



Constitution Committee

Corrected oral evidence: Future governance of the UK

Wednesday 8 September 2021

11 am

Watch the meeting

Members present: Baroness Taylor of Bolton (The Chair); Baroness Doocey; Baroness Drake; Lord Dunlop; Baroness Fookes; Lord Hennessy of Nympsfield; Lord Hope of Craighead; Lord Howarth of Newport; Lord Howell of Guildford; Lord Sherbourne of Didsbury; Baroness Suttie.

Evidence Session No. 9

Virtual Proceeding

Questions 110 - 124

Witnesses

I: Professor Philip McCann, Chair in Urban and Regional Economics, Sheffield University Management School; Professor Graeme Roy, Dean of External Engagement in the College of Social Sciences and Professor of Economics, University of Glasgow.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Professor Philip McCann and Professor Graeme Roy.

Q110 The Chair: This is the Constitution Committee of the House of Lords. We are conducting an inquiry into the future governance of the United Kingdom. Our witnesses this morning are Professor McCann from the University of Sheffield, and Professor Roy from the University of Glasgow. Good morning to you both, and thank you for joining us.

The inquiry we are conducting is looking at relationships between central government and the devolved Administrations, city regions, local authorities and other parts of the United Kingdom. We are interested in the powers there are and the funding, but also the dynamic of the relationship between the two, some of which has been played out recently through Brexit and Covid. Can we start by asking for your overview of what the relationship is and how that should be figured in the future? Professor Roy, perhaps you could go first.

Professor Graeme Roy: Thank you very much, Chair, for the opportunity to come along and speak with you today. I will focus pretty much on the devolved Administrations.

Increasingly, devolution in the UK is becoming much more complex in a variety of different aspects, with different responsibilities and across different tiers of government. You mentioned the funding mechanisms for supporting these activities. In the case of Scotland, for example, we now have a devolved fiscal settlement that is quite a complete mix of continued block grant, shared taxes, soon-to-be-assigned tax revenues, fully devolved taxes, social security responsibilities, and so on. The framework is now much more complex. It is evolving in Wales and potentially in Northern Ireland.

One of the things that I think is important to understand, and which sometimes gets lost in these debates, is that even though there is significant additional autonomy for the devolved nations, we still have lots of shared responsibilities and competences. That is particularly true when we are dealing with large economic outcomes or shocks. You made the point about Brexit and Covid. Even in the Covid recovery—and we have seen this in recent debates around health and social care, which I am sure we will come on to—decisions taken in Westminster still have significant implications for devolved competences and outcomes, and shape the devolved nations' abilities to respond to these key challenges.

Looking forward, and thinking about the evolution of devolution, we need to have a much better understanding of how these different competences between Westminster and the devolved nations interact with one another. Do we have the right mechanisms in place for intergovernmental relations and shared knowledge and interactions, and shared responses to the big challenges, so as to be effective and get the overall benefits of devolution, with separate autonomy and decision-making at the same time as collective action across the UK?

I am happy to unpick some of those points as we go but those are my initial reflections.

Professor Philip McCann: Good morning. Rather than thinking about the devolved Administrations vis-à-vis England—which tends to dominate most discussions in the press, in the kinds of publications where these things are discussed, such as the *Spectator*, the *New Statesman*, *Prospect* and magazines of this kind—I think the issues relate to all parts of the UK, including the different parts of England, the different parts of Scotland and the different parts of Wales.

We have a very strange type of country today. On many levels we have probably the most centralised governance system of any OECD country—certainly any large OECD country. The problem with centralised governance systems is they also amount to a failure of a knowledge system, and this is central, whether we are talking about devolved Administrations, city regions or local government.

How do I explain what I mean? Take a small country that internally is very homogeneous, such as New Zealand, where basically all parts are pretty much the same. Whether you live in the North Island or the South Island does not make any real difference to your educational attainment, wages, income, career possibilities, life expectancy, health outcomes or social and civic engagement. It is pretty much the same. A small country such as the Netherlands would look like, as would Sweden and Finland.

But the same is true for very large countries such as Japan. If you are in Hokkaido in the north or Kyushu in the south—these are big distances, twice the size of the UK, and with twice the population size—the variations are almost non-existent. You have variations in population size from the biggest cities in the world down to small villages, but, overall, most socio-economic indicators of any form are basically very equal. If you have a national policy for something in countries like those, and if the policy is well thought out, well considered and well implemented, it will do what you want it to do. In the case of Japan, it is likely to have the same effects in Kyushu in the south and Hokkaido in the north. It will happen more or less as you intend in all places. Therefore, the national policy works well because, at national level, it does what a national policy is supposed to do. The reason that works is because, everywhere, the context in which you are deploying that policy scheme is more or less the same.

The problem is that that is less true in the United Kingdom than in almost every other industrialised country. The variations in the UK are enormous. If you think about local productivity variations, we are about the same as the whole of the eurozone. The differences are absolutely extraordinary: there are productivity variations from some of the most prosperous places in the OECD to a situation where about half the UK has prosperity levels below that of Alabama, with quality of life and multidimensional living standards comparable to those in the poorest US states in a very small area. The whole country of the UK is about the size of Wyoming. So the problem then is, if you have enormous differences,

what does national policy-making mean? The chance of it working well in one context and also in another becomes pretty close to zero in many cases, because the contexts in which you are operating are so fundamentally different.

How do you think about policy? You have a concept in your mind of what the country looks like, and, for most people, that is basically where they live. The difficulty in the UK is that most policy-making, and all the think tanks and all the people who are inputting knowledge into those processes, are overwhelmingly localised in one part of the country. So you have a construct in your mind that is basically London and the south-east, which is less like other parts of the county than you would see in almost any other country. This is a huge difficulty. There is a failure to take context into account in how we do things.

The other part of the problem is that very centralised systems maximise the degree of separation between everyone. You have a pyramid and everybody is competing for influence at the top of the pyramid, which would be broadly Westminster and Whitehall. The vast majority of citizens know that they have no possibility of engaging at that level. It is impossible because you have a traffic jam at the top, always. Big players, big institutions, important companies and prestigious think tanks are always the ones that provide all the advice. What that means is that local knowledge of the local context and coalface never goes up the system, and so the centre does not learn anything. The centre has lots of expert knowledge but everything is top-down; there is no bottom-up learning.

The devolution issue becomes important as a solution to that, whether it is at devolved-Administration or city region level. Countries solve that knowledge problem in one of two ways. One is to be small. That is the solution that the Danes and the Dutch and Finns have, or New Zealand. By being a small country, you minimise those degrees of separation, so citizens know that they can get a hearing in government at the highest levels. It works both ways, because the centre is always learning what the local thinking is and the local is also energised to engage. You have a two-way knowledge flow. The Nordics and the Netherlands work like this; New Zealand works like this. Large countries try to solve the problem by devolving to become, effectively, federal states. Most decision-making in the USA is at the city and state level; in Germany, it is at the Länder level; in the Australian case, it is the state level.; it is the provinces and cities in Canada. By pushing everything down as much as possible to meaningful levels, you generate a governance system that is a two-way system of knowledge flows. That is how the systems work.

We have none of that. We have top-down, in a country that is incredibly unbalanced internally. That is the challenge that all these devolution and constitutional issues have to address. Devolving constitutional issues in a country that is internally even is a fundamentally different thing from devolving anything in a country that starts off looking like ours.

The Chair: That is very interesting, thank you. I am going to bring in Lord Dunlop.

Q111 Lord Dunlop: Thank you and good morning to you both. I want to follow up Professor Roy's point about increasing complexity and ask about the fiscal frameworks negotiated in 2016 for Scotland and Wales. With the benefit of four or five years of experience, how well have these frameworks performed? In particular, how have they affected the governance arrangements in the UK and the relations between the UK and the devolved Governments?

Professor Graeme Roy: It is a great question. I would highlight a couple of things. First, on the overall question about how devolution has performed, an obvious way to look at that is through the Covid crisis, in particular. Back in 2016, when this was coming through, no one would have foreseen the potential scale of the shock that would impact on the economy and devolved public finances. Look at that in isolation. There are debates around the edges about flexibilities within the fiscal framework and so on, but, if you look at the overall performance of the fiscal framework, I think it would be hard to argue that it did not do its job well through the Covid crisis. What was embedded in the fiscal framework was this idea that the devolved nations and the UK would share the risk of common shocks impacting on the UK.

The fiscal framework held up through the Covid crisis, because when income tax receipts and devolved taxes were struggling due to the crisis, they were compensated by the adjustment mechanisms built into the framework to reflect the common shock. Then there was the continuation of the block grant, which meant that, when there was a speedy response to supporting public services and the economy through the crisis, that money could get into the Scottish Government quickly and could then be spent on public services. Then you had schemes, such as the furlough scheme, which were consistent across the UK, and which in turn protected the devolved nations' economies at the right time.

In general, it held up well through the Covid crisis. Where I think there was potential risk in all of this was if there had been any divergence between the devolved nations and the rest of the UK during the Covid crisis, either from a public health point of view or from an economic point of view. That is where the fiscal framework tries to encourage greater responsibility and risk transfer to the devolved nations. There is a question about how fair that is during something like the Covid crisis: would that risk transfer be fair? But in general, because of the nature of the common shock, it held up well and performed.

To the question about how it has performed more generally, we have seen variation, with different choices taken in Scotland compared with the rest of the UK. That is what these powers were about: we have a different income-tax system and a different child payment system coming through in Scotland. So there are differences in policy choices, which was part of the intention.

Where I would argue that there may not have been the improvement that we perhaps thought there would be is in levels of debate around fiscal policy in the Scottish context and what you might do differently—so

debates around scrutiny and accountability, questions over where the money is being spent, and conversations about the relative balance of growth in the economy and tax revenues. I do not think we have yet got the significant improvement in the financial accountability piece that we had hoped would happen with the fiscal framework.

There are potentially good reasons for that, with bandwidth being squeezed by Brexit and Covid and so on, but my reflection is that we do not have that quality of conversation about fiscal responsibilities just yet. I know there are improvements, and we have mentioned issues around governance. There are changes taking place, such as muscling up the finance committee in the Scottish Parliament to have a greater focus on budget issues in this Session. I think that will help.

In general, the framework has held up well through Covid, though there could have been some risks to it. Yes, we have seen some improvements, or at least variations in policy, which I think is what this was intended to do, but there is some way to go in the quality of the debate around accountability and financial autonomy. That needs to be worked through.

Lord Dunlop: A quick follow-up. We have not heard very much about the fiscal framework over the last four or five years, which is very different from when it was being negotiated. Can one deduce from that, per se, that the fiscal framework itself has not exacerbated tensions between the UK Government and the devolved Governments?

Professor Graeme Roy: That is a good question. The review will be crucial to all of this and how it potentially plays out. How that is handled will be crucial. As you know, quite a lot of the difficult, thorny issues were parked until the review, so that will be crucial. I do not think it has exacerbated tensions but tensions are there. In recent days, we have seen the debates and controversies over the health and social care levy and what that potentially means for the fiscal framework. We have had potential controversy over the Scottish Government asking for more flexibility during Covid, which was rejected by Treasury. We have had a stooshie over a bonus payment to NHS workers, which again brought the fiscal framework into focus. There have been pockets, or spot fires, of controversy over the fiscal framework but I do not think you could say it has exacerbated tensions.

There is a much broader question about the quality of intergovernmental relations, relating not just to the fiscal framework but to how the two Governments work together and how the two Parliaments hold both Governments to account. As I mentioned in my first comments, in areas where there is shared responsibility, and therefore needs to be shared accountability, that is where there still needs to be more progress.

Lord Dunlop: Do you have any thoughts about how that could be improved?

Professor Graeme Roy: On the general point about intergovernmental relations? There is an inquiry in itself.

I would argue that one of the things that happened when we went through the reforms in 2016 was that so much time was spent on the types of powers that were to be transferred and how they were going to be operationalised through things like the fiscal framework. I do not think we spent enough time thinking about the intergovernmental structures that needed to be put in place alongside them. I do not think we spent enough time thinking about the potential changes that would be needed within the Scottish Parliament to support greater accountability and scrutiny of those functions

That was a gap in 2016, because so much time was focused on what powers would be devolved and the mechanics of it. There needs to be a much broader conversation: this is the new framework and these are the devolved competences, so how do we engineer and develop proper intergovernmental relations and proper accountability standards? To get that in place is a huge piece of work.

The Chair: Professor McCann, did you want to come in on this?

Professor Philip McCann: No. I do not have anything to add.

The Chair: Lord Howarth, you wanted to follow up on something that Professor McCann said.

Q112 **Lord Howarth of Newport:** Good morning. I would like to pursue the point made by Professor McCann about the lack of bottom-up learning, and the problem that policymakers and decision-takers in Whitehall seem to lack information and advice from beyond the south-east.

In principle, Parliament exists to provide such advice. Parliament gathers together representatives from every single part of the United Kingdom. Members of Parliament have an intimate knowledge of their constituencies. Local government leaders, using the channel available through the Local Government Association, are also able to contribute their knowledge, wisdom and advice. The Office for National Statistics is collecting vast amounts of information about what is happening all around the country. So why is Whitehall so impervious to these immediately available sources of information and advice? What do you think could be done to encourage and assist Whitehall to become more receptive and take better advantage of the knowledge that is there, if it chooses to use it?

Professor Philip McCann: First, I am not in any way critical of Whitehall. There are many people who are critical of Whitehall and civil servants; I am not one of them. I am always in awe of civil servants when I am in meetings in London, and of their efficiency, the knowledge they have and the speed with which they work. For me, that is not an issue.

The issue is about day-to-day things. I have an example. When I lived in the United States, 25 years ago, I used to make the point that the national news programmes in the United States were always at 5.30 in the evening—this is CBS, NBC, ABC; the national, mainline television. The important point about that was that nobody in America watched it

because no Americans were home from work by 5.30 in the evening. What everybody watched was the 10 o'clock news, at night, and it was always state and city-level news, and that was true across the whole country. Most decisions that mattered to people, relating to industry, business, skills, training, investments, society, arts, heritage and culture, were taken at very local levels. That is where most of the issues were. What took place in Washington was very distant to most people.

You see the same thing in Australia. What goes on in Canberra is very distant to most Australians, but what happens in Western Australia or Perth does matter.

These things are ongoing; these are not just decisions that are voted on in Parliament but day-to-day decisions about land use, infrastructure and about changing skills policies. These are things that are happening in real time. The Westminster system as it is cannot deal with those things. There are too many; they are too diverse; they are too heterogeneous; they are too regular. These are things that are happening on a weekly or daily basis. The system that we have, by definition, has no capacity to deal with those things. Of course MPs have enormous knowledge, but they are dealing with hundreds of things themselves. It is about the institutions that should be handling these things.

Let me give you some examples. You asked what could improve. Take the Office for National Statistics, for example. It produces a lot of evidence. The ONS is marvellous, and I often talk to people in the ONS to ask about particular data and constructions and so on. The UK has very little linked data in comparison with many other countries. The Nordics and the Dutch and the Japanese, or New Zealand again, have their data all linked. You know about people's tax records, health background, insolvency issues and business things. The data is linked through identifiers, so those countries have much greater data resources.

The UK is very weak on this, and everybody in the UK statistics community knows that. We have big firewalls between evidence in the UK and we are slowly trying to break them down. I am part of the panel of Administrative Data Research UK, a programme of UKRI that is trying to link data. We have lots of data. What is difficult in the UK is that a lot of it is not joined up. There are legal, historical and cultural reasons for that. It is a slow process. We are making good progress, but we are still a long way behind other European countries and a long way behind countries such as Australia and New Zealand, which have introduced legislation precisely to get through such roadblocks.

That would be one thing that would help Whitehall enormously. Of course it would help people like me, academics, to publish more papers, but that is not the issue. The problem is what Westminster would do with the data. It is very hard for me to imagine what Westminster could do with it, whereas for local government decision-makers in city regions, it could be very valuable. There are ongoing efforts in different parts of England, with the new city region institutions, to build data observatories to do

exactly this, because they do not have the evidence or the data in the way that US states or the German Länder do. This is an important point.

Lord Howarth of Newport: Are you saying that, essentially, the problem is that our government is too centralised in this country?

Professor Philip McCann: Yes, and there are two aspects to it. First, we are more top-down than almost any other country. Secondly, this means that lower down the system is hollowed out to an extent that is not evident in other countries. There are different indicators on this, but we have a local governance system akin to somewhere such as Slovakia. It is well designed for a tiny country but for the kind of country that we are, it is almost uniquely ill-equipped.

Q113 **Lord Hennessy of Nympsfield:** Could I ask a data-related question that also goes back to what Lord Dunlop was asking Professor Roy?

Is there any way we can use the 20-year experience of devolution to, let us say, Scotland, to find out how well the Scottish economy performed because of devolution compared to what it would have performed like without devolution? We have never been able to design a control group anywhere in Scotland—you cannot suddenly decide that Lothian and the Borders will not be part of the devolved Administration, just to see how they flourish or not. Methodologically—and I am no good on this, but I know you are—how can we have any indication at all from the data we have to substantiate the claim, which I believed in and still do, instinctively, that if you do devolve, you can unleash local dynamic forces that have an economic spin-off that is beneficial? Is there any way you can demonstrate it?

Professor Philip McCann: Thank you for your question. The answer is yes, and there are several levels on which you can think about.

The first thing is this. We know from OECD-wide evidence that the more-devolved countries grow more evenly. In other words, more decentralised systems—not decentralised as in fragmented, with central government telling local government what to do, but genuinely devolved, decentralised governance systems—grow internally much more evenly. In other words, more parts of the country share in the benefits of prosperity and productivity growth. There are more stakeholders distributed round the country. That is the first point.

Secondly, there is no country richer than the UK that is more centralised. Every country that is richer than us is more decentralised than us. The only exception is the Republic of Ireland, but that is a very specific case. I can have conversations for hours about that case, so I will not go there.

The first point is the international evidence. More-devolved countries are allied with good governance systems—there is no point in having devolved governance if the quality of governance is poor. But good governance allied with decentralisation leads to greater prosperity sharing and also greater aggregate growth. That is the other important point. Basically, richer countries that are more even than us tend to be

much more decentralised as well. That is part of the answer to your question. We know that already from the OECD-wide evidence.

Could you do a Scotland-type of experiment? It is possible. Graeme institute, the Fraser of Allander Institute at Strathclyde, has done a lot of these types of analyses over the years. It is possible to do it but you have to remember the context before devolution, and this goes back to Lord Howarth's question. Scotland had immensely better data than the rest of the UK for 20 years prior to devolution. The Scottish Office—when I was a student doing a PhD, my empirical work was based in Scotland—was magnificent, building detailed data in a way that nowhere else in the UK was doing. Again, Professor Roy's institution was one of the central players in the process of building the data and using it.

Scotland has been producing detailed input-output tables for 35 years now, updating the data. I think people forget that for 15 or 20 years prior to devolution, in 1997, Scotland had already built up a knowledge-based infrastructure, via the experience of the Scottish Development Agency and subsequently Scottish Enterprise, on many things, so that when full devolution took place, Scotland was already equipped with the systems, data and learning to move it forward. It was not a standing start, whereas a lot of the combined authorities in other parts of the UK are working from a standing start. They have to build evidence and data, while at the same time trying to work out what their legal roles and responsibilities are and the policy frameworks.

It is perfectly possible to do it, yes, but you need to understand the context in which those possibilities operate.

The Chair: What is the barrier to the collection of data? What is it that makes the English, or the British, not want to go there and not want to have a data observatory, as you are calling it? Is it about privacy laws or is it about the culture?

Professor Philip McCann: It is a bit of both. It is hard to distinguish, is it not? We have a lot of legal barriers that limit what data can be linked and shared, which other countries do not have. I lived in the Netherlands for eight years. I just had a BSN number and all my data was merged, so analysts could pick up data that links my health records, tax records and so on; that is just standard. Culturally, we do not allow things like that in the UK, but there are things that we can do that we have not been doing in the past.

The important is the direction of travel, and here the Administrative Data Research UK programme is probably leading on that. But parts of the UK, particularly the devolved Administrations, have already gone further anyway, precisely because they have more autonomy and more of their own data-building expertise. That is particularly true of Scotland, which generates its own data. At many points, the Scottish data has been better than a lot of UK-wide data. Graeme would probably be able to give you more details on that.

The Chair: Let us move on to Lord Hope. I think he wants to follow up on some of the Scottish side.

Lord Hope of Craighead: Before I move on, if I may, I would be interested to know whether Professor Roy has any comments on what Professor McCann has just been saying in answer to Lord Hennessy's question.

Professor Graeme Roy: I agree with what Professor McCann was saying. The interesting thing—and Professor McCann made the point—is that a lot of investment that took place in trying to understand the Scottish economy took place before devolution. So part of it is cultural and part of it was due to the Scottish Office at the time being very proactive in economic development in Scotland. Administrative devolution before full devolution kicked in was the main driver of a significant amount of investment in producing and collecting economic statistics. It comes back to a more general point. Yes, there are issues around governance and devolution within regions, but there is also a cultural issue there. We had that drive for better understanding before devolution took place in Scotland.

Another general point about devolution and governance is that we need to think about what spatial scale we are looking at. If I was giving evidence to the Scottish Parliament about regional economic issues, I would be getting lots of complaints about the lack of understanding of regional inequalities within Scotland. A lot of people would complain about the lack of data, lack of local accountability and lack of local responsibilities there. Professor McCann has written a lot about this and done some great work understanding inequalities not just between regions but within regions. Understanding at a very local level where potential change could come in is important.

I will say one final thing on Lord Hennessy's point about a control group. There is a real opportunity, within devolution and across the English regions, maybe not so much to ask the big questions about whether devolution has helped Scotland to grow faster or more slowly than the rest of the UK but to understand where policies have been different, or implemented in devolution, and what the impact has been. If you can start to do that—to understand and learn lessons, and then roll them out across the rest of the UK—that is where there is a prize. I do not think we have done enough, even in the devolution context, to genuinely understand what works in Wales, Northern Ireland and Scotland or to learn what you could then roll out more broadly. A control group for Scotland within the UK is always going to be hard to find, but there is much more we could do from understanding the specific policy choices we are implementing.

Q114 **Lord Hope of Craighead:** That leads to my question, which is whether the devolved nations require further powers to be devolved to them to deal with economic issues.

If I can go back to the 2016 framework, Scotland was granted limited

borrowing powers of £450 million a year, subject to Treasury control, and so on. There is a constant complaint from the Scottish Government that they need more borrowing powers. My impression is that that is partly presented on the basis that a grown-up Government, which they believe themselves to be, should have greater borrowing power, without going into the specifics. From your point of view, Professor Roy, do you think there is an argument for greater borrowing powers for the Scottish Government and, indeed, for the other devolved nations?

Professor Graeme Roy: It is important to separate the types of borrowing powers that devolved nations have. Again, let me take Scotland as an example.

The Scottish Government have capital borrowing powers, which they can use to support long-term investment in the economy. The Scottish Government, I am sure, would ask for more borrowing powers, but there are significant structural borrowing powers available to them which are not available to the English regions, for example. The regions do not have the same scale of additional capital borrowing power as Scotland. So Scotland is at an advantage in that. One of the powers granted in 2016 was this long-term capital borrowing power, and that puts Scotland at a distinct advantage.

Other borrowing powers are much more about managing the risk transfer that now exists following the devolution of income tax—it is very much about managing volatilities in forecasts, cash management and slight variations in the economic cycle—and they are very limited and constrained. In part, that is linked to the nature of the devolved powers, which are also limited. These borrowing powers, which the Scottish Government would like greater flexibilities around, are largely limited to the technical operation of the tax powers. What they do not have, and what the Scottish Government have no power to borrow for, is discretionary revenue spending—so simply to borrow more money to fund day-to-day expenditure. That is essentially prohibited in the fiscal framework.

The reason for that is, first, that the Treasury wants to manage, quite rightly and appropriately, overall public spending across the UK. Secondly, during times like Covid, the Scottish Government are receiving significant amounts of day-to-day spending through UK-Government borrowing. The UK Government is borrowing on behalf of the UK to fund additional spending, which in turn is coming through to Scotland via the Barnett formula. The Scottish Government are already essentially receiving additional funding from borrowing.

The debate about borrowing powers is more complex than perhaps the Scottish Government simply asking for more powers. The question has to be around the purpose for which they are trying to borrow. They already have significant borrowing powers for capital, there are borrowing powers to manage the revenue risk because of the transfer of income tax powers and there is a debate about whether that is enough at the margin. They are specifically prohibited from borrowing for revenue spending, but there

is a good reason for that, which is that the UK Government are already borrowing on behalf to fund those expenditures.

Lord Hope of Craighead: That is a very interesting answer. If the focus of one's mind is on being part of the union, there is not really ground for complaint, but, if your focus is on independence, perhaps there is a ground for complaint, because that indeed is what independence would give. You would have your own borrowing powers, without restraint. Is that the right way to look at it?

Professor Graeme Roy: The nature of the devolved framework means that you are granted greater powers for some borrowing, but then you are constrained by how much you can borrow overall because you are part of a wider UK fiscal framework. Clearly, if you were advocating for more powers, and you would like Scotland to have complete autonomy, you would have to have your own borrowing powers, and that would open a can of worms around Scotland's fiscal sustainability, which I will dodge.

There will always be a sharing of responsibility, around something such as borrowing, between central government and a devolved Government, which is what we have in Scotland.

Lord Hope of Craighead: Thank you. Before I leave you, Professor McCann, do you have any comments on that?

Professor Philip McCann: Thank you, yes. First, I would just like to qualify something slightly. Independence does not necessarily equate with borrowing, and vice versa. You made the point that if your primary interest is independence then on the borrowing issue you may have a stronger case, but that does not work the other way round. In many countries, subnational borrowing is very extensive, such as in Australia, in the United States at city and state level, in Belgium and in Austria, and in Germany, obviously. France's subnational borrowing has increased through the recent reforms. There are many countries.

The issue also relates to the city region devolution argument. At the moment, city regions are working on grants from government, which are typically around £30 million a year for 30 years. Think about Manchester, for example, with an economy of maybe £50 billion to £60 billion a year, or something of that order: £30 million just disappears in a decimal point—the numbers are so tiny. If you want to do city region-wide economic development properly, following models in many other countries, for the scale and flexibility of resources that you would want—I am not advocating this position; I am saying it is a serious argument—you would have to have access to different forms of capital to build portfolios for different forms of funding streams, mixing local taxation with different types of borrowing, and so on. There is an argument about this, and there is OECD-wide evidence on these issues. Many countries engage in this, and it is not at all about the independence of any one part of the country.

There are many positive aspects to these issues but there are also some negative aspects, and Professor Roy indicated that. The risk and contagion issues in this arena can be very complex. If you are going to go down this route, you need to think about the design and the advantages, but you also need to try to avoid the disadvantages.

The case I would think about would be Germany versus Spain, post the global financial crisis. Germany has much higher levels of subnational public borrowing than Spain and the variations in yield values, or discount rates, across the Länder are much bigger in Germany than they are in Spain. But post crisis those distributions were not affected at all, because the markets had fundamental confidence in the German national fiscal management, whereas in Spain—

Lord Hope of Craighead: I am sorry to interrupt you, but we have a lot of other questions. Thank you very much. I think perhaps we can leave it there, with those contributions from other nations.

The Chair: I think we will go on to some of the other aspects that relate to that. Lord Sherbourne, you wanted to expand the discussion a little.

Q115 **Lord Sherbourne of Didsbury:** Professor McCann talked about the fact that we do not have a federal system in this country. We are now developing metro mayors and combined authorities in parts of the country. I would like to ask a double-barrelled question here. First, what more does he think can be done in order to give them more effective powers to help their own local economies? As we do not have a federal system in the country, is this going to weaken, or make the country more unbalanced, those parts of the country that do not have those powers? What happens to all those parts of the country that do not have the powers of metro mayors and combined authorities?

Professor Philip McCann: I will take the second part of the question first, before I answer the first part; there is a logic to that.

On productivity and prosperity, the core element of the UK's so-called productivity puzzle, or paradox—we have been struggling with productivity and productivity growth for a long time, but particularly in our response to the global financial crisis—is that there was such a periphery nature to it.

What do I mean by that? The most prosperous parts of the country—in other words, London and a very large hinterland around London—basically recovered from the crisis pretty well. These are areas that are already, on most metrics, very prosperous. The weaker parts of the UK are still struggling, a decade after the crisis, even to reach the prosperity levels of 12 or 13 years ago. The difficulty here is that the core element of that is the underperformance of the cities outside of the south and south-east of England—the likes of Leeds, Manchester, Sheffield, Liverpool, Birmingham and so on.

Could city region devolution create a more unbalanced society? We are already among the most unbalanced of all the industrialised countries; on

many indicators, we are the most unbalanced. The core element of that imbalance is the underperformance of the big cities. The initial agenda for city region devolution—the Lord Jim O’Neill agenda—is trying to get those cities working at the levels that they should be working, not punching above their weight but just punching at their weight, by any international benchmarks. The likelihood of creating a more unbalanced society is, I would argue, very low, because those are places that are already underperforming dramatically compared with how they should be performing.

The difficulty is around what else we need to do, and this relates to my responses to Lord Hope. There are lots of things that could be done, including different forms of borrowing, for example, but that also involves a much wider consideration of the entire fiscal structure of the UK and how central and subnational governments work. The difficulty in the UK is that you have to remember we are an outlier; we do not look like any other country. It is very hard to find a country that looks anything like us, apart from the Republic of Ireland, because we are so centralised and we do not have a lot of the facilities that other countries have. Part of the issue is that there are things that we could do, but what does that imply for UK-wide governance? That is a complicated set of questions and it goes back to the points that Professor Roy made. There are a lot of things we could do, but we have to think carefully about what they imply.

Lord Sherbourne of Didsbury: Thank you very much. That is helpful.

Q116 **Baroness Drake:** I would like to build on Lord Sherbourne’s question. Professor McCann, you have frequently expressed the view that a one-size-fits-all governance system in England is wholly at odds with the economic geography, and therefore just means that it would inhibit the efficient delivery of any solution, that pressure is growing for greater governance and decentralisation for the regions and cities themselves, and that local authorities understand the challenges.

When we spoke to Michael Gove and asked him for his views on the decentralisation of power from central government, he said, “I am all in favour of more power being exercised at a local level but I would enter two caveats. The first is that we should not think in terms of regions”. He went on to say, “I do not think from the centre we should decree what the shape of a new heptarchy should be”. I am presuming he means we do not need another modern equivalent of the Anglo-Saxon regional kingdoms and power bases. That is a quite distinctive difference of view. Do you see the creation of regional governance structures, never mind the individual policies, as essential? What would be the critical characteristics of that governance if you were looking at setting it up?

Professor Philip McCann: Thank you for the question.

The general principle of subsidiarity was one of the key philosophical principles underpinning a lot of the Brexit vote—the idea of not having decisions made at levels too far away from where citizens and interests are. The same principle also applies in most cases to the UK.

Some things are intrinsically very local in nature. Think of the world that civil society operates in. It tends to be laser-focused, very local and very heterogeneous. For civil society to work well you would need to have governance systems that better link civil society with local government levels at a very local level, so that they can make decisions and act quickly and flexibly and in a very differentiated manner, given the context. There you want governance at a very local level and the authority to move forward and take those decisions without going to central government.

If I take an issue such as innovation, I cannot think of any area of innovation that is constrained at a neighbourhood level or at a sub-urban level, or even, really, at a city level. The city region devolution that we have in the UK is still around the levels you would see in very small countries, such as Austria. The kind of federal, serious-capacity governance at a subnational level across the OECD is between 3 and 5 million people, so approximately somewhere between the size of Manchester and Scotland. That is across the OECD. We are at levels that are about one-quarter or one-third of that. We are still at devolved levels, even with the new set up that we are moving towards slowly, at a very small fragmented scale. There is a co-ordination issue there, which is important—a challenge, let us say.

Yes, on cultural terms a lot of people do not want to think in terms of regions. I understand entirely. People want to think in terms of neighbourhood levels and street levels. For many things, those very local things are critical. At a bigger scale, a lot of people tend to think in terms of counties, for example, but these are largely cultural identity issues. That is a cricket league. There is no economic argument for most counties. Counties came out of the medieval structure, based more or less on how far you can go from a capital of a county and return on a horse in a day. That is more or less where they come from in terms of management.

In terms of the modern economy, counties do not have any meaning. They do not correspond to how markets function or to how economic decisions are made, but neither does a state of the order of 60 million being ultra-centralised; neither does that work. So you need to think about a system that allows for devolved decision-making at the most appropriate levels for the kind of issues. Things such as infrastructure, innovation, entrepreneurship and skills training are at the city region, and even bigger region-wide, levels because you also have the links between the cities and all the satellite towns around the cities.

These are regional issues and in most countries they are handled at those units of around 3 to 5 million people. Civil society-type activities—very localised and with a laser-sharp focus—tend to be at the very local level, with local government working in very small units. There are different issues that need to be addressed at different levels of governance and the difficulty at the moment is that a lot of conversations in the UK are veering between ultra-centralisation—"don't change the system"—to

ultra-localism where everything is about local communities, local parish councils or whatever. That is important for many things. It is just not relevant for many other things.

Q117 Lord Hennessy of Nympsfield: May I play Whitehall devil's advocate for a minute? I do not believe what I am going to say but say I was listening in from the Treasury. I would say two things. The first is: I am always hearing arguments for why we should seed the country with ATM tills out of which pour public expenditure over which the Treasury would have minimum control and we have to stop that. We are responsible for the aggregate levels of public spending and we have to be the bank manager of the nation. The Treasury is jaded in the defence of the that view.

Secondly, I would say, "Come with me to my archive. We have been wrestling with this productivity problem since 1945. Here are the beginnings; in 1948 Stafford Cripps set up the Anglo-America Council on Productivity. Let me take you through eight industrial strategies".

We have no idea why our productivity has lagged so much. What we do not have in my archive, however, is something that links cartography—economic geography—with constitutional cartography, which is central to our inquiry. You have both been making the case for this being a key element but would my mythical Treasury figure, gazing in a jaded fashion out of a Whitehall window across the country, not say that there is something to be said for the view that this is not the key to the productivity problem? Nobody knows what it is; it has been the central economic problem of the UK since 1945, and will constitutional tinkering, which is the way they would see it, make that much difference? They would remain to be persuaded. Now, that is not my view. It is my attempt to be a Whitehall cynic.

The Chair: Professor McCann, do you want to talk about the mythical Treasury figure?

Professor Philip McCann: I have enough conversations with people in Whitehall, every week—I am talking to 200 director-generals tomorrow on these very issues—so I am very familiar. Yes, I understand your point as a mythical figure. In reality, most people in Whitehall do not think like that. They understand a lot of the nuances and complexities of these issues but of course they have to also respond to political directives. That is their job.

If you turn the argument around, in terms of productivity, let us look over the last 50 or 60 years—exactly the period you are looking at. What has the UK's productivity performance been? It has been modest, and no more. We are in the middle of the peloton and that is difficult because we are in the middle of the peloton, to use the Tour de France notion, on almost every economic and social indicator whereas our politics, our media, are either—depending on what the discussion is and which perspective you take—a world leader or we are a disaster. We flip between these two extremes.

The key characteristic of the UK economically is that we are just modest on almost everything. We are in the middle. There are a few things that we are world leaders in, and a few where we are a disaster, but on the vast majority of things, we are just stuck in the middle and all the OECD data shows us that. That is the starting point. The productivity problem, the difference between the UK and most other countries, is the extent to which the productivity problem is a geographical problem.

It is very hard to find comparators. You can look at that as an economist and say, "Well, there is obviously just an efficiency-equity trade-off". Many people have thought about these things for years but, if you look at the evidence of other countries, that is not true. In fact, it was never true. There was no equity-efficiency trade-off in terms of geography versus productivity. We are stuck in the middle, we are modest and we have had a terrible post-crisis recovery, because the differences are so geographically marked, but those differences were evident for 25 years prior to the crisis, and they have waxed and waned over the last century and a half. This is a fundamental problem.

Geography is central to this and the difficulty in the UK is that we have not thought about geography or taken it seriously. This is always my response when I talk to people in Whitehall. Yes, we have had lots of plans and we have done lots of things. They have never amounted to more than 0.4% of GDP. Germany has been transferring about €70 billion a year for 30 years consecutively to level up the country internally. It was a political decision to do with reunification.

Our numbers, in terms of public investment and public-private or whatever, and in terms of regional interventions, are minuscule by international standards because we have always thought it would come out in the wash; it will be all right on the night. The problem is that it has not. We know now that it has not and we do not know what to do. That is the core element about the productivity problem in terms of geography and regions: we have had no capability to think about it because we have not really thought about it. There is an increasing awareness across Whitehall that this is the nature of the problem.

In terms of money control, it is not about money. Devolution is not about throwing money at stuff. It is about changing how the governance system of the UK works to improve decision-making so that it is more relevant and more timely for what is taking place in those localities, and that is where we are weak. Of course you will have people who are nervous about that. I am nervous as well, even though I talk about these things, because the fiscal, and particularly the financial and risk-related liability questions—Professor Roy has already raised them—are complicated.

On the other hand, there is a lot of evidence from across the OECD. It is strange when I read the 50 or so OECD documents on these topics. There is less information at the OECD level about the UK than any other OECD country. It is all swept under the carpet. These are real issues and we have to think about them carefully. The kind of straw-man approach that you have just set out, I do not think is reflective of most people in

Whitehall. Most people in Whitehall do not think like that. There are people who think like that but, equally, there are people who have nothing to do with Whitehall who think like that. There are politicians, journalists and so on. But they are real issues and we have to think about them and tackle them, because the system we have is not working and more people nowadays realise that.

The Chair: Professor Roy, do you want to come in on this?

Professor Graeme Roy: I am not saying—and I do not think Professor McCann is saying this either—that if you go for devolution to regions and cities, suddenly everything will be fine. The answer goes back to my point in my answer to Lord Dunlop. One of the things that we need to be very careful about, if this is going to be part of a solution and if we believe that greater local autonomy or greater decentralisation is helpful in that, is how to design the mechanisms and schemes that help support the ability to make good policies around data, around the balance between spending and revenue.

When devolution in Scotland was set up in 1999, we realised very quickly that a mechanism where we had a Parliament that was purely spending money and had very few revenue-raising responsibilities was not effective. You did not have the incentives or the opportunities that you wanted. The big drive of reform was to give greater revenue autonomy there. Again, I do not think we do enough in the UK in general in trying to think about what works.

Going back to your point about the control group, we have had devolution for 20 years in Wales, Scotland and Northern Ireland. We are the examples of where decisions or decisions that have been taken in Edinburgh, Cardiff or Belfast have made the difference relative to what otherwise would have happened with not devolving the powers.

We spend a lot of time talking about the constitution and a lot of time talking about more powers and different responsibilities. We do not spend enough time on the difficult stuff—the real detail about understanding what policies work, what evidence we need to collect to define what works and how we focus on the delivery and implementing policy changes in the long term. Too often we get caught up in vigorous strategic debates—Scotland is no different, and probably more so than others. We have debates about the constitution and more powers all the time. What you do with the powers has been a real gap and we should not lose sight of that when we are thinking about what reforms we could do. If you are going to transfer more powers, how do you build in the right structures and investments to let people make the decision and then to track whether they make a difference?

Q118 **Baroness Fookes:** I want to look a bit more closely at the human beings— the civil servants and public servants operating at these various levels. I am interested because Professor Roy was talking about how things worked during Covid and so on. I have something here which says, “There is a close working relationship between public servants in the UK,

which has included sharing of scientific advice and modelling” and then I look at a quote from Professor McCann who says, “Overcentralisation means a concentration of knowledge and decision-making at the top of government and increases the degree of separation between places”. I am slightly muddled about where civil and public servants sit in all this. I welcome comments from both professors.

Professor Graeme Roy: I should declare an interest. I was a civil servant for a number of years in the Scottish Government. With that caveat in mind, I think that one of the genuine strengths of the UK Civil Service system is that collegiality that exists between civil servants across the UK, irrespective of what department you are in. Even in the most controversial political debates that might have existed between your Ministers in Scotland and UK Ministers down at Westminster, there is always a constructive working relationship between civil servants on shared interests, be that in learning about experiences taking place in different parts of the UK or sharing information in responding to a particular crisis.

Where I think there are areas for improvement goes back to my earlier answer about the formal intergovernmental relations that exist. The ministerial-to-ministerial sharing of information and working through core issues—dispute resolution—is where there is a particular challenge. A working level exists there.

The broader point I would say, coming down to the point about the regional stuff, goes back to the point Professor McCann was making about how information comes from the bottom up to civil servants or into central decision-making, either within the Westminster context or even in the Holyrood context. As I said, you will get the same frustrations from people in Aberdeen and Glasgow, complaining about decisions being taken in Holyrood, as would you in this context as well. That is a capacity issue, but part of it is about the role of genuine local decision-makers in the overall process for economic development and policy-making. Their role is much smaller than it has been potentially in the past.

I do not think there is an issue in the terms of the Civil Service; it is more about how that bottom-up knowledge feeds through to decisions that are taken at a central level.

Professor Philip McCann: My answer would be almost identical to Professor Roy’s. My criticism is not in any way against the Civil Service itself. I value all my conversations with civil servants at different levels. It is a question of what their remit is and what they are able to do. If you are talking to civil servants—and I talk regularly to Sheffield City region, Liverpool City region and Birmingham City region—they are dealing with a different set of issues from civil servants who I am speaking to in the Treasury, BEIS or MHCLG. There are different levels conceptually and in the decision-making power.

The issue is about the balance of those issues, not about the competence of the people. The other way I have answered this question when I have

been asked it in the public arena is as follows: if you take a country like the United States, which has very good graduates from very good universities, and post-graduates—people with Masters and PhDs—it will be very competitive to get jobs in the state level government system. People who work for the state have real authority and power to implement decisions. The US cities have tremendous resources. The mayors are very powerful and their teams make a difference. They have the ability to do that because of the way the system works. They also attract high-capability people because you can build a tremendous career working locally. The possibilities for that in many parts of the UK today have been very limited for decades because local government has been so hollowed out. It has not been hollowed out since the crisis of 2008-09; it long predates that.

It is also about capacity building—the ability to make decisions and have the resources to act on them, and to have the flexibility. It is also about capacity building and building the teams and the people and the trust between different types of stakeholders working locally—building on local knowledge and local engagement to make decisions in the local interest. It is about trying to get that balance to what I would regard as a more appropriate balance.

The Chair: Lord Howell wanted to come in at this stage. He may have had to leave because he is speaking in a debate later in the Chamber.

Q119 Lord Howell of Guildford: I am here. I have been listening to all that you have been saying about regional inequalities and levelling up. You have told us a lot of the things that will not work. What are the initiatives that you think will make a difference? There is the Shared Prosperity Fund and so on.

In almost everything you have both said there seems to me to be a fundamental dilemma, which is simply this: levelling up requires central redirection and redistribution. It requires a very firm strategy from the centre to make people feel they are being treated fairly. Whereas decentralisation—on which you are both very strong and you have talked a lot about—of course means more local control, particularly maybe of taxes and borrowing but generally of all sorts of areas where there has been great reluctance, as Lord Hennessey was saying, for the Treasury to let go.

Furthermore, more local control means more local quarrels; communities are very divided. A lot of centralisation arises from local communities appealing to the centre. How are you going to show us a way around this fundamental dilemma, which stalks the whole of our political system?

Professor Philip McCann: We have to think about the word “dilemma” on two different levels. It is not a dilemma when you look at international evidence because this is what happens in most of the OECD. The dilemma is the UK case of how you transition to a more devolved settlement, both within the devolved Administrations but also in the regions and whatever geographies we want to think about when starting

from a playing field that is not remotely level. That is a conceptual dilemma that will require a lot of thinking.

Devolving from basically a level playing field in many ways is not that difficult. Many countries have done it and there are multiple lessons, evidence and best practice that we can work from. That is not to say it is easy but it is possible. Many other countries have done it. We are over the two other largely centralised countries that many think of as being like the UK, comparable in order of magnitude of size, France and Japan. They have gone through two very big waves of decentralisation and devolution in the last 25 years. They are both now about two and half times more devolved than the UK is, including the UK's devolved Administrations.

It is a dilemma in the sense that we are different because devolving from an unequal starting point is much more complex.

The two sides of the argument are that we have a fiscal stabilisation system in the UK. It is not as large as many other countries but it means that the more prosperous parts, in some sense, compensate the less prosperous parts. That stabilised system in the UK is significantly smaller than that of many other countries but it is comparable to other countries' as well. The difficulty is if devolution or decentralisation is also associated with the political notion of, "You can devolve what is decentralised but you are on your own now. You can have your own tax-raising powers or borrowing powers but you are not going to receive other funding support to stabilise the system from the country as a whole". That would be a catastrophe because it would simply fragment different parts of the country to an even greater extent than we already have.

The relationship between the devolution process or any decentralisation devolution process and the underlying fiscal stabiliser is something that needs to be considered very carefully. Again, other countries have done it and there is plenty of evidence and knowledge about these things at the OECD-wide level.

There are always political arguments locally, of course. We know that. The point is not to decentralise too many things to a level that is too low. The reforms in both Japan and France were—also devolution down was associated with integration and consolidation upwards. The lower levels of governance in both countries were far too fragmented. That is not a problem in the UK. Our lowest levels of governance are among the highest consolidated areas in the OECD. The problem is the missing middle, which is no federal type of level and a top-down.

They are dilemmas in the sense that we have to think about these things and how we might do it but from a starting point that is different from most other countries. That is what the dilemma is. There is no inherent dilemma in this process because it is perfectly possible. It has been done in many other cases.

Professor Graeme Roy: I would add one variation to that. This is not just black and white between just devolving and then letting go and hoping for the best. If you take initiatives such as city deals or regional deals and so on, they are examples where you have different levels of government working together to look for solutions and opportunities that are genuinely bottom-up-led and informed by central government initiatives and investments. It is a much more collaborative process here.

I am certainly not advocating simply saying, "Give power down to a local level and then forget about it". There are much more creative ways. You can genuinely think, "What are the challenges and opportunities within a town, city or region in the north of England or in the north of Scotland, and how can you use that local knowledge and intelligence to find out what is a genuine challenge there—and a genuine opportunity—to come forward with constructive solutions, which are localised but heavily involve central government activity and may heavily involve UK and Scottish Government or Welsh Government involvement in that?" That for me is where we can solve your dilemma around redistribution and bottom-up decision-making.

I have one final point. You will also have disputes within areas. That is why I emphasise the point about the intergovernmental relations and the frameworks we have for resolving disputes and sharing information, and working through systems are always the bit we tend to forget in this debate. It is very important to spend some time to get that right before you start thinking about devolving any additional responsibilities.

Q120 **Lord Howell of Guildford:** I have a follow-up question about all that is being said, particularly, about levelling up and local and level playing fields. Everyone wants to see a much more prosperous country, the end of rural poverty and the ending of all the scars left over by the fact that we were first into the Industrial Revolution and created appalling conditions. Obviously, that all follows but relates to a higher absolute level of living standards. Are higher standards relative to London necessarily so important?

Capital cities are the beating hearts of their nations. London is the beating heart of our four nations. The prosperity of London is like a healthy heart: if you do not have a healthy heart, you are not going to have a healthy body and you are not going to have a healthy economy. Do we have this obsession with somehow flattening down London to flatten up other places in balance? I question whether, if you look at the broader scene of how our nation lives and breathes, you are right about that.

Professor Philip McCann: London and its hinterland—obviously we know on many, many commercial and economic indicators—is extremely prosperous. It does not mean that everything or everybody in those areas benefits. We know that. The UK does not look like many people think it looks like. A lot of the response that you see in the media—this is London bashing and this is simply a London-related issue that distorts all the evidence—is not the case. The prosperous parts of the country have

outperformed OECD-wide and European-wide benchmarks by about the same amount as the rest of the country. The other half, to be honest—50% of the population—have underperformed those same benchmarks.

There are 179 what we call TL3 areas in the UK; 159 are below the average in productivity lines, which is the broadest benchmark. What we have is a country where the geography of productivity, which is the economic underpinning of prosperity, looks like Mount Fuji on the Kanto Plain. It looks like that. The problem is that a lot of the country is below the international benchmarks. It is not that everywhere is kind of doing okay and London is exceptional and therefore distorts our figures. Yes, London and the hinterland are doing extremely well—there is no question—but large parts of the country are doing very badly.

If you think about it, nearly half the country live in areas where productivity levels are no better than the poorer parts of the former East Germany, which are less productive than the US states of Mississippi and West Virginia. This is the reality. It is not just a kind of jealousy because London is doing well. It is not. It is that the country internally in the last 25 years has been decoupling. It is the decoupling problem that makes the governance problem so difficult.

The country is partitioning and that partition is getting bigger and bigger on multiple indicators. I go back to the original point: having national top-down policies in a country that is internally very even is not difficult to do. Doing policies at a national level in a country that is extremely heterogeneous, and becoming more so, is extraordinarily difficult and it also makes the question of how to devolve even more complex.

The Chair: Thank you. We had better move on as we are extremely short of time. Lord Howarth, do you want to start this one?

Q121 Lord Howarth of Newport: If we could consider the Barnett formula, arguably the ghost at the feast. There it is. It exists politically. It seems impossible to get rid of it or reform it meaningfully. It fails to distribute fiscal resources equitably from the centre across the United Kingdom. The more fiscal devolution there is, the further we are liable to move away from the principle of equity that, presumably, ought to animate the distribution of resources. What is to be done? Should we get rid of it if we possibly can politically? Would that lead us to the consideration that we need of relationships between the centre and the regions, and a re-costing of the role of the centre in facilitating levelling up and a more even performance across the country? How important is the Barnett formula in trying to get these things to work better? How should fiscal resources be allocated across the United Kingdom and, indeed, within England?

Professor Philip McCann: I was discussing with some colleagues from the OECD in the last week fiscal federalism types of issues, with the evidence from different countries. When I mentioned the Barnett formula someone said, "None of us has ever understood it". These are the OECD teams who work on the analysis and they said, "None of us has ever

understood basically what the principles are with public finance and governance devolution". He said, "We still do not understand it".

When I give talks about these things I have always talked about post-Brexit and post-Barnett, but when you start thinking about devolution seriously—including city region devolution and the existing underlying inequalities spatially within the UK—then you start having to ask questions about all of these things. It is not just about different levels of block grants, or whether city regions or devolved Administrations should be able to go to the markets, and what form of powers should they have. Of course, Barnett formula considerations become part of that discussion. The important point is that it is not the Barnett formula on its own. It is the whole fiscal architecture that would need to be thought about. Often these kinds of issues are talked about in a legal context—the constitutional issues in that sense—but there are fiscal and financial analogues to all of those decisions and changes. That is what needs to be thought about. There are people who are thinking about these things but I would say that there are not very many. That would be my honest opinion.

Professor Graeme Roy: One of the things with the Barnett formula is its remarkable ability to be resilient and continue to survive despite debates for decades about need to reform and change it. Part of the reason is what would you replace it with and: how would you go through a replacement? For all the challenges—and I appreciate the challenges in understanding it—its strength is its relative simplicity.

There is a baseline in there and Scotland, Wales and Northern Ireland are allocated a population share of additional spending in Westminster. The basic framework is relatively simple and that means there is always a pull back to something relatively straightforward to administer and relatively straightforward to operate.

One thing I would say is that I think the recent fiscal reforms in Scotland make the Barnett formula much more likely to continue. Why? First, it is now less important in the devolved context for Scotland and Wales than it has been the past because of tax devolution. Certainly, once all the tax reforms are put in place, approximately half of the Scottish budget will be funded by own source taxes. Barnett is less and less of the defined factor it was in the Scottish budget than it has been the past.

Secondly, the way the new framework has been built hinges on the operation of the Barnett formula because of these adjustment mechanisms, which essentially adjust the Barnett block grant for relative tax reform between Scotland and the rest of the UK.

While I am sympathetic to your question about the potential need to think about the big question of fiscal reform and reform of Barnett in that context, in many ways it is its resilience and just what is happening to the framework now that, arguably, makes it very difficult to replace in a devolved context. That then raises the question: should we spend much time thinking about that if the practical reality means that it is unlikely to

be reformed? We are better off spending time—as you are alluding to—thinking about the flow of funds within England. For example, how are funds flowing around the English regions? In the devolved context, it is very difficult to see how it could be reformed or how it could be removed from the process.

Q122 **Baroness Doocey:** I have a question for Professor Roy, which you have partly covered in your previous answer. You say that levelling up will come good only if extra funding is secured and maintained over many years. I absolutely understand that. Do you believe that London and the south-east should or would go on paying out for Scotland if it wants to leave the union?

Professor Graeme Roy: I do not follow you. If Scotland was to be independent, my assumption would be that independent would mean independence both economically and fiscally.

Baroness Doocey: Sorry, that is exactly what I was asking, yes. In your view, would it be economically and fiscally independent?

Professor Graeme Roy: If you go back to the Scottish Government's proposition in 2014, they were talking about essentially being independent. There would also be negotiations around legacy arrangements or fiscal assets and fiscal liabilities, share of the debt and so on that would have to be negotiated, but the assumption would be that if Scotland became independent it would have to have a clear plan for fiscal sustainability for itself. It would not be relying on the UK.

Baroness Doocey: I thought that the interim period would go on for so long, which is what prompted my question. I did not think it was just going to be a couple of years. What do you believe the appetite might be if, for example, Scotland decides to go independent but for the next 10 years people in England are going to be persuaded or forced to help that independence?

Professor Graeme Roy: It comes back to: what would be the plan for independence and what would be the transition for that? Back in 2014, whether you agree or disagree with it, the Scottish Government, I think, had a target date for being independent within 18 months or something like that. There are obviously questions about whether that was feasible. Brexit gives you an example that these things are difficult to do. The First Minister announced yesterday that she plans to put forward a new prospectus for independence, so perhaps that will contain detail on how they would get from where they are now to transition to independence, whether that takes two years or 10 years. We need to wait and see what the proposals are.

Q123 **Lord Dunlop:** The question I was going to ask was around data and data has had a pretty good shot throughout this session. Both of you have been very clear that when you are running a decentralised system, the quality of data we collect is not sufficient to really enable differentiated policy—to see what the effects of that policy are and to test the effects of

that policy. Could you confirm that is the case?

If we accept that and at the end of the day we want to come up with a report that has practical recommendations in it, with all the sensitivities around data protection and all the rest of it, it would be very helpful to hear from you, either orally or potentially—I do not want to give you more work—in a short note, how we as a committee should approach that and address it? What is the practical recommendation that we could fashion that would address what has been a big theme of both of your contributions this morning?

Professor Graeme Roy: I am happy to write to the committee with specific areas of recommendation. I think the general principles are around the recognition that understanding regional data and regional issues is a priority across all tiers of government and, therefore, no less an investment needs to take place in that.

Secondly, the value linking data that Professor McCann spoke about and, crucially, providing an ability to access that on a local and regional basis is very important.

The third general point I would make is that there is a responsibility on Governments to use what information they have in much more creative and effective ways than they have in the past. They gave an example in Scotland of understanding generally what works. There is much more that could be done, even before we start to think about improving data, about the quality of evaluation of Scottish enterprise activities or evaluation of Skills Development Scotland programmes. There is much more that could be done within the existing data but we have to have a culture of a willingness to be open to evaluation, to conduct the evaluation, to do the appraisals and impact cases that we need to do and to share that more broadly.

There is a question about data—you are entirely right—but there is also a question about culture and of being much more open about testing whether good ideas make the difference that we say they will. I do not think we have that genuine culture of evaluation and that would be a big improvement.

Lord Dunlop: You talked earlier about intergovernmental relations; would that be a good cross-cutting workstream that is technocratic? It is not getting into lots of political sensitivity but where Governments across the United Kingdom could work on a joint project that would have great value.

Professor Graeme Roy: I would say very much so. We have variations in skill systems, for example. We should understand how the operations of different skill systems are having an impact in different parts of the UK and learning the lessons from that—sharing the insights and sharing support for companies, innovation grants and so on. I think understanding how all those things work would lead to better policy-making at the local and national level, even before we start to think

about what are the necessary improvements around data collection and publication.

The Chair: Baroness Suttie wants to come in and then I will bring you in to wind up on both of these things, Professor McCann.

Q124 **Baroness Suttie:** I have a very quick question for both of you. You have talked about the difficulties of learning from other countries because the United Kingdom is much more centralised and has a different model. In dealing with Whitehall and Holyrood, do you detect an appetite to learn from best practice from other countries in removing inter-regional inequality?

Professor Philip McCann: Yes, absolutely. Probably the majority of my conversations with civil servants are on exactly this point. What evidence do we have from this country? What do we know about what they have done in other countries? There is a tremendous appetite and this is ongoing. This goes across many areas of government so, yes, I think the answer is unequivocal: it is yes.

Again, this also goes back to the question from Lord Dunlop and the answer from Professor Roy. The data that we produce in the UK from the Office of National Statistics and other bodies is improving all the time. The ONS data for cities, regions and so on—the geographical data—it is producing is tremendous. I am not always convinced the quality of the data or its insights feed into political narratives but the quality of what it is producing and level of detail is excellent. We just need more and more of this. You cannot make decisions unless you have the richness and the quality of the data at the local and regional level on which to make them. Again, it goes back to the point that Scotland was doing this for more than two decades before devolution. City regions in the UK, for example, just need more and more evidence.

A lot of the work on this is very local. Interestingly, in Whitehall they are talking to people in the city regions who themselves are developing their own data and evidence, so it is developing two-way conversations. The centre is also trying to listen to the more local because this capacity-building process is starting. In some cases—Manchester, for example—it is well advanced. They have been doing this for 10 or 15 years seriously, whereas for other city regions it is very recent.

You see the start of precisely the processes we are talking about of two-way consultation and discussion, sharing your evidence, sharing your ideas and so on. These are all positive signs.

The Chair: Professor Roy, is there anything you would like to add at the end?

Professor Graeme Roy: I agree with that. Coming back to this culture of evaluation and thinking about what works and learning from other countries is absolutely crucial to that. Thinking about devolution or greater decentralisation is not a quick fix. If we are going to do it, it needs to be thought about alongside a much broader agenda about

allowing for local variation but, crucially, learning what works from that, so that we can build on successes and stop the things that are not working or not having the desired impact and not generating value for money.

The Chair: Thank you to both of you. You have been very generous with your time and you have given us an angle on some of these issues that we have not picked up on before. It has been a very useful session and I hope you have enjoyed giving evidence. Thank you both very much indeed. We will end the meeting there. Thank you.