



# Devolution and economic productivity in England

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## Introduction

The focus of devolution in the UK over the past 20 years has predominantly been the nations: the transfer of powers from Westminster to Scotland, Wales and Northern Ireland. But there have also been a number of initiatives to devolve powers to lower layers of government within England. Most recently, the English devolution agenda has involved the creation of combined authorities, formed by two or more local authorities, in many cases led by a directly elected metro mayor. Various powers and budgets have been transferred to combined authorities from Whitehall, based on 'devolution deals' negotiated between local leaders and central government.

English devolution was a central priority for the governments led by David Cameron, particularly between 2014 and 2016, but Westminster's enthusiasm for this agenda appeared to decline after the EU referendum. However, recent statements by government ministers indicate that it might be making its way up the political agenda again, and a new English devolution white paper setting out the government's plans was promised in October's Queen's Speech.<sup>1</sup>

The first combined authority (in Greater Manchester) was established in 2011,<sup>2</sup> and nine more have since been created, covering 10 areas of England. Eight of these are led by metro mayors and have concluded devolution deals with the centre.

On 1 October 2019, Atkins and the Institute for Government convened a private roundtable at the Conservative Party Conference in Manchester, with leading figures from the combined authorities, local government, business and Westminster, to consider the experience of the combined authorities so far and where the English devolution agenda should go next. This short paper summarises that discussion.

## The rationale for English devolution

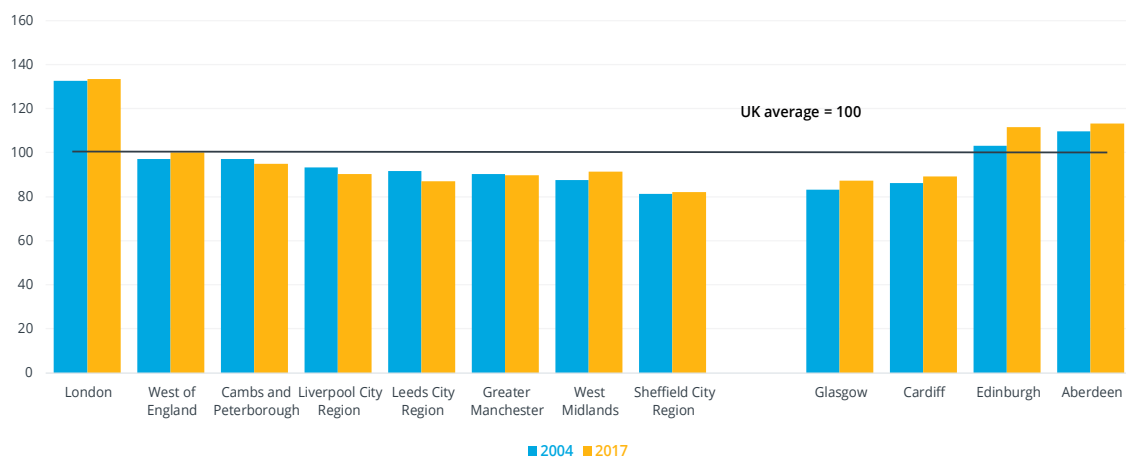
Policy making responsibility is more centralised in England than in most other comparable countries. English local authorities have little fiscal autonomy, with a lower share of taxes collected at the local level than in any other G7 country.<sup>3</sup> One participant in the discussion stated that:

**“Every other advanced economy has got mayoral authorities with very large powers with sensible economic geography.”**

There are also large and persistent differences in productivity between the regions of the UK. Focusing specifically on metro areas, while London is 33% more productive than the UK average (measured in terms of gross value added, GVA, per hour worked), most other English metro areas are significantly below that average, with the sole exception of the West of England region centred on Bristol (see Figure 1).

There has also been little to no catch-up across England since 2004, the first year for which comparable data is available. While Aberdeen, Edinburgh, Glasgow and Cardiff have all reduced the gap between their productivity levels and that of London since 2004, the gap has widened for five of the eight English metro areas.

**Figure 1: Productivity of UK metro areas, 2004 and 2017 (UK average=100)**



Note: Data is smoothed using a five-year weighted average.

Source: Institute for Government calculations using figures for GVA per hour worked from Office for National Statistics, 'Subregional productivity: labour productivity indices by city region', 2019, [www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/subregionalproductivitylabourproductivitygvaperhourworkedandgvaperfilledjobindicesbycityregion](http://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/subregionalproductivitylabourproductivitygvaperhourworkedandgvaperfilledjobindicesbycityregion)

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The government has said that improving productivity is a driving motivation for further English devolution. In March 2019, the Ministry of Housing, Communities and Local Government's (MHCLG) *Annual Report on Devolution* stated that:

**Devolution within England aims to provide local areas with the levers they need to boost productivity in local economies and improve and integrate public services.<sup>4</sup>**

The website for the Northern Powerhouse, the governments' initiative specifically focusing on the north of England, states that:

**Building a Northern Powerhouse is about boosting the local economy by investing in skills, innovation, transport and culture.<sup>5</sup>**

Participants at the roundtable agreed that the longstanding gaps in productivity across the country suggest that the current policy making setup is not working, and that there was a clear rationale for devolving some policy areas to a lower tier of government that can be more responsive to local economic needs. One participant stated that:

**"The difference between great projects and average projects is often knowledge of the local context."**

Given this rationale for devolution, the natural questions then become: which policy areas should be devolved within England; and what is the appropriate level of government to devolve the powers to?

### **Which policy areas?**

Good candidates for policies to be devolved are those that are likely to benefit a local economy if tailored specifically to its longer-term needs. This includes policies around skills and infrastructure (two of the key pillars of the government's National Industrial Strategy<sup>\*</sup>) – ensuring that workers have the correct skills to meet the needs of the local economy and choosing the highest-value infrastructure projects given the local industrial strategy for that area.

It is also important that devolved policy areas are not vulnerable to intense competition between regions. A policy that could result in one local economy gaining at another's expense is likely to benefit from co-ordination at a higher level of government, rather than allowing more local entities to engage in potentially harmful competition, for example over business taxes or subsidies.

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\* The government's National Industrial Strategy white paper (2018) highlighted skills and infrastructure as two of its key pillars. In her foreword, the then prime minister stated that the strategy was "rooted in the conviction that a successful free-market economy must be built on firm foundations: the skills of its workers, the quality of the infrastructure, and a fair and predictable business environment." [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf)

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### What is the appropriate level of government?

Since 1972, the main layer of administration below central government in England has been that of the 326 local authorities. But while this is significantly fewer authorities than there were before the Act that created them (the Local Government Act 1972), most participants agreed that it is still too many for each to have significant control over economic policies. (By contrast, the 60 local authorities proposed by the Redcliffe–Maude review in 1968 “made a great deal of economic sense”, according to one participant).

Partly, this is because administering these powers requires significant capacity and so is more suited to larger bodies. Problems of ‘beggar thy neighbour’ competition – designing policies that enhance one area’s economy at the expense of a neighbouring one’s – also become more severe as the units of decision making become smaller.

Thus, substantial devolution of economic policy would need to be at a higher layer of government than local authorities. Two conditions were proposed during the discussion for suitable devolved bodies. First, one participant noted that “so many of the ways we operate... are not co-ordinated in terms of geography, so we need a debate and discussion about that” – in other words, it is important that these bodies cover coherent local economies.

The second condition was that they align with people’s identities and sense of local political community, to enhance the democratic engagement and accountability of the devolved bodies. One participant noted that:

**“Without the buy-in and the backing of voters and a clear democratic mandate for their plans, metro mayors will find it more difficult to implement their plans.”**

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## Mayoral combined authorities in England

The first mayoral combined authority was set up in 2011 in Greater Manchester. Table 1 lists each of England's 10 combined authorities, along with the date they were established and when (if applicable) a metro mayor for the area was first elected.

**Table 1: Combined authorities and metro mayors of England, establishment/election dates**

Region	Combined authority established	Metro mayor elected
Greater Manchester	2011	2017*
Liverpool City Region	2014	2017
Sheffield City Region	2014	2018
West Yorkshire	2014	N/A
North East	2014	N/A
Tees Valley	2016	2017
West Midlands	2016	2017
West of England	2017	2017
Cambridgeshire/Peterborough	2017	2017
North of Tyne	2018	2019

Source: Institute for Government research and analysis of Sandford M, *Combined Authorities*, briefing paper, House of Commons Library, 2017, <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06649#fullreport>

Two combined authorities – West Yorkshire and North East – have not yet agreed a mayoral deal as negotiations within the combined authority have broken down.

In total, those combined authorities with mayors cover 27% of the English population, and 24% of the economy, outside London. Including London, 38% of the population and 45% of the economy in England are now covered by mayoral deals.\*\*

The precise powers that mayoral combined authorities have vary depending on the deal agreed with central government. In general, these powers cover aspects of housing, transport, skills and social care,\*\* but the deals vary in scope. They also leave out the majority of the English population. These features, and the ad-hoc nature of the devolution deal-making process, were regarded as a sign of failure by some participants. One close observer argued that:

**"[The government has] botched and went wherever they could and made deals wherever they could."**

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\* Interim mayor appointed in 2015.

\*\* Figures based on Institute for Government analysis of Office for National Statistics, 'Regional gross value added (balanced) by local authority in the UK', 2017, [www.ons.gov.uk/economy/grossvalueadded/gva/datasets/regionalgrossvalueaddedbalancedbylocalauthorityintheuk](http://www.ons.gov.uk/economy/grossvalueadded/gva/datasets/regionalgrossvalueaddedbalancedbylocalauthorityintheuk); and Office for National Statistics, 'Population estimates', 2019, [www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates](http://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates)

\*\*\* More details can be found in the Institute for Government explainer [www.instituteforgovernment.org.uk/explainers/english-devolution-combined-authorities-and-metro-mayors](http://www.instituteforgovernment.org.uk/explainers/english-devolution-combined-authorities-and-metro-mayors)

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## What has the experience of the metro mayors been so far?

The first combined authority has only been in place for eight years, and the metro mayors for less than three. It is therefore too early to judge whether they have begun to make a significant difference to local economic performance or to pronounce them a success or a failure. As one participant noted:

“It will take many years to tell whether [the mayoral combined authorities] have made a measurable difference to economic performance... investment in infrastructure or skills will take many years to show an effect.”

Nonetheless, participants felt that the experience of the combined authorities in these early years is informative as the government looks to deliver further devolution deals, reviews the deals that have already been agreed, and as the second set of metro mayor elections approaches in May 2020.

### Notable early successes

Attendees claimed that metro mayors had already managed to achieve some substantial policy successes. This is notable since metro mayors need the agreement of other local partners for most significant initiatives (for example, mayoral budgets can be vetoed by two thirds of local authority leaders on the combined authority). Achievements mentioned were of two forms.

First, metro mayors, in partnership with the other members of their combined authorities, had succeeded in setting up clear strategies for the future. For example, the West of England “already has a clear transport strategy, a clear business and skills strategy”. While these strategies will take many years to deliver concrete improvements to economic and social outcomes, they nonetheless suggest that the new devolved authorities are setting a long-term direction of travel for their areas, which did not previously exist.

Second, participants highlighted specific policy changes that have already been enacted and are already making a difference. For example, in the West Midlands, areas of achievement cited included:

- **adult education:** “we have massively reduced the number of providers so the landscape is easier to navigate”
- **housebuilding:** “helping enable rather than do direct delivery to meet an ambitious set of housing targets”
- **transport:** “we have rolled out ‘smart ticketing’” on transport and combined it with other local services, such as cards for accessing leisure centres.

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There was general agreement that Greater Manchester had been a success in part because it had engaged other local institutions in developing a strategy for the metro area. In particular, as one participant said:

**“In Greater Manchester, the University is more engaged in how the city is run than almost any other organisation... [and academics have a] prominent role in writing the local industrial strategy.”**

### **But there have also been challenges**

Despite the policy successes identified, several participants expressed frustration that devolution arrangements do not go far enough. One described the current situation as “decentralisation rather than true devolution” adding that:

**“For us to be seen simply as bodies who bid back into the Treasury for different projects is never going to make a difference.”**

Frustration was also expressed that the powers that have been devolved are incomplete. A prominent example cited was the fact that parts of adult education policy are devolved, but other parts of the post-16 system are still controlled nationally, as are schools and pre-school policy. One participant said that:

**“The fact that infant mortality is so high is holding back our region. It’s great that we have control of the adult education budget but what is limiting our educational performance might be that children are not ready for school.”**

Another agreed with this view and argued that it was “completely inconceivable that you can have a local industrial strategy without education.”

One participant argued that “the thing that has been lacking over the last couple of years is clarity from central government”, and that this, in combination with a lack of “true devolution” was hampering their ability to deliver for their voters:

**“Have we got, as combined authorities, the tools we need to deliver? At the moment we haven’t.”**

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## The future of the English devolution agenda

Participants felt that, while metro mayors have already managed to make policy changes, they have faced challenges in trying to do so and would like more powers. The current situation is not a stable end-point – it is instead a patchwork of bespoke deals with different powers currently covering a minority of the English population. As the government considers where it wants this agenda to go next, it is important to understand both the barriers to reform and the opportunities that lie ahead.

### Barriers

The roundtable discussion revealed two primary barriers to devolution within England: one agreed almost unanimously and another contested.

The first was central government. There was almost unanimous agreement that – on the whole – central government departments generally were reluctant to give up control of policy and – in the case of the Treasury, specifically – control over how money is spent. One participant described this as a “what I have I hold” attitude. However, several participants argued that George Osborne had not had this attitude as chancellor, one noting that:

**“Osborne led [the devolution agenda]... He told [civil servants across central government departments] that we would have devolution”.**

Since Osborne’s departure, there has been less central pressure on government departments to deliver devolution. Nonetheless, there may be a shifting attitude to devolution within certain departments, with one participant remarking that “the winds of devolution are also blowing through the halls of the Department for Transport”.

The second proposed, but contested, barrier was local authorities themselves. The creation of combined authorities requires an agreement between local authorities effectively to pool powers and hand responsibility up to a higher layer of government. Several participants suggested this had put a considerable brake on the speed of devolution, as one put it:

**“It’s all been done at the pace that the most obstructive, most backward-looking councillors would accept.”**

Another participant noted difficulties in setting up the North of Tyne combined authority:

**“We were not able to reconcile the self-interest of often two-tier local authorities with the reality of what needed to happen.”**

But others disagreed, with one participant saying the slow progress was entirely caused by “the drive from the centre and their desire to control what is happening on the ground”. They also pointed out that “every single area of the country put forward a [devolution] proposition to central government” – implying that there was commitment to the devolution agenda at the local government level – but that “75% of them were rejected”.



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## Opportunities

Assuming that those barriers could be overcome, there was a general consensus that there were two ways in which English devolution could be enhanced.

The first is by enhancing the powers of the existing mayoral combined authorities. Most participants agreed that combined authorities need fuller control over devolved policy areas, such as skills or housing, to ensure they have sufficient responsibility to be held accountable for the economic performance of their areas.

There was some disagreement, however, about whether this necessarily meant that all combined authorities should have the same powers. One participant expressed a preference for specific powers being tailored to the needs of the combined authority, saying “we don’t necessarily want all of those powers”. But another argued: “I don’t think that [having different powers] is sustainable...[this is] a very difficult argument for a democratic politician [to make]”.

The second area highlighted for future development was the expansion of devolution by agreeing more devolution deals – ideally so that the whole of England was covered by combined authorities with devolved economic powers. One participant mentioned that in Warrington, which sits between two combined authorities (Greater Manchester and Liverpool), there was:

**“a sense of frustration seeing other authorities racing ahead and being unable to join the race.”**

Participants also pointed out that: “city regions are not the only functional economic areas” and one argued that “we need mayoral authorities across the country”, including in rural areas.

The challenge for new devolution deals is identifying coherent local economic geographies and achieving consent from local authorities to combine. Some proposed deals – such as the one for West Yorkshire – have already been much delayed as they have struggled to agree details with the centre.<sup>6</sup>

However, the political context appears to have changed, potentially providing new opportunities. One participant mentioned that he thought the prime minister was “a natural devolver”, having been London mayor. MHCLG Minister Jake Berry recently stated that:

**“The new white paper will set out our ambitious plan to achieve 100% devolution in the North of England, meaning we will create more mayors, and give more powers to existing mayors.”<sup>7</sup>**

Given this renewed political momentum, now is crucial to learn the lessons from the experience of the past few years to develop a coherent strategy for the future. A change of government at the 2019 general election could change this picture, but the Labour Party is also in favour of further decentralisation within England, although details of its plans are scarce.

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## Conclusions

English devolution is back on the agenda and the establishment of mayoral combined authorities has been a major first step towards a more devolved policy making arrangement. While there was a general view at the roundtable that the government could go further with this agenda to enhance the power of the mayors, the discussion also revealed a set of important questions that the government should address in its forthcoming white paper. These include:

- Which powers are suitable to devolve to combined authorities?
- Should those powers be 'one size fits all', on a bespoke deal-by-deal basis, or somewhere in between?
- How can the arrangements be enhanced so that combined authorities can take responsibility for economic outcomes in their region?
- How should the boundaries be drawn to ensure that combined authorities are coherent areas – both economically and politically?
- How can devolution deals be concluded for those parts of England that have so far been left out of this agenda?

If the future of English devolution is to be more coherent than the experience of the past few years, the answers to these questions should form an overarching strategy for the next stage of English devolution.

As one participant noted, "the march is on" for further devolution; but we don't yet know where that march is heading.

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## References

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