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How can devolution deliver regional growth in England?

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About this report

Both main parties are relying on devolution within England to boost regional growth, but international evidence shows the link between devolution and growth is far from automatic. This report sets out a framework of the costs and benefits of devolving economic policies to local institutions and uses this to make recommendations about how this and future governments should approach devolution, including the policies it should devolve, the institutions it should devolve to, and how those institutions should be funded.

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May 2023

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Summary

There is a broad political consensus that two of England's main economic challenges – high regional inequality and sluggish growth – are at least in part a result of how centralised policy making is in England. Further devolution in England is being pursued by the government, and proposed by the Labour Party, to address this malaise. Yet the international evidence on the link between devolution and economic performance is inconclusive at best, and certainly does not imply an automatic improvement in outcomes when powers are devolved. This report looks at the evidence on the economic claims made for greater devolution, assessing when and how devolution can improve outcomes and when and how it cannot.

We argue that combined authorities and similar institutions in other parts of England should control key economic policy levers, including on transport, skills and planning – which means deepening devolution across England – but that in other areas such as basic R&D funding and regulation it is right the centre retains control. Funding of both combined authorities and local authorities needs to be reformed and simplified, building on new 'single funding pots' for some mayors. And the government should look to 'fill in' the English devolution map, but consistency here is more important than speed.

International evidence shows devolution is not a silver bullet for growth

It is an increasingly common assertion that devolution in England will contribute to UK-wide growth – an argument both main UK political parties have made. However, international evidence is far from conclusive. A simple comparison between measures of centralisation and economic outcomes across countries shows at best a weak relationship; more sophisticated studies that try to establish a causal link find mixed results.

This evidence suggests that there is no guaranteed relationship between devolution and growth. But this is partly because most studies tend not to distinguish between devolution of different policy levers to different tiers of government. To understand how devolution *can* contribute to growth, therefore, this paper identifies the circumstances under which devolution will be beneficial, and what that means for how devolution should be approached in England.

Our framework of costs and benefits of devolution identifies key criteria for success

To assess when and how devolution is likely to contribute to growth, we unpick the main ways devolution of different economic policy levers could be beneficial or costly for economic growth. We then use this framework, set out in the table below, to assess how devolution can be delivered most effectively within England.

Table 1 **The benefits and costs of devolution of economic policy levers**

Benefit of devolution	Costs of devolution
Use local knowledge to tailor policy	Lose economies of scale
Co-ordinate across policy levers	Risk harmful competition
Experiment and innovate	Fail to co-ordinate across places
Strengthen local institutions and leadership	Risk exacerbating inequalities

Note: Benefits and costs apply differently to different policies, and need not be of equal size.

We draw several general conclusions from this exercise. Most obviously, that the costs and benefits will vary from policy to policy, implying different economic policies should be delivered at different levels. Even in devolved policy areas, we highlight that central government has an important role to play in enhancing the benefits of devolution; for example, by encouraging co-ordination and learning across places. The institutions those powers are devolved to are also critical: many economic policies will be best delivered at the level of a local labour market within which most people both live and work, and the local government itself will need sufficient analytical and policy capacity to make good policy choices to tailor and co-ordinate policy appropriately.

Extending beyond these general insights, the report assesses specific policy areas, local government funding arrangements and local government institutions, and offers recommendations for how this and future UK governments can best pursue devolution in England to promote growth.

Recommendations in brief

The government should devolve more economic policy levers to combined authorities in England

For many economic policies – including transport, spatial planning and skills – the appropriate geography is one that broadly covers a local labour market. Together, these policies allow a subnational government to develop a proper local industrial strategy, taking advantage of complementarities such as those between skills and employment support, and between different transport modes and spatial planning. But in England many of these policies have historically been too centralised. Mayoral combined authorities (MCAs) broadly reflect the coherent geography we think is best for most policies. We recommend the government should:

- Over the next parliament, expand the powers of mayoral combined authorities beyond the new powers agreed in 'trailblazer' devolution deals by devolving additional control over transport, skills, employment support and some later-stage R&D support.

- Strengthen combined authorities' spatial planning powers to help them deliver a local plan across their whole area in the face of inevitable local authority opposition.

- Devolve transport policy covering routes within regions, but between combined authorities, to pan-regional bodies, such as Transport for the North, as a formal partnership among combined authorities.

Not all economic policy levers belong at the CA tier. Basic R&D funding would suffer from fragmented regional delivery and can be better assigned in line with the UK's strategic priorities through national decision making, while most regulation should be uniform across the country. In other policy areas, central government has an important role to play to facilitate devolution. We recommend central government should:

- Retain full central control of basic R&D funding, national rail routes, university education and social security, and over important strategic elements of devolved systems, such as the accreditation framework for skills policies.

- Prioritise, and adequately resource, the collection and dissemination of timely and nationally consistent data that pertain to devolved policy areas.

- Assist co-ordination across combined authorities in devolved policy areas by setting national priorities for policy and reviewing local industrial strategies.

Funding models need to be reformed to realise the benefits of devolution

We also find flaws in the current English local government funding system, which is heavily reliant on competitive funding pots that local areas bid into for local economic policies. This undermines many of the benefits of devolution; for example, meaning policies are driven by national, not local, priorities and hindering co-ordination. It also exacerbates some of the costs, in particular through the high administrative cost of compiling bids, which is inefficient and favours better-resourced authorities in these competitions. Instead, government should implement a funding model that provides certainty, flexibility and does not favour richer areas. We recommend that:

- The new single department-style pots offered in the trailblazer deals for Greater Manchester and the West Midlands should be extended to other CAs, while funding for local authorities should also be simplified.

There may be benefits to the further devolution of tax revenues (though not necessarily tax rates or bases), as in other countries, not least by giving local areas a share in the proceeds of growth and providing more long-term funding certainty. This would need to be done carefully, avoiding various pitfalls explored later, but merits further exploration. We recommend the government should:

- Pilot a tax revenue sharing arrangement on income tax with some CAs, starting at a low level, with the option of increasing the share of revenue devolved or introducing some limited discretion to vary tax rates over time.

The government should continue to devolve at different speeds in different places, but work towards a coherent and more uniform settlement

Finally, we find that the government's current approach to devolution, moving faster in areas with more capacity, is the right one. Local governments need to cover a coherent economic geography and have sufficient capacity to deliver effective policy. Given that the starting point is so different in different parts of the country, devolving substantive powers to many areas too quickly would risk setting those places up to fail.

But capacity should not be used as an excuse to permanently withhold powers from some areas, and local capabilities can and should be built up over time. This is important because asymmetric devolution comes with costs, not least the complexity it adds for a central government required to deliver policy in some areas of England but not others. Going forward, this means the government must move away from ad hoc deal making and towards a consistent devolution map. We recommend the government should:

- Devolve asymmetrically but based on a set framework of possible deals, building on the devolution framework in the *Levelling Up the United Kingdom* white paper, and with the ambition of delivering a devolution deal in every area by 2030.

- Ensure current and new combined authorities can increase their evaluation, policy making and strategic capacity. Examples of changes it should make include ensuring authorities have sufficient funding to build capacity, providing training programmes and removing central government constraints on combined authority staffing.

A full set of recommendations is listed at the end of the report.

Introduction

Both main UK political parties currently argue that devolution is necessary to promote economic growth, especially in regions outside London and the South East. The Conservative government's *Levelling Up the United Kingdom* white paper states that addressing the UK's regional inequalities "requires a further devolution of decision-making powers to local leaders where decisions are often best taken",[1] while the recent Commission on the UK's Future, led by Gordon Brown and endorsed by the Labour Party leadership, argues "the continuing over-concentration of power in Westminster and Whitehall is undermining our ability to deliver growth and prosperity for the whole country".[2]

Both parties' policy platforms reflect this conviction. We have argued that the plans for English devolution in the levelling up white paper, which promised more devolution deals across the country and deeper deals in established combined authorities, were radical.[3] The trailblazer deals recently agreed with the Greater Manchester and West Midlands combined authorities show how much further this government is willing to devolve than previous ones have. The Brown commission proposals go further still, promising more powers to more areas, and Keir Starmer has pledged to let communities "take back control" in his first term should Labour win the next election.[4] Furthermore, given the tight fiscal context that the next government, whoever it is, will face, devolution of responsibilities – more than higher spending on new policies – is likely to be a major tool to try to drive regional growth.

However, despite frequent assertions across the political spectrum that devolving power will deliver economic benefits, the academic evidence is at best inconclusive on the relationship between devolution and growth. This report, drawing on a review of the evidence in the UK and elsewhere, interviews with experts and practitioners, and building on the analysis and recommendations in a previous Institute for Government report, *How metro mayors can help level up England*,[5] sets out the principal benefits and costs of devolution for economic growth. These provide a framework this and future governments should use to approach devolution within England.

The focus of our recommendations is on promoting growth. This is not the only reason why someone might advocate for or deliver devolution. For example, there are democratic arguments for devolution that might reach different conclusions about which policies belong at which tier, or the appropriate geography for institutions to cover. However, given economic growth is an explicit aim of further devolution for both main parties, it is a relevant and important perspective that can be weighed against recommendations based on other objectives. We concentrate our recommendations on England. Throughout, we use the term 'devolution' to encompass all types of regulatory, spending or revenue decentralisation to local democratic institutions.[*]

[*] We acknowledge arguments that some of what tends to be called 'devolution' might be more accurately described as 'delegation' or 'decentralisation', but we use devolution as a shorthand.

The empirical evidence: does devolution support growth?

What the evidence says

Implicit in many of the claims linking the UK's centralisation and poor economic performance is that there is a causal relationship between these factors. If there is, we would expect to find a general relationship across countries between these two factors: that is, that more centralised countries will tend to have lower economic growth and vice versa. A related claim is that the UK's centralisation is a cause of regional inequality, implying a link between centralisation and measures of geographic inequality.

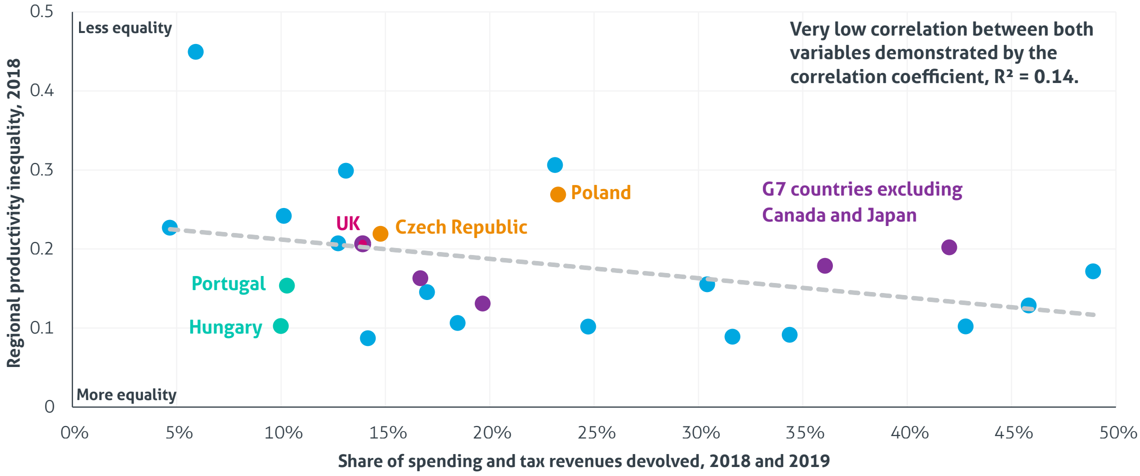
The plethora of different governance arrangements across advanced economies, which while persistent have changed over time, has provided researchers with a wealth of data to draw from. This section provides a brief summary of that evidence, and finds that this high-level international work suggests that the relationship is weak at best.

Correlations across countries suggest no strong relationship between devolution and growth

A basic test of the theory that centralisation leads to higher inequality and/or worse economic performance is to compare the economic outcomes of countries with different degrees of centralisation.

Figure 1 shows the relationship between one measure of centralisation – an average of the share of spending, and of tax revenue, controlled centrally – and one measure of spatial economic inequality. This shows that, in keeping with the prevailing narrative, on average less centralised countries are more equal. However, this is far from a strong relationship, with examples of equal centralised countries and unequal decentralised countries. For example, some countries are both more centralised and more equal than the UK (for example, Portugal and Hungary) while others are less centralised but more unequal (for example, the Czech Republic and Poland).

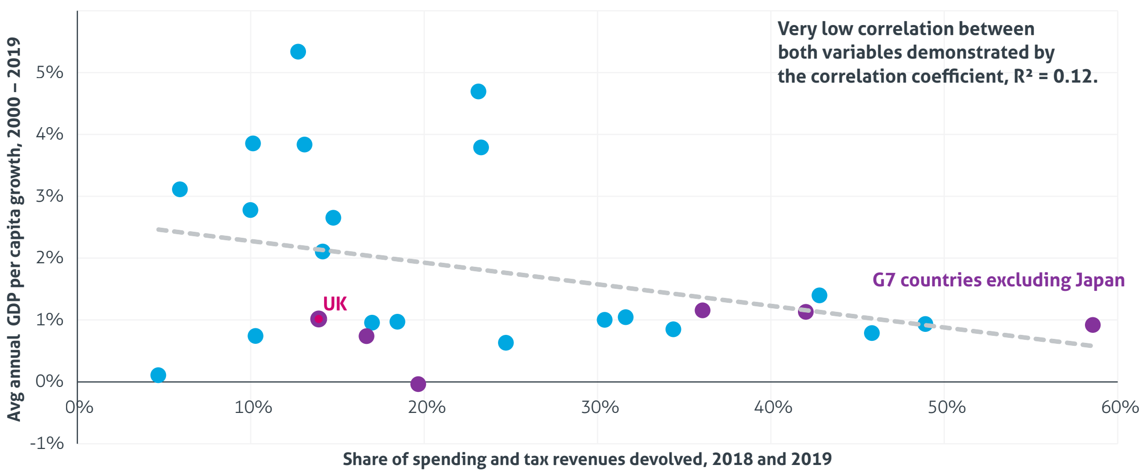
Figure 1 **Relationship between spending and revenue decentralisation and regional inequality in productivity**



Source: Institute for Government analysis of OECD data on country subnational government expenditure, tax revenue and disparities. Notes: The chart includes all OECD countries with available data. The share of spending and tax revenue devolved is the total average of OECD 2018 figures on tax decentralised and OECD 2019 figures on spending decentralised. Inequality in regional productivity is measured as the coefficient of variation of output per hour worked across ITL-3 regions (of which there are 179 in the UK) within a country.

Figure 2 shows the relationship between the same measure of centralisation and average growth rates in the first 20 years of the 21st century. Here, in contrast to the prevailing narrative, more centralised countries have tended to experience higher economic growth, although again the relationship is extremely weak.

Figure 2 **Relationship between spending and revenue decentralisation and average annual GDP per capita growth, 2000–2019**



Source: Institute for Government analysis of OECD data on country subnational government expenditure, tax revenue and GDP per capita. Notes: The chart includes all OECD countries with available data. The share of spending and tax revenue devolved is the total average of OECD 2018 figures on tax decentralised and OECD 2019 figures on spending decentralised.

While advocates of devolution often point to examples of countries that are less centralised and more prosperous, these simple correlations show this does not hold across all countries. In any case, naïve correlations such as those in the charts above need not be causal. There are several factors unique to each country, such as how long they have been democracies, that will affect governance structures and the structure and performance of the economy. All of this means simple cross-country comparisons do not make the case for devolution to promote growth.

More sophisticated analysis reaches similarly inconclusive results

To try to unpick the causal impact of devolution on economic performance, several researchers have designed and implemented more sophisticated studies. Broadly, these studies use data for different countries over time, often taken from the OECD, and focus on the impact of *changes* in the extent of centralisation on either inequality or growth over time, while also controlling for other factors that might vary over time and affect the outcome of interest, such as population size.

Despite broadly similar research designs, the studies' findings are far from consistent. Some find positive effects of some measures of centralisation on growth,[1] but more find no significant effects[2] and a few even find negative effects.[3] This holds for older studies looking at data from the late 20th century and more recent studies looking at data covering the past 20 years.[4,5] Some more recent studies from the OECD have found small positive effects, though mainly for tax revenue rather than spending decentralisation and this is not a consistent finding in the literature.[6,7,8] The OECD has concluded that "an extensive literature points to mixed effects of decentralisation on growth".[9]

Studies examining the relationship between centralisation and regional inequality are more convincing. An OECD paper from 2016 found that tax decentralisation is associated with falling inequalities;[10] others have found similar results. However, even this is not a universal finding, with some other studies again finding little or no effect.[11]

Why the evidence is so inconclusive

This literature implies at best a weak causal link between devolution and either growth or inequality, especially for spending policies, in contrast to the prevailing narrative from politicians and devolution advocates in the UK. However, there are several reasons why this high-level analysis does not show a robust positive link between devolution and growth or inequality – even if devolution of powers or funding can lead to better economic outcomes in at least some circumstances.

The effects of devolution on growth are difficult to capture in economic analysis

Changes in the extent of centralisation in a country are not random. They occur when there is political impetus for change, and perhaps an agreement that the status quo is not working. The current push for devolution within England is a good example of this, driven in no small part by more than a decade of economic malaise. This could affect the results: if changes in governance arrangements tend to arise when the economy is performing poorly or inequality is increasing, or both, this may counteract any positive relationship between devolution and those outcomes.

There is also likely to be a substantial time lag between devolution and any effect on economic outcomes. In most cases the point of devolution will not immediately mark a radical change in policy and economic policies will generally take years – or even decades – to achieve their full effect. A positive medium- to long-term effect of devolution on growth could therefore be diluted by smaller short-term effects, which makes the economic approach to analysing causal relationships – regression analysis – an imperfect tool for assessing these impacts.

Different types of devolution will have different effects on growth

A more fundamental problem is that there is more than one dimension to devolution and studies can only use measurable proxies.[12] As referenced above, studies typically use the share of spending or tax revenues assigned to subnational tiers of government as a proxy for devolution. But assignment to a subnational government tier does not necessarily entail policy control.

For example, spending on non-academy schools in England is administered via local authorities (and classified as local spend), but almost all substantive policies including funding allocations, curricula and inspections are set nationally. Equally, some important regulatory policy decisions (such as over planning) do not have large budgets attached but entail substantial control over the local economy.

Many of these studies do not, and cannot, distinguish between the effects of devolving different policies to different tiers of government. The measure of devolution is typically the overall share of spending or tax assigned locally, but there is no reason to expect every pound devolved to have the same effects. For instance, in a public services context OECD studies find that devolution of education spending is associated with better outcomes,[13] but health devolution is not.[14]

Finally, many studies find that devolution can have markedly different effects on growth in different countries, which is likely to reflect different institutional capacity in those countries.[15,16] Referring to the mixed findings of decentralisation on various outcomes, the OECD has highlighted that "a key insight from these studies is that institutional complementarities matter": that devolution can have a positive impact if the right policies are devolved in the right ways to the right institutions, but that good outcomes cannot be guaranteed. For example, there are robust positive effects of devolution on growth in cities when measures of government quality are high and local government is not fragmented (meaning authorities cover larger, rather than smaller, areas).[17]

It is necessary to identify which types of devolution will drive economic growth

For all these reasons, the underwhelming evidence base on the high-level relationship between devolution and either economic growth or inequality is not grounds to dismiss the case for devolution to improve economic outcomes entirely. But it does suggest that devolution is not a silver bullet: if it worked in all circumstances, we would expect to see a stronger relationship in these studies. It is therefore critical to understand the circumstances in which devolution will be a driver of growth. The rest of this report attempts to do that by setting out the principal benefits and costs of devolution, forming a framework to determine how devolution can be used to increase economic growth.

The economic benefits and costs of devolution

Advocates of further devolution tend to emphasise the benefits that more local policy and delivery can yield (and the costs of centralised policy). And there is strong evidence that many of these benefits exist both in theory and practice. But there can also be costs to devolution (and benefits to centralisation) that will apply to a greater or lesser extent in different circumstances. This means that whether devolution is appropriate depends on the policy being devolved, the tier of government being devolved to and the capacity of that devolved institution.

Here we lay out the principal economic benefits and costs of devolution in theory and practice. While we are not the first to identify any of these benefits or costs, it is rare for analysis of devolution to consider them all together. This comprehensive set of benefits and costs then allows us to draw some general lessons about when devolution will be most effective and apply those to specific economic policies in subsequent chapters.

Benefits

Tailoring policy to local knowledge and preferences

The principal argument made in favour of devolution is that local decision makers are more likely to know what policies will be most appropriate for their area.

While some policies can be delivered uniformly across the country (for example, defence), in many cases economic policies will need to be tailored to the local area. Interviewees emphasised that this was especially true for England, given its very different industrial bases,[1] skill requirements and unemployment rates across different labour markets.[2] Furthermore, practical economic policy requires prioritisation of specific projects that rely on local knowledge. Professor Diane Coyle gives the hypothetical example of a bus route which, if delivered, could lead to a big change in commuting patterns, allowing local companies access to a wider labour force and saving time for commuters thus boosting productivity.[3]

Local governments are much better placed to identify the appropriate locally tailored policy than central government. Their proximity to the situation on the ground, and bandwidth to focus on that locality's issues, better equips local policy makers to identify priorities (the design of the bus route in the example above). In addition, they can rely on their knowledge of and interaction with local stakeholders such as businesses, educational institutions and the third sector. For example, the intelligence gathered from businesses about their local demands might be an important input into a local skills strategy, which can be implemented via further education (FE) colleges. A local institution can feasibly maintain those relationships with local stakeholders and respond flexibly to new intelligence and information they commission or receive in a way that is not possible at the centre.

Co-ordinate policies in place

Local governments are also best placed to ensure different policy levers are well co-ordinated. A consistent finding from past skills, innovation and infrastructure policy programmes, highlighted in previous Institute for Government work, is that the effectiveness of those policies is enhanced by complementary levers working in tandem.[4] For example, transport policies that look to increase the potential labour force of cities will work best when combining with spatial planning so transport links are built where demand (including future demand) from residents will be highest.[5] Past examples of levelling up cited by the Industrial Strategy Council, an advisory group of the business department, included Lille in France and the Ruhr in Germany, where success relied on multiple policy levers working together.[6]

The difficulty of co-ordinating policies across different Whitehall departments, which often operate in silos, has been well documented in previous Institute work[7] and by other researchers.[8] Too often, policies are set in line with the lead department's priorities and ignore the aims of other policy areas, missing potential synergies with levers held elsewhere in the centre.

Local institutions are well placed to deliver these co-ordination benefits. On a practical level, smaller administrations can communicate internally more easily than the large central civil service. At the right geography they can also maximise the co-ordination benefits across policies into coherent local industrial strategies that set out the roles of different policy levers, while also enjoying direct links and communication to the relevant institutions, such as businesses, transport operators, universities and FE colleges.[9] And there is good evidence that local industrial strategies can be effective and more 'balanced' than centrally driven efforts, relying on multiple policies to solve a problem rather than just one.[10]

One aim of industrial strategies is to provide more policy consistency and longevity over time – something associated with the success of levelling up initiatives in other countries.[11] But in the UK excessive policy churn has undermined local growth policies driven from the centre in the past.[12] When policies are effectively co-ordinated into a local plan, interviewees argued, the policies are more likely to persist and be delivered consistently. If, on the other hand, each policy tends to operate in its own silo, consistency is less likely over the longer term. We have not found concrete evidence for the claim that local economic plans should be more long-lasting than national ones, though this has certainly been the experience of recent UK history, where local industrial strategies are still in operation in places like Greater Manchester even though the UK-wide industrial strategy is long gone.[13]

With appropriately co-ordinated levers at a local level, local institutions can provide a 'one-stop shop' for prospective investors who might seek information and assurance on plans for transport, R&D, the local skills base and more.[14] While no single point of contact could provide that assurance in a centralised system, a local institution with appropriate powers can.

Policy innovation and experimentation

One benefit that devolution should yield is greater policy learning, and better policies, by virtue of different areas taking different approaches. When policy is devolved different governments look to innovate to develop the most effective policy, generating natural policy experiments by comparing otherwise similar areas that adopt different policies.

International evidence of the benefits of policy innovation is perhaps clearest in the US, where lots of policies vary at the state or city level. Academics often use variation across state boundaries to assess the effects of policies that vary, such as minimum wages.[15] The effect of local policies can be identified more robustly using this method because there is a natural 'control group' – an otherwise similar state or city with a different policy. The preponderance of natural policy experiments across the US at least partly explains why so many economic academic policy studies are based on experiences in that country. Rupert Harrison, George Osborne's former special adviser, has argued that "there's a reason why most new ideas originate in countries like the US where cities and states are free to innovate".[16]

However, this benefit from devolution is not automatic. It relies on local governments having sufficient legislative freedom and analytical capacity to innovate in policy rather than simply deliver in the same way as others. Once innovation has occurred, it is also important that data is sufficiently comparable across areas to allow for robust analysis of what is most effective. Previous Institute for Government work has highlighted this latter reason in particular as an explanation of why devolution to Scotland, Wales and Northern Ireland has not yielded many of these benefits.[17,18] We have also highlighted ways that combined authorities have begun to innovate, especially in their use of the devolved adult education budget,[19] though there have not yet been quantitative evaluations to help identify best practice or learn which interventions are most effective.

Stronger local institutions and leadership

A prominent argument made by devolution advocates is that the centralised nature of England has weakened local institutions and as a result undermined economic policy in areas away from the political power base of London and the South East.[20] They point to evidence of past instances of levelling up in other countries, where a consistent theme has been strong local vision and leadership,[21] and evidence that migrants factor in the quality of local government when deciding which area to move to, helping to drive growth.[22] Devolution of powers is a necessary precondition for stronger local institutions that can then co-ordinate and lead an industrial strategy locally.

Devolution advocates also note the tendency for place-blind industrial strategy and economic policy to inadvertently benefit places closest to decision makers.[23] This could be another reason why local decisions are more likely to deliver better outcomes for areas away from central decision makers. Devolution gives both power and platform to local leaders who can then play a role as an advocate for the locale both in national politics and among businesses.[24] There is already evidence that metro mayors are playing this role in the UK. One civil servant told us that "a key consideration when developing and announcing central government policy is 'what will the mayors say about this?'. That never used to happen before with council leaders." On a broader stage, mayors are also playing a role in attracting international investment by making the case for their regions. Academic evidence shows that strong urban leadership can improve outcomes.[25]

Mayors have already managed to play these roles despite their relatively limited powers, which suggests it may be the presence of a mayor – more than how extensive their powers are – that generates this influence. But in areas where no such powers exist, and that voice is therefore lacking, it suggests that additional devolution would provide this benefit.

Costs

Loss of economies of scale

One of the main risks of devolution is that it can increase administrative costs. A centralised policy process is likely to need fewer civil servants in total than a devolved settlement in which (say) 50 different authorities design and deliver policy for their local area. In a devolved environment, there would be duplication of some functions such as analysis and, while knowledge could be shared across areas, it would not be as seamless as in a centralised system with one team responsible. Devolving the creation of guidance on nationally uniform regulations, for example, would be inefficient – either resulting in duplicated spending to achieve the same standard of guidance, or in worse quality of guidance for the same level of national spend. Procurement is another example where fragmentation will increase costs, with joined-up procurement likely to yield better value.[26]

Economies of scale will be more pronounced where functions are especially complex and require specialist skills. For example, the devolution of tax rate setting – a policy decision – would be much less administratively costly than devolving tax *administration* and collection. This is why HMRC continues to collect taxes in Scotland and Wales even where decisions over their rates or base are devolved.

Harmful competition

Devolving powers to local areas means that politicians and officials making key decisions are, by definition, interested in designing policies that benefit their region or area. This is natural, but means they will be less concerned about the impact of their policies on areas outside their boundaries. A policy might make sense from the perspective of a local government but when taken together with the other local governments' policies have negative effects, or be less effective, for the country as a whole.

For instance, devolution can introduce unhelpful competition between local governments.[27] Local governments might compete by offering subsidies or tax breaks to attract businesses to their area over neighbouring ones. From the perspective of the country as a whole, this competition is unproductive. The business is already locating in the country, providing the same jobs and services. A subsidy race is zero-sum – one area loses to the same extent that another wins. And even worse, the business might end up located in a less appropriate place, while the cost of the subsidy will mean less money available for public services or the need to raise more tax elsewhere. This concern is not only theoretical: in the US, which does not have the equivalent of state aid or subsidy control rules to limit the offering of incentives,[28] subsidy races among cities or states have cost governments hundreds of millions of dollars.[29]

That said, not all forms of competition are harmful or zero-sum. For example, local governments investing in the skills of their workforce to make them more attractive to high-value businesses would have a positive effect on the country as a whole and would lead to location decisions based on economic fundamentals rather than financial bungs.

Failure to co-ordinate across places

A subtler but potentially more pernicious effect of governments designing policy at the local level is the failure to co-ordinate policies across different areas governed by different authorities. This can arise in several different ways, and each is more severe when a policy is managed at a very local level.

First, different governments in charge of a policy that spans their boundaries may, without voluntary co-ordination, deliver a fragmented system that does not work well for users. For example, if a rail system were managed by local authorities, most journeys would span multiple authorities and might require separate tickets or additional costs when crossing those boundaries. Trading barriers could also be erected. For example, if there was different skills accreditation in different regions, it might be difficult to get a job in a region different from the one a learner was trained in.

Second, 'policy leakage' might mean that the benefits of a policy partially accrue to other places, risking under-investment because the full benefit is not captured by the authority making the policy decision. For example, if skills were delivered at a very local level, many of the people earning qualifications might either move elsewhere to work or take a job within commutable distance. In his book *The UK Regional-National Economic Problem*, Philip McCann argues that policies affecting very mobile labour or capital are less appropriate for place-based policy.[30]

Finally, delivering policy locally might hinder attempts to have a coherent, diversified and integrated national strategy. One possible downside of local economic strategies is that different areas might design strategies that do not cohere with their neighbours. For example, digital businesses are expected to be a growth opportunity for the UK as a whole. But if every place's industrial strategy attempts to make that area the UK's 'pre-eminent' digital hub, there is likely to be an over-provision of incentives for those sectors and under-provision for other sectors.

Exacerbating existing inequalities

Reducing the large economic gaps between the UK's richer and poorer areas is one of the main aims of further devolution in the UK. But in some circumstances devolution can risk exacerbating rather than reducing inequalities.

First, greater fiscal devolution – control of tax revenues at local levels – may benefit areas with more economic activity and therefore a bigger tax base. At a recent Institute for Government event, Anneliese Dodds, the chair of the Labour Party and a member of the Brown commission, argued that given the unequal starting point tax devolution might worsen rather than reduce regional inequalities.[31] And in Japan, the Trinity reforms in the early 2000s, which expanded fiscal devolution, were found to have been especially unpopular among mayors in poorer areas.[32] As we discuss below, this is not inevitable – and tax devolution is more associated with falling inequality than spending devolution – but it does require transfers to redistribute from richer to poorer areas like, for example, those operating between German states.[33]

The other way devolution could worsen inequalities is through divergent local capacity. If a local government does not have the institutional structure or skills required to generate good economic policy it risks falling further behind other areas.[34] Deficient capacity might manifest due to difficulty in hiring people with the right skills, perhaps because those specialisms are not available in sufficient quantities in the local labour market. One risk when capacity is lacking is that governments will be captured by lobbyists as they lack the analytical capacity to generate their own policies or to conduct impartial evidence gathering. This is a form of government failure that is a well-established problem with local governments. Inequalities in capacity could correlate with economic inequality (especially if skills were the problem), though they need not – Cambridge and Peterborough is among the higher-income combined authorities but many observers would agree it has been less successful than most others.

A framework for economic policy devolution

The benefits and costs outlined above (and summarised in the table below) provide a framework for determining when, in which policy areas, and to which institutions, devolution is most likely to yield an economic dividend. The economically optimal devolution set-up will be one that maximises the benefits while minimising the potential costs.

In subsequent sections, we apply this framework to different economic policies and to local government funding arrangements. First, we highlight five broad insights which the framework yields about how devolution can best contribute to growth.

Table 2 **The benefits and costs of devolution of economic policy levers**

Benefits of devolution	Costs of devolution
Use local knowledge to tailor policy	Lose economies of scale
Co-ordinate across policy levers	Risk harmful competition
Experiment and innovate	Fail to co-ordinate across places
Strengthen local institutions and leadership	Risk exacerbating inequalities

Note: Benefits and costs apply differently to different policies, and need not be of equal size.

Different policies belong at different tiers of government

As we highlighted above, a key reason high-level quantitative evidence on the impact of devolution on regional growth is so inconclusive is that most studies do not distinguish between devolution of different policies. Yet most of the benefits and costs apply differently to different policies and depend on the type of institution that responsibilities are being devolved to. This means that a mixed settlement with substantive responsibility at both central and devolved levels is likely to be best for economic growth.

The ability to vary policy locally will be more important where a divergent approach across the economy is needed. There is little to suggest, for example, that regionally varying product regulation would be an improvement on a nationally uniform approach. Similarly, some policies rely more on co-ordination, and the natural geography for co-ordination will differ. Defence policy may be able to operate quite effectively in its own silo, whereas transport policy decisions should be aligned with other policies.

The costs will also be more likely to materialise for some policies more than others. Some functions are much more administratively complex than others, such as tax administration highlighted above. Some policies will also be much more vulnerable to harmful competition (such as corporation tax rates). Others may be much more dependent on national strategy meaning that the cost of different regions taking their own approach is higher. And the natural level to avoid excessive policy leakage may be more local for some policies (such as setting tax rates on property and other immovable assets) than others.

The centre has an important role to play in all policy areas

In some policy areas, including most areas of regulation, the benefits and costs outlined point towards centralised policy making. But even in policy areas where a lower tier of government is best placed to make substantive policy decisions, central government can do several things to ensure that the benefits of devolution are realised and the costs mitigated.

First, central government will always have responsibility for the financing framework, including determining how money should be redistributed from richer to poorer areas to **prevent fiscal devolution exacerbating inequality**. It will also act as the ultimate guarantor of local governments, stepping in to bail out ones that may find themselves in unsustainable financial circumstances, and the driver of macroeconomic policy by influencing overall borrowing.

Second, in devolved policy areas the centre will need to play a co-ordinating role. This includes setting out a broad national strategy – for example, on industrial strategy or skills policy – which will set a framework within which subnational governments can have freedom to design their own policy, thus **reducing the risk of co-ordination failures**. Where necessary, this may include arbitrating disputes between different regions should they arise. By setting the 'rules of the game', for example on subsidy control, central government can **prevent more deliberate attempts at harmful competition**.

Third, the benefits of **policy innovation and learning** are unlikely to be realised unless the centre plays a proactive role. This includes ensuring that there is a well-resourced institutional structure to ensure comparable data is collected across the country, and policies are analysed. If skills responsibilities were entirely devolved, for example, the need for a body like the Unit for Future Skills,[35] which collects data on local skills achievements and needs, would likely be enhanced rather than diminished.

The scale and geography covered by subnational institutions is critical

Some of the benefits of devolution highlighted above, such as the ability to tailor policy to local circumstances, suggest that 'the more local the better' when deciding how to devolve. But when taken together the costs and benefits identified suggest that the most local level will not always be appropriate, and that getting a policy at the right geographic level, rather than the most local one, is key. Many of the costs of devolution – such as loss of economies of scale or the risk of negative policy spillovers – are worse at more local levels.

Past work has consistently highlighted the importance for economic policies to sit at a coherent economic geography – usually a labour market or travel-to-work area.[36] Most people who live within such a boundary also work within that boundary. This limits the risk of policy spillovers or co-ordination failures across places, and is the most appropriate geography to make decisions that affect economic decisions such as what skills to develop and where to work, because the relevant decisions take place within that region. Across cities, there is evidence that fragmented policy making can be economically damaging. OECD analysis has found that cities that are divided into a greater number of councils or municipal authorities perform worse economically: specifically, all else being equal, a doubling in the number of authorities is associated with a 6% fall in productivity.[37]

The natural geography will not be the labour market level for every policy. Some policies will be best delivered at a more local level, especially those relating to public services where local knowledge is likely to be more important and co-ordination with pure economic policies less important.

However, whatever the 'right' geography, ensuring the policy sits at this level is fundamental to making devolution a success. One study looking at Europe in the late 20th century found that city-regions were more economically successful if governance arrangements matched the economic geography (the 'functional urban area').[38] In other words, those local governments that had an area covering a travel-to-work area or labour market were able to design more successful policies than local governments that could not design policy for the whole local economy, or had to design policies covering part of multiple local economies.

Ensuring devolved institutions have sufficient capacity is also important

As well as having a geography that matches up to the local economy, a devolved institution also needs to have sufficient resources and policy making capacity for devolution to be an effective driver of growth. Many of the benefits outlined assume a competent subnational government that can identify ways to improve policies and implement them. For example, co-ordinating policies well requires good analysis and effective stakeholder engagement, which means governments will need access to people with those skills. In part due to the centralised nature of England and the historic concentration of civil servants in London, policy professionals are less readily available in some parts of the country. Even as the government has focused on spreading civil servants across the country, policy civil servants remain mostly London-based.[39]

Governments also need sufficient spending power to take advantage of other potential benefits, such as policy innovation. Subnational governments that are over-stretched and can barely deliver on their core responsibilities are unlikely to have either administrative bandwidth or sufficient choice over how they spend their budgets to take risks and try to deliver new policies or deliver old policies in new ways. Recent work has shown that 'unfunded mandates' – devolution of additional responsibilities without sufficient resources to deliver – are associated with lower regional growth.[40]

Devolution of one policy area should account for effects on complementary policy areas

The benefits and costs we identify will apply differently to each policy lever and mean that a mixed settlement with different policies at different government tiers is most appropriate. But the tier one policy sits at should not be judged entirely in isolation to other policies. Instead, ensuring that the policy co-ordination benefits of devolution are realised requires similar levers in different policy areas are devolved to the same government tier. OECD analysis has found stronger positive effects from devolution when it is 'balanced' – there is a similar level of devolution across a range of policy areas – because it enhances co-ordination benefits.[41]

One implication of this is that only accounting for the benefits of devolving a single policy – such as skills – will understate the total benefit as it will not factor in potential improvement in other complementary policy areas. This provides some rationale for why some Whitehall departments are resistant to devolving policies in their domain despite many others being confident that doing so would lead to better outcomes.[*] The full benefits of devolution can best be appreciated by taking a cross-cutting look at policy across government. It follows, therefore, that 'the centre' – No.10, the Treasury and the Cabinet Office – will need to be at the forefront of any push for further devolution. They cannot expect departments to make the case for devolution in their policy area of their own accord.

* Interviewees also suggested that a more prosaic rationale – that departments are instinctively opposed to changes that would reduce their autonomy – is probably a more dominant factor.

Applying the framework to economic policies

Moving from general conclusions to the specific, this section applies the framework of costs and benefits of devolution to some specific areas of economic policy (we do not cover public services, although we acknowledge if well run these can also contribute to growth).[*] For each, we briefly summarise the current allocation of responsibilities within England, which we also set out in a table in the appendix and lay out broad recommendations for how responsibilities might be allocated to best promote economic growth.

By necessity, we cannot provide a full treatment of every policy area. But in each case we lay out the main considerations and provide broad recommendations about where responsibilities could be devolved or should remain centralised.

Transport

Transport is unusually centralised within England

Transport policy – both building and managing transport systems – is principally the responsibility of the centre in England. Local transport responsibilities mostly cover roads, with over 90% of the road network maintained and managed by local government.[1] Local authorities fund this maintenance by pooling their own and central government funds, which are a mix of formula and competitive grants such as the Local Pinch Point Fund.[2]

Local control over public transport is more limited. Bus operators decide what routes to run with local authorities offering to subsidise less commercial routes, while other forms of public transport are the responsibility of central government. The most notable exception is in Greater London, where the Greater London Authority has wide-ranging powers to invest in and deliver transport through Transport for London. Most combined authorities also have some additional powers over transport, including the power to franchise and regulate buses in their area and multi-year funding to invest in the transport network.[3] In areas like Greater Manchester and the West Midlands, the combined authority also has control of the tram network. Through the new trailblazer devolution deals both these areas have additionally gained greater control over local rail services in partnership with Great British Rail.[4]

The UK is an international outlier in the degree of centralisation of transport spending. The OECD estimates that over 80% of UK government 'economic affairs spending' (which is mostly transport) is distributed by central government. All other large advanced economies devolve more substantive transport responsibilities to subnational governments. German subnational governments, for example, account for more than 60% of economic affairs spending while their UK counterparts spend less than 20%.[5]

* We have chosen these policy areas because they yield interesting insights, rather than because they are necessarily the best or only areas suitable for devolution – in fact, some of them have precisely been chosen because they demonstrate which policies should not be devolved.

More local control of intra-regional transport would benefit from local knowledge

Most transport journeys occur within regions or even smaller areas. And problems or deficiencies with transport provision will often be local phenomena. For example, understanding which bus routes are essential or where commuters might benefit from an expanded service is much easier to identify using local knowledge.

During Covid lockdowns, local authorities were responsible for deploying financial support to ensure essential bus services could keep running,[6] a task that would have been almost impossible to orchestrate from London. Appropriate active travel interventions are likely to especially benefit from local knowledge, as demonstrated by Manchester City Council's active travel plans that include, among other things, building bike lanes.[7]

But transport policy will be less effective if delivered too locally

But there are risks to devolving control over (especially public) transport policies to too local a level. While some journeys, especially those by foot, bicycle or bus, might be contained within local boundaries, others will extend beyond that. The most economically important journeys are commutes, which will often involve longer journeys into employment centres from surrounding areas. Many businesses within cities rely on such long-distance commuters.[8]

The big risk, then, if transport responsibilities are held at an excessively local level, is that this will hamper co-ordination across places. As far as possible, a single public transport journey should be the responsibility of a single transport authority or provider. Germany again is instructive: most districts have reached voluntary agreements to deliver transport jointly through a larger transport body. Some neighbouring councils in England have adopted a similar model to deliver cross-boundary payment and ticketing initiatives, generating a more consistent and simpler travel experience across their areas.[9]

Devolution presents opportunities for co-ordination across transport modes and with other policies

Responsibility for different transport modes could be held at different levels depending on the scale of journeys. For example, suburban rail could sit at a higher tier of government than buses. However, one of the other major potential benefits of devolution is to co-ordinate across transport modes. Transport for London is a single integrated network, allowing for integrated ticketing and smooth transitions across modes – from train to Tube to bus. This is also the ambition for Greater Manchester's Bee Network, which aims to integrate rail, but stands in contrast to much of the rest of the country where operators of rail and bus are entirely separate.

As we describe below, transport policy can also work more effectively in tandem with spatial planning.

Combined authorities are the right tier for most transport responsibilities

To realise these benefits, as far as possible public transport responsibilities should sit *at the same government tier* to allow for a joined-up and integrated system. Given the noted inefficiency of transport responsibilities sitting at too local a level, this points to transport sitting at a higher government tier than local authorities in much of the country. The rational geography is one which contains the start and end point of most local journeys, suggesting that a local labour market or travel-to-work area would be the best fit as these by definition capture most commutes within their boundaries. Combined authorities, which are intended to cover such a geography, are the most appropriate tier within the current English system. As devolution deals are agreed across the rest of the country, transport responsibilities should follow. In many more rural areas, the transport network is less extensive and more local in any case. However, the government should also explore options for co-ordination on transport among local authorities and combined authorities (again similar to the German model).

Some transport policy will need to be delivered at a higher level

While most journeys will operate within local labour market areas, some will not. For example, some trains cover inter-regional journeys between cities. For journeys covering the whole country, the costs of devolution would be high and it would be difficult to deliver in a way that co-ordinated sensibly across places, implying a role for central control. Directing large-scale investments, such as new lines, should also remain centralised to provide strategic oversight of the most pressing transport needs for the economy as a whole.

There is also a middle tier of journeys and infrastructure that extends beyond combined authority boundaries but within regions – for example, trans-Pennine journeys between Yorkshire and the North West. These routes would benefit from some form of integration with local transport networks and local knowledge, but could not be managed by a single combined authority. For these journeys, it should be possible to devolve power to transport bodies that span these areas, following the model of German districts. Bodies such as Transport for the North (TfN) and Midlands Connect have begun to play this role, with TfN now co-managing rail franchises with central government, and they should be given greater responsibility.[10]

Housing and spatial planning

Spatial planning is the most substantive economic responsibility of English local authorities

In England local authorities control spatial planning and housing development within their areas. They are also responsible for producing their 'local plan', which sets out how developments such as housing or infrastructure can benefit their local area. Central government retains some control of the process since individual decisions can be appealed to the secretary of state.[11] Central government also produces the National Planning Policy Framework (NPPF), which sets out the government's planning policies for England such as achieving sustainable planning development by meeting a range of economic, social and environmental objectives. The NPPF must be taken into account in the preparation of a local plan.[12] Some combined authority areas have the power to design their own local plan covering the local authorities in their area, but this relies on the consent of those authorities.

Local control over broader housing policy is much more limited, but most combined authorities have some role in house-building through access to the Brownfield Housing Fund designed to regenerate former industrial areas.[13] The trailblazer devolution deals build upon this, extending the funding and powers regarding housing and regeneration. For example, for the first time outside London, the WMCA and local leadership in partnership with Homes England are delivering the Affordable Homes Programme worth at least £200 million.[14]

Housing development opportunities can best be assessed at a local level, but a local focus will understate some benefits

Local knowledge is an important input into a planning system, providing practical insight into how new developments affect local areas, including in economic terms. Many of the benefits and burdens of new developments, such as higher traffic, are likely to be predominantly felt locally. Research commissioned by the Hounslow Together Board, for example, has highlighted the negative effects new housing developments can have on the public services long-standing residents use.[15]

However, the impacts of planning decisions are not just limited to a local area. Additional housing or business premises have effects on a whole labour market: people might commute into that place for work, or live there to commute elsewhere. These benefits will be more geographically dispersed, accruing more widely and to those who do not currently live in the area. For example, research from Centre for Cities has found low density of housing in the suburbs of English cities explains part of the productivity underperformance of those cities relative to western European comparators, but few of these benefits will be felt directly in a suburb that builds the extra houses.[16]

This is a dynamic we see at play in the English planning system, where local authorities face incentives to decline new developments.[17] And many have argued that the current planning system, in part due to the scale at which it is administered, is not working well.[18]

Spatial planning and transport policies need to be co-ordinated

Both transport and spatial planning policies can be directed to ensure that people can travel easily between where they live and work, avoiding excessive congestion and ensuring that the negative local effects of additional housing are mitigated.[19,20] And transport investments will be better value for money if more people live near stations and so can use that transport. Centre for Cities has shown that poor transport links and low housing density of the UK's cities outside London reduce their effective size – the number of people who can commute quickly into the centre – relative to comparable European cities.[21]

Holding transport and spatial planning powers at different levels, as is currently the case in England, inhibits a joined-up strategy that ensures houses are built near transport links and investment in transport happens near growing residential populations. The National Infrastructure Commission has highlighted that this lack of joined-up strategy might undermine the Cambridge–Milton Keynes–Oxford corridor relative to its international competitors.[22] The problems are likely to exist much more widely too.

Spatial planning should happen at a higher tier than local authorities

While combined authorities do hold some planning powers, these have not been sufficient to deliver region-wide plans as they rely on the consent of all affected local authorities.[23] The Greater Manchester Combined Authority Places for Everyone plan (PfE) exemplifies this problem. PfE was designed as a spatial plan for Greater Manchester aiming for all developments to be sustainably integrated into Manchester's transport network. However, the agreement was only made between nine out of the ten local authorities, with Stockport pulling out (and with that the potential for other local authorities to follow suit).[24] If such agreement cannot be reached even in Greater Manchester, where co-operation long predates the formal combined authority, it is unlikely to be possible in other combined authorities without stronger powers.

Given the need to co-ordinate spatial planning and transport, and the problems with planning decisions made at an excessively local level, combined authorities (and county councils in two-tier authority areas) should be given greater control over planning, with appropriate input from local authorities and districts, to design a plan for their area.

Retrofit and some house-building initiatives can also be directed most effectively by combined authorities

Other related but distinct policies, including active public development on brownfield land and retrofitting houses to improve insulation, are especially important as the government looks to reach net zero carbon emissions by 2050. A recent Institute for Government report highlighted how the existing centralised approach to retrofit in particular has led to a confused landscape, and successive central initiatives have failed to deliver on their policy intent.[25] In large part, this has reflected a failure to incorporate local knowledge and tailor programmes appropriately.

Mayors have already played a role co-ordinating retrofit initiatives in their region, helping to build up regular demand to enable a more mature supplier market that can operate well at this regional geography. Providing mayors with a more direct role in retrofit, including a multi-year budget to reduce emissions from this sector and integrate housing policy into broader local industrial strategy, would improve joined-up policy making in this area.[26]

Skills

Skills devolution has been partial within England so far

The funding and delivery of skills support – funding for those beyond the age of 18 in non-university education – in England is heavily centralised compared with other large advanced economies.[27]

Adult education budgets (AEB) have only been devolved to CAs and the GLA. The trailblazer devolution deals will provide the combined authorities of Greater Manchester and the West Midlands with powers over post-19 skills, an expanded role in post-16 technical education in partnership with central government, and control of other skills funding such as the Free Courses for Jobs programme.[28] Local Government Association research demonstrates the fragmented and somewhat confusing nature of the current skills delivery landscape: in England there are 49 national employment and skills related schemes or services, which are managed across nine different Whitehall departments and agencies.[29]

Skills mismatches are local phenomena and require local solutions

The key advantage of devolving skills policy is it can take full advantage of local knowledge to tailor policies to local needs. Previous Institute for Government research has highlighted that skills mismatches – differences between the skills demanded by employers and the skills workers have – are a drag on UK productivity.[30] This is an inherently local problem: the overall balance of skills demanded and supplied across the country is not especially relevant because in practice most people are not willing to move far to undertake post-18 training or take a job. This means that policy can be made most effectively more locally, where training offers can be tailored to the needs of the local labour market.

The case is especially strong for devolving adult skills policy because people without degrees are less likely to move for jobs.[31] It applies much less to other training – such as university education – where people move across the country to go to university and graduates are then more willing to move afterwards to find jobs.

In England, skills policy is insufficiently tailored to local needs, with programmes managed and commissioned principally from the Department for Education (DfE). The government has made some attempts to better understand local needs, most notably through the Unit for Future Skills, an analytical research group within DfE, which has begun to compile and publish data on local skills.[32] And the Skills and Productivity Board, an independent expert advisory committee to DfE, among others, has highlighted that data can be a powerful tool to identify local skills mismatches to inform policy.[33] But in practice central decision makers are unlikely to have the bandwidth or capacity to maintain many different local skills strategies: a recent report from the Skills and Productivity Board found that the UK has under-utilised granular local labour market data relative to other EU countries.[34]

Skills policy can be most effective if co-ordinated with broader local industrial strategy

Skills policy forms a crucial part of a local industrial strategy. It can be delivered more effectively in co-ordination with employment support and R&D policy.

For those out of work or seeking new jobs, employment support and skills policy are both important. The Learning and Work Institute has highlighted that in other countries, such as Canada and Germany, employment support and skills policies are integrated at a local level. Alongside other services, they form 'one-stop shops' for those seeking work, meaning that skills and job support can be delivered in tandem rather than separately.[35] There have been some examples of pilots of one-stop shops in the UK – most notably in Ipswich, where some employment and skills policies were integrated.[36] The evaluation of that programme found that more integration of services improved the reach of those services and the experience of users. For the most part, however, the systems operate separately, with employment support delivered via the Department for Work and Pensions (DWP).

Combining skills and employment support is a key aspiration for many existing combined authorities. For example, Greater Manchester is aiming to create an integrated education, skills and employment system, combining programmes under its existing control with those delivered by partner organisations.[37] This would involve pooling budgets from different funds to provide a coherent employment progression pathway for individuals, rather than people accessing the different systems separately as currently tends to be the case. Localised approaches have had some notable successes in England. For instance, any who have been supported by the Work and Health Programme for Greater Manchester believe the programme has helped them find work.[38]

A key plank of local industrial strategies is likely to be the high-value industries where the local economy has an existing comparative advantage – for example, clusters of high-value manufacturing. However, a local R&D strategy to support that sector will be ineffective without the appropriate skills base, meaning that there is an important role for skills, including high-level apprenticeships, to make such an industrial strategy a success[39] and there are advantages to holding R&D and skills responsibilities at the same level of government.

Local control over skills policy does not guarantee better outcomes: analysis of local changes to apprenticeships in Italy suggests they have been ineffective, possibly because the scope local areas had to vary the scheme was limited.[40] However, given the starting point of the UK system there are good reasons to expect localisation with sufficient flexibilities should drive improved outcomes over time.

Skills policy at too local a level would risk inefficiency, making combined authorities an appropriate tier

The arguments above make a strong case for skills policy to sit below central government. However, fragmenting local skills provision so decisions were made by lots of separate areas within a wider labour market would mean that people who get trained in one place would be very likely to commute to a job in a neighbouring area, meaning the locality would not gain the full benefit from training (and so might not be motivated to deliver it). If policy is delivered at a labour market level, it can be delivered as a strategic plan to ensure multiple different needs are met. Local skills improvements plans (LSIPs), a proposal in the levelling up white paper to agree actionable priorities for skills in the local economy, are being delivered in 38 areas of England that broadly match economic geography (including combined authority areas), reflecting this logic. Skills provision also sits at a regional tier of government in other advanced economies such as Japan and Germany rather than a more local level.[41]

LSIPs set out priorities for skills, but combined authorities also need additional responsibilities to decide on skills policy and deliver it locally to enable a more joined-up and tailored local offer at appropriate scale.

The centre should set out a national accreditation framework and facilitate sharing best practice

While we have argued that many skills policy decisions, and programme delivery, should be devolved, the centre still has an important role to play. In particular, while most people taking post-18 qualifications tend not to move from their local area, they should not be hampered from doing so. To make it easier for workers to move across the country, and for employers to understand the skills landscape, a single national accreditation framework is needed so that qualifications earned in one part of the country mean the same as qualifications earned elsewhere.

The centre also has an important role in ensuring good data sharing and evaluation practices take place to capitalise on policy experimentation. An enhanced role for the Unit for Future Skills to collect data and share it with subnational governments and researchers would help build the evidence base on which interventions are most effective.

Social security and employment support

Both social security and employment support are centralised within England

DWP is responsible for almost all social security – pensions and working-age benefits – and employment support in England. Jobcentre Plus, part of DWP, plays an important role in both, providing job coaching and administering working-age benefits through a network of job centres.[42]

The role of local governments in both is limited. Local authorities design and deliver their own council tax support schemes and deliver housing benefit support locally. They also administer some welfare assistance schemes – including around £1 billion for 2023/24 made available by central government for councils to help households that might have fallen through the gaps of the main cost of living schemes.[43] But there is no statutory obligation for local authorities to provide this assistance, so while many emerged during Covid-19 not all provided these schemes. In 2020/21 only one in five English local authorities had a local welfare assistance scheme in place.[44]

The new trailblazer devolution deals provide the combined authorities in Greater Manchester and the West Midlands with a somewhat larger role as 'co-designers' of employment support with DWP and additional responsibilities for careers advice,[45] but even still employment support remains largely centralised.

Varying social security by region would be complicated

A system of social security that provided different entitlements depending on where a person lived would risk exacerbating some of the costs of devolution and could give rise to confusion over which entitlements were applicable to them. It could also give rise to additional inefficiencies: for example, there might be an incentive for people to move to places with more generous benefits. And politically it might lead to accusations of unfairness. In many other advanced economies, social security entitlements do not differ across the country. Where they do – for example, in Canada – it is at the provincial tier covering large geographies, which creates a high barrier to moving.[46]

That said, there is already some variation in entitlements across the UK. Housing benefit depends on local rents, though this is a particular form of variation as it is tied directly to rents in the area and cannot be varied at local discretion. There is more variation between the nations of the UK: in the 2016 Scotland Act, several welfare benefits, including those for disability and maternity, were devolved for the first time. To date, changes exercised under the Act have been relatively small, though some have been made more generous, including carers' allowance.[47]

These examples show that varying social security locally would not be impossible within England, though more localised discretionary variation would exacerbate the costs of devolution. While Scotland has made some changes to benefits, given the complexities and risks of greater variation, for the foreseeable future it makes sense for social security rates to be set centrally within England.

There is a role for local governments to allocate funds to fill in the gaps

Local authorities have increasingly played an important role in supporting households that might fall through the gaps of conventional support. For example, early iterations of cost of living support in 2022 provided fixed payments for most households, leaving those with especially large increases in costs in financial difficulty. When extending the scheme, DWP said councils were best placed to allocate money "by drawing from local knowledge and making direct contact with people in the community".[48] And in some cases authorities have used welfare assistance schemes to help connect people to other support.[49]

While an effective system should not require this kind of 'backstop' support often, local areas are best placed to deliver it when it is needed.

Employment support could be delivered locally

Administering employment support is not nearly as complex as social security. Different schemes or approaches are likely to be more effective in different parts of the country depending on local labour market conditions – how many and what sorts of jobs are available, for example. Research supporting this claim shows contractors delivering DWP work programmes have done so largely on a uniform basis despite different labour market contexts.[50]

In addition, delivering employment support separately from skills has led to complaints that the current system, especially through Jobcentre Plus, focuses too much on getting people into a job rather than the right job. In some cases individuals have felt pressured to accept Jobcentre Plus work offers despite not meeting an individual's salary requirements.[51] A more integrated approach could lead to better long-term employment outcomes.

Given the complementary role of skills and employment support, it is most important that they sit at the same government tier. And given the strong case that skills should sit at the labour market level, this implies employment support belongs there too.

Product and market regulation

Regulation is almost entirety centralised within England

Regulations covering the products that can be bought and sold, labour market standards and competition laws, among other regulations, are almost exclusively centralised in England.[*] Some regulations do vary across the nations of the UK, but the government has recently set up the Office for the Internal Market, a provision of the Internal Market Act 2020, which will monitor the effect of diverging regulations among England, Scotland, Wales and Northern Ireland, to ensure there is no harmful competition on regulation.[52]

Local areas might have different preferences over regulations

Within the UK as a whole, Scotland, Wales, Northern Ireland and England have some flexibility to diverge on regulations to best suit their economy and local preferences. On environmental regulation, for example, the UK government will ban the sale of certain types of peat in England from 2024 but these will still be on sale elsewhere in the UK.[53] In principle, labour market regulations, or controls over competition, could also be varied locally to best suit the local economy.

But devolving regulations would risk erecting barriers to easy trade across England

However, devolution of regulation brings costs. As has been well documented since the Brexit vote in 2016, diverging regulation acts as a trade barrier as companies need to ensure that goods produced under one set of regulations can be legally sold across a border.

The UK government has raised concerns that diverging regulations between England, Scotland, Wales and Northern Ireland, now more possible outside the strictures of the EU, might create barriers to trade. The 2020 Act sets out 'market access principles' to ensure that goods that are legally produced in one part of the UK can also be sold everywhere else.[54] Yet this also limits how effective a regulation in one part of the UK – for example, heightened agricultural standards – would be, because food produced using lower agricultural standards elsewhere in the UK could still be sold.

Divergent regulation also creates additional compliance costs for businesses, which would be amplified if variation happened at a more local level. And regulation itself is administratively complex. For these reasons, the costs of regulatory divergence caused by devolution are likely to be much greater than any economic gains. Perhaps for these reasons, very few people seriously advocate for devolution of market regulation.

Research and development (R&D)

R&D policy is highly centralised in the UK

Most direct government support for R&D, whether in the form of incentives for private research or public funding, is determined by central government. The majority of public funding is allocated through UK Research and Innovation (UKRI) or similar organisations, most of which sit under the Department for Science,

* In the Greater Manchester trailblazer devolution deal, there are suggestions the combined authority will have additional powers, which may be regulatory, to restrict the use of taxis and other for-hire vehicles.

Innovation and Technology. Grants for all types of R&D, ranging from basic research at universities to funding designed to translate scientific discoveries into marketable business propositions, are funded centrally. While some schemes have begun to involve local organisations and policy makers – most notably the Strength in Places Fund[55] – decisions over how much funding should be spent on different projects remain centralised.

Basic research requires a national perspective, with little benefit from fragmented funding pots

Some research funding, especially for early-stage basic research in science, reflect national strategic priorities, such as research on artificial intelligence.[56] Much early-stage research is inherently high risk: some of it will work, while many other projects will fail. But the benefits of successful research should accrue widely – for example, graphene was originally developed in Manchester but its manufacture now happens far beyond the Greater Manchester region and indeed beyond the UK.

Any localisation of basic R&D spending could risk under-investment, given many of the benefits accrue more widely than the local area. Research by Nesta has highlighted that in France, local institutions invest a greater proportion of their R&D spending in 'technology transfer' to help local businesses benefit from more basic research. As we highlight below, regional governments are well suited to deliver this later stage R&D, and the benefits are likely to be more local. However, additional investment in technology transfer means less investment in basic research, which could reflect this disincentive to invest where the benefits accrue elsewhere.[57]

Furthermore, co-ordinating a coherent national strategy, with sufficient funding for each of the UK's scientific strengths, is more easily delivered at a national level. If funding decisions were devolved, funding for priorities such as life sciences might become fragmented and the UK could end up funding a broader set of institutions but with lower quality research overall. Equally, without co-ordination across places there could be over-funding of some research areas and under-funding of others.

But research closer to market can be integrated into a local industrial strategy

The government's own R&D roadmap has admitted that its current approach to R&D has provided limited opportunities for local insights to feed into decision making.[58] This is especially problematic for funding at more advanced research stages, and in particular for translating basic research into productive businesses and industries, which has long been recognised as a weakness of the UK R&D landscape.[59] While basic research funding reflects national science policy, taking research to market and ensuring it diffuses among existing businesses is much more akin to local economic strategy. It will benefit from local insights, including knowledge of local businesses and the ability to convene relevant university and business stakeholders. A local strategy to build up local economic clusters would also benefit from a co-ordinated approach across R&D and skills policy.

This is the rationale behind the three 'innovation accelerators' announced in the levelling up white paper in three city-regions linked to universities there.[60] While this is still central rather than local funding, with insufficient local involvement, it presents a starting point for more extensive future local engagement in translating research into economic strength. The funding involved is relatively small, and in practice basic research is likely to account for most ongoing public R&D support. But as the government focuses more on later-stage research it should recognise that a devolved approach that co-ordinated R&D with other local economic policies could be much more effective than delivering programmes top-down.

One concern, highlighted by Nesta, is the risk that local institutions might lack the analytical capacity to make good decisions over innovation spending allocations.[61] This is likely to be ameliorated if responsibilities sit at a combined authority level, which will tend to have more analytical capacity than lower tiers, and if their responsibilities are focused on their comparative advantage of linking researchers and businesses.

Applying the framework to funding

The powers and policy levers that local governments hold are a key element of a devolution arrangement. But the way that local governments are funded is also fundamental.

This is reflected in the government's levelling up white paper and in negotiations for new trailblazer devolution deals in Greater Manchester and the West Midlands, which have focused on simplifying existing funding arrangements. But the current discussion around funding of devolved institutions within England (although not in the UK as a whole) remains limited. In particular, tax devolution is a notable omission from both the white paper and Labour's plans given that the UK stands out internationally in its reliance on grants. This is despite the fact that, where a relationship between devolution and growth is apparent in the academic literature, it tends to be devolution of tax revenues rather than spending responsibilities.

Applying our framework to the funding of subnational governments cannot provide a single 'correct' funding model. But it exposes the flaws and weaknesses of the existing model and provides principles that a good funding system should aspire to meet.

Current local government funding arrangements in England

The current model can be characterised by low reliance on local tax revenue and high reliance on competitively awarded grants

Despite big cuts in the main grant for local authorities – the revenue support grant – since 2010, and increases in council tax, English local government is still unusually reliant on central government support, rather than tax revenue. The only significant local taxes in the UK are taxes on property: council tax and business rates. Rates of the former vary across councils, while rates of the latter are set nationally and revenue distributed among councils (principally according to need rather than the amount of revenue raised in that area). In total, only around 25% of local government funding arises from these two taxes – far below the average 40% that local governments in other advanced economies receive from taxes.[1]

The grant funding that local governments receive in the UK is also unusual. While some of this is flexible, and can be spent on government priorities, this source of revenue has eroded over the past decade or so, with core spending power – money available to spend on the councils' main responsibilities – falling by over 25% since 2010. As a result, this flexible funding is predominantly used to meet local government's statutory obligations (mostly social care). Economic and cultural projects now tend to be funded almost exclusively from ring-fenced pots: money provided by central government after a bidding process among local government projects.

There is no single data source that compiles these various funds in one place, so it is not possible to provide a conclusive statistic to demonstrate their ubiquity. However, research from the Local Government Association identified more than 400, which together added up to many billions of pounds of funding for thousands of specific projects.[2] In 2021/22, in total the government awarded £18bn through competitive grants, though not all of this will have been for local government.[3] Notably, this is a substantial increase on just a few years earlier. In 2018/19, the equivalent figure was only £6bn.

Mayoral combined authorities are especially reliant on ring-fenced pots as they currently have very little no-strings-attached funding (either through tax revenues or flexible grants). Each deal, when signed, awarded the new authority an investment fund of between £15m and £38m per year for 30 years. But this amount is fixed in cash terms and so will be worth less in real terms by the end of the 30-year period. And in any case, at most these accounted for 0.1% of the local economy in 2019. In the policy areas where combined authorities have powers, such as transport and skills, much of the funding is conditional on the delivery of specific programmes. Even in areas where the funding is somewhat more flexible, such as on adult skills, money cannot be shifted from that budget to another. The trailblazer deals for Greater Manchester and the West Midlands promises to change this by providing single, more flexible settlements for spending on economic development.

A recent Institute for Government paper highlighted how unusual the English approach to grants is internationally.[4] While concrete data is hard to come by, experts interviewed for that research stated that ring-fenced funding pots were used much less readily in other countries than in England.

Within the UK the fiscal situation of the governments in Scotland, Wales and Northern Ireland stand in contrast to how funding is decided for subnational governments in England. The Barnett formula gives those national administrations a grant that can be spent however they see fit across the various devolved competences. And in recent years tax devolution has been extended in Scotland and Wales too, giving those governments discretion to design taxes, or at least set rates, differently. This means their budgets depend more on the performance of tax revenues in their country rather than in the whole UK.

The current approach undermines many benefits, and exacerbates costs, of devolution

The current approach to funding local government in England is much maligned, and this is far from the first report (including past Institute for Government research) to criticise it. Yet there is evidence that this model of allocating funding undermines each of the potential benefits of devolution we identify and exacerbates some of the costs.

Asking local leaders to compile bids for economic projects in their area at least acknowledges the importance of **local knowledge** in designing effective transport and other interventions, but only in an extremely limited way. The winning bids are determined by central government, and it is central government that sets out the parameters and objectives of the specific fund. It means that local government bids and projects are tailored towards the types of projects that central government thinks are most important. It gives local governments no discretion to spend that money on another type of project that might be more effective at delivering economic growth, or to shift money across projects as priorities change. This complaint was echoed by many of our interviewees, and most agreed it affected the types of project taken forward.

Funding pots are ordinarily administered by the lead policy department. Skills programmes will be commissioned by DfE, employment support by DWP, transport projects by DfT and housing initiatives by DLUHC. This means that in most cases local governments are writing bids for projects to appeal to each department. But this approach undermines **the potential co-ordination benefits** across policies that devolution could bring.

The North of Tyne mayor, Jamie Driscoll, provided a practical example of how this model hampers co-ordination at an Institute for Government event in May 2022. A £24m award from the Brownfield Housing Fund to redevelop land had tight strings attached that prevented the money from being used for complementary objectives like expanding the local skills base or strengthening local supply chains.[5] And the National Infrastructure Commission has argued that "the current fragmented funding for local government has left authorities unable to plan for the long term as the total funding available is uncertain",[6] which hinders attempts to develop co-ordinated long-term local plans.

A funding model that relies on competing with other local governments is not one that creates a collaborative culture in which different areas are open about **sharing best practice and learning from one another**. It is also a culture in which the strong incentive from any evaluation is to demonstrate good value for money rather than honest appraisal. It is difficult to find evidence of an explicit reluctance among local authorities to share best practice, but there is striking evidence of an absence of effective evaluation of projects, which is an important first step. The National Audit Office has found that evaluation mechanisms have rarely been strong enough for previous local growth funding pots to contribute much to the evidence base on what local growth initiatives work.[7] Similar concerns have been raised about the Levelling Up Fund.

The West Midlands mayor, Andy Street, has described the current financial arrangements as a "begging bowl culture".[8] And an interviewee told us that "the funding model is the means by which the UK state controls local government… it's not about legal powers but strings attached to funds". Both sentiments indicate how the current model, which another interviewee described as "more akin to delegation than devolution", weakens **local institutions** by failing to give them sufficient control. Furthermore, the current funding arrangement leads to lots of uncertainty – requiring new bids into many funds, each year, or abrupt ends to funding streams – which in turn makes it hard for local leaders to translate a consistent local vision into long-term local policy.

Examining the approach to funding using the costs we identify does help to explain the appeal of this model to central government. As central government decides which bids are successful, it can ensure a consistent set of projects across the country that **contribute to an overall strategy**. And by selecting the best bids it can try to ensure money is spent well. Indeed, some have raised concerns that some of the money awarded under the UK Shared Prosperity Fund, which has been devolved to district councils (which are very small), will not be spent effectively in part due to limited local capacity.

But this model exacerbates some of the costs. It is administratively very costly for local authorities to compile so many bids, many of which are unsuccessful. For example, a recent Freedom of Information request revealed that local authorities have spent at least £27m compiling various Levelling Up Fund bids, around 0.5% of the funding available,[9] and more will have been spent in-house and on consultants on the many other funding pots they bid into. Furthermore, the capacity to compile bids is not equal, and larger and more able authorities that can either afford consultants or have the requisite skills internally are likely to be able to win more funding than less well-resourced councils, potentially **exacerbating inequality**. The government has recognised this, providing 'capacity funding' to help places compile bids to the Levelling Up Fund but this still leaves the problem unaddressed for the many other bids local authorities are expected to make.[10]

Seven principles for a better system for subnational funding

This analysis of the existing funding system for English local government demonstrates how important funding mechanisms are if devolution is to drive growth. As much if not more than statutory powers, the incentives and freedoms embedded in the funding model determine how local governments can act and whether they can exercise the policy levers under their control in a way that plays to their policy making strengths. Even if local governments in England had the powers we laid out in the previous section, at appropriate levels, sticking to the current funding model would nullify most of the potential benefits due to the dynamics inherent to the current system.

A system that capitalises on the benefits of devolution and mitigates the costs will abide by the seven principles

Building on analysis and recommendations set out in a previous Institute for Government report, *How metro mayors can help level up England*, there are several principles the funding model for all local government should satisfy to capitalise on the benefits of devolution while mitigating the costs.

The first and most important is **flexibility**. Funding that comes with strings attached prevents co-ordinated economic thinking at a local level. With a freer hand local governments can choose to spend their money in a way that best meets local needs and to join projects up locally in a way that could not be orchestrated from the centre. This does not preclude the centre having a role in what local governments do: it can set statutory responsibilities that must be met, for example. But it means that local governments have discretion about how best to meet nationally set objectives. Given the current starting point, this means fewer ring-fenced pots for all tiers of local government.

Next is **medium-term funding certainty**. Effective co-ordination of projects and policies at a local level requires consistency, which cannot be achieved when settlements are provided annually (and at short notice) with much funding time-limited and linked to specific projects. Longer-term funding – for example, agreed on three-year cycles in line with spending reviews – would allow local leaders to develop consistent industrial policies, providing assurance to businesses that the approach will be long-term, encouraging investment.

The model must also provide **adequate resources** for local governments to deliver their policy responsibilities. Recent research has suggested that one of the reasons why devolution of powers might not lead to economic growth is that local governments are given 'unfunded mandates'.[11] Specifically, policy responsibilities are devolved but without sufficient funding to meet them. This is an especially important principle when funding is flexible, as we suggest, because funding streams will not be tied to particular responsibilities or programmes. Without sufficient resources, local institutions do not have the capacity to innovate and tailor policy: they may even struggle to deliver to the same level as if it were centralised. In other words, governments should be wary of seeing devolution as a way to shave budgets in a 'hidden' way as this is likely to have detrimental effects on policy delivery.

To avoid duplication of effort and costs, the model should also be **administratively simple**. A system that requires many bids for different projects clearly fails this test. But so too would a system that allowed complete revenue-raising freedom and therefore had different organisations administering entirely different tax systems in different parts of the country.

Any devolution of tax levers should also be done in a way that **limits harmful spillovers** from policy in one area to other areas. For example some tax levers, like corporation tax, could be used as tools to engage in harmful competition to attract businesses from other areas. A further potential harmful spillover effect from tax policies is the risk that divergence makes it more complicated for businesses to operate across different regions. This is likely to be related to the administrative complexity of the system for governments.

Next is to **distribute money fairly**. As we noted above, one concern over tax devolution is that, without offsetting transfers from richer to poorer areas, more spending will be possible in areas with bigger tax bases. It is up to politicians to decide how spending should be distributed across the country, but tax devolution risks creating a more unequal distribution of spending in favour of richer areas than if spending were determined centrally.

Finally, a funding system can play a role in providing **incentives for good policy**. Local governments have many levers at their disposal to drive economic growth. Often, it will be in local politicians' interests to design policies in a way that boosts the local economy. But in some cases – for example, on spatial planning decisions – there may be a conflict between what is politically popular and what is economically beneficial.

The economically beneficial policy will not always be the right one, but a local government is more likely to make the difficult choice politically if it shares in the proceeds of local economic growth and can spend more on public services or other projects as a result.

If their funding is entirely independent of local economic performance, there is effectively a negative policy spillover: the decision not to pursue growth reduces national tax revenues but does not directly affect the spending power of the local government. This is the principle behind the current scheme of partial business rates retention, where local governments keep a share of the uplift of revenue from any new buildings in their area, although other taxes might be more effective.

Several different funding models would be compatible with these principles

The principles above do not prescribe a single model of funding subnational governments. Several different models, which include a mix of different types of grants and tax responsibilities, could meet these principles. And some of the principles could be somewhat in conflict: for example, a system would need to be carefully designed to both provide a fair distribution across areas and provide an incentive for good policy by allowing local governments to share in the proceeds of local economic growth.

The appropriate model will also depend on the level of government being funded. A system is at risk of becoming more administratively complex when funding lots of very small governments as opposed to a few regional ones. Some interviewees also suggested that institutions covering bigger geographies and with more economic levers are more likely to face democratic incentives to design pro-growth policies (that is, their electorate will reward them at the ballot box if they deliver growth), so they may not also need a large additional fiscal incentive. The degree of freedom and flexibility offered in funding will also depend on central government's assessment of the capacity of the institution and the chances that no-strings-attached funding will be spent well. Previous Institute for Government research has highlighted the importance of an appropriate accountability mechanism to accompany more flexible funding.[12]

Yet regardless of the precise system the government looks to adopt for different authorities, a radical change from the existing approach is needed. In the levelling up white paper, the government announced plans to simplify funding streams, reducing the number of competitive bidding pots and providing greater certainty by covering longer time periods. The single settlements announced in the trailblazer devolution deals are an important first step, and meet many of the criteria we have set. That degree of flexibility will not be appropriate for all authorities, but the government should look to expand the trailblazer-style approach to other combined authorities over time and announce and implement its plans to simplify and reform funding for other areas as soon as possible.

As a starting point, it should look to reverse the proliferation of separate funding streams in recent years: while the underlying problem has been long-lasting, the data on competitive grants shows it has worsened considerably over the past five or so years.

The government should not rule out further tax devolution in England

The current devolution discourse in the UK, from the government, the opposition, and others, has focused funding reform principally on changes to how grants work. However, the high level evidence we cited at the start of this paper suggested that devolution of tax revenue was a bigger driver of growth than devolution of spending responsibilities. Given this relationship, the government would be wrong to rule out further tax devolution within England over time, as there are several benefits tax devolution provides that grant reform cannot.

Researchers have proposed three reasons tax devolution might have a stronger relationship with growth than spending devolution, each of which link to our principles for a good funding system above.

- First, some have argued that devolving tax revenues provides **additional incentives to grow the local economy**. A recent study found that more devolution of tax revenues was associated with a faster expansion of residential and commercial property,[13] implying that local governments had a greater incentive to adopt a pro-growth approach to planning when their spending power was contingent on local economic performance.

- Second, interviewees suggested that one advantage of a greater reliance on tax revenues was that it provides a relatively **certain and flexible source of revenue**. Rather than being subject to central government budget decisions, revenue is instead linked to a tax stream that should grow over time in line with the economy. However, depending on the tax stream, funding may fluctuate more in the short term, a point we elaborate upon below.

- Third, devolving appropriate tax-raising powers ensures that subnational governments are less reliant on central government handouts. If local governments have capacity to raise revenue as required to meet their spending demands, there is **less risk that funding will be inadequate**. And raising the tax for local spending locally creates a clearer link between tax and spending by local governments and so might encourage better value for money in local spending.[14]

Each of these arguments suggests that greater tax devolution might unlock sustained devolution benefits in the UK. However, there are also potential pitfalls that any further tax devolution should look to avoid:

- Devolving tax levers could give rise to **harmful competition** between regions, especially if it is a tax that applies to more mobile tax bases (such as profits).

- The tax system is **complicated to administer**, and HMRC employs thousands of staff to run the mostly national UK system. Any system of devolved taxes should avoid the duplication of this effort and ensure administration can be done as one for the whole country.

- Without appropriate fiscal transfers, further tax devolution could **exacerbate inequality**. This can be tackled using fiscal equalisation transfers from richer areas to poorer areas when taxes are first devolved. But a static set of transfers based on tax bases in the first year will not account for subsequent changes in inequality. For example, had income tax been devolved to English regions in 1970 with a set of transfers that ensured all areas received equal funding in that year, London's subsequent economic growth would by now have led to substantial inequality in regional revenues. Analysis from the Institute for Fiscal Studies shows that a similar effect has happened, albeit on a smaller scale, with the retention of business rates: growth in the tax base has been largest in London, and so that scheme means London councils now have more revenue than would have been the case had the revenue been allocated based on existing funding formulas.[15]

- Tax revenues may provide long-term certainty over funding streams, at least relative to the size of the economy. But over the short term they are **less certain than grants would be**. Subnational governments generally have limited borrowing powers – a necessary requirement given central government is effectively a lender of last resort that will bail out a failing local government. But this means that the amount of money local governments can spend will tend to fall during recessions if they are reliant on cyclical taxes whose revenues fall when economic activity falls.

The experience of other countries shows that these pitfalls can be overcome, or at least managed, to gain the benefits of more tax devolution. For example, some countries, such as Germany, implement 'tax sharing' arrangements so that rates are set nationally (avoiding competition) while revenues are spent locally, although this model would not give areas the flexibility to raise additional revenue to ensure adequacy.[16] More tax rate freedoms are provided for larger subnational governments for taxes with less mobile bases, and there are often restrictions over how far rates can diverge. With those restrictions in place, a 'race to the bottom' on local taxes does not appear to be a major concern – OECD research has found that local taxes tend to be increased to pay for better local services rather than decreased to attract mobile tax bases.[17]

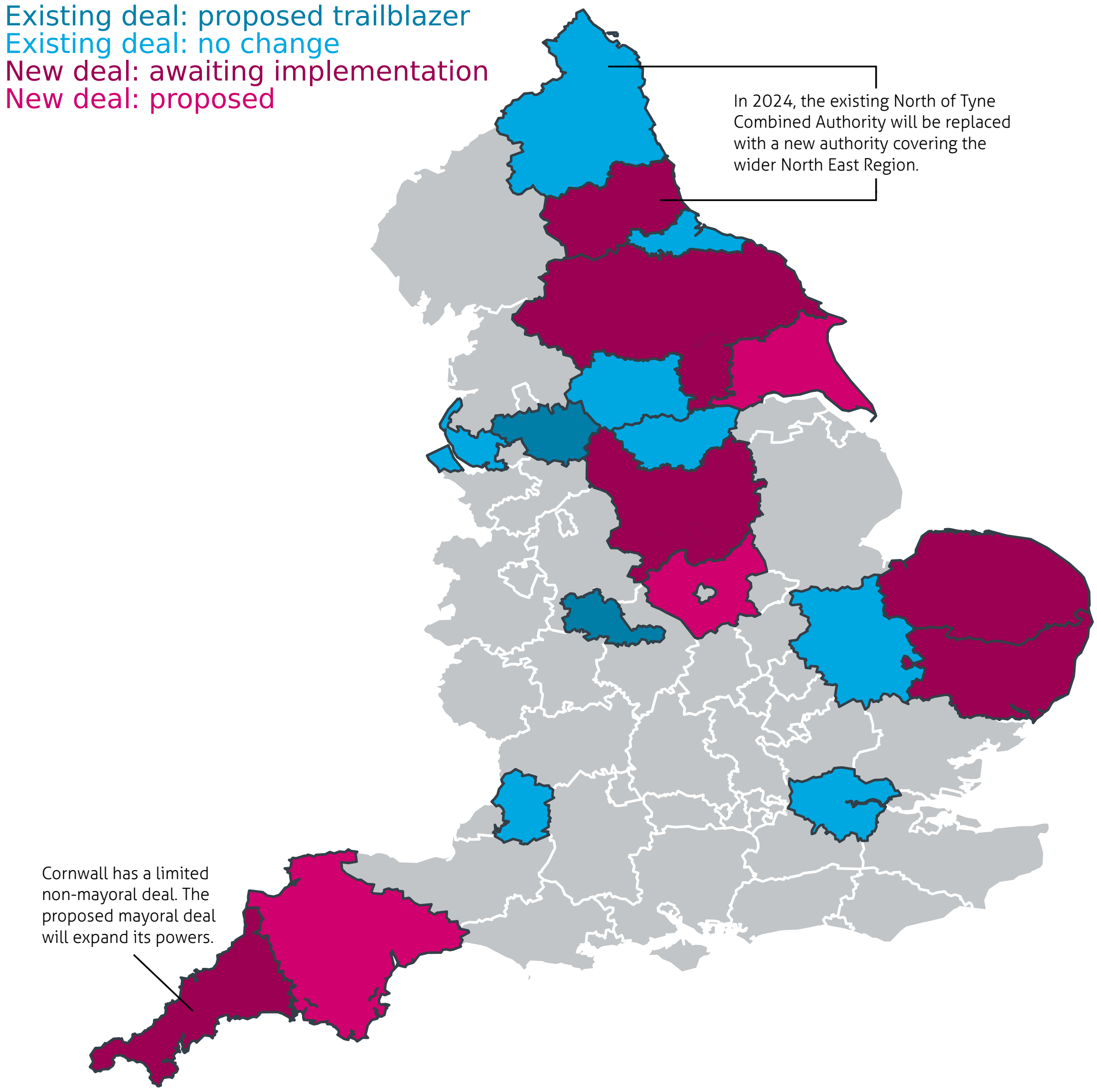
In both federal and unitary countries, money is redistributed from richer to poorer areas, with the formula used to determine this redistribution tending to be reviewed every five years or even more frequently. For example, Canada formally reviews its formula every five years, and Poland and Sweden every two to five years.[18] In addition, the central governments in these countries tend to step in at times of financial crisis – granting either extra money or greater borrowing powers to localities. For example, in both Germany and Japan subnational government tax shortfalls during the coronavirus pandemic were met with central government grants funded through additional state borrowing.[19]

No UK government should rush into devolving further taxes within England, but nor should it be off the table entirely given the potential benefits. As mayoral combined authorities accrue more powers, the government should explore models of tax devolution, including tax sharing, as a way of enhancing their role as a key driver of local economic growth. It can do this on a pilot basis – for example, time-limited experiments with tax-sharing arrangements on income tax with one or two combined authorities – and at a low level initially. This would be a low-risk way to iron out any potential problems and allow for a natural expansion of tax devolution over time, either by increasing the share of the tax devolved or allowing limited local flexibility over the rate. The single settlements announced in the trailblazer deals also make such an experiment more feasible, because (as in Scotland and Wales) tax revenue can be devolved in lieu of a share of the single MCA budget.

Applying the framework to institutional capacity

As we highlighted above, the benefits and costs of devolution will depend on the geography and the institutional capacity of the local governments receiving new powers. Given the unusual structure of subnational governments in England, these are key concerns for any extension of devolution.

Figure 3 **Existing and proposed mayoral devolution in England, by area**



Source: Institute for Government analysis of Department for Levelling Up, Housing and Communities, *Levelling Up the United Kingdom*, 2022. Notes: Deals awaiting implementation have concluded negotiations and been published by the UK government. Proposed deals were listed in the levelling up white paper but have not had a formal deal published; deals may also be made in other areas. Trailblazer deals will expand on existing devolution in Greater Manchester and the West Midlands.

Missing the right institutions or capacity could undermine the benefits of devolution

If local governments do not have sufficient capacity – both resources and skills – to design and deliver effective policies, many of the benefits of devolution could be undermined and some of the costs exacerbated. If the local authorities to which additional powers and funding are devolved are not well staffed or knowledgeable enough, they may struggle to gather and apply local knowledge to make policy that is well tailored to local needs. They may also lack the ability to innovate in policy, undermining potential policy experimentation and learning.

In addition, uneven local capacity may feed through to uneven delivery, which may exacerbate rather than ameliorate inequalities. And risks of policy capture – where policy is overly influenced by one group, often local businesses, trade unions or universities – are higher for local authorities with less policy making capacity, who are more likely to rely on external analysis and advice.

English local governments have limited, and divergent, capacity for effective policy making

Many of those we spoke to raised concerns about the capacity of English local government, both in combined and local authorities. Although they are all set up as groups of local authorities in metro areas, mayors of combined authorities currently have very different budgets, powers and track records. When last surveyed in 2019, the number of staff employed directly by the combined authorities varied from 2,013 in Greater Manchester to just 51 in Cambridgeshire and Peterborough (although most of the staff in Greater Manchester belonged to the fire authority, included in Manchester but a separate entity in other combined authority areas).[1]

And they are all very small compared with mayoralties in other countries, which have more expansive policy development and delivery responsibilities. Even the most advanced mayoralties, like Greater Manchester and the West Midlands, have fewer than one employee per 1,000 inhabitants – Toronto and Frankfurt, for example, have more than 15 per 1,000.[2]

Mayors in England have little flexibility over staffing and a relatively small strategic centre, with many staff working on specific projects or policy areas, as a consequence of much of their funding being allocated on a project-by-project basis.[3] They are also hampered to some extent by central government limits on hires, which, for example, limit mayors to just one political adviser and no dedicated private office.

There is little data on the number of central policy or strategy staff MCAs have, making it hard to precisely assess their policy making capacity. But interviewees in combined authorities and central government agreed that, in part because their role in policy development is currently limited, on the whole MCAs do not currently have the skills and processes to design and deliver policy more fully. Interviewees identified those relevant skills as:

- The ability to collect detailed evidence and do economic, financial or statistical analysis of potential policies before implementation, and evaluation of actual policies once they have been implemented.

- The ability to financially monitor very large budgets across multiple areas and types of delivery in a strategic fashion.

- The ability to do rigorous policy design and development.

Local authorities suffer from similar problems, especially given a decade and more of funding and staff cuts. The number of local government jobs has fallen by about two thirds over the past decade, from 2.9 million in 2010 to just under a million in 2022, although part of this reflects academisation of schools.[4] Strategy and cross-cutting policy teams often did disproportionately badly from these cuts, as they were not directly delivering statutory functions.

Capacity is easier to build in cities

Smaller and more rural local authorities are likely to have a smaller and less skilled labour force to draw potential staff from. This is partly because the vast majority of current civil servants, who might be hired by newly empowered combined authorities or even transferred to work for them, are based in cities or other specific hubs (such as Border Force staff in airports). Towns, or even smaller cities, generally do not have civil servants, with the exception of Jobcentres (responsibility for which we suggest could be devolved) and some public bodies, like the Office for National Statistics, which is based in Newport.

The distribution of civil servants is often quite regionally specific too. Of the 47,000 civil servants based in the South West, for example, nearly half (22,500) work for the Ministry of Defence – and therefore may have skills that do not easily translate to delivering transport policy or business support for local authorities.

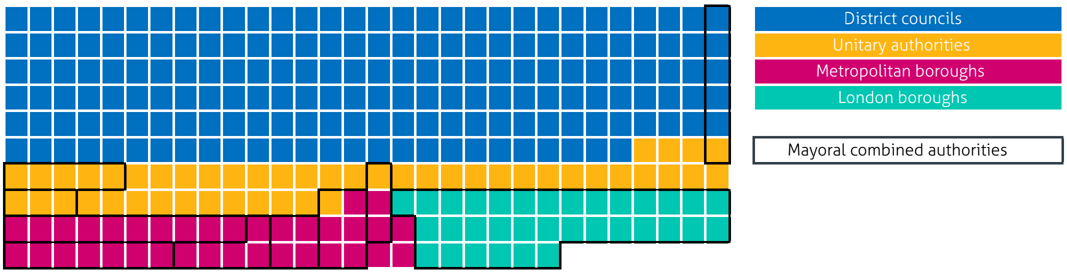
The location of graduates similarly suggests that cities will find it easier to recruit highly qualified staff. The 30 constituencies with the highest proportion of university graduates are all urban, while the constituencies with the fewest graduates are generally rural or semi-rural constituencies like Boston and Skegness or Castle Point.[5] On the other hand, public sector staff are generally better paid than their private sector equivalents outside London, so it may be comparatively easier for local authorities outside London to hire from the private sector.[6]

Many larger local authorities and mayoral combined authorities could, over time, develop sufficient policy making capacity to realise devolution benefits. But it is apparent that many are not currently in that position and building that capacity would take time. Some authorities are also more developed than others. Most obviously, the larger roles that the Greater Manchester and West Midlands combined authorities have taken in their local economies and (especially in the former) years of capacity-building mean they are well placed to make policy.

England's current local institutions are not suited to maximise the benefits of devolution

Previous Institute for Government work has shown that England's current system of devolution is fragmented and uneven.[7] Local authorities are not geographically aligned with the institutions used for delivery of public services, like integrated care systems, or those for consulting business leadership, like local enterprise partnerships. This makes co-ordination difficult.

Figure 4 **Lower-tier English local authorities, sorted by type of higher-tier authority, 2022**



Source: Institute for Government analysis, November 2022.

In particular, the combined authority model has only been implemented in more urban areas and sits awkwardly alongside the complex existing single- or two-tier system of local government in other parts of England.

Combined authorities vary in size and make-up, as shown in Figure 4, but most do at least map on relatively neatly to labour market areas – as they were conceived to do. There are exceptions to this: Cambridgeshire and Peterborough sits between multiple economic and labour market centres, while the West of England combined authority would arguably work better if more integrated with neighbouring towns and cities across the Severn in South Wales. But overall, the economic geography of combined authorities makes them relatively sensible vehicles for certain economic powers that should sit at the labour market level, like skills, or map on to local commuting networks, like local transport.

The appropriate geography for devolution is more complex outside metropolitan areas. Current structures in rural areas are much smaller than combined authorities – unitary authorities, which cover just over a fifth of England's population, have just 223,000 inhabitants on average; the figure for MCAs is around 1.6 million. County councils are larger on average, but still only around half the size of combined authorities. Many of these units – especially below county level – are simply too small in population for many of the potential policies we identify to be effectively devolved to, and risks of co-ordination failures will be very high if small localities decide on policies independently – although this can be solved in some areas through partnerships between local areas, which have been used to provide economies of scale on procurement, for example.

These issues are exacerbated in rural areas because potential areas for devolution usually sit between multiple economic and labour market centres. This is less problematic for more remote or coastal rural areas, like Cornwall, or areas with some larger cities, like Suffolk and Norfolk. But areas like Warrington and Cheshire – a proposed area for a new devolution deal,[8] which is roughly equidistant from the Greater Manchester and Liverpool combined authorities – would be more prone to co-ordination failures. This is because many of the residents of this area do or could potentially commute to other combined authorities for work, meaning the advantages of providing skills training, employment support or good public transport might accrue outside the local authority that funds those benefits.

The government largely acknowledges that many current local authorities do not cover a large enough population or have a coherent enough economic geography to manage some policy areas. Its approach to devolution so far has focused on giving powers to combined authorities (usually made up of several unitary or metropolitan authorities) or counties, which have around 800,000 inhabitants on average. But in some cases this could still result in an overly fragmented approach. Analysis from Professor Philip McCann suggests that in the OECD, large budgets and economic functions are usually devolved to administrative units between three and five million inhabitants[9] – an order of magnitude larger than counties or unitary authorities, and even larger than many of the new metropolitan combined authorities.

Asymmetric devolution makes sense for now – but should not be a long-term solution

These twin issues with the current institutional set-up – a lack of capacity, and a lack of institutions that fit an ideal economic geography – mean that the sort of asymmetric devolution that has so far been pursued by government is the right approach at least in the short term. One interviewee suggested it was better to devolve "carefully and unevenly not fast and evenly", a point echoed by the OECD, which argues that countries should "make the most of asymmetric decentralisation arrangements".[10] Either devolving policies to a coherent geography but where there is no capable institution, or devolving policy to an institution that does not cover a coherent geography, would be setting that institution up to fail.

There are also benefits in terms of 'selling' devolution to the public, and a greater potential to course correct on any mistakes, from the government using more well-resourced authorities like Greater Manchester and the West Midlands as guinea pigs for more extensive forms of devolution. These 'trailblazer' localities can provide lessons on how to do devolution well that can then be adopted to enable greater devolution.

This 'asymmetric' approach to devolution has been accepted explicitly by both main political parties. The levelling up white paper committed to opening negotiations for deeper 'trailblazer' devolution deals with the West Midlands and Greater Manchester combined authorities, and "extending devolution to much more" – but not necessarily all – of England.[11] Labour's shadow levelling up secretary Lisa Nandy, meanwhile, has said that Labour accepts that the devolution map must be "messy" as different areas move at different speeds.[12]

But while asymmetric, or 'multi-speed', devolution is the right approach for the time being, it has major downsides in the long term. At worst, asymmetry can lead to inconsistent, non-strategic devolution. England's local governance system is already incoherent, and such an approach – especially when based on ad hoc deal making, rather than a small number of devolution options – exacerbates this incoherence. Cementing this permanently on the devolution map would undermine various of the benefits of devolution that we have identified in this paper.

First a lack of a nationally uniform division of responsibility between central and local government would reduce the public's understanding of who delivers what in their local area, as this would be different in each locality. Some MPs already report that the 'messy' nature of devolution so far has reduced constituents' understanding of which level of government does what.[13] This means **local governments are less strongly incentivised to innovate successfully**, as accountability for performance through elections is weaker.

Second, central government being responsible for policy in some parts of the country but not in others is administratively complex and inefficient. The centre would deliver policy in places outside deeper devolution deals without the benefits of **economies of scale** or **national co-ordination** associated with centralised policy making, while also lacking the ability to **adapt policy to local circumstances** that local government has.

Varied relationships with localities could also give rise to perceptions of favouritism from central government – perceptions that already exist to some extent in the UK.[14] According to Philip McCann: "An insight from Spain is that the national governance system comes under severe internal pressure if the financial relationships between the national and the sub-national governance units vary too much."[15] It also provides additional complications. For example, if single departmental-style settlements are expanded beyond the initial two trailblazer combined authorities, individual negotiations with each authority will not be feasible. The government will need to take a formula-based approach instead, but that will be far more complicated if every deal includes its own set of powers rather than each matching one of two or three devolution models.

These reasons all mean that ministers should not accept a permanently 'messy' devolution map. Instead, as other Institute for Government work has argued, the government should set out an ambition to clarify and complete the map of devolution deals, doing so in a consistent way that clarifies responsibilities.

To facilitate this, the government should set out an ambition that every area of England should have a devolution deal by 2030. Such a target is useful to provide impetus to negotiations in the next few years, though in practice further agreements could be reached after this date, and different areas might continue to accrue more powers. In rural areas near large cities, in order to maximise the potential economic benefits of devolution, integration into the MCA for the nearest large conurbation should be on the table too. This differs from the government's current focus on devolution only in areas that request a deal, and Labour's acceptance of variation. But the benefits of devolution in England would be seriously undermined if devolution only covers part of the country, or is as patchy and inconsistent as it is at present.

The devolution framework laid out in the white paper is a welcome innovation that the Institute for Government had previously recommended. Having two or three types of deal on offer should bring coherence to future deals and make completing the map consistently a feasible goal. It also helps to clarify how regions might progress to have more devolution – for example, the equivalent of a trailblazer deal – over time. Government should set out options for devolution deals that should be available to any area that can demonstrate it is sufficiently large, economically coherent and has the administrative capability to take on new functions.

In divergence from the current approach of both main parties, government should avoid creating any more bespoke deals, and, as the Institute has previously recommended,[16] give MCAs the right to request any power that has been devolved elsewhere in England. This would help align the powers of different MCAs, make the system less complex to administer and easier for the public to understand, and clarify the pathway to a permanent devolved settlement for England.

Capacity problems are solvable over time – but need to be addressed actively

An ambition to complete the map and devolve more evenly to all areas requires the building of both institutions and administrative skills in those areas that are not current trailblazers or combined authorities. These are mainly more rural parts of England.

While building capacity is a complicated task, it is also a 'chicken-and-egg problem' – authorities will not have full capacity to take on a more expansive set of responsibilities if they currently have only a limited role. If government is serious about devolving more powers across the country, it should actively look to build capacity, even for areas that are not immediately in line for more powers.

There is some encouraging academic work on how this can be done, including through training programmes from central government; the creation of new agencies or non-profits assist small municipalities that lacked key skills, and the use of online training programmes to build the capability of local governments, as in the US.[17]

There are also clear examples of how capacity-building projects for new governments have been achieved successfully in the past – following devolution to Wales and Scotland, and in building up state governments in post-reunification East Germany. The German government, for example, established a programme through which each new state in the east was partnered with an established west German state to help them develop administrative capacity, both through advice and the provision of physical equipment.[18] Huge loans of personnel to the new state governments took place. At one point in 1993, 15,000 civil servants were 'loaned' to east German states from other parts of government.

In the UK, the relative success of those combined authorities created in the past decade, at least in terms of public profile and the ability to take on more powers, should also offer hope to areas yet to agree a devolution settlement.[19] There should be space for newer authorities to learn how capacity was built in the most successful combined authorities and county deal areas, making use of the opportunities for policy experimentation and learning highlighted as one of the benefits of devolution. Government should also consider providing extra government funding for the smallest devolved governments, as is the case in Germany.[20] There could even be room for adopting the 1990s German partnership model between newer and more established authorities. And central government could help by removing some of the restraints it currently places on combined authority staffing, including raising or abolishing the limit on political advisers for mayors.

We spoke to some civil servants involved in the transfers of powers to Scotland and Wales since the turn of the millennium about how capacity-building questions were approached there. A summary of the lessons they suggested from their experiences can be found in Box 1.

Box 1 **Lessons from capacity-building in Scotland and Wales**

Building capacity in the years preceding and following initial devolution was made easier in Scotland and Wales by the fact that pre-devolution, the functions that were eventually devolved were already largely administered by the Scottish Office and Welsh Office. Initially, the main changes in both countries were around building the devolved parliaments, ministerial support systems and strategic centres in Cardiff and Edinburgh. However, both governments later gained new powers, such as greater tax-setting powers, which required them to further build up skills and capacity in areas previously administered from Westminster.

Several lessons emerged from officials' experience of doing this:

- **Flexible funding helps with capacity-building.** The Barnett funding formula in Scotland and Wales allows devolved governments to largely spend their money how they like. This meant that, in advance of new functions being devolved, the devolved governments could build up teams with relevant expertise in advance and prepare the ground properly for taking on new functions.

- **Train up existing staff.** Before devolution, the Welsh Office in particular had a quite limited policy capacity, the bulk of its staff being in administrative and delivery roles. To build more policy making expertise, it hired some senior staff from Whitehall, but mainly prioritised retraining existing staff to do policy making and ministerial support. Academic evidence suggests training programmes, often with help from central government bodies, can be a major help in building capacity around newly devolved powers,[21] especially in technical areas like data, managing investments, and procurement where expertise is likely to be predominantly located in central government.

- **Build a policy making ecosystem.** Officials in Wales were also keen to emphasise the importance of local civil society and policy organisations, such as the Welsh government-funded Wales Centre for Public Policy,[22] in building capacity. These organisations can provide a useful pool of staff for newly empowered governments to recruit from, help to build the skills of existing staff, and hold governments' performance to account. Think tanks can also help build up local political capacity – the capacity of politicians and political advisers is as important as the civil servants.

- **Do not be too ambitious in the short term.** While local authorities simply following pre-existing policies may undermine the benefits of innovation in policy making, it can be a sensible policy in the short term until capacity has been built up. Those we spoke to in both Wales and Scotland emphasised that it took a while to build up the ability to strongly diverge from the UK government's policies, and on some issues (like tax in Wales) divergence has still largely not taken place. Places with newly devolved powers should not run before they can walk, and should only diverge when they have the skills to design and successfully implement new policies.

Ongoing Institute for Government work will set out more specifically how new and existing combined authorities can build capacity to deliver successfully for their region. While issues of capacity and variable geography offer a strong argument to be cautious and uneven in devolving powers for the time being, they are not insurmountable. Fewer restrictions on funding and a clearer roadmap on how functions are to be devolved would give local governments the flexibility and certainty to invest in their own capacity, and, as the Scottish and Welsh examples show, governments without the capacity to strongly diverge in policy from the centre can always bide their time while they build their policy making capacity. Capacity can be built in local authorities in a variety of ways, especially if government learns from previous efforts, and there are some advantages that less urban local areas have in capacity-building – particularly in terms of the relative attractiveness of salaries offered in the public sector.

In terms of geography, many English local government units are currently smaller than the ideal size to take on many functions. But further deal making, careful planning and partnerships between local areas can solve a lot of these problems. A bigger risk is that the devolution map is permanently left half-finished, exacerbating many of the costs of devolution without delivering the benefits. Government should be firm in its vision of a final end point to devolution, without being cavalier in trying to reach it too soon.

Recommendations

This paper has shown that policy makers should not see devolution of policy responsibilities within England as a guarantee of growth in and of itself. But it has also shown how a well-designed settlement – which takes advantage of the prospective benefits, and minimises the costs, of devolution outlined in previous sections – would improve economic policy making in a way that should boost growth over time.

Several recommendations for governments looking at further devolution of economic functions have emerged from this work. They are listed below.

There are opportunities to devolve further policies to combined authorities and similar institutions to deliver economic development

A consistent finding is that several economic policies – including transport, skills, employment support, spatial planning and commercialising R&D activity – are best delivered at a labour market or travel-to-work area. This level is sufficiently local to benefit from local knowledge and to be able to co-ordinate policies coherently into a local industrial strategy, but sufficiently large that the policies delivered in that area mostly affect the people living and working in that area, reducing problems of policy spillovers or a lack of co-ordination across areas. Combined authorities broadly meet this geographic scale, but do not currently have sufficient responsibilities or policy autonomy to drive regional transformation. The trailblazer deals are a step in the right direction, but there is still scope for further devolution to these areas.

The government should:

- Look, over the next parliament, **to expand the powers of mayoral combined authorities by devolving additional control over transport, skills, employment support and some R&D**, as far as possible ensuring these policies are controlled by the same local institution to maximise co-ordination benefits.

- For some policies where the combined authority is too small, most apparently in intra-regional (but inter-combined authority) transport, **devolve policy responsibilities to pan-regional bodies**, such as Transport for the North, as a formal partnership among combined authorities.

- Explore ways combined authorities' **spatial planning powers could be strengthened** to help them deliver a local plan across their whole area in the face of inevitable local authority opposition. This plan could then be co-ordinated with a local transport strategy.

Key strategic economic functions should be retained at the centre

While combined authorities can be drivers of local economic success, not all economic levers belong at a local level. The centre is well placed to deliver functions that require a coherent national strategy and where local provision would risk duplication or inefficient spending.

In particular, the government should:

- **Retain full central control of basic R&D funding, national rail routes, university education and social security.**

- **Retain central control over important strategic elements of devolved systems**, such as the accreditation framework for skills policies.

The centre has an important role to play to enhance the benefits of devolution

The role of the centre should not be limited to those areas where it retains central control. It also has a critical role to play to ensure that devolved policy makers can realise the benefits of devolution.

The government should:

- Prioritise, and adequately resource, the **collection and dissemination of timely and nationally consistent data** that pertain to devolved policy areas. This will allow local policy makers to best tailor policy to their area and to ensure robust evaluation is possible to learn which policies work most effectively, and adapt policy accordingly.

- Assist **co-ordination across combined authorities** in devolved policy areas; for example, by setting some national priorities for policy and reviewing local industrial strategies.

Getting the funding of subnational governments right is critical

One of the most important roles the centre has to play to promote the benefits of devolution is to design a subnational government funding system that enables local governments to take advantage of their local knowledge.

The government should:

- **Continue to simplify and provide more medium-term certainty for local government and combined authority funding.** With appropriate accountability mechanisms, the government should provide more combined authorities with multi-year spending settlements with many fewer ring fences, which is a welcome advance in trailblazer deals, and expand what these pots include; for example, to cover commercialised R&D funding and employment support. As the number of deals expands, these settlements should be determined based on a formula rather than Treasury negotiation at spending reviews.

- **Experiment with tax devolution** to combined authorities within England, including tax-sharing arrangements for large national taxes. These could be implemented on a pilot basis in the most developed combined authorities, and slowly phased in from a low starting level of 5% or 10% of revenues, initially.

Devolution should be expanded in a way that creates a more coherent system

The devolution map in England is currently a messy patchwork of different models in different parts of the country. Unstructured asymmetric devolution brings disadvantages by making the system more administratively complex and harder for businesses, people and governments to navigate, and leaving localities without devolved government with many of the costs of local delivery but not the benefits. But devolving to the wrong geographies, or to institutions that do not have sufficient capacity, risks worse outcomes than retaining powers in the centre.

The government should:

- **Continue to devolve asymmetrically to avoid going at the speed of the least prepared area, but do so in a systematic way** – based on a set framework of possible deals building on the devolution framework in the white paper, and with the ambition of delivering a devolution deal in every area by 2030.

- **Ensure current and new combined authorities can increase their evaluation, policy making and strategic capacity.** Examples of changes it should make include ensuring authorities have sufficient funding for capacity-building, which could also be addressed through less strings-attached funding, providing training programmes and removing some of the central government constraints on combined authority staffing.

Appendix

Table A1 **Current economic policy responsibilities of local and combined authorities**

Policy	Local authorities	Combined authorities
Transport	• Maintain/manage non-major roads • Local transport infrastructure, e.g. bus stops • Community transport planning	• Borrow or bid to central government for transport related projects • Bus franchising powers • GMCA and WMCA have control over tram and partnerships with Great British Rail • Subnational transport bodies, above combined authorities, have regional strategic planning responsibilities
Spatial planning and housing	• Produces the 'local plan', which guides future planning decisions • Approve/reject local developments	• Produces spatial plan for the region (with consent of local authorities) • Has access to brownfield funds for redevelopments • GLA and now GMCA and WMCA (through TB deal) delivers the Affordable Homes Programme in partnership with Homes England
Skills	• Lack formal statutory powers, but some role in supporting local skills programmes	• Control over adult (19+) education budget • GMCA and WMCA will partner with DfE on post-16 technical education
Social security and employment support	• Delivers council tax support and housing benefit • Distribute ad hoc welfare funds like local welfare support fund	• GMCA and WMCA will co-design future employment support programmes, and become responsible for convening careers guidance.
Product and market regulation		• TFL controls private hire (taxi) regulation in Greater London
Research and development		• Minor role in innovation accelerator programmes, run jointly with Innovate UK, to select R&D projects to drive regional growth in GMCA, WMCA and Glasgow city region

Note: All responsibilities not captured here are held by central government. GMCA is Greater Manchester Combined Authority. WMCA is West Midlands Combined Authority.

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