

# Housing, Communities and Local Government Committee

## Oral evidence: Progress on devolution in England, HC 174

Monday 7 September 2020

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### [Watch the meeting](#)

Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Brendan Clarke-Smith; Ben Everitt; Rachel Hopkins; Ian Levy; Mary Robinson; Mohammad Yasin.

Questions 101 - 148

### Witnesses

**I:** Kate Kennally, Chief Executive, Cornwall Council; Helen Charlesworth-May, Strategic Director for Public Health and Care, Cornwall Council; Sir Richard Leese CBE, Leader, Manchester City Council; and Bill McCarthy, North West Regional Director, NHS England.

**II:** David Phillips, Assistant Director, Institute for Fiscal Studies; Andrew Carter, Chief Executive, Centre for Cities; and Guy Ware, Director of Local Government Performance and Finance, London Councils.

### Examination of Witnesses

Witnesses: Kate Kennally, Helen Charlesworth-May, Sir Richard Leese CBE and Bill McCarthy.

**Chair:** Welcome, everyone, to this Housing, Communities and Local Government Committee evidence session in our inquiry into progress on devolution in England. Before we come to our first panel of witnesses today, we have one new member of the Committee. Welcome, Ian Levy. You have to put on record your declaration of interests, if you could do that to begin with.

**Ian Levy:** As far as I know, everything should be on record, and there is nothing further to declare.

**Chair:** Thank you very much indeed. Members may have some additional interests that are not formally in the register but may be thought to reflect on their approach to this inquiry. I am a vice-president of the



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Local Government Association.

**Mary Robinson:** I employ a councillor in my staff team.

**Rachel Hopkins:** I am still a sitting councillor on Luton Borough Council.

**Ben Everitt:** Likewise, I am a councillor next door to Rachel in Buckinghamshire.

**Ian Byrne:** Likewise, I am a councillor in Liverpool.

**Brendan Clarke-Smith:** I am a councillor in Newark and Sherwood.

Q101 **Chair:** Thank you all for formally getting that on the record. Welcome to our first panel of witnesses. Perhaps you could go through and indicate who you are and the position you hold.

**Sir Richard Leese:** It is Councillor Richard Leese. I am leader of Manchester City Council and deputy mayor of Greater Manchester Combined Authority. I am here principally as the chair of the Greater Manchester Health and Social Care Partnership.

**Kate Kennally:** I am Kate Kennally. I am the chief executive of Cornwall Council. I joined Cornwall in January 2016, six months after the signing of the Cornwall devolution deal.

**Helen Charlesworth-May:** Good afternoon. I am Helen Charlesworth-May. I am the strategic director for adult social care and public health at Cornwall Council and the accountable officer for Kernow CCG.

**Bill McCarthy:** I am Bill McCarthy. I am the regional director for the north-west for NHS England and Improvement, and I have been in this post since April last year.

Q102 **Chair:** Thank you all very much for coming. As I say, in this session we are going to concentrate on and look particularly at health devolution. When we go through the questions, members of the Committee can indicate who they would like to answer and in what order, or witnesses can indicate themselves, if they do not have a particular order specified by the questioner.

First, how should we assess the record of health devolution in England so far?

**Sir Richard Leese:** In terms of health devolution in Greater Manchester, which has really set the precedent, there are a number of detailed evaluations taking place. They only cover the first three years of the partnership, so they will only be partial when they are completed. As things are, none of those has been completed, and we are coming to the end of the fifth year of the partnership, so we have to look at interim assessments of what has been achieved.

There are two categories. First, we have had a lot of achievements. Most of them are in the population health and health inequalities area, which was a priority for devolution. We can look at things like the significant improvement that we have had in reducing smoking prevalence. We have reduced hospital admissions for alcohol-related conditions. I am not going



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to go through a whole list, but there are a number of areas of that sort, where we can show that there has been marked improvement. It is significantly better than the national averages in those areas.

We can also look at some clinical areas, but, again, these tend to be in the primary health and care fields. We have now got to a point where 96% of GP practices are rated "good" or "outstanding". Care providers, whether they are residential or domiciliary, do not quite have such good ratings, but there have been significant improvements in the standards in both domiciliary and residential care. We could look at some of the systems we have put in place. We now have an all-service-provider single care record for every person in Greater Manchester, which is accessible in acute primary and care settings. We also have OPEL systems that cover not just hospitals but all primary care providers: all four sectors within primary care, residential care and domiciliary care. There have been system changes there.

We can point to some very real improvements over the last few years. At the same time, we have to be clear that we have real challenges as well. If we look at more traditional measurements of health provision, we have had real issues with delayed transfers of care. Those continue, and are likely to continue into this winter. We have had real issues with four-hour waiting times. If those are going to be removed, that will probably take away a perverse incentive within the system.

At the moment, the record is of real improvements in population health and some real system improvements, but also some real challenges. Bearing in mind that we are trying to turn an ocean liner here, we have done pretty well.

Q103 **Chair:** Has Cornwall had a similar experience?

**Kate Kennally:** Your question was about the impact that health devolution has had. Here, I would say there has been none. Working at a place level and integrated working has had an impact, but Cornwall, on the back of its devolution deal, did not see any devolution of health responsibilities to Cornwall. It was a real challenge, because it coincided with the local clinical commissioning group going into legal directions within six months of signing. With that, there was a lack of appetite within NHS England to pursue devolution to Cornwall. Indeed, our health leaders were involved in responding to the very live, pressing financial and operational issues that they faced on the ground.

As a local authority, we could see that the way to resolve those operational and financial challenges was through greater integration and greater partnership working, but the challenge was around how to square that circle with the fact that the CCG was in legal directions. That was followed within 18 months by the local acute trust being rated as "inadequate" and going into special measures.

In fairness, we have managed to use the devolution deal in several ways, which has left us in a good place to drive some of the improvements that you have just heard the witness from Manchester talk about. Having the



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right geography and the right geographical footprint is important. Our STP, which is the precursor to integrated care systems, reflected the footprint for Cornwall and the Isles of Scilly. That coincided with the health and wellbeing board, the one-system approach that is at the heart of our devolution deal.

We also had a very positive relationship with NHS England latterly, which was around it committing to jointly resourcing a joint senior role based within the council to support integration. That brought my colleague Helen Charlesworth-May into Cornwall in 2018, with NHS England jointly funding, with the council, a dedicated strategic director role. April of this year saw Helen move to become the accountable officer for the CCG.

Our devolution deal was the catalyst for strengthening partnership working, but, in terms of the impact of devolving health functions, that has not happened. We have seen improvements in the way that we have just heard from the witness from Manchester, in helping to strengthen focus on prevention and joining up services in local areas and a range of projects. The Committee could hear more in detail from Helen Charlesworth-May, if it wants to get into those further.

**Q104 Chair:** Can I come to Bill McCarthy as the NHS rep on the panel? When we talk about health devolution, it often seems that things move as quickly or as slowly as the NHS wants them to, which sometimes is not that quick. The NHS does not want to give up, does it? When we had our previous inquiry, Alistair Burt was the Minister. In the end, he accepted that everything ultimately was the responsibility of the Secretary of State. That is where it lay, so that ultimately you could not really properly devolve things. Is that right?

**Bill McCarthy:** My experience of devolution is working with the Greater Manchester system over the past 18 months or so. I would endorse a lot of what Sir Richard set out. We have seen some real benefits from devolution that are already having an immediate impact: for example, working together on preparing children for school and the benefits that is going to have for their health. We can predict that measurable improvements now—more exercise or the reduction in smoking prevalence—will have some measurable benefits on outcomes and life opportunity later on.

The proof is in the pudding. The experience I draw on from Greater Manchester is a positive one. As Sir Richard pointed out, there are areas where we can still do better. We work in partnership, and we will certainly want to do that over the coming years. I am pretty confident that Greater Manchester, certainly, and other areas have shown real benefits from devolution. That has the support of NHS England.

**Q105 Chair:** I want to pick up on one point there, and then I will come back and ask the same question of Richard. You talk about the proof of the pudding, but the pudding is really about better joint working, isn't it, and not real devolution?

**Bill McCarthy:** My view is that they are connected. The more we



devolve, the better able the NHS, the local authority and the voluntary sector in a local area will be to work a bit more freely, understanding what the real priorities are for the people in that area, understanding who the vulnerable groups are and putting together much simpler and more seamless packages of support.

Yes, absolutely, integration is the heart of the matter, but my view and my experience from the north-west is that devolution is a step that helps that integration to move more quickly in practice.

Q106 **Chair:** Richard, could I make the same point to you? When we did our report in 2016 as a Committee, the words we used were, “We are unpersuaded by the use of the word ‘devolution’ to describe what is happening to health in Greater Manchester”. We said it was more like delegation of responsibilities or joint working; that was a better description of it. Is that a fair comment? Ought we to be looking further to make it real devolution?

**Sir Richard Leese:** It is not entirely fair. What we have in Greater Manchester is a mixture of devolution and decentralisation. It is worth bearing in mind that the basis of what is happening in Greater Manchester is a memorandum of understanding in 2015 between the 10 councils in Greater Manchester, what were then 12 clinical commissioning groups—it is now down to 10—and NHS England. The Secretary of State was not a party to the agreement that was struck to create the system we now have in Greater Manchester.

Clearly, NHS England is directly accountable to the Secretary of State. We have been able to bring in not only adult care but a range of other public services, under the umbrella of public service reform. Many of those are accountable to the local authorities within Greater Manchester. We have a dual accountability there, which is why I say it is a mixture of devolution and decentralisation.

It is also the case that we have been able to make some decisions at a local level that are quite dramatic in their scope. I will give one example that would not have happened without the agreement that was struck in 2015. Within the city of Manchester, we are now in the final stages of bringing the entirety of our hospital network together into a single hospital service. That is a quite radical transformation of acute care within Greater Manchester. That hospital service serves a far wider footprint than the city of Manchester itself. That would not have happened unless there had been that local element of control over the service.

Bill said it: the proof is in the pudding. Well, the proof of the pudding is that we have been able to make major decisions in Greater Manchester that are having a major impact on the delivery of health and care services there.

Q107 **Chair:** Finally, can I turn the question the other way round? One of the concerns is not that you are not having enough devolution, but that the NHS is a national service and, if we have devolution, we will end up



fragmenting that service and having different standards in different parts of the country. Cornwall, do you want to come in?

**Helen Charlesworth-May:** If you think about a traditional idea of devolution, it is from central Government down to localities. In reality, in most health services, delivery is devolved from the Department to NHS England. In that context, devolution to localities comes from NHS England. Reflecting Kate's points, what we have achieved in Cornwall has been through integration that was entirely achievable without the banner of devolution, and is, in fact, what the rest of the country is now doing through integrated care systems.

The Cornwall devolution deal effectively gave Cornwall the ability to set up an integrated care system. The rest of the country is now doing that, not through a devolution deal, but because that is how the NHS is now structuring itself to deliver more integrated services. That integration is not just integration of health services and other public services. A significant element of it is the bringing together of disparate health services under single leadership.

**Chair:** Bill wants to come in briefly from the NHS perspective, and then I will let Richard come back for a final point. Then we need to move on.

**Bill McCarthy:** To your point about whether this risks fragmenting standards, it is important to point out that in the accountability agreement with Greater Manchester, which I guess is the most significant example of devolution, signing up to the NHS constitution and the standards within the NHS constitution was a core part of that agreement. As we devolve, whether it is through the formal mechanisms we have in GM or through greater integration taking place through ICSs in the way Cornwall has spoken about, the NHS constitution and those standards still stand. Patients should be entitled to those, wherever they are in the country.

Q108 **Chair:** Richard, perhaps we should stop pretending that standards are the same throughout the NHS anyway, shouldn't we? We know that people get very different treatment in different parts of the country, depending on where they live.

**Sir Richard Leese:** That relates to a point I wanted to make. Far from fragmenting the NHS, to build on what Helen said, what we have been doing, not just in Greater Manchester but in other parts, is taking a fragmented service and helping put it back together. In Greater Manchester, if I look at the acute sector, what is new is that we have been slowly able to change a system that was fundamentally based on competition to one that is increasingly based on co-operation, mutual aid, sharing clinical excellence and sharing resources. We are putting the N back into the NHS.

Q109 **Brendan Clarke-Smith:** Good afternoon, everybody. First, what lessons can we learn from the Covid-19 crisis?



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**Bill McCarthy:** I will pick out two or three. For me, all of them are about supporting that collaborative working at place and indeed between providers. We learned pretty quickly at a time of maximum uncertainty that having all public services in a local place prepared and able to work closely together, with a particular eye on the most vulnerable groups as we got to understand more about Covid, was essential in an effective response. That is certainly something we are picking up, as we prepare for winter. That gives greater strength to that integration and collective working locally.

The other aspect of that that I would pick up, to follow on from what Sir Richard was saying, is that in the north-west we were challenged, in a very short time, to quadruple the number of critical care beds we had available in those early days. There was no way we could have done that by looking at each individual hospital on its own and seeing what it could do. There needed to be collaboration around staffing, models and protecting the most urgent care.

That drives a much greater willingness to collaborate across a wider footprint. That will not just put us in a more sustainable position where there is mutual aid between hospitals, but it will also help us tackle one of the risks I perceive. Because different groups are affected differently by Covid, if you just left it to the local hospital, those who were worse affected would find that their non-Covid work was squeezed out. Collaborating across a bigger footprint, with hospitals working together, gives us a better chance to have more equal access as well as more sustainable services.

**Helen Charlesworth-May:** We have learned many things, but I would draw out two specifically. The success of the response was based upon having a single mission and objective across all partners. Having a coherent single mission for what needed to be achieved over the period of the pandemic drove all resources in the same direction to deliver the same thing. That is really important, because we often see a diversity of objectives and what we are seeking to achieve. That undermines our ability to work collaboratively.

The second most important thing from my perspective is that Covid-19 did not affect people equally. The people who were most affected were those living with the greatest vulnerabilities and the greatest level of inequality. That inequality needs to be addressed outside hospital settings. That is about people having good health and wellbeing, and that is not just about acute hospital care.

**Brendan Clarke-Smith:** Kate, I can see you nodding. Do you have anything to add on that?

**Kate Kennally:** I would add that this is about the power of local. The pandemic response started nationally, but it rapidly developed into a series of local responses. We have seen opportunities for areas to innovate at a neighbourhood, locality or integrated care system level. For



example, that might be around bringing together all the volunteers to have a different approach to discharge.

Within the power of local, to Helen's point, is the power of local government to work with health colleagues on a single mission, which has enabled much quicker, innovative and fast-paced thinking to happen. We have achieved—I have heard this up and down the country—things in a matter of weeks that have previously taken years. There is a confidence that we need to not lose about our ability to work much more quickly in the space of health and social care integrated working than we have done in my many years in local government service.

**Brendan Clarke-Smith:** Sir Richard, what is your take on this?

**Sir Richard Leese:** Not to repeat what other witnesses have said, I would add two things. First, we have learned just how important adult social care is in all its forms. Some of the things Bill talked about in the acute sector would have fallen over if adult social care had not stepped up to the plate. Having learned how important adult social care is, I hope we are at long last going to get a long-term sustainable financial underpinning of adult social care, so it can continue to do that job.

The second thing we are still learning. I am not sure we have fully learned it yet. Even with an epidemic of this sort, national control only goes so far. As we have got into "test, track, trace, contain", it has become rapidly clear that most of that really needs to take place with public health and environmental health professionals at a local level. That is an important bit of learning. We need to accelerate that learning to make sure those local professionals have the tools they need to do the job.

Q110 **Brendan Clarke-Smith:** On that point, are there any lessons around health devolution from other countries and how they have handled things that we could learn?

**Sir Richard Leese:** If I take the general point, some of the models we are using for health devolution do come from other countries. The model we use for local care organisations, for example, in Greater Manchester came initially from Spain, so there has been some learning there. In terms of managing the pandemic, which you particularly talked about, we have been learning continually from other places that are a bit ahead of us, but the big learning of the moment is that, with no cure and no vaccine, it is not going away. We have to manage the pandemic and not imagine that we can eradicate it.

**Brendan Clarke-Smith:** Bill, on learning from devolution in other countries, do you have any extra points to add?

**Bill McCarthy:** I take the principles that have been rolled out in different countries. I was speaking to KPMG, which has done a survey of the international response. It highlights the importance of the shift towards





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collaboration and understanding priority of place. That is endorsing the direction we are taking.

The other point I would make is on the importance of financial stability. Over this period, the tariff activity and detailed funding of hospitals was replaced by a much more stable system, which encouraged greater collaboration and planning. Similarly, social care was able to draw on funding in a way that it has really been struggling with for a number of years. Having a degree of financial stability in the forward look really makes a difference to our ability to work well together.

**Kate Kennally:** A bit closer to home, one of the areas to look at will be the approach that has taken place in Scotland, which of course has joint chief officers working across health and care partnerships and a different set of arrangements. That is an area we are going to be looking at to understand how their formalised arrangements have supported their response. I will leave it to members to decide whether that is looking forward or not.

**Helen Charlesworth-May:** The model in Valencia, Spain, is one that has been used to build devolution and integration. There is a lot to look at in what they did. We need to reflect that some of these areas have not had an entirely successful response to the pandemic. There is something for us to reflect upon there, too. But the whole bit about the national versus the local is something that we struggle with in this country, and we need to reflect upon how we might address it through our health services.

Q111 **Mary Robinson:** I want to explore how important those direct powers over healthcare are. Should all areas that are involved in health devolution have these direct powers over healthcare? Does it matter?

**Sir Richard Leese:** Ultimately, all areas should have the same powers, although not every area can go on the journey at the same speed because there are issues of scale, capacity and experience. We have been able to show fairly convincingly that, when we integrate public services in a different way, particularly at a neighbourhood or locality level—by that, I mean areas with a population of 30,000 to 50,000, big enough to provide a fairly full range of services—we get far better outcomes, in particular for those people who have the greatest level of need. If that is what the evidence says, that is what we ought to be aiming to do everywhere.

Q112 **Mary Robinson:** Does it suggest, though, that the integration that is going on and the joint partnership working are having the same effect? Are those powers needed?

**Sir Richard Leese:** The powers need to go a little further than they do at the moment. What is happening across the country is a level of integration. Greater Manchester has been able to take that further than anywhere else in some areas because we have had a devolution agreement going back now to 2015, but there are some gaps within that.



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A particular gap that I want to talk about going forward is the fact that, although CCGs fall within the remit of Greater Manchester health and care, hospitals do not. I do not necessarily mean in a regulatory way, but we do not have any direct responsibility for hospital improvement. Not only are the powers important, but, going forward, there ought to be a greater level of power, if we want to have a really effective joined-up system, as Helen talked about in terms of Covid-19, pulling in the same direction all the time, not just when we have a crisis.

**Q113 Mary Robinson:** Bill, you are uniquely placed to look at the whole of the north-west, in which Greater Manchester plays a large part. How do you see this?

**Bill McCarthy:** You can bring about, as Cornwall has shown, a lot of the benefits of integration and collaborative working without necessarily having the powers that have been delegated to Greater Manchester. I have seen that in different services across the rest of the north-west. However, it does make it easier to do the right thing. It makes it more straightforward to collaborate in a really effective way. It puts a discipline into having to have a common set of priorities based on the greatest need and the best outcomes for local communities. It certainly helps.

I take the lessons from Covid, which, in my view, say that this is a direction we need to move further in. In the north-west, I have some of my team working with groups of hospitals and local communities, because I see it as the right direction to go in.

**Q114 Mary Robinson:** Looking at Covid and what has been happening there, and talking about adult social care, test and trace, smoking-related issues, and health inequalities and how they have been tackled, how important is it to include the NHS when these are local authority remits?

**Bill McCarthy:** To be honest, I see it as a partnership. Taking inequalities, that is a great example. We know there are many facets of inequalities that are more about housing, education and a whole set of local authority functions, but there are also some really important health contributions around smoking cessation and the early-years support that families are given.

Honestly, I do not see these as alternatives or in conflict. I see it as one of the duties of the NHS locally to step forward and work with our local authority colleagues as a single team to tackle inequalities and support the most vulnerable groups.

**Q115 Mary Robinson:** Can I ask Cornwall what your view would be on this? Is there a need for more integration or powers, including the NHS, or is it just about carrying on with joint partnership working?

**Kate Kennally:** If I may make a few comments, I am sure Helen will back them up with some real examples. First, why was the devolution of health important for the Cornwall deal as a whole? It is because the scales of Cornwall plc do not balance. The tax take from Cornwall is less



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than the cost of delivering public services. Our devolution deal was to try to get the scales of Cornwall plc to balance in the long term through supporting growth and enterprise, to help Cornwall become more productive, but then also reshaping public services. I know that is at the heart of the place-based approach that Greater Manchester has.

Of a £4.4 billion public sector spend, £1.2 billion is specifically for health and care services. If you put in place benefits for people who are long-term out of work, it pushes that to £2 billion. If we are going to get the scales of Cornwall plc to balance, we have to look at those large areas of state spending to be able to reshape them.

Some of our challenge in doing that, working with the NHS, is around how resources flow from local areas to support the country as a whole. Cornwall's health system is one that has been in deficit, so it has been supported by other parts of the health system in helping the CCG meet its control total. On one level that has been beneficial, but in other parts there have been genuine challenges, such as thinking about how estates could be repurposed—this comes up against the mandate that NHS PropCo has—and how those resources can be reshaped at a local level. As to why we thought this was important, at its heart it was about having an approach to devolution that focused on how we do the growth part, to increase the productivity of Cornwall, and reshape public services at the same time. The NHS is, of course, the largest one of those.

It is also a really important opportunity. The NHS, social care and local government are huge employers. We need to link in devolution to the thinking on the skills agenda and how funds that come down through the NHS for workforce can be linked with devolved skills budgets, so healthcare assistants and domiciliary care workers can see a route through into nursing. Joining those things up not only creates great career pathways but addresses real workforce challenges that sit within our public services.

Devolving some of that to a local level drives creativity. Whether it is about the apprenticeship levy, the specific nurse funding coming through Health Education England or how that funding links to skills advisory panels, LEPs and the money that comes down through that route, there is a real stitching together that should take place at the local level so we can address those things. Those are some tangible reasons why I believe that excluding health as an area that cannot be devolved runs the risk of not being able to join up how we reshape resources.

**Helen Charlesworth-May:** I agree with Sir Richard. While we need a national service with national standards, which we have in the constitution and which are set by CQC, how those are implemented needs to reflect local priorities and local needs. The way in which you implement a new service or meet a need in Cornwall is not necessarily the same way you would do it in central London. I have the privilege of having worked right in the heart of central London until two and a half years ago, and I



have been in Cornwall subsequently. Health inequalities are not that different in those two places, but how you go about addressing health inequalities in central London is not the same as in Cornwall. The sort of prescription that is inevitable when you are trying to run a national service is not always helpful.

One of the specifics I would think about is that, prior to Covid-19, there was a lot of work going on around what would be in primary care networks, the new changes to the GP contract, and what services needed to be delivered and how. There was quite a lot of prescription about what types of post should be employed and how. In reality, in Cornwall, recruiting lots of new GPs or lots of new physiotherapists is quite difficult in the short term; we can grow that over time. There are other people who could step into those spaces, deliver those services and achieve the required outcomes, but we, as a locality, do not necessarily have the freedom to do that.

**Q116 Ian Byrne:** This is directed at Bill. Considering that we see Public Health England, with funding cuts of over £1 billion since 2015, now being scapegoated by the Government for the Covid response and being broken up, potentially with lots of private investment, do you fear that health devolution could be used in a similar way to the NHS, setting it up to fail and then looking at further privatisation at a regional level?

**Bill McCarthy:** Clearly, I am not going to comment on the Government's decisions on Public Health England. I would say, though, that they have been extremely valuable partners at a regional and local level. Throughout Covid, we have depended on working really closely with them. I would pay tribute to my colleagues in that branch of the service over the past months.

To your question, could devolution lead to privatisation? I can absolutely promise you that that is as far away from my intent as could be. Indeed, last September, the NHS put forward some ideas for legislative change. It put them to the Government to decide, with Parliament, if they wished to adopt any of them. One was to change some of the rules on procurement so it became a slightly less competitive world and more about collaborating and working together. We have also proposed that, where there is an integrated care provider contract, a contract to try to put together a whole set of integrated services, that should only be available to statutory NHS organisations, so it is an NHS contract.

We are trying to back that up, not only with words, but with proposals that would safeguard against any sense that this was about fragmentation or privatisation.

**Q117 Mary Robinson:** I am going to stay with you, Bill. The Government have said they will give the same powers to combined authorities as Greater Manchester enjoys, except for healthcare. Should healthcare be included in this levelling-up? In your experience, is there a wider demand for health devolution among the other combined authorities and local



authorities?

**Bill McCarthy:** As I have said, I certainly see benefits and merits in the way devolution has worked in Greater Manchester. It is clearly for the Government to decide whether they want to make that a core part of any of their devolution agreements. It has made a major difference for communities in Greater Manchester. It has made it easier for people to work together to do the right thing.

Across the rest of the north-west and more broadly, I have seen a real appetite to learn from the experience in Greater Manchester. Even if there is not a devolution agreement in place, how can we get some of that learning in, for example, parts of Lancashire, Cheshire and Merseyside, where I am working? I am seeing a lot of appetite to take on more of the decision-making and work through the integrated care system proposals set out in the long-term plan, to help all public services work more effectively towards common aims.

I would encourage that we support that and, indeed, that we are prepared to back it with devolving more of the improvement or strategic funding. Some capital funding was moved through those collaborative bodies in the last year. There is an appetite to move in that direction.

Q118 **Mary Robinson:** Cumbria County Council has proposed strengthening the role of the health and wellbeing boards. What role can they play?

**Bill McCarthy:** They have a really important role at place. In all the north-west, I see a movement in local authority areas towards health, other public services and the voluntary sector wanting to work more closely and identify common priorities. It is this population health approach, which Sir Simon Stevens was encouraging people to look at in the long-term plan. That enables you to use real data, real evidence, to understand who your most vulnerable groups are. Then it is the job of all our public services, with the voluntary sector, to work together.

Now, that is exactly the conversation that goes on in the health and wellbeing board around the joint strategic needs assessments. I see them both as a good forum to encourage and help join up, and then hold up the mirror in those local places, to check whether the progress is matching up to the ambitions being set.

Q119 **Mary Robinson:** Sir Richard, Greater Manchester has been seen as unique and not a model for elsewhere. The approach seems to be about Greater Manchester in some way being special. Is there a model for this, either in the UK or elsewhere, that we should be following? Should Greater Manchester be that model? How should we approach it when we are looking at other areas that want some measure of health devolution? Are you saying, "Do what we have done in Greater Manchester"?

**Sir Richard Leese:** I would hope that we both agree that Greater Manchester is special, given your constituency. This is probably something I have said to the Committee before on a different subject, but



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initially the Greater Manchester Combined Authority was designed by Greater Manchester to suit the needs of Greater Manchester. In those terms it is unique, but we are equally clear that, if you only have devolution arrangements in one place, they are not sustainable or robust. If we are going to get the real benefits, it needs to go to other places.

Although it might have started off as being unique, it is the case that other metropolitan areas chose fairly rapidly—they chose; they were not made to—to adopt similar governance arrangements to Greater Manchester. It happened first in Liverpool, Leeds, West Yorkshire and South Yorkshire. It has spread to other places since. The combined authority, certainly for metropolitan areas, has shown itself to be a model that works.

Having said that, I echo something Helen said. Helen compared central London with Cornwall. I could equally compare central Manchester with central Liverpool. While they might have a lot of things in common, they have a lot of differences as well. What works in one will not necessarily work in the other. Governance models are important. The combined authority has been developed as a very powerful governance model, not least because it is based on co-operation and bringing people together to work in a collaborative way. At the same time, the combined authority model has to allow for differences between localities.

Q120 **Mary Robinson:** Can I go to Cornwall? The County Councils Network proposed to us using the structure of integrated care systems that local authorities are involved in to provide the strategic commissioning of the health and social care system. Is this a way to involve local authorities in health devolution? Could you also comment on whether there is a role model that you should follow? Should Manchester be it?

**Kate Kennally:** We are very interested in Greater Manchester. Health devolution in Cornwall was the second deal that was signed, and we wanted to learn from that. Clearly, it was a different context, as this Committee will understand, but there are some characteristics that are important for Greater Manchester that have resonance.

You asked the question about the role of the health and wellbeing board. That is an important component within Greater Manchester, and we are keen that our health and wellbeing board has a role to play. In the guidance that has come out about integrated care systems, you sometimes have to look quite hard to find the health and wellbeing board being mentioned. It is good to hear Bill McCarthy make reference to it, but it sometimes gets a little lost. It has a crucial role as the place that brings together democratic leadership and clinical leadership to help provide the right context within which you can deliver changes in health and care. That is a comment that I would make.

We also looked at the components in Greater Manchester that were put in place as part of the governance arrangements. That included a strong focus on strategic commissioning through the commissioning board, NHS



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Providers, the NHS Confederation and the Greater Manchester Children's Health and Wellbeing Board. We sent a team up to take a look at that and think about the learning for Cornwall.

We do not have the issue of having 10 CCGs and however many provider trusts; ours is more simple. But some elements of what things get done at a system level and what things get done at a locality level we have drawn from the Greater Manchester experience. The importance of strategic commissioning is embedded in Helen's role, bringing together health, public health and social care commissioning as a route through how we take forward our integration and improvement ambitions and how we narrow the gap in terms of health inequalities.

**Helen Charlesworth-May:** It is really important that strategic commissioning is owned by the health and wellbeing board, with the health and wellbeing board being able to set the core priorities for its locality, whatever that locality is. That is at the heart of ensuring a localised prioritisation and response to the specific needs of the population in that area.

Q121 **Chair:** Finally, briefly moving on to the structure of devolution deals, it has been fairly clear that Government Ministers are saying, "If you want a devolution deal, you have to have a unitary authority." Kate, no doubt you would agree that that has worked for Cornwall. Should it work for everybody else?

**Kate Kennally:** I am clear that Cornwall entering into a devolution deal in 2015 was the culmination of a whole series of steps that had been taken to speak with one voice and be clear about the priorities for Cornwall. That started with the route to the authority becoming a unitary in 2009, then looking at the partnerships that have existed in Cornwall that enabled devolution to come forward.

Prior to the formation of the unitary, Cornwall did not always speak with one voice. Structure does not always make that happen, but it certainly made a difference within Cornwall. In terms of that wider place leadership role, which is at the heart of devolution, you need to be clear about where accountability and responsibility sit. The simplicity of the public sector delivery landscape in Cornwall has enabled us to put that in place in the geography we have.

It is different in metropolitan areas. We are in discussions with Government around whether there is a one-size-fits-all approach and what the learning is from Cornwall's devolution deal. It was identified by the Warwick economic study, which was commissioned to inform where devolution goes next—I do not know whether you have taken evidence from them, but it might be something you want to consider—that our governance model has enabled us to deliver significantly on that devolution deal.



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That will be different for us compared to other places, but there is learning to be taken from an area that does not have a combined authority, and has that strong county leadership model, as to how it can work in an area such as Cornwall. We can provide a bit of an exemplar for those places that do not sit in metropolitan areas, in the same way that Greater Manchester has provided the opportunity to learn for areas that are covered by metropolitan combined authorities.

**Q122 Chair:** Is it fair to say that, in terms of your joint working with the NHS, which in the end is one organisation, if you had been trying to do that with a county and several districts, it just would not have happened?

**Kate Kennally:** We can look across to our colleagues that we work closely with. A number of Cornwall's residents receive their healthcare from services delivered from Devon, and we can see the benefit of the simplicity of our arrangements in how we work with our NHS partners. I do not believe the joint roles that we have within Cornwall would have happened in the same way without that simplicity of the unitary structure.

**Q123 Chair:** Richard now, you have a very different structure in Manchester. There is a combined authority, but then unitaries below it. Cornwall has managed to do its devolution without a Mayor. In Greater Manchester you have a Mayor, but the Mayor has nothing to do with health, as I understand it. Why do you need one?

**Sir Richard Leese:** Can I correct you, Chair? It is not a combined authority with 10 unitaries below it. Technically, it is the other way round: the combined authority belongs to the 10 districts.

**Chair:** I am well corrected.

**Sir Richard Leese:** The reason we agreed to have a Mayor for Greater Manchester is that it brought powers, particularly the powers around transport, that we were not going to get otherwise, so that was a deal we did. Is it a necessary part of health devolution? No, clearly not, because the memorandum of understanding was signed in 2015 and the devolution agreement came into effect in 2016, a year before we had a directly elected Mayor. No, even though we have a quite wonderful directly elected Mayor in Greater Manchester, it is not essential to what is a partnership arrangement.

Having said that, having somebody who is a full-time focus for Greater Manchester gives us things that we did not have without having that full-time focus, not necessarily within the health area but certainly in other areas of activity.

**Q124 Chair:** Finally, Cornwall, you have heard about all the benefits of a directly elected Mayor. Would you not be better off if you had one as well?





**Kate Kennally:** We are looking forward to being able to enter into the next set of discussions with Government with the forthcoming devolution White Paper. We are ambitious in our ambition for more decisions about Cornwall to be made by Cornwall, and we will let the discussions on governance follow the functions that we hope we will be able to take leadership on locally.

Q125 **Chair:** That is a politician's answer if I have ever heard one. Go on. You have heard what Manchester has got. Richard was really saying that, in the end, Manchester had the Mayor because it brought powers that it would not otherwise get from Government. Again, if Government say to you, "You can have these powers, but you need a Mayor", you will have the Mayor, won't you?

**Kate Kennally:** That would be a decision that the politicians will make. I am chief executive of the council, which will want to make that decision based on what it offers, in the same way as you have heard from the leader of Manchester.

There is a challenge, in the context of a strong-leader model in a unitary council, around making sure there is clarity about the relationship between the directly elected Mayor and the leader of the council. It might well be that the route to achieve the same outcome would be to have a directly elected mayor of the unitary council rather than another role that sits on top.

We are interested in having these discussions, of course, and nothing is closed from the perspective of Cornwall. If our politicians were giving evidence to this Committee, it would be fair to say that we remain to be convinced, in the context of a strong-leader model of a unitary council, that there is significant added value to introducing a directly elected Mayor at this time. We are not dealing with trying to provide that single-place leadership that covers a range of metropolitan boroughs, as you see, for example, in Greater Manchester.

**Chair:** Okay, thank you all very much indeed for coming to give evidence to the Committee this afternoon. That is very much appreciated.

## Examination of Witnesses

Witnesses: Andrew Carter, David Phillips and Guy Ware.

Q126 **Chair:** Thank you very much for joining us this afternoon. We are going to talk about fiscal devolution now. We have three witnesses. I am going to go around and ask them all to introduce themselves.

**David Phillips:** I am David Phillips. I am an associate director at the IFS and I lead our work on devolved and local-government finance.

**Guy Ware:** I am Guy Ware. I am the director of local government performance and finance at London Councils, which represents all the London local authorities.



**Andrew Carter:** I am Andrew Carter, chief executive of the Centre for Cities and deputy director of the What Works Centre for Local Economic Growth.

Q127 **Chair:** Thank you very much for joining us to talk about fiscal devolution. We often talk about the devolution of powers, but what about the actual raising of the money and how those powers might be devolved? The Local Government Finance Commission produced evidence when the current Prime Minister was Mayor of London with regard to devolving property taxes and the issue of a tourism tax. What are your comments about those? I will come round to each of you in a moment. Indeed, Scotland has some devolved elements in its income tax. What do you think about these suggestions? Are there other areas where taxation powers could be devolved instead?

**David Phillips:** We had a report last year that looked at the options and issues for devolving different taxes. We said that, if you are looking for a major new tax base to devolve—by “major” I mean raising money in the order of £5 billion, £10 billion, £15 billion or so—a local income tax looked like an obvious step in that direction. It would be easier to administer with local variation and local assignment of revenue than, for example, corporate tax or VAT. It is very hard to identify profits by country, let alone by local authority, so we thought that it would be administratively more feasible than the other big taxes.

We thought it could have some desirable properties as well. It is paid for by local voters, so they can hold their politicians to account. It provides broader incentives to local politicians and councils to boost the economy. At the moment, with business rates retention, it is only by getting new properties in your area that you get growth. If people are commuting to better jobs or homeworking, you do not get any revenue from that. We looked at income tax. While it is not a shoo-in—there are trade-offs and difficulties involved, certainly—it felt like the obvious next candidate for a big tax.

We looked at stamp duty. We thought that could be administratively feasible, but it has some undesirable properties. Revenues are very volatile, which is hard for local government to manage, given that it cannot borrow to cover shortfalls in day-to-day revenues. The trends are massively different around the country, given just how different the property markets are in central London versus Wigan or somewhere like that.

A tourism tax is a decent idea. I have never really seen people define what the reason is. Is it just revenue raising or is it trying to correct for some of the costs involved with tourism? The key thing with a tourism tax is that, while it could be useful for small local areas and could raise some money for certain services, it is not going to be enough to fill the long-term fiscal challenges that councils are facing. A pound per night has been talked about, and that would raise about £400 million a year across



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England. That is less than 1% of spending power. It would not be a game-changer.

We said that these other small taxes like a tourism tax or parking levies could be useful if you can define a proper objective for them, but, if you want to think about raising substantial sums of money for newly devolved powers or to cope with the rising costs of local services, local income tax looks like it is a better option than, for example, VAT, corporate tax or even stamp duty, given the volatility but also the fact that we should be weaning ourselves off stamp duty and not entrenching it in local government.

**Guy Ware:** You started with a reference to the Local Government Finance Commission report. There have been two: one in 2013, which, as you say, the current Prime Minister originally sponsored as Mayor of London, and more recently, in 2017, a second bite of the cherry, if you like.

What is the difference between the two? The first looked at property taxes, including business rates but also council tax, stamp duty, as David has mentioned, and a range of others. The 2017 report took that further. It made arguments about the powers to raise a broader range of taxes and the potential assignment of national taxes such as income tax or slices of VAT, with all the problems that David has mentioned.

It is probably worth stepping back for a moment to ask what the underlying reason is for having these debates in the first place, because we keep making the recommendations and, I have to say, they keep not going very far with Government. The underlying data suggests—the OECD is very clear on this—that the UK is an outlier. Very few large developed countries have such a tiny proportion of their tax revenues raised by local and regional government within the OECD. It is places like Slovakia, the Czech Republic and Ireland. Those are also the countries that have the greatest levels of regional inequality, and we would argue that there is a connection between the two. It is a correlation of data, but we would argue that there is a connection between over-centralisation and poor outcomes in terms of inequality.

The logic behind all this, before you get into the pros and cons of individual taxes, is whether you get a better set of economic and social outcomes if you have a broader range of responsibilities and a much greater alignment at local level of accountability and responsibility for raising the money to fund services that your local and regional government are actually running. We would argue, and have done consistently for many years, that aligning that accountability will produce better outcomes. It will produce a reduction in inequalities and a greater level of economic growth, as well as potentially engaging with and making the local democratic process more accountable and more successful.



As I said, we can go back to whether business rates retention is the right way of going about that, but there is a fundamental point to doing this, which is that you make the country better. The current situation has tested some of the current arguments to destruction. Sitting on business rates as a form of income is not very comfortable right now. The problems with that tax have been highlighted by Covid-19, but so too have the limits of national responses to local problems.

We have just heard evidence about tackling health inequalities locally. With many of the things that had to be done, whether that is setting up hubs for feeding vulnerable people, track and trace systems and so on, there is a limit to how far they can be nationally mandated successfully, and a deal of reliance needs to be placed on local authorities, local solutions and local leadership. Our argument would be that that is where you start this debate about raising the money to align those two.

**Andrew Carter:** I would just build on the two previous contributions. Invariably, we get into a conversation about new taxes. David has outlined some of those and the pros and cons of them. In a fiscal-devolution context, we ought to spend as much time thinking about the degree to which there is devolvement around existing taxes and budgets, how they get used and how they get set.

From a locality's perspective, the two big taxes it is playing with are business rates and council tax. There is a question there. In many respects, strictly defined, neither of those is a devolved tax anyway, because localities do not get to set them and vary them in any significant and serious way. They would fall foul of the definitions used by international agencies looking at these sorts of things. There is a question in the fiscal devolution space around what we do with and how we think about business rates and council tax, and what reforms need to happen to them, as well as—Dave is right—thinking about supplementary and additional tax bases, large and small, and what we might do with them.

Thirdly, we can think about the revenues raised through sales fees and charges, for example, which local government in various forms is doing, but they themselves are fairly constrained in how they can be redeployed. There is a question about why that is the case. As always when we think about this space, we focus on the new, but there are real gains to be made if we can get what we already have going into localities working slightly more effectively and efficiently than it currently is.

Q128 **Chair:** Can I follow up on that point? You say council tax is not a devolved tax, but it is the nearest thing there is to a tax devolved to councils. We looked at it in our last report, but we did not come to a conclusion about the revaluation of council tax and generally how council tax could be more devolved to fit into the devolution picture. Do you want to say a bit more about that and your views on it?

**Andrew Carter:** I am not going to rehearse the ground you have well covered. It is a regressive tax that is in urgent need of reform. The



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revaluation is one aspect of that, and it needs to be done on a national basis. Government need to take responsibility for revaluation. You can set the parameters for the revaluation and make it revenue neutral, et cetera, which would be redistributionist, rather than revenue-generating. You can do all that, but Government needs to introduce that and see it through.

Then there are questions at the local scale about variations at the margins, which you might want to introduce to individual authorities or groups of authorities. I would favour groupings of authorities, where they come together to think about how they would then introduce variations at the margins of the council tax that reflect the particular needs of their place. Very importantly in a local taxation argument, you would also get a better alignment between business rates, which also should be reformed and devolved, and how those two things interact across a functional economic area.

As one of your previous witnesses, Sir Richard Leese, said, when you look at Greater Manchester, or indeed Greater London, it is an obvious point that central Manchester plays a very different role to the suburbs of Oldham or Rochdale, in the same way that the City of London plays a different role to the suburbs of Croydon, et cetera. If you pool across there, you can get those two taxes working more efficiently and effectively together. Those are some of my thoughts around that.

**David Phillips:** I would like to echo what Andrew Carter was saying there. With council tax and business rates, valuation should remain a national issue. If you want redistribution between richer and poorer parts of the country, where they can raise more or less from council tax, you need a common basis of valuation so you can work out how much they can raise and how much can be redistributed.

Then, as Andrew was saying, you give flexibility. Once you have the values, what do you do in terms of the exemptions and the discounts for council tax or the reliefs or supplements on business rates? There are certain elements of council tax and business rates that need to be fixed at a national level, and the Government need to grab the bull by the horns there. Then there can be scope for giving more powers to local areas to, potentially, do it in a revenue-neutral way, if you want to redistribute the tax burden to make it more progressive or to incentivise certain behaviours, or to raise more revenue. Some of the existing features of the system, like exemptions for students or single-person discounts, are quite costly. A combination of national action and devolution would potentially help the reform of council tax and business rates.

**Guy Ware:** Building on both those points, there is a need, as Andrew said, to look at the underlying national system, which then becomes available for reform. It is important that the reform is not nationally determined and handed to local government but that it involves local



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authorities and regional authorities, where they exist, in the design of the future of those taxes. Otherwise we risk taking the same approach and creating the same problems.

If you think about both council tax and business rates in terms of that valuation point, the difference between property markets across the country is so vast that applying a single set of policy tools to a single set of valuations becomes very counterproductive quite quickly. I agree with David that there is no point in valuing them on different bases—that would not help—but, if you use the same definition of a small business by rateable value of the building they occupy in central London as you do in the south-west or the north-east of England, you get some very odd distortions.

When you want to intervene to support them through a Covid crisis and you define a support scheme that is based on them having a rateable value of £51,000 or less, you find that you cover more than 90% of businesses in England as a whole and less than a quarter of them in London. If you take those kinds of approaches, they will not work on a national scale. This is the issue: what are the core purposes we are trying to fund? Then how do you best create a set of variants on tax approaches that allow local and regional authorities to support their local economies and raise the revenue they need?

Q129 **Chair:** There is one final brief question from me. Could we have a brief answer? We do need to move on. We are all wasting our time, aren't we? In the end, central Government rather likes to have control of the money, to divvy it up, to give a bit to one authority and a bit less to somebody else and to control the process. The Treasury is never going to accept fiscal devolution, is it?

**David Phillips:** There are two points I would make on that question. You are right: fiscal devolution has been promised, has been on the cards for many years and has not progressed significantly. There are two counterpoints to that. First, even tax devolution does not remove the potential for the Treasury to move funding around, if it wanted to. With business rates, for example, it can move what are called tariffs and top-ups; there can be additional grant funding. There can still be that Treasury role to channel more money or divvy things up.

Secondly, looking forward, even before Covid, it was clear that we needed to raise more revenue in the long run. There could be a political imperative for the Government to share the pain in doing that. Rather than central Government having to take the pain of increasing taxes at a national level, devolving additional powers to local government, effectively, would help spread that pain around. Whether that makes it less appealing to local government to have those powers, I do not know. The politics of it is changing, in the same way the politics of council tax revaluation has changed. Things may have changed.



**Andrew Carter:** I understand your scepticism, Chair, but never say never. That is my response. In a sense, we need to continue to make the arguments, as David said. Some of the underlying fundamentals are changing, the politics and the finance questions. We can debate the merits and the realities of it, but there is increasingly a recognition of the imbalanced nature of the economy, which we need to address for a whole bunch of reasons. This debate becomes part of that.

As a final brief observation—again, I am not going to go into the details of it—assuming that politicians across the globe are fairly similar, we have seen other countries that have slowly shifted, not massively, but have made decisions and choices about devolving some aspects of their tax-raising powers and tax base from the national to the local over the last 20 or 30 years. Maybe we can take some encouragement there.

**Chair:** We will come back to that point in a few minutes.

**Andrew Carter:** I am less clear on exactly why they have done that, but we have seen shifts in places like Spain, Sweden and elsewhere.

**Guy Ware:** Let us maintain a little hope about what may have changed. Two countries in the news at the moment and frequently referred to by the current Government are Canada and Australia. Canada's local and regional governments raise 50% of its revenues; in the UK it is less than 5%. In Australia, it is about 20%. There are some very different approaches taken to the two large countries we are likely to be comparing ourselves to at the moment.

Q130 **Ian Byrne:** There are concerns that financial devolution would lead to a postcode lottery in service delivery, given the inequalities across the country. Is this an insurmountable barrier to devolving tax powers, Andrew?

**Andrew Carter:** It came out in the previous session, so we can just repeat it. We have a postcode lottery now. We have a supposedly highly centralised system and country, and yet, whatever indicator you wish to take, economic, health or social, there is huge variation. This idea that we do not have a postcode lottery I would fundamentally challenge. I say that because the defence of the status quo often starts there and then prevents us from making movements, so we need to challenge the idea that we do not have a postcode lottery, when we clearly do.

This is an important point, or at least I think it is an important point. The conversations about fiscal devolution in particular often get wrapped up in questions about local government self-sufficiency. You heard it from Cornwall in the previous session. Those two things are related but quite different. There are questions about how we can introduce more fiscal devolution into a system but never lose sight that, for a whole bunch of different reasons, some places will need more money than they can raise locally, and it is entirely appropriate that we have a distributional element within any system we have.



Other countries do this. Germany is the obvious example. It has a highly devolved system, fiscally and from a powers and resource-management point of view, but it manages relatively easily to have a highly redistributive element to its system, which essentially but not exclusively is moving money from west to east. It has been doing that since the country came back together. Those things are not mutually exclusive, but they get muddled in this idea that somehow people are really talking about the idea that you can only spend in your locality what you raise. We definitely need to shy away from that idea and that concept.

**David Phillips:** I would echo what Andrew is saying there. There are two issues, which sometimes get conflated but are somewhat distinct. There is the issue of what revenues and powers are devolved, and then there is the issue of what we call equalisation, which is how much redistribution you have between different parts of the country.

We have significant redistribution at the moment through the business rates system and through council tax. You would need that for new taxes as well. For example, the amount of income tax you would raise per person in parts of Surrey and the richer parts of London is four or five times as much as you would raise in the poorer parts of the country. You would need these redistributive flows to take place.

There is a trade-off, then. How do you prioritise redistribution to make sure you can have more consistent levels of services across the country? As Andrew was saying, we cannot pretend they are completely consistent now. On the other hand, you might want to give incentives to areas to grow their economies and to boost revenues. There is that trade-off between redistribution and incentives for local areas.

That is a big question that gets missed out sometimes, with the focus on the powers and what we should devolve. We need to address how consistent we think services should be around the country, how much we are willing to redistribute and how we trade that off against the incentives we give to local areas. It is risk versus reward.

Q131 **Ian Byrne:** To drill down into the redistribution element, would that redistribution not be an incentive to those that may collect more? You talked about parts of London, certainly Westminster. How can we balance the two regarding the redistribution element?

**David Phillips:** An example is what they do with business rates. Business rates revenues are a lot more in London than in the rest of the country. A proportion of the business rates revenues that are raised in London is redistributed to other parts of the country. You could have a similar approach for income tax. One of the big questions there is what happens with the additional growth that is in London. Do we redistribute the growth that takes place in London and not just the initial level, which is what happens at the moment with business rates?

There is an infinite number of choices between saying, "We are going to let you keep all the growth on top of a baseline," like with business rates,





and saying, “Actually, we are going to redistribute all the growth in the tax base,” which was traditionally what happened before business rates retention. It is that menu of options you can choose from, full redistribution to partial redistribution, depending on how you value these different things.

**Q132 Ian Byrne:** There is going to be a question from Bob on London, probably directed at Guy. I will slip into the last question and direct this to Andrew, because Bob will be grilling you, Guy. An alternative approach taken in other countries—you have probably touched on this before—is to allocate a dedicated portion of revenue from certain taxes to particular areas. Would you support this as an alternative?

**Andrew Carter:** Yes. In a sense, Dave is probably better positioned to go further on that, but, essentially, what you see in many other places is what they class as the shared tax base. Essentially, income tax is shared between the localities and national. That is much more of a standard practice in other countries. It is not really a standard practice in the same way in this country. In principle, I would share that and we should do more exploration of that, but Dave is probably better placed to go further on it. That is really what you were saying in relation to income tax, David.

**David Phillips:** It depends what you think you are trying to do with devolution or assignment. If you think you want to give local areas the power to raise more revenue themselves, to make decisions about how much to tax and spend, clearly you need to give them the powers to change the rates. Assignment does not give that additional flexibility to change your funding. On the other hand, you may be concerned about tax competition, if you give powers to areas to set tax rates as well, because they might try to compete and bring down tax rates to attract more business. There are pros and cons of both. It depends how you trade off local powers and local discretion versus the national redistribution and the system at the national level. There is no one answer. It is a choice again.

**Q133 Bob Blackman:** We are going to talk about business rates in more detail in a minute, so I do not want to go on to business rates, but one concern that has been expressed historically is, for example, that we have now got to a point where business rates are effectively paying for adult social care in a lot of local authorities that administer social care. There is a correlation of saying, “Well, hang on. We are raising this money from business to pay for social care. Is that the right sort of balance?”

One of the concerns I have is the battle between central Government and local government about how the cash is used. There will always be a view from local government that it does not have enough cash and there will always be a view from central Government that we have given you the powers and we have given you the cash, so get on with it. That is always a battle.



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We have certain ring-fenced environments and I think we, as a Committee, generally speaking, have been against ring-fencing, but, for example, car parking income can only be spent in certain areas. To what extent would you as witnesses agree with the principle of devolving taxes, but then having a caveat that they can only be spent on the areas to which they have been devolved? One of the areas for London could well be the road-fund licence for cars with the money devolved to London, with the principle that that money can only be spent on roads and improving roads in London, rather than being spent as part of the general tax-raising powers.

**Guy Ware:** The position with road tax, vehicle excise duty, is very odd in London. Londoners pay it like everybody else who owns a car, but none of it comes to London. It all goes to Highways England, which spends it in the rest of the country and on motorways. Some 90% of Londoners' car journeys are within London and none of that tax is being used to maintain the road network in London, so we would be very keen to see it devolved. In that particular case, there is a strong argument for the hypothecation that you refer to. As part of the deal for getting control of that money, in a sense, it would be invested in the network of roads that those motorists were using.

Beyond that, though, I sound a note of caution as to the anxieties about tying, say, business rates to social care. We will come back to business rates. The nation as a whole works on the proposition that both individual and corporate taxpayers pay tax and we provide public services; we balance the overall amounts needed for the public services we want and we do not say that corporation tax only provides services that are of interest to business at a national level. I would be wary of a line of development that took local government down too restrictive a route on the same basis.

At the moment, council tax and business rates pay for 80% of local government services; 40% of local government services, so about half of that, is social care. We cannot get away from the fact that it is a very big and important chunk, but I would not want to see too direct a relationship being drawn between who is paying the tax and the nature of the services being funded.

Q134 **Bob Blackman:** Do your fellow witnesses have a particular view? I have chosen road-fund licensing, particularly for London, for the obvious reason, but there could be other taxes devolved to other parts of the country with caveats put on that they could only be spent in ring-fenced areas. To what extent would you support that idea?

**David Phillips:** In general, economists are pretty against the idea of ring-fencing or hypothecating taxes, partly because, unless the tax covers the whole expenditure, it is a bit of a fig leaf. Ultimately, what decides how much you spend is how much you spend and you just say X% of that is funded by this hypothecated tax. It does not really mean anything. Then, if it does cover the whole expenditure, it is a bit odd to



want to say, "Well, we will spend on social care how much we get in this particular tax," because the tax might change in ways that are not related to the needs for social care.

There are issues about hypothecating that mean that, in general, it is not a very good idea. It has gained in popularity in recent years because it is seen as a way in which you can build popular support for necessary tax increases. People like the NHS, they like healthcare, and they like social care to some extent. Let us say it is a social care tax. We saw this in 2003 when Gordon Brown had an increase in tax that was for the NHS. If it is not really for it, ultimately, it ends up undermining trust in the long run rather than increasing trust in the decisions about spending on public services and on tax.

**Andrew Carter:** I would agree with Dave. It is what I said earlier. I would want to remove the restrictions around sales fees and charges, and how they get used, in a sense, to open them up for other things. Similarly, if we were devolving taxes or other revenue streams, whatever their source, I would move towards fewer restrictions attached to them, so that the place itself can better use the resources it gets to tackle and address the issues it has. That is definitely linked to a real clarity and accountability on the decisions that are made with that funding, and that the institution and/or individual making those decisions is very clearly in the citizens' eye and therefore can be held to account as appropriate through the various means.

Q135 **Bob Blackman:** The only challenge that comes back on that immediately is that central Government, or the Treasury in particular, will always say, "Well, we have given you the money for the purposes for which you are asking us to give you money, and then you take a local decision to spend the money elsewhere. That is your local decision, but do not complain when you do not have the money for the purposes you wish to fund."

Can I move on to my other area, which is that of international comparisons? I am not sure whether it was Andrew or David. Originally, you referred to certain countries that you thought were appropriate for international comparisons that we could look at. Could you elucidate on that a bit more, please?

**Andrew Carter:** I did the foolish thing of alluding to other places. As you well know, comparison within countries is difficult, never mind comparisons across. In the nature of the conversation that we are having, England particularly sits, as we have already heard, at one end of a spectrum in terms of the relationship between how places are funded. There are other places that we can look at, unitary systems as well as more federal systems, such as Sweden, Spain and Germany. We have heard about Canada and Australia. This tells us something about what their situation is currently. Germany, for example, has had a more federal system for a longish time, but, nevertheless, this tells us something about how it manages a more devolved system and maintains high redistribution within it.



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Looking at some of the OECD evidence, there are examples of places, such as Spain, Sweden and Poland, that have gone from a set position to a position where they are slightly less centralised in taxation and revenue expenditure. It is not for now, but we could look at the transition, because it seems to me that that is the real question in England. It is not just to look at other systems that are already where we would want to get to, but to understand better how systems had gone from one example to another example, and the transitional steps they have taken along the way. Some of those that we have seen, such as Sweden, Spain and Poland, can tell us a bit about what has been introduced and what is devolved. We are on that journey to a degree, with the changes we have seen over the last half a decade, but we have much more to go.

**Q136 Bob Blackman:** Can you point to particular areas that have dealt with inequalities problems under existing systems, and then gone to a more devolved structure and ironed out those problems in terms of the inequalities that exist?

**Andrew Carter:** The short answer is no.

**Bob Blackman:** I did not think so.

**Andrew Carter:** We must not overclaim. That is important. We have to be realistic about what we expect from different systems and, particularly, moving from one system to the next. We are not going to solve these problems overnight. There is lots of variation within places. Equally, we should not use that as a reason or excuse not to do things.

**Guy Ware:** I have a couple of points, first to reiterate Andrew's comments, particularly about Germany and the degree of levelling up—a phrase that has been used since the fall of the Berlin wall—within a very federalised system. It is just worth reflecting on the origins of that system. We, in the UK, have a very centralised approach that became even more centralised at the end of the war, with the welfare state being created on a very national basis, at exactly the same time that Germany was establishing its current liberal federalist approach, largely, it has to be said, on the advice of British constitutional lawyers. It is quite interesting, if you think about the different directions people were taking at that point. Looking at how they deal with that level of geographic and social inequality in Germany would be extremely instructive.

We do not have to go very far afield, even within the UK. Northern Ireland has a business rates system where it sets a regional multiplier and each of the districts sets a local multiplier. This is thrown back at us when we talk about business rates reform as being a danger within England. It operates perfectly successfully in the north of Ireland and has done ever since. They never adopted the nationalised approach that the rest of the UK had.

Similarly, changes are starting to emerge within the devolved Administrations in Scotland and Wales. Learning from those as to why the



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roof has not fallen in, once you start varying income tax rates or adding additional council tax bands, is certainly worth exploring.

**David Phillips:** I agree with much of what was said then. You can also learn some quite specific and detailed information from different countries about the devolution of particular taxes and how you can go about that. For example, in most of the countries where they devolve income tax to local areas, it is only a flat rate that is devolved rather than being able to vary rates across the distribution. That is because they see progressive taxation as a national issue and the local income tax as revenue-raising rather than about taxing the rich to give to the poor.

Also, it is designed to stop tax competition. It is really the top tax rates, the corporate tax rates, where tax competition is a bigger issue, rather than the tax rate on the median earner. Looking at countries around the world, you can get not just some big picture questions about how you reform and how you do redistribution, but also something about the design of the particular devolved taxes you might want and the precursors you need in place to manage these things effectively. For example, in Scandinavia, one of the reasons why they can have hyperlocal income taxes, where it can vary between small towns, is that they know where you live. At the moment, HMRC does not know where something like 5% of taxpayers live at any one time, so it tells you a bit about what you need to have in place before you can start doing some of these things.

Q137 **Bob Blackman:** Presumably, the other issue would be whether you are taxed on where you live or where your place of work is, which would be horrendously complicated for a lot of companies to resolve and may end up with very unfair practices. For example, a long-distance commuter going into central London might be on a very high salary, but then there might be people living and working in central London who are on relatively low salaries. You could get all sorts of rather bizarre results that might follow, so caution is important.

**Guy Ware:** I appreciate there is an administrative approach, but these things work. At the moment, people daily cross the border into and out of Scotland and pay different income tax rates. Businesses and the Revenue can deal with it. Similarly, even somewhere like New York, the level of revenue that is funded by sales taxes, which is about a quarter of spending, I think, is a very significant part of the revenue-raising capacity. In this country, we tend to start from the assumption that local sales taxes would be a nightmare of administration, but they work.

**Chair:** I am conscious of the time, so could we be aware of that in both asking questions and answering them, particularly if a subject has already been covered to a degree beforehand? Can we focus on new things?

Q138 **Mohammad Yasin:** One form of financial devolution has been the 100% retention of business rates for certain areas. Should that policy continue?



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**David Phillips:** It was once the objective to move to 100% rates retention across England. That got put paid to when the Local Government Finance Bill fell before the 2017 general election, so the plan is for the rest of the country to move to 75% retention. The Government have not made clear whether 100% retention will remain in place in those areas where it currently exists and the rest of the country will stay on 75%.

There is a bit of an issue of fairness. Effectively, areas that have 100% retention get to retain 100% of the growth but also, potentially, lose 100% of the losses. Historically, there has been quite a bit of growth in the system, so the areas getting 100% retention are benefiting from quite a bit of growth. There is a question to be asked. Is it fair to allow some areas that, historically, have been given these deals to maintain that 100% growth when other areas are getting 75%?

**Andrew Carter:** I agree. We should move to 100% retention across the country, but we will also need to make significant reforms to the business rates system for a whole bunch of reasons that we can go into, but it is probably for another session or another 10 sessions. Focusing on the devolved aspect of the system is important, but we will need to reform it for it to be effective as a tax at the local level and to ensure that the current anomalies in the system do not make things worse than we would ideally want.

For example, transitional relief is now a particular problem, given the long revaluation periods that we have. Essentially, you have a system at the moment where businesses in more prosperous areas are underpaying and businesses in less prosperous areas are overpaying because of revaluation periods and the transitional relief that comes along after every revaluation. There are a lot of anomalies in the system that just devolving is not going to resolve. In fact, it will probably make the system and the situation worse even if that is not the intention.

**Guy Ware:** Following very briefly on from that, the reform is absolutely essential. At the moment, the retention policy is the responsibility of MHCLG. The Treasury is conducting a reform of the business rates as a tax. The plea I would make is that those two things get considered in the round along with broader local government funding issues; otherwise we will have another bit of disjointed Government policymaking.

Q139 **Mohammad Yasin:** Should this be extended to all the combined authorities, including London?

**David Phillips:** Should 100% retention be extended to all the combined authorities?

**Mohammad Yasin:** Yes.

**David Phillips:** The issue you would have then is the potential for unfairness between the combined authority in London and the rest of the country where, for example, the combined authority of London would be



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getting 100% of the growth. Those in the rest of the country will be getting 75%. While that can be done on a pilot basis and you can say, "Well, we are trying to learn about the system as a whole," if that becomes an entrenched feature of the system, it could open up questions about whether it is fair for some areas to gain more from growth than other areas. It is a plausible system. There is a question about whether it is a fair system.

**Guy Ware:** Subject to the point I have made about the need for substantial reform and local control. The question of fairness comes back to where we started, which is the issue about which is the overall better way of delivering outcomes and tackling inequalities in the country. The current system has not worked to achieve that. We would be very keen to see that we use the reforms, such as a higher level of retention, as a way of incentivising and making accountable local politicians for the taxes that they are raising. That will produce better outcomes for the country as a whole. As has already been said, it does not stop chunks of the business rates raised in London being used to fund services in the rest of the country.

**Andrew Carter:** As I have said already, I think you need to move to 100% retention everywhere and then work alongside the reforms that we know are needed.

Q140 **Mohammad Yasin:** As a final question, we received a lot of evidence worried about the uneven distribution of revenue from business rates. There were also worries about the negative incentives that retention can create. Are business rates a good tax for devolution?

**Guy Ware:** Yes, if they are made to work a lot better than they do at the moment. We have two very big problems in relation to devolution, apart from the technical problems of business rates. First, by operating it as a national system, we have what is called a fixed yield. Every time there is a revaluation, the total amount of money raised stays the same, but the incidence of it shifts. Over the last 30 years, that has meant that more and more of it has been raised in London. If you kept going at that pace, about half of it would be raised in London within the next decade or two.

That is inherently unstable. Within London, half of it is raised within four boroughs. We have shops on Oxford Street that, prior to Covid-19, were paying more business rates than entire towns in other parts of the country. Whatever you think about devolution, that is not a sensible place to start a business tax that you then give local control to. You have to be able to unpick that. You have to have a system that does not overly concentrate and make your tax base both at risk and too geographically concentrated. You have to avoid the other side of that, which is that the higher the proportion that is collected in London, the lower the tax base in the rest of the country, so the incentives for promoting growth in the rest of the country go down because the tax base has gone down. That is not going to work.



**David Phillips:** I think you may have the first disagreement of this session so far. I somewhat disagree with what Guy Ware was saying there about the process of revaluation as it takes place at the moment. The idea behind revaluation as it is currently is that, effectively, revaluation is about updating the tax bills of different areas to reflect changes in the relative values of properties in those areas. To the extent to which we think that property value is a reasonable basis for taxation, one can say that you should have the tax bills reflecting differences in relative property values around the country.

There is a question there. Should it be made revenue neutral or, if rents are just falling over time, should we build that into the tax base? One thing that has happened is that the multiplier has gone up over time. It was 33% at the start. It is now 50%. That is because the bills have been going up more quickly than property values, so there is a question about that. The reason why more of it is concentrated in London is that more property value is concentrated in London, because London has been doing well economically.

There is the question about to what extent we redistribute that to the rest of the country, as we currently do now. In effect, the current system says, "All that growth in the value of London will be redistributed around the entire country." Maybe we do not want to do that fully. Maybe we want to say half of it or two-thirds. But, when you have a system of redistribution, areas where the values are going up will pay a bigger share of the tax, and areas where they are going down will pay a smaller share of the tax. That is an inherent part of a redistributive tax system.

Whether we should have a tax on property values per se as a whole is a much bigger question. As was said, you could have four or five sessions on that, but, yes, I disagree slightly with what Guy Ware was saying.

**Andrew Carter:** I am probably in Dave's camp on that. You need to be mindful about where values are going up or down. You really want the system to be able to flex. At least in our opinion, it needs to be able to flex much more quickly than it currently does. As I have said, the system is essentially five or seven years out of date. That creates very, very, very perverse outcomes, never mind incentives, in the system around how we deal with that.

**Chair:** I am conscious of time now. Could I ask colleagues also to be conscious when asking their questions?

Q141 **Ian Byrne:** I have three questions, so I will ask you one each for time, because the Chair has quite rightly pointed that out. Andrew, what roles should devolved bodies in England play in a UK shared prosperity fund?

**Andrew Carter:** They should play a fundamental role. For brevity—we can provide more detail, as we have written a paper on this—I would think about a shared prosperity fund being very akin to the half of the transforming cities fund, which essentially was allocated to the mayoral





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or combined authorities on a per capita or a population basis. That is the way I would think about that.

I would significantly remove central Government's role as the arbiter of decisions. The funding pot should be set by Government and, essentially based on part formula and part objectives, the money should be allocated into combined authorities and combinations of local authorities, to spend on projects that they determine and define to be important. This is essentially what we have done with the transforming cities fund, if colleagues are familiar with that.

**Q142 Ian Byrne:** Thanks, Andrew. Are all witnesses in agreement with that? Yes. David, I will ask you the next question. You can come in then if you disagree. The County Councils Network expressed concern that, in rural areas, local enterprise partnerships might decide on the allocation of shared prosperity funding. If funding is devolved, to which level of local government should it go?

**David Phillips:** On that question, there are two elements you would want to think about when considering the allocation of funding. First, what is the best geography and best institution to make decisions, given the objectives of the fund? For example, if your fund is mainly aimed at reducing poverty and deprivation, that is a much more local issue than if it was mainly focused on boosting productivity and interregional transport and connectivity. You need to think about whether you are tackling social problems, which are much more of a local issue, or bigger economic problems, which tend to be bigger areas. The best thing might be to split the money between different tiers or to allocate some of it down to lower tiers where issues are properly tackled.

The other thing I would think about, especially if this funding is granted with limited strings attached, is what accountability there is to local people. To what extent is there democratic involvement in the decision-making? That might suggest a role for local government, alongside any non-democratic body such as LEPs.

**Q143 Ian Byrne:** As an aside, I was interested, when I was reading the paper, that Sheffield City Region Combined Authority put in some evidence and there was something that stuck out to me, that there should be no competitive bidding element. Do you agree with that?

**David Phillips:** We looked at this in a paper we did on the shared prosperity fund, and we found that evidence on the effectiveness of competitive bidding is really mixed. We cannot say whether it is a bad thing, but we cannot say whether it is a good thing.

**Ian Byrne:** I hate people who sit on the fence, David.

**David Phillips:** I know. My takeaway from that was that there could be a role for having a needs-based element, where you assess it based on a formula, and then, if you want to have some element that is retained as competitive bidding, that could be for larger schemes, either a bigger



pool of schemes, as you get in a national area, or the bigger schemes you can have from larger areas, to capture the economies of scale you can get from doing that. The evidence is not enough to say you should not do it whatsoever, but it also suggests that, if you were to do it, it would be better focused on larger schemes where needs-based allocations to small areas may mean money is spread too thinly to deliver the benefits you can get from larger schemes that have economies of scale.

**Ian Byrne:** I will go on to that with Guy's question.

**Andrew Carter:** Dave is right. There is no evidence on whether competition works or not, so I would go with no competition up front and allocation on some set of metrics, as Dave was suggesting—a mix of need and/or opportunity, as it were. The place itself would set a range of metrics that it would need to deliver. Let us assume that this is a 10-year scheme, and—I would have central Government do this—after X period, say three or five years, there is a process of appraisal and accountability as to whether you are meeting your own targets. If you are not, which is not what typically happens in local growth funding currently, there are consequences and implications of that non-delivery. I would do it that way round, to try to hold on to that requirement of delivery and accountability, but I would do it there rather than frontload it and make second judgments as to whether you should get it in the first instance.

Q144 **Ian Byrne:** Just to finish, Guy, the Regional Studies Association warned there was a danger that the UK shared prosperity fund might lead to cuts in other funding unless its allocation was separated from the allocation formula for other grants. What should be the relationship between the prosperity fund and other funding for local government?

**Guy Ware:** That goes back to one of David's opening comments. You have to look at what the fund is for to determine how it should be distributed. The UK shared prosperity fund is not going to be delivering bread-and-butter services, if you see what I mean, so it is not going to be there to pay for adult social care in the future. At some level, if you are going to be distributing resources by formula, you have to tie them to the purposes of what you are funding. There would be strong arguments for not simply folding it into mainstream local government funding.

There are very strong arguments, as has already been said, for local control of what is allocated and, in looking at how the shared prosperity fund should be allocated, we need to take account of the appropriate level of analysis to determine that need. The level of inequality and deprivation within regions as well as between regions is extremely important.

**Ian Byrne:** Thanks, witnesses, for your excellent answers.

Q145 **Ben Everitt:** I am aware we are in extra time now and we want to avoid a penalty shootout, so I will do what Ian did and pick on one of you in turn. David, you mentioned accountability in your answer to Ian's previous question relating to the shared prosperity fund. I think we can



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all accept that, whatever form of fiscal devolution we end up going with, we will have to put in an additional level of accountability and scrutiny to build public confidence, look after public money and ensure our outcomes. What will that look like, how will we do it and how will we embed those values across the various delivery tiers that we are looking for?

**David Phillips:** I should say I am not a governance expert. I am an economist, but I can give an economist's answer to this question. One of the key things that economists think about when considering which taxes to devolve is whether there is a link between those paying a tax and those who get to vote for the people who set that tax. For example, council tax is a good tax to think about devolving more powers over, or a local income tax.

When you start thinking about taxes where local voters do not get a say or the people voting are not those who actually pay the tax, you can sometimes have more problems. That was the reason, for example, there was a move away from local business rates to national business rates in 1990. It was argued that, once they removed the business franchise, you no longer had that link between the voters and the setting of tax rates. If we do devolve taxes down to local level, we need to be thinking about whether this is a tax that the local voters will pay. If not, could local voters basically shift the burden of funding local services on to the taxpayers who do not get the chance to vote in local elections?

Q146 **Ben Everitt:** We may have benefited from a devolution answer to a governance question, rather than a governance answer to a devolution question, so I appreciate that. Thank you. That brings me to the second question. We know that combined authorities, in particular, have a much smaller proportional budget than the component authorities beneath them. Is that balance right? We know that, obviously, combined authorities take on a more strategic view. Should we be looking at changing that and the allocations, as well as those accountabilities between them?

**Andrew Carter:** It is a good question. Ultimately, we want appropriate and robust institutions to do what they are tasked with doing and, within that, we need those robust institutions where they are spending public money to have direct links to the accountability they get through the ballot box or through other forms of that. That is one of my concerns around local enterprise partnerships, in the sense that they are somewhat hidden from the public in the decisions they make. Ultimately, that denudes their ability to make decisions and need to be held accountable.

I do not have an optimum size. You see a lot of variation across the combined authorities. GMCA is very, very big. West of England is very, very small, partly to do with the institutions they took on when they came into being and the degree to which transport is a big issue, which largely explains why GMCA is quite a big combined authority.



There is a big question about not giving institutions authority and responsibilities, assuming they can do it on a shoestring and then wondering why they do not deliver. That is a broader point in the UK. We do not sufficiently think about the institutions we task with delivering policy, particularly at the subnational level, where we have not had consistency over the last 50 years or so compared with other countries. Much more emphasis on institution building would not go amiss in the next period.

**Q147 Ben Everitt:** That is notwithstanding David's earlier comments about accountability and the relationship between the delivery of services, the people who receive them and the taxes paid. Those are very interesting comments. Thank you, Andrew. Guy, have you anything to add from a London perspective?

**Guy Ware:** It is from following function. The split of revenues and access to revenues has to reflect the functions that the tiers of authority deliver. In London, we do not have a combined authority, but we have a GLA and the boroughs. When we were piloting business rate retention, we came to an agreement between the boroughs and the Mayor as to the degree of sharing of the financial benefits of that pooling pilot arrangement. That share was based on the relative levels of spending requirement between the two tiers of government. That seems a reasonable place to start.

**Q148 Rachel Hopkins:** There is one final question from me. There have been reports that the Government are planning on making devolution conditional on local government reorganisation, with councils adopting a one-tier unitary structure. The County Councils Network estimates that £2.9 billion could be saved over five years if the 25 areas with county and district councils were turned into 25 unitary authorities. The District Councils Network says that this forced reorganisation would lead to less local, less agile and less responsive local government and is just being pushed by interests wanting county unitary councils everywhere. Do you have a view on whether shifting to a unitary model would be a desirable reform and are you aware of any evidence from past reorganisations that can help the Committee in evaluating this, including whether suggested savings would materialise?

**Andrew Carter:** It is a big subject. The last question is always the toughest. We start from the principle that aligning political geography and economic geography is a good thing, in the sense that it allows you to do all the things we have talked about during this session: aligning costs and benefits associated with decisions, aligning who pays and who benefits across a whole bunch of areas. It would seem to us that the two-tier system outside the met areas, in which we obviously have a two-tier system slightly differently, may well have run its course in terms of being able to align those issues. Some of the problems and challenges we now see associated with supporting economic growth across the country are, in part, because of the misalignment between the political and the economic geographies.



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Whether it would produce the savings proposed, I genuinely do not know. There are always reasons given for why now is not the time for reform. In England, we have been doing local government reform under the table for quite some time, Bournemouth, Christchurch and Poole being the latest example. Wales has done it; it thought about doing it again. Scotland has done it. Northern Ireland has done it. This was all within the last 15 to 20 years, and it may not have had dramatic effects, but also the world has not ended in those places.

We are in favour of moving towards a unitary system, particularly outside the met, but with this main criteria, which is to try to better align the political and the economic geographies. When you look now at the patterns of movement, those things have become more misaligned over time than they were in the 1970s, when we last looked at local government reform.

**David Phillips:** Unfortunately, I do not have a set of numbers I can give you on expected cost savings or evidence from past reorganisations. As Andrew was saying, it could be worthwhile looking at the Welsh experience. My father was involved in local government at the time and mentioned that there were substantial savings promised. His view was that they were not delivered, at least in the short term, but these things could take some time to embed.

In Wales, they went from having eight counties and so many districts to a larger number of unitary authorities in the counties. Some of the cost savings you might get from doing it at the county level might be lost if you end up duplicating functions by, say, halving a county into two unitaries. With a county and two unitaries, you save money on the district-level services in terms of administration, but you may cost money in terms of administration from the county services, which were previously one authority but would now be two. Thinking about the structure of unitaries and what is being merged would matter a lot there.

When thinking about it conceptually, there are two or three big things that need to be thought about regarding whether this would be a good idea. First, how big do we think economies of scale are in the delivery and management of local services? The evidence on that is sparser than we would like it to be. You have very small local government in much of Europe. You have much bigger local government already in the UK compared with most of Europe. There is not good evidence on the differences in efficiency between the two systems as it stands, but economies of scale is one issue.

The second is spill-over effects. Does the fact that districts do housing and counties do social care mean they are not co-ordinating properly on, for example, making sure there is enough adapted housing for people who have mobility issues? They are not collaborating on leisure centres and the impact of that on things. On the flipside, the issue is accountability and differences in preferences. If there are differences



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between the urban areas and the rural areas in terms of what people want, putting people into one government might be a bad idea.

If you think about unitisation, you need to come back to this issue that happened the first time round. Are there major urban areas within these counties that have very different interests and different requirements to the more rural areas? Think about that to make sure that the bits that are kept together have enough in common to still have enough accountability when they move to half a million rather than 50,000 people.

**Guy Ware:** The experience in London, of course, is very different and we have been through a couple of cycles of inventing, abolishing and reinventing a higher-tier or strategic-tier authority. The logic of that proves that there are things, in a city this size, of which you need to have a strategic overview, however that is embodied in a structure. There needs to be some way in which you can reflect a broader view than the local. The two just need to find ways in which they work together most effectively.

**David Phillips:** For decisions that are very local, say planning decisions, some large unitary authorities have separate planning committees that deal with planning in different parts of the authority. There could be ways to continue to have more local accountability within larger unitaries by having sub-committees for certain things that are more hyperlocal.

**Chair:** Thanks very much to all three of you. There has been some really interesting information and evidence for the Committee, with just one disagreement between you, which we will let you come back and argue about further. Thanks very much indeed for that evidence. That is really helpful to the Committee and appreciated.