UK2070 COMMISSION

Tackling long standing regional imbalances in England- the case for more radical devolution.

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Any process to tackle long standing regional imbalances in England wont work unless there is a radical shift in resources and decisions city and regional leaders, *argues Alexander Jan, Chief Economist at Arup.*

In the first report of the UK2070 Commission, *Fairer and Stronger – Rebalancing the UK Economy*[1], devolution and decentralisation are marked out a priority. The paper highlights that in England, there is now something of a devolution deficit compared to Scotland and Wales, both of which enjoy some of the most progressive levels of devolved power when compared to other "federal" Western-style democracies. But in England - which excluding London - accounts for about 70 % of the UK's population of 66 million, large swathes of the country have seen very limited reform or at best a hotch-potch of devolved governance structures plus limited tax and spend powers. As a result, many crucial decisions over paying for housing, transport and other forms of investment and service provision are taken remotely. Even in London which has seen the restoration of city-wide government some twenty years ago - the mayor and assembly enjoy powers that are limited compared to those for other world cities. For all the "city deals", "housing deals" and "devo-deals", the reality is that Whitehall still rules the day. To restore faith in our democracy, deliver better decision-making and incentives for growth, all this must change, argues Alexander Jan, Chief Economist at Arup.

Why should we care about devolution?

The UK2070 Commission's first report largely deals with economic disparities.
So why should we care about devolution? Research suggests that countries with more highly devolved systems of government don't necessarily perform above their peers in terms of GDP [2]. At best the evidence is mixed. Some would argue that off-loading decision making to lower layers of government is a complexity that gets in the way of streamlined decision-making from the centre. Others fret that "freeing up" local government would lead to a dreaded postcode lottery of public service provision; a concern that was integral to the case for creating the welfare state some seventy years ago.[3]

There might well be some truth in these arguments. Provision of universal healthcare, education and social welfare reform led to real improvements for those most in need but unable to pay. Major programmes of investment in housing, health and education followed decisions to nationalise public services – at least in the two or so post-war decades. But since then - in terms of outcomes and a sustainable political settlement - the England model of largely centralised decision-making and fiscal control has at best produced mediocre results. At worst it has led to the emaciation of local government, depleted the ability of city halls to respond flexibly and rapidly to changing social needs and economic circumstances and more generally contributed to a corrosion of trust in government as an institution.

For anyone concerned with social justice, tackling inequality and improving the quality of decision-making, the case for a shift to pushing decisions closer to those affected by them has many compelling attractions.

One example is delivery of capital projects to enable economic growth. Whilst large scale projects will always need considerable involvement from central government, local projects are often best delivered locally. This is because there is a more detailed and nuanced understanding of the problems and opportunities of an area amongst those who are closest to them. Often relatively modest interventions will tackle for example transport bottlenecks or help deliver more affordable housing. As the Institute for Government has recently highlighted, small projects generally provide superior socio-economic returns[6]. So anything we can do to secure a greater number of incremental projects will help deliver better overall investment outcomes for the public purse.

There has been some reform in this area – from governments of varying political persuasions.[4] But have they gone far enough? Those who are wary of further devolution of public services and investment perhaps overlook the poor performance of one-size-fits-all decision making. One has only to look briefly at the history of failure of too-big-to-fail British institutions with well-intentioned but overly ambitious policy and project agendas.[5] Even today some Whitehall projects struggle to deliver; financial crises in health service provision and perennially unsuccessful attempts at public service reform in areas such as prisons, housing and social care are sadly very much the order of the day.[7] Furthermore, centralised decision making has - for the last forty years - been accompanied by increasing inequality with all the concerns that that brings.[8]

SO WHAT S HOULD B E DONE?

Recent events have taught us that voters feel frustration and anxiety at the remoteness of decision-making that affects their daily lives. Polling indicates that when citizens' worlds change in ways that they are uncomfortable with or concerned about, they often believe "nothing can be done" to address them.[9] In some they cases have become so disaffected they have given up voting. Others have chosen to express their frustration by supporting policies that have perhaps acted as political "lightning conductors".[10]

At least part of the reason for this sense of disempowerment must be a combination of austerity and centralised control. Control from Whitehall has made it hard for public authorities to adapt to say changes in demand for school places, day care, transport, policing or housing. So what needs to be done?

Firstly, the government needs to embark on a devolution programme which leads to a lasting, clear and radical shift in how England is governed. The big prize is for ambitious devolution in England to connect citizens more closely to their elected representatives. This will start us on the long road of restoring faith in government institutions in general. That in turn would produce a more benign economic climate to aid public and private investment in skills, jobs and competitiveness.

Whilst for sure well intentioned, the recent jumbled and hard to navigate series of ad hoc deals for some cities and city regions needs to be reformed into something more transparent, coherent and long term. There is also a need to strengthen the power of existing authorities are are largely functioning well. For example, many boroughs, counties and area wide authorities such as the GLA, could be given much greater control over their local taxes.

Together these changes would improve accountability and trust in government as a whole and the quality and responsiveness of the decision-making that goes with it.

Secondly, Whitehall needs to allow local government the freedom to come up with much more diverse solutions to the problems we are trying to tackle. It cannot be that the housing needs of Grimsby are somehow solved by the same response as that for Greenwich, or that transport in Leeds should be treated the same as Lyme-Regis. Minimum standards may well be required and checks and balances such as those provided by independent assessment should continue. But greater freedom for councils would enable them to try out new ideas and learn from each other much more. Over time, that would produce outcomes underpinned by "hybrid vigour" and drive innovation and local accountability.

Thirdly and perhaps most importantly - we need to devolve much more in the way of taxation. As things stand, England's local authorities have very limited control over their own tax bases. They can neither set nor retain the lion's share of the property taxes that are collected by them; around four fifths of which are controlled by central government.[11] The Mayor of New York has seven times the level of fiscal autonomy as his London counterpart. In Tokyo the figure is even higher. As a result, in England, the linkage between economic growth and local taxes is weak. By any measure, this makes it harder for councils to convince voters to support development (that would grow the local tax base). They often see the downside of noise, disruption and more traffic - rather than an opportunity to generate funds to tackle transport, education or housing problems.

A council that is able to explain to its voters how development will lead to better schools, social care or transport services in its area is surely more likely to succeed. And one that raises much more from a localised tax base will surely stimulate greater scrutiny and interest from its residents and businesses.

Some commentators are concerned that even after various safeguards, reforms would lead to growing inequality between different parts of the country. But the reality is that centralised control of local government expenditure has not stopped that process. In 1872, the ratio between rates income and Whitehall grants was eighteen to one. By 2012, that figure had fallen to 0.24 to one.[12]

In a more devolved regime, cities in say, the Northern Powerhouse would be able to make the case for pro-business policies confident in the knowledge that they could reinvest locally to the benefit of their workers and residents. Some councils may choose to cut their business rates to attract investment. That may lead to an element of tax competition between authorities as has been seen in the United States. But the statutory requirement for councils in Britain to balance their books means that reckless policies are unlikely to be pursued. And England's local authorities have a solid track record. They have never defaulted on their debt obligations.[13]

In surveys on trust in the UK and elsewhere, research shows local politicians consistently outperform those from central government.[14] It follows that stronger authorities can be key to rebuilding faith in British governmental institutions. But to do that, they need to be free to innovate, raise revenues, invest and test new ways of doing things. With more autonomy they could help to tackle many of the long-standing challenges the UK 2070 Commission rightly says need to be addressed.



FOOTNOTES

1 UK2070 Commission, (May 2019) "Fairer and Stronger. Rebalancing the UK Economy." Accessed from http://uk2070.org.uk/2019/05/30/first-report-of-the-uk2070-commission-to-be-published-on-thursday-30th-may-2019/ September 2019.

2 For a summary of the evidence and further analysis, see for example GLA Economics (2017) Working Paper 84: "Relationships between devolution and economic growth" accessed from https://www.london.gov.uk/sites/default/files/devolution-and-economic-growth-wp84.pdf, September 2019.

3 Milburn, Alan (2017) New Statesman: "Slaying the Five Giants: the 75th anniversary of the Beveridge Report" accessed from https://www.newstatesman.com/politics/uk/2017/11/slaying-five-giants-75th-anniversary-beveridge-report, September 2019.

4 See for example, Legatum Institute (undated): "History of UK Devolution and Local Government" accessed from https://lif.blob.core.windows.net/lif/docs/default-source/default-library/history-of-uk-devolution-and-local-government.pdf?sfvrsn=0, September 2019.

5 One of my favourites is Hall, Peter (1982) University of California Press: "Great Planning Disasters".

6 For a summary of some of the principal arguments see Hudson, Bob (2019) LSE Business Review: "Why policy failure is so common in the UK" accessed from https://blogs.lse.ac.uk/businessreview/2019/01/26/why-policy-failure-is-so-common-in-the-uk/, September 2019.

7 The Equality Trust (undated) "How Has Inequality Changed?" accessed from https://www.equalitytrust.org.uk/how-has-inequality-changed September 2019.

8 The Hansard Society (2019) "Audit of Political Engagement 16. The 2019 Report" accessed from https://www.hansardsociety.org.uk/publications/reports/audit-of-political-engagement-16, September 2019.

9 National Centre for Social Research (undated) "British Social Attitudes 34 – The vote to leave the EU" accessed from https://www.bsa.natcen.ac.uk/media/39149/bsa34_brexit_final.pdf, September 2019.

10 London Finance Commission (2017) "Devolution: a capital idea. The report of the London Finance Commission" accessed from https://www.london.gov.uk/sites/default/files/devolution_-_a_capital_idea_lfc_2017.pdf, September 2019.

11 Travers, Tony (2012), LSE London "Devo max for London? Urban government and fiscal autonomy."

12 See Q&A exchange on capital investment of the London Finance Commission (Supplementary) [5] accessed from https://www.london.gov.uk/questions/2013/0009-5 September 2019.

13 See for example, Local Government Association (undated), "Perceptions: The fact and fiction of trust and satisfaction." Accessed from https://www.local.gov.uk/our-support/guidance-and-resources/comms-hub-communications-support/futurecomms-building-local-2 September 2019

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