delivery methods.

All of these themes are underpinned by fiscal devolution which demands a clear

<sup>8</sup> IPPR North (2014) *Decentralisation Decade* p.9



understanding of economic geographies and enables public sector reform through a collaborative model of working. The challenge for combined authorities in going ahead with devolution deals is being clear on what outcomes they want to achieve, and presenting a convincing case to the government to give them the appropriate tools to do so. In return, central government must trust combined authorities and release more fiscal powers to enable them to realise their ambitions. After all, devolution that is reliant upon the centre for its fiscal and policy authority, is not real devolution at all.

## **THE VIEW FROM WEIGHTMANS: WHERE NEXT FOR DEVOLUTION?**

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Devolution is an idea whose time has come. It has been a key feature of the government's agenda to promote growth and provide some coherence to the development of strategy and infrastructure on a regional footprint. But as we press on towards elected mayors for regional combined authorities in May 2017 doubts remain about how effective they will be and whether they will work outside of the core cities.

Manchester has blazed the trail when it comes to devolution. It was clear from the roundtable that this has been greatly assisted by the history of joint working in Greater Manchester. This has given them strong foundations and there is an obvious ethos of collaboration for the benefit of the area as a whole, recognising that there needs to be something in it for everyone to make it work.

What is equally clear is that devolution is difficult without that history and even more difficult in two tier areas and where the geography creates more confusion. There are a number of county councils with district authorities pulling towards

different conurbations. This makes it virtually impossible to create a compelling case for a combined authority on existing or even slightly expanded administrative footprints.

It could be argued that this does not matter; it is the geography that works which should be applied. But in the absence of any consensus or even criteria about how you determine the right geography for a combined authority then it is unsurprising that this has led to reported difficulties in reaching agreement. The two most recently announced deals cover the East and the West of England, the uninitiated could be forgiven for thinking that these deals should cover the whole country between them!

Weightmans were delighted to partner with NLGN to host a roundtable to discuss this very issue. The participants reflected the mood of local government as a whole on the devolution agenda, positive about the opportunity with some concern about the detail. This is supported by a general view that trying to apply what works for core cities does not translate to counties and more rural areas very easily. With the first round of mayoral elections for combined authorities due in May 2017 we will not have to wait long to see how the devolution revolution develops.

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