



Economic Affairs Committee

Uncorrected oral evidence: Fiscal devolution in England

Tuesday 23 June 2026

3.15 pm

Watch the meeting

Members present: Lord Wood of Anfield (The Chair); Lord Burns; Lord Butler of Brockwell; Lord Carrington of Fulham; Lord Newby; Lord Petitgas; Lord Prentis of Leeds; Lord Razzall; Lord Reid of Cardowan; Baroness Wheatcroft; Baroness Wolf of Dulwich; Lord Young of Cookham.

Evidence Session No. 4

Heard in Public

Questions 56 – 68

Witnesses

Sue Jarvis, Co-Director, Heseltine Institute for Public Policy, Practice and Place, University of Liverpool; Professor Iain McLean, Emeritus Professor of Politics, University of Oxford; Professor Tony Travers CBE, Professor in Practice and Associate Dean of the School of Public Policy, London School of Economics (LSE).

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Examination of witnesses

Sue Jarvis, Professor Iain McLean and Professor Tony Travers.

Q56 **The Chair:** Welcome to the fourth evidence session of our Lords Economic Affairs Committee inquiry into fiscal devolution. We are delighted to have with us three expert witnesses from academia: Susan Jarvis, co-director of the Heseltine Institute for Public Policy, Practice and Place at the University of Liverpool; Professor Iain McLean, online from Oxford, emeritus professor of politics at the University of Oxford, Nuffield College; and Professor Tony Travers, professor in practice and associate dean of the LSE School of Public Policy. This meeting is being broadcast live on Parliament TV, and we will take a transcript and share it with you shortly after so you can make any corrections of factual remarks.

Can I start with a general question? I will start with Tony and then move on to Susan and Iain. What is the strongest case for fiscal devolution? What problems is fiscal devolution likely to solve and address? Are there specific things that fiscal devolution would help solve that suggest that centralisation has been a problem in areas of public policy delivery?

Professor Tony Travers: Thank you very much for inviting me to give evidence today. In terms of what fiscal devolution would be the solution to, there are two or three ways of answering that. First, as implied in the question, within the UK, England is very centralised, but this is true to some extent for local government funding systems in Wales and Scotland; that leads to a relationship between local government and the Government, that is dependent and to some extent infantilises local government. It makes it impossible for it to think in its own terms about building up its tax base, raising its own resources, acting in a way that is as independent as it needs to be, given the enormous demands placed on it. For most people, local government is how they judge the whole of government. It is the way things happen outside your front door; this is how people judge all government. The current relationship is not good because it leaves local government utterly dependent on central government. That is just the existing system.

Beyond that, this leads to a less effective distribution of public resources than would otherwise be the case. Decisions are made at a national level about local matters which would be better made locally. There is lots of opinion poll evidence about the fact that decisions would be more popular if made at a local level. Polling is absolutely clear: people may not like planning committees and things that councils do, but they want decisions made at that level, where they have access to the politicians they can actually go and talk to, if necessary; they can go to meetings in the evening or whatever, when decisions are made.

The second part of an answer would be to not just get away from centralisation but towards a much more efficient use of public money. At the risk of straying way beyond the committee's interests, there are some very high profile examples of very bad decisions made at the national level about major projects and the spending on them. These are

rather fewer at the local level, partly because the projects are smaller, but decisions are nevertheless subject to greater degrees of oversight and control by politicians. There will be other arguments—I am sure my colleagues will give you other reasons for fiscal devolution—but that is where I would begin.

Sue Jarvis: Thank you, and again, I would like to say thanks for being invited to speak today. I have a very place-based and regional economic development perspective. As Tony said, local areas know their economic opportunities and challenges, so being able to take decisions at a combined authority/strategic authority level is much more effective than having a centralised approach to policy and delivery. If you track the progress of the combined authorities, which we have had for 10 years now, there are numerous examples of positive change in terms of long-term flexibility and autonomy for places to make the decisions that are important to them as a tool to address long-standing regional inequalities.

Professor Iain McLean: To pick up on one of Tony's points in terms of the, as he puts it, infantilising effect of the current regime on local authorities, any tax devolution should have the objective of bringing closer together the responsibility for marginal spending and that of marginal taxing. At present, the tax base of sub-national government in England is pathetically small, very badly designed, as we all know—this may come up in later questions—and gives local authorities no incentive to experiment or to try, as Tony also said, to grow their tax base. That would be the starting point for any tax reform, which I and the other panellists, I am sure, will be happy to elaborate on in later questions.

Q57 **Baroness Wolf of Dulwich:** I would like to first say thanks for coming and to pick up on issues which have already come up. The Government have said they will lay out their roadmap for English fiscal devolution at the next Budget, which seems to consist largely of saying that they will hand out money for use as opposed to actually changing taxing powers. We also heard from former Chancellor George Osborne about his approach to devolution—that it had to be piecemeal, gradualist, and that individual authorities had to show they had capacity. I wonder how you three respond to that. Is this a sensible way to achieve fiscal devolution? Or should we say, "Okay, fine; from now on all local authorities will have these responsibilities and powers, and we are going to put that in statute; it is not going to be the case that Chancellors can give and then take away. So, a big bang". What would be preferable?

Professor Iain McLean: I disagree with the former Chancellor and others who argue that it should be piecemeal. First, you need to have a structure that covers the whole of England in some form. This then gets us into the weeds of local government reform. But having a partial structure as we do at present is pretty unsatisfactory, because you might feel you can give more tax devolution to Greater Manchester than to an area where local government reform is not yet completed. For reasons of equity, the whole country has to be treated on the same basis.

In terms of the second part of the question, central government should hand over responsibility for both domestic and commercial property taxes to the lower tier authorities and give them the freedom to restructure these in their patch. These taxes are at present badly designed and could have a much greater yield than they do without burdening poor people more—indeed, reducing the burden on them. I will give that as my starter for 10, and we may revert to these subjects after we have heard from my colleagues.

Baroness Wolf of Dulwich: Can I just clarify: do you think it would be a good idea to allow this tier quite a lot of freedom to decide how it restructured?

Professor Iain McLean: Yes, I do. I may be quite radical and far out on that subject.

Professor Tony Travers: From the 1960s and 1970s, when devolution was mooted under Labour Governments and then picked up in a different form by Tony Blair's and then David Cameron's Government, all the way through to today, almost every Government have, to varying degrees, been interested in devolution. Over that long period, it has meant different things to different Governments, but there is no doubt that somewhere deep in the souls of prime Ministers and Ministers, they know something needs to be done. Yet, over that long period, we have seen the nationalisation of the business rate, council tax—or before it, the domestic rating system—capped, and then made subject to enormous degrees of central control.

In terms of fiscal devolution, we have moved in exactly the opposite direction over that long period. Governments of all three major parties here represented, the coalition and others, moved towards a form of structural devolution to first London and then to the former metropolitan counties. There has also been some service devolution and experimentation. When it comes to fiscal devolution, it is almost as if Britain is an emerging democracy. People, particularly in the Treasury and at the core of Whitehall, think you can never quite trust institutions beyond the one here, just outside and near this building. There is that disbelief in democracy, and the fact that most county councils, metropolitan districts, London boroughs and others balance their budgets every year and run things reasonably well, is not quite enough evidence to convince those who make the decisions that somehow, fiscal devolution would not lead to the skies falling in. It has not done so in Scotland and Wales, by the way, but that is for another day.

Sue Jarvis: Fiscal devolution is different to the current waves of devolution that we have seen over the past 10 years, which have generally been a mix of funding programmes devolved to local areas with the competitive bidding and co-functions that you would have in a strategic authority. Bear in mind, you cannot necessarily pick up the same approach with fiscal devolution. As to whether it should be a big bang or a transition, devolution needs to be available across the country. It should not pick winners in how it is delivered, for the reasons that we

just heard. But it is important to emphasise that it probably will not be a quick process, not least because of the capacity to deliver fiscal devolution and the intergovernmental relations. There would be different roles and responsibilities at national, regional and local level to achieve vertical integration.

Professor Tony Travers: I did not answer your question directly as regards a gradualist or more direct approach. The difficulty is that, if it is gradualist, it will never get there; it is so gradual that we never actually arrive. So, unless it is a big bang jump—heroic policy potentially has its downsides—without having that debate and making a change, it simply will not happen.

Baroness Wolf of Dulwich: You might have answered my follow-up as well as my first question. If the Government are genuine about laying out a roadmap, should they also commit to a certain end point at a certain time, even though they will no doubt not be the Government by the time it gets there? Does that create not just greater credibility but greater accountability, in that, if you have committed to something, people can at least say, “You are not doing very well on it”? I completely take your point that everybody says, “Devolution is a great idea” and nothing happens. Is it worth it, or does it not really make any difference?

Professor Tony Travers: As with everything in life, making a decision about what you want to do, committing to a timetable as to when it starts, and then testing the policy in real time would be a good way of doing it. That is not to say that you could not have a first stage of fiscal, then other types of devolution, and then move on; you could do that, but you need an initial visible step. A lot of discussion about fiscal devolution often gets tangled up in allowing strategic and combined authorities to keep part of the tax base uplift, which is a very different thing. But we will no doubt come on to that.

Professor Iain McLean: If I may jump in on that, a rather nerdy possible answer to your question would be government making a commitment in their term of office that the proportion of tax raised locally should rise from the present level, which is one of the lowest in the OECD, to something closer to the OECD average.

Baroness Wolf of Dulwich: That would definitely be an achievement.

Professor Tony Travers: That is a very good point because, currently, about 4.5% of all UK taxes—certainly it is true in England—are collected locally, and even that is heavily circumscribed by capping rules. So it leaves the UK an outlier within the OECD, as Iain said.

Lord Butler of Brockwell: In reply to Professor Travers, I accept that the Treasury have some culpability for the failure of devolution. Is not another major cause that, in the end, it is always the politicians and central government who get the blame, as Lady Thatcher found to her cost with the poll tax?

Professor Tony Travers: The poll tax was a central government reform, as you rightly imply, pushed through without the Treasury's agreement at the time. Famously, the Treasury hated the community charge and fought against it; so there is a moral there too. The Treasury were right on that occasion in many ways. But against that, it is the finance ministry: it has to agree to all this. I am not saying everything the Treasury does is wrong; I am just saying that its unwillingness to let go a bit is an impediment to progress.

Q58 **Lord Young of Cookham:** Can I drill down on Professor Wolf's last question to see what fiscal devolution might look like? If you take the national growth strategy, it mentions assigning a share of revenues from national taxes to local authorities. In the Mais Lecture, the Chancellor made it clear that this will look at income tax. Can we look at how this might work? Take an area like Bristol. If you say, "You can keep 20% of all income tax raised in that area", reduce the grant proportionally and Bristol does really well, but as we approach an election, the Government decide to cut income tax, suddenly there is a hole in Bristol's budget. If you go down that route, first, is it really fiscal devolution? Secondly, is any influence the local authority can exert on prosperity totally outweighed by macroeconomic circumstances way beyond their control? This seems to be the front runner; is it really fiscal devolution?

Professor Iain McLean: There is a model that has been argued and bargained out in Scotland since the Calman Commission in 2009, on which I was an expert adviser. There is a provision in Scotland to assign what is now a very high proportion of income tax receipts in Scotland, so there are technical ways of doing it. Any academic—this could be an entire other committee session—could tell you what has gone wrong with the Scottish settlement, but that would be a place to start for Bristol or for any other region in England. Technically it is possible, but the main drawback is one Lord Young just alluded to: income tax, although the biggest tax, is not a very good base for local taxation because the capacity of Bristol, or wherever, for raising the PAYE income of its residents is pretty damn limited, and will be limited on any foreseeable change of transfer. So, although assigning income tax is the easiest way to make large lumps of money available to devolved authorities—it happened in Scotland, Wales and Northern Ireland—easiest in this respect is not best. But see what the other panellists think.

Sue Jarvis: You raise a good question. There will always be debates about the best way to implement fiscal devolution or "assignment" as it is called in some current policy documents. There are other tax-varying powers that may be more relevant to some localities than others. I am thinking about Liverpool, where I am based, where the tourism levy lends itself very well to Liverpool city region. You could argue probably Bristol too, but other taxes do not fit across other geographies, so there are other factors to come in there.

It takes me back less to the technicality but more to the communication of what fiscal devolution will be, so that there is a clear understanding of what it is and what it is not. It might be one small lever rather than a

huge transformational change. For some areas that will be a good thing; other areas may want something much grander.

Professor Tony Travers: Most members of the public would think the council sets a tax, which is available to the council or combined authority, or whatever it is, which then sets the tax rate. That was true up to a point with council tax, except that the constraints on doing this are so profound that it is barely a local tax any more; but that is another matter. By the way, the Layfield Committee, which reported 50 years ago this year, discussed a local income tax—shockingly radical by today’s standards—of the kind that exists in Scandinavia.

Assigned revenues, more commonly met overseas—I realise there may be questions about this later—were effectively a part of the grant given to a city or regional mayor or combined authority. That replaces other grants they now receive, and they then receive a share of a national tax, and that is theirs. It might go up or down; it might not grow, but that is another way of doing it. The Chancellor’s Mais Lecture was more closely about taking a tax—income tax, most obviously—and saying, “If the base grew in this strategic combined authority mayor area, that authority would keep part of the uplift”.

We have been here at least twice before, not with income tax but with business rates. There was a local authority business growth incentive scheme under the Labour Government in the late 1990s and early 2000s. Under the coalition, we had a new homes bonus, allowing councils to keep the uplift in their council tax as they delivered more homes. That was then equalised, and all that incentive was taken away. You could have an existing national tax, whereby councils are incentivised to keep part of the base by their behaviour and are assigned revenue, which is relative but different; or a proper local tax, which is different again. Those are three different things, and they became slightly tangled in the debate more broadly.

Lord Young of Cookham: I have a very quick supplemental. Tony, is rate capping incompatible with fiscal devolution?

Professor Tony Travers: It is. I am not making a political remark here because rate capping was used as a competitive issue in politics between different parties. Some would offer lower taxes, some higher, and that was part of the weft and weave of politics. Now, that has all gone. In Wales, there is no tax capping, so there are parts of Britain that do not have it. Scotland tried it and then moved away. Whatever the justifications for council tax capping back in the 1980s and 1990s, it is in exactly the opposite direction of the discussion we are now holding.

Lord Young of Cookham: May I ask a final question, to Susan? You mentioned alternative levers. Could vehicle excise duty be devolved locally?

Sue Jarvis: It could. Again, it is a question of thinking about what sits within that and being up to date as to how relevant that would be if there

were shifts towards electric vehicles in certain areas. A lot of this is about the definitions at the starting point of fiscal devolution, or what is within the envelope for an area.

Professor Tony Travers: To your point, Lord Young, the difficulty of vehicle excise duty is it has the slight implication, if you are trying to grow the tax base, of increasing the amount of vehicles on the roads, or the consumption of petrol or whatever it is you are taxing. As we try to drift in the direction of more electric vehicles and fewer vehicles in cities, it might not be a great choice.

Professor Iain McLean: On the other hand, devolving congestion charging would be an excellent choice; it would be a sin tax where the sin is located in the right place.

Lord Young of Cookham: And road pricing.

Professor Iain McLean: And road pricing. They are essentially the same thing.

Q59 **Lord Razzall:** Leaving aside the argument whether revenue assignment is the best way of funding fiscal devolution and taking the Government's existing proposals, is the major motivation for this to create growth, or is it to provide a stable revenue source to enable borrowing and investment? Or is it both?

Professor Tony Travers: It is almost certainly both. The Government, like their predecessors, want to drive up UK economic growth. It is axiomatic for political survival, we are learning. This was one of a number of policy tools, including reform of the planning system, that the current Government looked to with a view to giving incentives for councils to develop more. There is more to economic and property development—let us park that—which is a much wider issue. But within the idea of delivering high levels of growth nationally, the thought that individual city regions and counties would be incentivised to develop by keeping some tax-based growth, or tax that they generate by their own decisions, seems to make sense. If it worked, it would not produce stable revenues all the time because there would be booms and economic upturns and downturns. We see that with section 106 and the Community Infrastructure Levy, which are taxes on development. The yield has fallen in the last two or three years because there has been less housing and office development. But authorities ought to be able to manage their way through that. They can manage good times and bad times—proper Keynesianism. They ought to be able to manage their way through the bad times. A separate issue, not unique to this question, is how areas with long-term structural decline are treated. But for areas that are broadly capable of economic growth, incentivising them to grow would produce a stable revenue stream over time.

Lord Razzall: It does not go to the point about enabling them to be creative in other means of raising money, does it? But that is a separate issue.

Professor Tony Travers: Yes, it is. I am not in favour of higher taxes for their own sake; I am not saying that. But the more that city regions and national government think about the most appropriate taxes to use to drive, or at least not inhibit, growth—there is a bit more flexibility in what is available to city regions—the more it allows rational judgments to be made that will differ from place to place.

Sue Jarvis: I agree. It is very much about how to enable city regions with their long-term planning to have that relative assurance of a certain revenue coming through. A lot of funding programmes at the minute are very piecemeal, trying to knit together things that have different timelines, rules and regulations, and that can be a real barrier to economic growth. Fiscal devolution will help support longer-term planning and allow strategic authorities to think about how to implement local policies. Again, using Liverpool city region as an example, we have a plan for prosperity, and within that, there is a commitment to inclusive growth. So it is pursuing a growth agenda but then thinking about how some of that gets redistributed into other local authority areas that are constituent parts of the city region.

Lord Razzall: What does that mean in terms of the ability to borrow and invest?

Sue Jarvis: Major regeneration schemes definitely need to have investment and the ability to borrow. We have seen examples with pension funds and the like.

Professor Tony Travers: Just on borrowing, if we look at one of the more successful recent national infrastructure projects, Crossrail and the Elizabeth Line, just over a third was funded by Treasury, a third came from a levy on businesses in London, and the last third came from borrowing against the revenue stream for the additional passengers generated by the project. This and the Battersea Nine Elms extension to the Northern Line—not that I need to use just London examples—both use quite creative forms of capturing either tax or land value uplift in order to allow borrowing to then repay the debt with the infrastructure in place. That as a model is much to be desired.

Lord Razzall: Yes, but unfortunately, that has not got Hammersmith Bridge rebuilt.

Professor Iain McLean: Going back 50 years, the same issues arose with the Jubilee Line extension, as Tony will know. There is no region, at city region level, where you could say that the entire region is depressed and in need of restructuring. All regions have such areas. But if the potential taxes that we are looking at are levied at regional level, then every region—my colleague just gave the example of Liverpool city region, where I believe Merseyrail has been very successful, but I will defer to the local expert—has capacity for the sort of fundraising that Tony just mentioned.

Q60 **Lord Burns:** In her Mansion House speech, as mentioned, the Chancellor

said the roadmap envisaged “to give regional leaders control of a share of some national taxes which have, for too long, been allocated by central government”. She also said, “I will not ask taxpayers to pay more”. I agree with the points made about applying this to income tax, but there is a wider issue too. If we have these arrangements without a mechanism for equalisation, surely this means that poor regions with lower tax capacity will be relatively worse off. On the other hand, if we have equalisation, where does that money come from? Does this not cancel the incentive effects of revenue-raising powers? I have struggled with this debate a great deal because I look at the tax capacity effects in different regions of the country. Not surprisingly, they are, of course, lowest in regions that have the greatest number of people on low income. So how do we square this particular problem?

Professor Iain McLean: May I jump in on that one? This is a subject very dear to my heart. I have been saying for over 15 years now that, in raising this very pertinent question, as Lord Burns just did, you go to Australia and you study the operations of the Commonwealth Grants Commission, which since the 1930s has tackled the problem of how to have equalisation without destroying incentives. The regime is very complicated. It has been somewhat simplified, but there is at least one model out there of a regime that for 90 years now has attempted to do the very difficult thing that Lord Burns mentioned.

Sue Jarvis: The big challenge for fiscal devolution is how to find the correct balance so that you have sufficient incentive for local areas to pursue growth but also a safety net for areas where there is more disadvantage and that are more reliant on public services. This is a key challenge. As Iain said, there are examples in other parts of the world, in Europe and elsewhere, where this has been looked at and resolved within whatever level or parameters that government has decided. Part of the discussion is: what are those pinch points? What are the differences that we would be happy to accept? As I said earlier, fiscal devolution will not resolve all our regional inequality challenges. We need to find a way, particularly looking at how maybe you can look down vertically through the different tiers to address this. Similar areas with similar regional economies might have a certain threshold in terms of a safety net.

Professor Tony Travers: There is no doubt that incentives and equalisation in their purest forms are mortal enemies simply trying to do exactly the opposite thing. I work at the London School of Economics, whose founders, the Webbs, were big into equalisation. A degree of popularism lies behind how we ended up with one of the more sophisticated and complete equalisation systems. Having said that, Governments will occasionally let the system drift for years, and then it ceases to be very good at equalising because it is not uprated. This very year, we had an uprating in both needs and resources equalisation within the local government funding system. Suddenly, you get massive redistribution, which is not much good either. To answer your question, a system with no incentives makes no sense at all; a system with 100%

equalisation every year would provide zero incentive, and that is clearly not sensible.

Full equalisation—this is a controversial view, and I do not suggest that everybody will agree with me—within the local government funding system as it now operates means that an authority, however needy it is or however much its economy goes down, still gets the same amount of funding. If it spends at the measured government spending need level, it does not matter how big its tax base is; it will get funded. That brings with it the risk that areas that need central government help and investment do not get it. It makes it easy to think, “Oh, the equalisation will deal with that”. I will not name towns and cities, but there are places that need long-term government investment and direct action, which the local government funding system will not for and of itself deliver.

I am not an economist, but if we are to move forward with proper incentives—as you all know better than I do—they have to be perceptible at the point decisions are made. Councillors making a decision locally about a piece of economic policy or planning have to know that the money will come in so that they can promise people that something good will happen. Otherwise, it is not an incentive. That would be my rather complicated, long-winded answer.

Lord Burns: I am not for one minute saying that the present system solves all those problems either, but if I take the case that Professor McLean was advocating, that we hand over property taxes and allow each area to redesign them as they wish, if you look at relative house and land prices in different parts of the country, the effect of this would be dramatic. You would require some equalisation, which surely is going to break the other rule about raising other taxes because that money for equalisation will have to be raised if you take away that ability and allow the local authorities to do it.

I was brought up in the north-east of England and I know the relative house prices of places like that and what property taxes are capable of raising by comparison with where I live now. In my Treasury days, I was involved in this. Why do we have restrictions? Because it turns out that some parts of the country had enormous potential to raise money, other parts of the country suffered, and therefore we had to go through this process of trying to put restrictions and capping on this type of issue. Identifying the issues that were in the Chancellor’s speech—not putting other taxes up and doing this—I find it difficult to see how both objectives can be delivered without having devastating impacts on some parts of the country.

Professor Tony Travers: There is a risk of saying, “Why, oh why, haven’t we reformed the existing local government finance system”; we are paying local council taxes, certainly in England and Scotland, on the basis of relative prices in 1991. That is a whole separate nightmare and complex issue. I totally agree; if we try to catch all that up in one go, that is another inquiry. The trouble is, these things interact, but it is possible to say to different parts of the country, “A smaller share of your

buoyant tax base is retained here than there". That would allow something akin to an equal growth per capita for a particular growth rate, which would mean that you could devolve a different proportion of whatever the tax base was to different regions. Civil servants are very good at this kind of thing; they would love it.

Lord Burns: You would call that simplification.

Professor Tony Travers: It would still need a visible incentive.

Lord Burns: I would like to hear Professor McLean on this because it was his proposal on this way of doing it. It seems a bizarre notion that different regions should levy whatever property taxes they wish in their area and there be no effective equalisation.

Professor Iain McLean: I am a professor, not a Permanent Secretary, so I can make such suggestions. As Lord Burns knows, there is theoretical literature which says that it would all come out in the wash. I will not bore the committee with discussion of the Tiebout effect, but I am sure Lord Burns and other members are familiar with it. I am not as radical as Charles Tiebout, saying, "Let every authority decide which taxes it levies", but I am in favour of a great deal more freedom than we have at present. As Tony said a moment ago, we have the absurdity of council tax based on 1991 valuations. The only area of the country that has dared to touch that third rail is Wales, which did a revaluation and introduced an extra council tax band. It got a great deal of grief for doing that, but it was undoubtedly the right thing to do.

If authorities, or combined authorities, were incentivised to absorb the pain and make property tax more equitable within their region, that would be a good thing. As for making property tax more equitable between regions, I revert to the point that Tony just made, which is that inter-authority equalisation would realise—in a favourite example of my colleague John Muellbauer—that the tax yield per property for domestic property in Kensington in London is many times more than that for an equivalent property in Kensington in Liverpool, yet under the current arrangements the residents of Kensington in Liverpool pay a considerably higher proportion of their income in council tax than do the residents of Kensington in London. An equalisation regime England-wide would have to take into account the huge tax capacity of London and the south-east relative to the rest of the country.

- Q61 **Lord Reid of Cardowan:** On the question of the apparent irreconcilability of equalisation on the one hand and incentives on the other, at least in their purest forms, I would like to go back to Professor McLean, who teased us by saying, "There is a solution out here in Australia", and then elaborated with, "But it's all very complex". I am sure our researchers will look at Australia on Google Maps to see the complexities of it, but is it possible for you to give us a little trailer or synopsis of the solution that is sitting there waiting for us to grasp?

Professor Iain McLean: Luckily, Lord Reid, I did a paper some years ago called “Fiscal Federalism in Australia”, which the clerks and researchers of the committee could look at. It is now seriously out of date. I will not attempt to give a viva voce answer to Lord Reid but would be happy to supply the clerks later with a paper about what has changed since I wrote that paper and how in principle the Australian system works. Lord Reid may know that in the era of the Calman commission in Scotland, the commission brought over the chair of the Australian grants commission and his opposite number in Canada. So there is also some discussion of that in the reports of Calman, also quite a number of years ago, and I can give the clerks details.

Lord Reid of Cardowan: Thank you for the reading list.

The Chair: I would be happy to go over to Australia to have a look at the system.

Lord Reid of Cardowan: We could spend a couple of weeks there.

Q62 **Lord Prentis of Leeds:** Much of our discussion is about devolution to the city region. This seems to be the mark about which we judge whether devolution is workable. Do we see devolution stopping at the city region? It could be perceived as taking responsibility away from the local level toward a more regional, separate level, rather than devolving, which is the whole idea of the game. As you mentioned, Tony, a number of local authorities are in absolute crisis, be it Birmingham, Northampton, Croydon or a list of others. Will equalisation deal with the problems they have, which are caused to a large extent by a lack of funding?

Professor Tony Travers: The straight answer to that latter question is that it definitely does not. The need for—what is the term of art for this?

Sue Jarvis: Emergency funding.

The Chair: Exceptional financial support.

Professor Tony Travers: Exceptional financial support, thank you—is a product of the fact that local government across England—it has not been quite so bad in Scotland and Wales—has faced now 16 years of constraints on its revenue spending, much more than on capital spending. Many authorities have managed their way through that, but overall they are spending less in real terms today than in 2010. The health service now spends 40% more in real terms than it did in 2010 for the same population. Against that backdrop, it is amazing how few authorities have required this exceptional financial support. But it is true that the discussion that the committee is initiating is overwhelmingly about cities and city regions.

The Government have a policy of gradually bringing many, if not all, parts of England into a version of what started out as the Greater Manchester model, which has spread to other parts of the country with a mayor and now a combined strategic authority. But that model will not work everywhere and will not be rolled out in the same way everywhere. So it

is fair to say—my colleagues will correct me if I have this wrong—that the way in which fiscal devolution is now envisaged is much more about city or existing combined authority areas. That begs a question about what happens in Blackpool, which is not in either the Liverpool or Greater Manchester city region and will go into its own combined authority, I think, with Blackburn, Darwen and Lancashire. Rural combined authorities are very different from urban ones.

Sue Jarvis: Following on from that, the premise in the early days of devolution, creating combined authorities, was very much about the functional economic area; it was the labour market, so bigger than individual local authorities. Part of the argument linked to fiscal devolution and driving economic growth is around which functions work across the labour market: transport, skills and wider investments. That is part of the rationale for why city regions and cities are the focus. Tony is better placed than I am to talk about the funding within local government, but the challenge there is that it is a different set of funding linked to specific statutory services. It goes back to that definition of fiscal devolution. What are we dealing with? Fiscal devolution will not be able to cover everything, and if it existed at a local authority level, it would not deal with the challenge that there just is not enough money in the overall budget.

Professor Iain McLean: As I said in an earlier answer, there has to be sufficient uniformity across England so that all areas have some authority that can receive either assigned or devolved taxes. The particular case we are circling around is indeed one of the more difficult ones, which is the north-west of England, north of Greater Manchester and the Liverpool City Region. It is a big area; it is Preston to Carlisle, including Blackpool and Barrow-in-Furness. For a workable devolution scheme in which there was anything like a serious attempt at tax devolution, that would have to be the region: the north-west of England, north of the two existing conurbations. North-east is rather easier, and there have been moves to incorporate Northumberland, County Durham and what was once Tyne and Wear—I have to declare an interest in that 50 years ago I was a councillor there—into some sort of strategic authority. North-west is probably the single most difficult area of England to fit into this pattern.

Q63 **Baroness Wolf of Dulwich:** Coming back to equalisation, on which we could clearly spend a long time, it seems that part of the problem is that we are trying to solve both incentives and equalisation with a single instrument; that is not normally a good idea. Tony, earlier you alluded to the idea that, if we did this, you might then have to say quite clearly that there are areas where the Government just have to come in. It may be that Australia manages an all-singing, all-dancing equalisation effort, but that must be very unusual. In America, they do not even try; they just leave it to the courts. If we arrive at a place where we have genuine fiscal devolution, and that means that some places will do better than others—that is, after all, partly the point—how realistic is it to have a serious and stable regime in the centre, which says, “We will identify certain areas that, in spite of this, are clearly in this group that needs

special help"? Politically, that is quite difficult. Is that something that anybody else does?

Professor Tony Travers: To frame the answer, it is worth noting, and we have all agreed, what a centralised country England is within the UK—this is separately true in Scotland and Wales—but we are still terribly unequal regionally. That irony has to be considered again and again. What is it about this very centralised system with a National Health Service, loads of national provision, that ends up with these huge regional inequalities? It is hard to think of devolution making it worse. Just to be clear, I am making light of it. Forgive me; just remind me of the question.

Baroness Wolf of Dulwich: Is part of the problem that we are trying to use a single instrument to both incentivise and equalise local governments and regions? Do we have to see these as things to be carried out separately? How can that be done credibly and effectively? As you say, clearly we have not done a good job with a centralised system. Maybe Australia manages it, but I find it slightly hard to imagine us creating something comparable to the Australian model overnight. What do other countries do? Can you create something that builds this in, or is it always ad hoc?

Professor Tony Travers: It is more an economic development question; I am not the right person to answer that. Having raised it indirectly, I do not think equalisation will deal with places that have long-term, deep structural economic weakness that has been growing since de-industrialisation started in the 1950s. In a small country such as England within the UK, or Scotland, Wales and Northern Ireland, it is hard to see any agency other than national government having the firepower to do that.

Baroness Wolf of Dulwich: I do not disagree. My question was more specific; I am sorry, but we keep coming back to equalisation. Suppose you introduced something like Iain's big bang; there would immediately be screams about equalisation. How feasible is it to have a parallel instrument, piece of legislation or policy-making by the Government that says, "There will be an identified number of places that need special help", as you described? After all, this is not a uniquely English challenge. Most countries have specific areas that just struggle and where, at least for the foreseeable future, it is not clear that they can pull themselves up by their bootstraps. Does anybody have a coherent offsetting regime that does not try to do it by winding everything up inside the fiscal devolution regime but actually has a coherent offsetting approach for certain specified recipient regions?

Professor Iain McLean: I will come in on that as the one who started this. One of the difficulties we face is that we do not have anything like a uniform structure. We used to have nine standard regions. They still exist in a ghostly form, but I do not think anybody in any party is proposing that they should become units of tax and transfer, although we could have that discussion. Countries other than Australia that already have

equalisation regimes tend to equalise to the level of, in Canada the province, in Germany the Land. These are existing administrative units that vary enormously in population, but they are structures that have existed since before equalisation became a huge issue in political debate.

I revert to my earlier answer; it is a prerequisite that the whole of England, in some form or other, has to be divided into authorities of a size such that they can be regarded as equalisation units, and the problems of deprivation and de-industrialisation can be tackled regionally. It cannot be the old standard regions because they are dead and gone, but the metropolitan and combined authorities at least provide a basis from which a Government could work out to the rest of England.

Q64 Lord Butler of Brockwell: Drawing on our earlier conversation, would you care to summarise the principles on which tax raising should be either devolved or assigned to local bodies? Applying those principles, which taxes should we propose to be assigned or devolved in the UK?

Professor Iain McLean: Tony may go first on this one. I have strong opinions; he knows what they are. He may have a more moderate opinion.

Professor Tony Travers: You should go first and let me respond to them.

Professor Iain McLean: The academic consensus is that property taxation is the most suitable tax base for subnational government, for the very good reason that property does not move and they are not making any more land—of course, they can make houses and businesses on that land—and an incentive-compatible property tax regime is not difficult to conceive of. Indeed, people have been conceiving of it since at least the days of David Lloyd George. All the commissions that have looked at this—Calman in Scotland, Holtham in Wales and the Fiscal Commission in Northern Ireland—have come to the same view that land and property are the most suitable tax base for devolved taxes. I can give your clerk citations for all these. Income is not a very suitable basis, for the reason that was raised by Lord Young a few minutes ago. There are some very small suitable areas, such as tourist taxes and paper bag taxes, but their yield is so trivial that the fact that they are suitable for devolution is not much of a consolation. The recent Northern Ireland Fiscal Commission went through a checklist of taxes that would be suitable for more devolution. Again, that is another reference I could give to your hard-working clerks and researchers.

Sue Jarvis: I have a more cautious approach to all this than you have. As a guiding principle I think very much about how we can ensure a certain degree of stability and predictability in terms of what some of the taxes may be. Notwithstanding what has been said about income tax, I would be more of a proponent of income tax than some of the taxes on land if you are thinking about the differentials in different parts of the country. You can still get that with income tax but, certainly in the north of England, we struggle with the cost of land and what that means: the

challenges through bidding to Treasury, Green Book appraisals and suchlike where often we have been seen to be on the back foot just because of the location that we happen to be in. For me it is about being more cautious in how to approach this.

Professor Tony Travers: I take Iain's point, but the truth is that we are talking about devolution, understandably, in the terms the Chancellor started the debate but against the backdrop of a local government finance system that is desperately in need of reform. There is always a risk that we will end up saying, "Well, we can't do the one thing until we have reformed the other". The trouble with reforming local domestic tax, as Lord Burns referred to, is that it is by some distance the most visible tax that most people pay. It is the only one that most people are aware of. It is 4% or 5% of all taxes and yet most people can give you, if they are paying the bill themselves, a pretty clear idea of how much they pay per month or per year. People have no idea that for every £1 they pay in council tax, they pay £19 in other taxes, which they do not really notice.

If you do a Google Trends search, you will see that council tax is by far the most searched tax. Reforming it, especially after nearly 40 years without revaluing the base, is going to produce an enormous impact, and that is just reforming it as it is. If we were to move to another tax, which is perfectly rational and academics would argue for that, you get a massive further redistribution even before the question of how much we raise. I thought we were talking about raising extra money through devolution or giving an incentive to grow the tax base. I fear there is a real problem of saying—I am not saying that anybody is saying it—"Let's reform the local property tax system, as it now operates, and then devolve on that", because you are then doing two things to do one.

That is why I suspect the Chancellor and the Treasury thought of lighting upon income tax—although there has been some discussion of value added tax, itself a regressive tax—because, if it worked, that would at least be a very visible incentive for combined authorities to grow their tax base if they could see they were going to get some money back from making decisions that grew the economy. It needs to keep separate the dismal issue of the failure to keep the local government tax system up to date and the question of whether it would be possible to create an incentive system to encourage councils or combined authorities to grow more.

Lord Butler of Brockwell: Could I just invite your comments on a current idea: empowering mayors or local authorities to apply a tourist tax? What do you feel about the pros and cons of that?

Professor Iain McLean: Good idea but trivial yield is my answer to you, Lord Butler.

Sue Jarvis: The tourist tax is a small amount, but if you take an example of a place where tourism is a key sector of the economy, such as Liverpool City Region, it will be beneficial because it will help cover and redistribute some of the costs to the businesses and to the place.

Liverpool is the most visited city in the UK, and with that there are a lot of costs that come to the city itself in making sure it is fit for purpose for the visitors. As I said earlier, it would not suit other areas where tourism is less of an issue.

Professor Tony Travers: I understand that hotels and other tourist establishments such as Airbnb are not going to be over the moon about this, but given the straitened times in which city regions and councils live in—I am slightly mixing them up here—at the margin, given that most of us have been to other cities where you pay these taxes, €4 or \$5 a night, or whatever it is, does not put me off going to those places. That is my personal view. It probably will not have too damaging an effect on tourism, but others may disagree with that. There are a number of other revenues: congestion charging, off-street parking revenues in Nottingham, fares for public transport, Section 106, CIL, the community infrastructure levy, levies on development and other fees and charges that councils set. They are all outside the system we are describing and, in total, they produce social housing rents. They are all income streams to councils. Flexible thinking is needed about how they can also be used alongside everything we are discussing. I am not advocating higher taxes, just flexibility. So why not have a tourism levy? It is not a big amount of money, as Iain said.

Q65 **Lord Newby:** I have found this discussion extremely confusing because I do not know which powers we are talking about at all. That seems to me to be quite important in deciding what sort of quantum of tax you might be talking about, and therefore which taxes might be appropriate. The problems we have been grappling with about equalisation, it seems to me, are largely about the existing powers of local authorities with issues such as social care, where demand varies very considerably. The local authority has no control over it and therefore national government has a big responsibility.

If the new devolved structure we are basically talking about involves just devolving some transport, training and economic development, which is sort of what the mayors are doing at the moment, the problem seems to become rather less because the revenue that you are trying to raise is for a narrower range of things, rather than seeking to deal with this long-term, chronic underfunding of local authorities, which will remain unless you change the quantum of resource available to them.

Professor Iain McLean: I should not speak for my colleagues here, but a lot of those in the field would agree that social care is an example of a policy area that is sitting in the wrong place. It should be in the same place as health. Since Nye Bevan, or even since Lloyd George, UK politicians have accepted that in principle health is an area where citizens, wherever they are and however rich or poor they are, should have equal access to health care. The same should be true of social care. We have at present the situation in which a vast proportion of local authority budgets go on social care. People are unaware of that unless they are in the system themselves, for example they have a relative who needs social care, and therefore they grumble about their council tax

because they missed the bins last week, not being aware that the bins are—Tony will probably know the exact amount—somewhere about 5% of local government expenditure, whereas social care is a very high proportion indeed.

Sue Jarvis: You are quite right about what fiscal devolution is. It is very confusing because we do not have a clear definition and rationale of what it is for and what the aims and objectives of it are. It is something that really needs to be set out at the outset, whatever form that takes. We have talked about different levels of the spectrum of what it could and could not be. This problem has dogged devolution throughout because different people talk about devolution in different ways. Some would argue that it enhances democracy and promotes better policy-making at local level. Others would say it disrupts the concentration of power in Whitehall. All three are true in different situations, but the problem we then have is that different people use these definitions interchangeably, which just adds to the potential confusion. There is a real risk with fiscal devolution, because it is more complicated, that we do not know how to move beyond the technicalities to have a clear definition of what it is so that members of the public will be able to understand what it does and does not mean for them. That is a big challenge.

Professor Tony Travers: Of course, going deeper into this issue to the wider question of devolution and incentives takes us to the point that even though the Chancellor was generally talking about devolution to combined authorities or strategic authorities and their mayors, many of the decisions that are going to be made in Leeds, Calderdale, Bradford and other parts of West Yorkshire about what the council does will have a bigger effect on the economy than the combined authority. The Mayor of West Yorkshire is a wonderful person, but the truth is that many of the powers to affect the economy are in the hands of the metropolitan district councils or the London boroughs, not in the hands of the combined authority. Is that fair?

Sue Jarvis: Yes. The combined authority is more of a commissioner in that sense.

Q66 **Lord Carrington of Fulham:** This is a fascinating discussion. I am sort of left with the view, from your answers, that we have no idea how to take this forward.

I do not think fiscal devolution would actually impact the democratic responsibility of local authorities unless it gets to a sensible level of tax-raising power on local authorities, wherever that is, but it certainly is not 4%. I suspect it is 30%, 40% or something of that order. Assuming we find a way to take it forward and get fiscal devolution to a point where local authorities are actually responsible for raising a significant proportion of their budgets and getting them up to that sort of level, would local authorities require borrowing powers? We have already touched on borrowing powers a bit, but the examples that Professor Travers gave were essentially project finance. They were finance tied to a particular future revenue stream that was easily identifiable, rather than

the responsibility of the local authorities to service the debt. If you were going to have local authorities raising a significant proportion of their expenditure, just from a cash-flow management point of view, they would require the ability to access borrowing to cover the times when the cash flow did not actually match the income coming in. Therefore, if fiscal devolution is going to work, do you see it going hand in hand with borrowing powers for local authorities?

Sue Jarvis: My take on the borrowing powers is more linked to investment programmes in that sense. We know that local authorities have looked to borrow, but it tends to be linked more, in their medium-term strategies, to where it is a key objective rather than just business-as-usual type of borrowing. It is about the mixing up of the different agendas of what we do at a regional level and a local level, which is a challenge. It might be that you have two systems operating within this because local authorities are looking to deliver specific statutory services more than the economic growth that you now have coming through the regional bodies, so you have different rules, regulations and objectives.

Professor Tony Travers: Existing council finance officers aiming off for those who have had the need for exceptional financial support is itself a dismal failure of public policy because it effectively empowers councils to borrow money to fund day-to-day spending, which is just dreadful. Most council finance officers are quite good at treasury management. They keep money and have a squirrel-like tendency to have pots of money and keep a bit spare. Overall, councils still have fairly substantial reserves, but it is true that we are generally talking here about devolution to combined authorities and mayoral strategic authorities that will generally carry less money day to day. Am I right with that?

Sue Jarvis: Yes.

Professor Tony Travers: In a sense, the existing system of local government is quite used to managing ups and downs in revenue funding and quite good at it, whereas it is often more difficult even for existing counties, new strategic authorities and combined authorities that generally have a much lower cash flow through their budget. To answer your question, it might be necessary to have slightly different provisions for them, certainly if they are dealing with big projects and big cash flows. Of course, they can borrow for investment and capital spending purposes along with the same rules as any other local authority.

Professor Iain McLean: If I may continue with my self-assigned role as mad professor in this discussion, you could improve a ratio of tax receipts to expenditure either by increasing the numerator or by reducing the denominator. The latter would go back to my answer to Lord Newby a moment ago. If a Government were to decide that social care should be a national responsibility, with equalisation done by national-level decisions and integrated with the National Health Service, the proportion of local expenditure that is locally funded would immediately and automatically go up by quite a substantial amount. One would then need to distinguish, as both my colleagues have said, between borrowing to maintain current

spending, which is an extremely bad idea, and borrowing for projects, which, as Tony said a moment ago, is likely to be more of an issue at the level of the strategic authority than at the level of the existing county or district council. Local authorities can—the mad professor might say—issue bonds and see what the market thinks of their credibility. That was how the Victorians did it and it is how it is done in the United States, which may or may not be a model.

Lord Carrington of Fulham: I suppose that is where I am trying to get to, because if local authorities at a strategic level, wherever, can issue bonds, for instance, and presumably do it on their own creditworthiness and have a rating as a result, we are talking about a very different animal from the current structure of local authorities in this country. If they do it and are able to fund whatever projects they want to do, such as build an industrial estate or a transport system off their own bat, what then happens to the Treasury's view of overall debt? If the local authority goes bust and cannot meet its obligations to the bondholders—or any other form of debt; it cannot meet its obligation to the borrowers—is that it? Do the bondholders then foreclose on the assets of the regional authority, or is there an implied government guarantee? In that case, it goes into the government borrowing pot and is not actually independent, and the Treasury would have to have a say as to whether it could be done. Can you see a situation where the Treasury would walk away from that sort of debt?

Professor Iain McLean: That is an inescapable dilemma, and I am not going to try to evade it with at least one former Permanent Secretary in the room. A prudent strategic authority would put up for bond finance only projects where it had a plausible rate of return calculation that it could set in front of creditors, and for instance say, “Well, this would meet the criteria set down in the Treasury Green Book”. We would know in the background that if it did not meet the Treasury's criteria, the Treasury would have something to say to the mayor or the strategic authority. That is the best answer I can give; I accept that it may not be a very adequate one.

Professor Tony Travers: No local authority in the United Kingdom has ever defaulted on a debt; it has never failed to make a payment. However, in recent times, two or three have managed to incur such very high levels of indebtedness one way or another, especially because of reorganisation. I might be behind the times on this, but the debts that come with Thurrock and Woking, which got into terrible trouble, make it hard to imagine restructuring those authorities into new councils, with the taxpayers of the new councils taking up the debts. Your advisers will have to advise you on this but, if not exactly a write-off, there are provisions that are close to a write-off but do not involve default. Crucially, they do not involve default yet.

Lord Carrington of Fulham: But they might have to if we had fiscal devolution.

Professor Tony Travers: It has happened in America. It begs an issue not unique to local government: in a country such as the UK, how far does the state stand behind anything?

Lord Razzall: Thames Water is an example.

Professor Tony Travers: Exactly—not to name any names.

Sue Jarvis: I worked in further education in the past, and there was always the worry of an insolvent college and how the Government would guarantee in that sense. It applies in different ways.

Baroness Wheatcroft: In a lot of those cases of local authorities borrowing to invest, was it not actually the Government who were lending money to the local authorities to make those mistakes?

Professor Tony Travers: It is true. Although some authorities raise money through issuing bonds and have credit ratings, the majority do not. They borrow money from a Treasury agency: the Public Works Loan Board. A lot of that indebtedness was indeed to the PWLB, I think.

Baroness Wheatcroft: In your ideal world, would there have been some intermediary from government saying, "No, no, no, this is not a sensible thing to do"?

Professor Tony Travers: Almost certainly there should have been. There used to be the Audit Commission, which was abolished. The Government are creating the Local Audit Office, which will be analogous. I should declare that I was once a member of the Audit Commission, although not when it was abolished. The information that an agency of that kind has about individual councils, and indeed strategic authorities, would be most important running forward. Fewer mistakes would be made.

Q67 **Baroness Wheatcroft:** At the beginning this seemed a relatively simple exercise, before it got terribly confusing. You were talking earlier on, Ms Jarvis, about decisions taken locally being generally much better than those taken centrally, which I am sure is true. Professor McLean then talked about equalisation units as another measure in some cases. Now Professor Travers has thrown in the fact that it is actually district councils that have a lot of the really powerful decisions. I am really interested to know how far down you would push various decision-making and potentially fundraising ability, bearing in mind that at the lowest stage, perhaps the nimby tendency can be very powerful. Where does the ideal model of devolution of powers, and potentially financial powers for raising money, lie? How do you divide it up?

Sue Jarvis: The consistent message I would play back is to go from the city region level because there is sufficient scale at that level. They operate across a labour market and, if you are in a combined authority setting, have constituent local authorities that form part of your make-up. Liverpool City Region has six constituent local authorities and Greater Manchester has 10, so it varies in the different areas. You need a clear

policy that covers all these areas and a clear line of accountability for them. That is how you would play in to the lower level, below the city region where the money was devolved to. It would be a clear growth plan: what are you trying to achieve in your locality, being very clear about how any investment that is retained for the area is used? What are your priorities for spend? It would involve the whole locality in working out what those priorities should be.

Baroness Wheatcroft: Professor Travers, do you see potential friction between districts and the regional authority?

Professor Tony Travers: Yes, and there has been. A lot of what we are discussing is based on the Greater London model, the Greater Manchester model and all the existing city region models, which in most cases have relatively powerful mayors who set plans. They set a strategic plan within which the districts in their area are supposed to produce plans that conform to the citywide or city region plan. That is the logic of it.

Going back to the fiscal issue, one of the challenges that drives nimbyism—people against development—is that they see development taking place in their area and get nothing back for it. They see some great big housing estate going up, a new factory, a new office block or whatever it is, and—surprise, surprise—they feel they get nothing back. If it were a genuine incentive, the council could say, “If we get this money, we can do this for your neighbourhood and we can guarantee it because we know we will get the money from the development”, which would produce a positive dynamic. Human beings are rational and rationally think, “We’re not going to get anything out of this; let’s oppose it”. I am not saying that is a good thing; I am just saying it is the thing.

Baroness Wheatcroft: It has certainly been proved to work in France with power stations, for instance.

Professor Tony Travers: Yes. I am not advocating going to New York, having gone to Australia, but in New York there is a zoning system, not a planning system: a preset plan within which anybody can develop anything they wish within the rules; it has to be checked off by a building inspector and so on. In that system the city keeps most of the revenue that is produced and was able to help fund the famous High Line, a linear park on an old railway that many of us have been on, by changing the zoning rules around the linear park. It produced more taxes for the city, against which it could borrow to help fund the project. It is sort of a tax increment finance deal, as was used at Battersea.

Professor Iain McLean: I agree with both my colleagues that the strategic or mayoral authority is the one where combating nimbyism is more possible and more desirable. In the case of housing, as we all know, people who live in existing houses in an area have a stake in opposing new developments. The people who have a stake in supporting new developments are the people who do not yet live in that area. There is a fundamental inequity there. But as both my colleagues have alluded to, if you have a strategic-level authority, which is among other things

the highway and transport authority, it can say, "Okay, we need housing in this area. We know that this brings a downside to those who live in the area already. However, we are going to bring whatever people feel they need: new schools, new roads, new EV points, new rail stations". The strategic authority is the body that is in a position to deliver those. Our consensus is that the strategic authority should have these powers.

Lord Burns: Does this lead us to the position—I am thinking of Lord Newby's question earlier today—that to get around the complexity of this whole thing, we should start with the question: what are the spending powers that we wish people to have at different levels? Then we ask how we are going to fund them, rather than, in a sense, starting off with the question of which taxes we wish to devolve to particular areas. Is this not an issue where one really has to think through at the regional level or district level where you are going to devolve it and then ask the question about funding?

Professor Tony Travers: Inevitably, yes, but the trouble is that we are starting from where we are starting—that is the difficulty. It is a patent absurdity to have ended up with a local property tax funding social care. In 19th-century Birmingham, property taxes were collected broadly in relation to people living in homes; homes and businesses paid the tax, and broadly there was a relationship between cleaning the streets, refuse collection, policing and whatever services, and housing and factories paying a bit of property tax. Of course, when you add welfare services on top of local government's starting point, you end up trying to fund welfare services out of a property tax; that is never going to work.

I do not need to say this to you, Lord Burns, but the trouble is that I am not convinced the Treasury would be over the moon at taking on the funding of social care into the health service because of free at the point of use and higher spending. As ever, we are stuck with the system of local government we have, funded the way it is, which is out of date, and then trying to graft something on to it. That is why we come back again and again to saying that you would not start from here in reality. You would design the system differently if you were starting from scratch.

Q68 **Lord Reid of Cardowan:** I have a comment on what Tony has just said. Without anticipating political developments, you can foresee a set of circumstances where health expenditure and social care might well, under, say, a different Prime Minister, come much closer together if there is any consistency in the views expressed in the past, which of course again is highly problematic. We have ranged far and wide today to New York and Canada. Germany was mentioned, Australia has featured and in previous interviews we have discussed France and Spain and so on. But we have two living experiments in devolution within the United Kingdom, of course. We have 25 years of experience, which should allow us to draw some conclusions or criticisms.

My question is quite simple: should we learn any lessons as regards the future of English fiscal devolution from the experience of devolution in Scotland and Wales? If so, what are they? What are the merits of those,

let us call them experiments—although I hope they are rigidly embedded now? What conclusions can we draw that would assist us in designing a form of regional fiscal devolution in England? Professor McLean should probably start.

Professor Iain McLean: This may be my swansong. First, we must not forget Northern Ireland. I will give a brief answer in respect of each of the three territories, in all of which I have been involved. The example from Northern Ireland, which may not be very helpful but it is undoubtedly the case, is that you should never have abolished rates. Lord Reid and others around the table will remember that the poll tax experiment was not extended to Northern Ireland. Northern Ireland has domestic rates. It has an extremely efficient rating and valuation system, which on the Fiscal Commission we were shown and all impressed by. If you wanted to go back to a sensible property valuation system, you might look at Northern Ireland.

As I mentioned earlier, Wales has been the boldest of the three in looking at how it might raise taxes in an equitable way. It took some baby steps and has contemplated some bigger ones. In the matter of sin taxes, Wales was the first to introduce a paper bag tax, which has been 100% successful with the consequence that its yield is zero. It is an example of policy innovation that does not directly help. I may say that another one is 20 mph speed limits, which is outside the province of this committee.

The most successful innovation in Scotland is one that came rather out of the blue because when Calman was taking evidence there was a groundswell of opinion, which Calman and I think later Smith built on, that the revenues from the Crown Estate in Scotland should come to the Scottish Government and not to the UK Government. They do, and that is an incentive-compatible arrangement. Those are my three little examples from each of the three devolved territories for policymakers in England to think about.

Lord Reid of Cardowan: Before we go to our other guests, my profuse apologies to anyone from Northern Ireland who is watching. The reason I did not mention Northern Ireland is that my experience there, which I declared was a very enjoyable one, was that the circumstances of devolution were so unique to Northern Ireland that while there were individual elements—one of which you have mentioned—that would be useful, as a whole they are a one-off in Northern Ireland compared with Scotland and Wales, which were run-of-the-mill devolution without the drama and the excitement of devolution in Northern Ireland.

Sue Jarvis: We need to bear in mind the different policy contexts that we have with English devolution compared with Scotland, Wales and Northern Ireland. Some responsibilities that we currently have with mayoral combined authorities are different from those in Scotland and Wales, with responsibility for health and education, for example. It is a different situation in terms of what has been devolved and how that would be delivered. That would be a whole different set of conversations to have. One of the underlying observations is about how English fiscal

devolution deals with the challenge for those areas where there is underlying deprivation. In that respect, there is definitely learning from what has happened in Scotland, Wales, et cetera. How have the different areas tried to address the challenges that that presents?

Professor Tony Travers: We could have a debate on another day about whether devolution to Scotland and Wales has worked, or has worked as well as it should have done. It has definitely given the Governments of Scotland and Wales a marginal interest in the income tax base. I am looking to Iain here, but I think I am right in saying that there is an offset through the Barnett formula for that. It means that Scotland and Wales have to think at the margin about how their economic policies, or all their policies, would affect the part of the income tax base they now rely on, and nothing like that exists in England. Again, I look at Iain, who knows much more about this than I do. I think the Scottish Government have had a commission to look at the tax base, or to ensure that it protects the tax base; is that right?

Professor Iain McLean: Yes—the Scottish Fiscal Commission.

Professor Tony Travers: For that reason, if no other, it is rather like an individual. If any of us could not control our own incomes indirectly, or at least protect them, it would make us behave very differently. Giving that incentive is as important as it would be for an individual.

Lord Reid of Cardowan: That is an interesting answer. Previous witnesses have suggested, and I know these are areas outside the specific areas you have been questioned on, that the purpose of devolution to Scotland was first to enhance economic growth; secondly, to allow greater sensitivity to Scottish values in the implementation of policy; and, thirdly, to make local politicians more transparent and accountable to local people. Personally, I think all three of those are questionable, but I have no doubt in my own mind that devolution to Scotland is a direct reason why Scotland is still inside the United Kingdom. In other words, absent devolution, the national consciousness of Scotland would have been tested to its absolute limits and we may well have seen a different result in the referendum if we did not have a Scottish Parliament with Scottish powers answerable to the Scottish people.

I am a supporter of pretty substantial devolution to Scotland and want to see it work, but I am not convinced that there is a general applicability from the lessons learned from Scotland that is transferable to the English regions, apart from the tactical policy areas that Professor McLean mentioned. Apart from anything else, most of the regions have a local consciousness but do not have a national consciousness in the sense that the Scottish people do, rightly or wrongly. Let me put it another way: what do you think we have got wrong in Scotland and Wales with devolution that we should avoid when considering how to devolve to the English regions?

Professor Iain McLean: A very nerdy answer to that in relation to Scotland is the hurried negotiations that took place immediately before the referendum, which led to the Smith commission making a set of recommendations that attempted to please everybody and therefore a quite unworkable no-detriment principle in the transfers between the two levels of government. It remains unsorted out as a defect of the Scottish fiscal settlement. However, there are advantages that Tony Travers and I have alluded to: the Scottish public have a much better idea than the English public of which level of government delivers which services. The Scottish Government, to use an example with which Lord Reid will be very familiar, cannot escape the fact that the utter and total fiasco that is being made of ferries in the Western Isles is on the books of the Scottish Government and nobody else, which seems to me to be a good thing for accountability. I will give Lord Reid one minus and one plus in my answer.

Professor Tony Travers: I totally agree with the accountability point. I understand that there is the complicating issue, which I am sure this committee is not looking at and I do not really want to talk about, that it is still possible in the political system in Scotland and Wales to blame policy failure to some extent on the United Kingdom Government. That is a much broader issue. I do not want to go too far into it, but I am not sure that in a unitary state such as the United Kingdom it would ever be possible fully to avoid that. We are not a federal country where, in the end, if an individual state in the United States does not do well, you cannot really blame the President and the federal Government. I do not think that works in the UK. Perhaps inevitably, Governments in Cardiff and Edinburgh will always to some extent say, "Well, we'd be able to do much better if it were not for the United Kingdom Government". That is just an artefact of politics, as you will know much better than I.

Lord Reid of Cardowan: Or the voters of Makefield, for instance.

Professor Tony Travers: Yes.

Lord Reid of Cardowan: It is the same phenomenon.

The Chair: Thank you very much for your time. Can I ask you one final quickie: what headline recommendations would you like to see us make in our report? What would be the one or two things you would urge on us?

Sue Jarvis: It would be very much the clarity of what fiscal devolution is and what it is not in terms of the technicalities and the geography that we are talking about. There is confusion on multiple levels with this.

Professor Tony Travers: We need to deliver a form of fiscal devolution that the public understand and where the benefits of that devolution tax-raising or tax-yielding powers flow back to the people in the local area in a way that they understand and makes sense to them democratically. It is a liberal democracy issue, and they need to see the benefit.

The Chair: Thank you. I should declare an interest that Iain was my university tutor, so I feel like I am asking my university tutor what my essay should look like when I ask this question. Professor McLean, what would you say?

Professor Iain McLean: I would say get as far as you can at the margin to aligning responsibility for taxing with responsibility for spending. In the last couple of hours, we have covered many ways in which that might happen.

The Chair: Thank you so much. We really appreciate the range of things you have covered, and your frank responses have been really interesting. A special thank you to Tony and Susan for suffering the very warm room that we are in at the moment. I can now declare that this meeting is ended.