

## **LIPSIT Project – written evidence (FGU0038)**

### **House of Lords Constitution Committee Inquiry into the Future Governance of the UK**

#### **Introduction**

1. This evidence submission is based on research conducted as part of the LIPSIT Project, undertaken by the Universities of Birmingham, Cardiff, Surrey, and Warwick and the think tank Demos, and funded by the ESRC, Grant ES/T002468/1.
2. The project has involved the investigation of the various multi-level governance arrangements in England and Wales, and analysis of which institutions are best able to manage major future policy challenges. The project has also analysed the strengths and weaknesses of the wider architecture of the sub-national governance system. In the conduct of this analysis, researchers on the project have used a wide range of methods, including interviews and workshops with practitioners and analysts, document analysis, literature review, network analysis, and statistical analysis. These findings feed into our answer to Question 2 of the Constitution Committee's Call for Evidence.
3. Having investigated the strengths and weaknesses of the existing institutions and the wider system, the LIPSIT project has also sought to make recommendations for future reform. In doing so we have synthesised the reports of 16 think tanks with our own conclusions, finding common ground on most main points (the points of disagreement were addressed and discussed at a workshop in April 2021). This synthesis feeds into our answer to Question 3 of the Constitution Committee's Call for Evidence.
4. We have decided not to provide answers to Questions 1 and 4 because our project does not have a UK-wide scope, and while we investigated the situation in England and Wales, we do not have evidence on Northern Ireland and Scotland. With regards to Questions 5 and 6, we have decided not to provide separate responses to these questions, and have instead addressed these issues in our answers to Questions 2 and 3.

#### **Question 2: What are the current challenges for multi-level governance in the UK and how can these be addressed?**

##### **Overview**

5. Our research was concerned with the governance of economic policy, and with other areas of policy to the extent that they impact on local and regional economies. In other words, it was focused on the multi-level governance structures and processes needed to achieve 'levelling up' in the UK. This is obviously only one aspect of the problem.
6. It concluded that levelling up will be difficult but possible, that achieving it will require strong local institutions, and that this in turn will require leadership from the centre.
7. We also concluded that the existing system for managing local economic policy from the centre is dysfunctional: in the absence of change, there is zero chance of reversing the long-term trend towards greater regional inequality. At the heart of the

problem is the way Whitehall exercises control through funding competitions. These lead to poor resource allocation, wasted time, and an adversarial atmosphere.

8. The evidence and arguments are set out in full in our project report (<https://lipsit.ac.uk/wp-content/uploads/2020/11/Levelling-up-Report-final-Nov.pdf>) and other project outputs (<https://lipsit.ac.uk/project-outputs/>).

### **The problem to be solved**

9. Levelling up through effective multi-level governance has been achieved in other countries. But it will be difficult in the UK: the productivity gap between the best-performing and worst-performing UK regions has been widening since the early 1980s despite numerous initiatives. Simply repeating or tweaking what has been done before will not reverse this deep-rooted trend.
10. The problem is not just inequality between regions, it is also inequality between areas within regions and persistent pockets of deprivation. These less successful areas are often stuck in a '*low skills equilibrium*', where supply and demand of skills are balanced at a low level. The challenge is to disrupt these equilibria.
11. This challenge can be met: levelling up has been achieved elsewhere. For example, while GDP per worker in the Ruhr Valley was 4% lower than the German national average in 2000, GDP per worker in 2012 exceeded the national average. This shift involved the regional government being given more devolved powers, which allowed better resource allocation and facilitated effective partnerships between regional stakeholders. This in turn led to additional investment and innovative production links between spatially proximate firms.
12. Crucially, our research suggests that four conditions need to be satisfied for successful initiatives: co-ordination, partnership working, local capability and accountability.

### **Why the existing system cannot deliver**

13. For all its strengths and achievements, the existing system cannot deliver the coordination, partnership working, local capability and accountability needed for levelling up. Our evidence is largely the views of those involved in operating it. This means our argument depends on the premise that those operating a system 'on the ground' are likely to understand its defects, and that their views should be taken seriously.
14. The existing system of multi-level governance has some strengths:
  - Some Local Economic Partnerships (LEPs) are effective creators of strategy and convenors of partnerships.
  - There are capabilities in some combined authorities (CAs) and local authorities.
15. However, our research suggests some serious problems, which between them make impossible the coordination, partnership working, local capability and accountability needed to address the economic challenge outlined above.
16. Five of these problems stem from confused or absent decision rights:

**Problem 1:** Processes are wasteful.

- A great deal of senior level time and energy is spent bidding for funds and then attempting to stitch together the proceeds, which is a very poor use of time.
- In some areas, efforts are duplicated and time is wasted on multi-agency coordination. This is associated with a confusion of roles.
- There is a need to clarify roles, including that of central government.

**Problem 2:** Funds are not spent on what places need.

- LEPs and local authorities do not bid for what they think is needed but for what they think central government will approve.
- Many important projects fail to attract funding because they do not meet the specific requirements of a centrally designed funding pot.
- In addition, there is a perception that the Green Book methodology does not prioritise levelling up (as we have defined it, that is disrupting low skills equilibria) and favours the short term.

**Problem 3:** Strategy and long-term planning is difficult.

- This is partly because funding cycles are short-term (which also makes private and third sector partnerships more difficult).
- But it is also because fragmented funding streams makes it very difficult to develop a long-term coherent strategy.
- This is made worse by the way multiple Whitehall departments are involved.

**Problem 4:** Strategy is not implemented.

- The power to make economic strategy and the power to implement it are sometimes in different agencies.
- The authorities that create a strategy may not have and may not be able to obtain budgets to implement it.
- The problem is particularly evident in the case of skills, where funding is fragmented and strategy is often not implemented. The perception is that this problem is exacerbated by the DfE's inflexible approach, which leads to short-term skills policy.

**Problem 5:** The interface with business can be incoherent.

- There are too many agencies and schemes providing business support.
- In some cases, there is not enough clarity and scrutiny over the appointment and role of businesses in the LEPs
- There are occasions when the business interests of the LEPs do not align with the policy interests of the local area, such as delivering decarbonisation or supporting start-ups and micro-businesses.

17. These five problems all stem from division of, or lack of, decision rights, resulting from the lack of single institutions with the right to develop and implement strategy. Just about everyone involved in the system on the ground believes this.

18. There are also two further problems:

**Problem 6:** While many competent people work in the field, quality is uneven and there is no generally understood theory of change informing the kind of interventions that are needed.

**Problem 7:** The work of LEPs and Combined Authorities is largely invisible, making real accountability to the public impossible.

19. In short, the problem is that we lack strong institutions with the power to develop and implement economic strategy, or with the accountability and capabilities that are

needed to accompany this power. This is not a problem simply because local democracy is a good thing, but because without strong local institutions, it is impossible to achieve the conditions necessary for reversing the long-term trend towards regional inequality. Without reform there is zero chance of levelling up.

20. Our answer to the next question sets out our view on what that reform should look like.

### **Question 3: Should there be a greater degree of devolution within England and, if so, how should these arrangements relate to the UK as a whole?**

#### **Overview**

21. Our research concluded that strong local institutions controlling economic policy are needed if levelling up is to be achieved. This was consistent with the conclusions of at least 16 think tank reports that we have subsequently reviewed, as well as those of the Devolution All-party Parliamentary Group (APPG). Everyone agrees that the current allocation of powers does not work, and that the Government needs to do more than tinker with the current system. This is not just to reduce a democratic deficit; it is important given the need to rebuild after the pandemic, and the ambition to 'level up'.

22. Below, we set out the recommendations in our report, modified where appropriate by the proposals and arguments made by the other think tank reports. It covers three issues in English governance that need to be addressed if we are to achieve strong local institutions:

- The relationship between these institutions and Whitehall
- The institutions that should be strengthened with new powers
- Proposals on strengthening capabilities and accountability

#### **The relationship between strong local institutions and Whitehall**

23. Our conclusion that we need stronger local institutions is widely shared, but the real question is how to design a relationship between these institutions and Whitehall that permits this. This is largely a matter of money – theoretical control of a policy domain is meaningless if all spending decisions have to be controlled elsewhere. That means two issues have to be addressed:

- The extent of fiscal devolution – how much of local spending is raised locally, and how this is then controlled
- How centrally raised money is allocated and its spending controlled

24. We did not address fiscal devolution in our report, but simply note that there is wide support for extending it, including creating new forms of revenue raising, and for loosening central controls over how locally raised funds are spent. We also note the central problem associated with it: too great a devolution of taxation will limit central government's capacity to tackle regional inequality through redistributing revenues between regions, meaning that the left behind regions could fall even further behind. This means fiscal devolution should be rolled out slowly and carefully in phases, and will always need to be balanced by central funding.

25. As for that central funding, everyone agrees that the current system of myriad funding streams for skills, infrastructure, and other aspects of economic policy is inefficient. There is wide-spread criticism of departmental silos and short-term grants and spending requirements.
26. Instead, there is broad consensus that local and regional government should be funded through a small number of funding streams, allocated on a rolling 5-year basis. This needs to involve central-local negotiation of objectives, and a formula for the allocation of funds, partially decoupled from these negotiations. The interlocutors would be Mayoral Combined Authority mayors and the Leaders of Unitary/County councils, with a single senior interlocutor representing all Whitehall to each authority. The interlocutors would then conduct strategic conversations to set objectives (on productivity, skills, decarbonisation etc.). The end of this negotiation is an agreed set of outcome targets, linked to a dashboard of comparable outcome metrics.
27. The danger with this approach is that the 'negotiation' of objectives degenerates into an imposition of central targets. Our proposal is that there would be a statutory obligation on Ministers to accept the objectives set by local authorities, except where some revision is needed to hit pre-set national targets.
28. This could be combined with a formula-based allocation of central funds, designed to correct inequalities in local revenue raising capacity and differing economic needs. Given the way in which such formulae are open to abuse, we recommend that the formula is given a statutory basis. Given a reformed constitution, it would be endorsed by a council of the regions and nations of the UK, but failing that it should in any case be endorsed by both Houses of Parliament.

### **The institutions that should be strengthened with new powers**

29. There is agreement on the following:
  - Mayoral Combined Authorities, where they exist, should be the entities to which power is devolved.
  - Their number should be increased but they should not be imposed. Where existing counties or unitary authorities are big enough, then they can be the entities to which power is devolved. A region is big enough if it covers a functional economic area and is able to perform its functions efficiently – this is usually at least 300,000 people.
  - Regional and local identities are important, and can be maintained by developing existing county and city borders. However, agonising over boundaries should not stall the process.
  - The borders of LEPs should be aligned with combined authorities, county councils, or unitary authorities as appropriate, and their decision making and strategy setting powers should be folded into those authorities. LEPs should be preserved as advisory boards with a mandate to engage business in the decision-making process.
  - There is a role for stronger supra-regional, sub-national entities, particularly when it comes to transport planning. These boundaries can build on the existing English region boundaries (the former RDA map), and/or the 'powerhouse boundaries' (North, Midlands, West Country, and South East).
30. It is widely agreed that we have reached the limit of a bottom-up approach. Back-and-forth negotiations and the resultant patchwork of institutions is hugely inefficient (and it often excludes those regions most in need of devolved powers and resources).

There needs to be a clear framework, especially on boundaries, taking the form of a programme where central government and Whitehall commit to a forward-looking plan. However, local government does need to be involved, or at least have the opportunity to be involved, perhaps by bringing local government leaders together at a national level (though their involvement should only be to feedback on central government's plan, and any boundary disputes should not stall the process).

31. One point where there is potential for disagreement is division of labour between Combined Authorities and their constituent parts. Both sides will put forward a strong case that they should have control over at least what they already have – and the result can be overlap and confusion. With goodwill, this can be managed at a working level – but sometimes there is not goodwill, with businesses and officials then complaining about the consequences, and even where there is goodwill, it is wasteful. In addition, the public (voters) can hardly be expected to understand who is responsible for what, further weakening local democratic accountability.
32. We think many of the arguments put forward for divided responsibility are confused and self-interested. Our firm view is that strategy should be set and implemented at Combined Authority level, but that this should be informed by officer and councillor knowledge and expertise currently held at county, unitary or even district level. Where appropriate, the Combined Authority strategy can contain local components, set in partnership with relevant councillors.

### **Capabilities and accountability**

33. There is agreement that local capabilities and accountability need to be strengthened. This is partly a matter of common sense – if authorities have new responsibilities they need the resources to perform them, and need to be held to account for them. Some reports make more specific recommendations.
34. On capabilities:
  - There is a need for longer term funding to allow for the build-up of capabilities, especially for the strengthening of analytical and evaluation capacity.
  - Whether a Combined Authority is needed should be partly determined by implications for capabilities and leadership recruitment.
  - Two-way secondments between central and local government should be considered.
  - Central government officials should require local/regional government experience to advance beyond a certain career level, and perhaps vice versa.
  - There could be more cross-regional policy sharing and collaboration, especially in the early stages of devolution where there is a lot of trial and error, and especially in relation to industrial policy. This could include a mechanism that allows regions to buy in expertise from other regions.
35. On accountability, there are recommendations for structural changes that would increase the visibility and salience of local activity and therefore enhance democracy:
  - An unambiguous and undivided responsibility for key policy areas at the local level will enhance public accountability.
  - A greater use of local revenue raising powers will also increase accountability.
  - A greater use of directly elected mayors will ensure that local politicians are accountable to voters, removing the need for excessive Whitehall target-setting.

36. There are also recommendations for improved communications and consultation that would also enhance accountability to the public:

- A clear brand for devolution is crucial to communicate the scale of the reforms to the public, create high expectations, and ensure voter engagement. Think of those policies and institutions that won love from the public and became unassailable: Lloyd George's Old Age Pension, Aneurin Bevan's National Health Service.
- Publicising the objectives set in the central-local funding negotiations will increase transparency.
- There is a need for more direct public consultation and effective communication at the local level.
- A much clearer dashboard of performance indicators would give voters the information they need to make informed decisions (on social, economic, and environmental outcomes - not outputs); these need to be comparable across regions (this could build on existing city region indicators).

37. Finally, there are recommendations for new formal accountability structures:

- A greater use of the London model, will ensure that mayors are backed and scrutinised by an assembly.
- New regional select committees, led by local and regional elected officials, would allow local authorities to hold Whitehall departments to account.
- Stronger scrutiny committees are needed at the combined authority level. These committees should be representative, focus on specific policy areas and retain their own powers and resources.

38. These proposals are largely complementary and so are potentially the basis of a consensus – although, while most think tanks and practitioners believe the metro mayor system works well, opinions are divided on whether mayors are a necessary part of the mix.

### **Conclusion: A wider constitutional settlement?**

39. These reforms can be introduced independently of any wider UK constitutional settlement, and clearly should not be held up by delays in achieving the latter. However, there are reasons for thinking about these issues together.

40. If English devolution is to work to full effect there will need to be some entrenchment of the formula allocating funds: years of experience tell us that Whitehall will not let go unless it is constrained by Parliament. However, securing a majority for such an Act is a tall order, given that the House of Commons is controlled by a Whitehall government.

41. On the other hand, the Union is under pressure. A more coherent federal approach may be needed to preserve it and this is likely to involve changes to the power relationship between Whitehall and the English regions, for example a Council of the Nations and Regions. This, rather than a new tier of regional government, could be the way to entrench and strengthen English devolution and potentially the Union itself. Failing that, it is a role that the House of Lords could take upon itself.

11/05/2021