THE ECONOMY 2030 INQUIRY
SHAPING A DECADE OF CHANGE

Centralisation Nation

Britain's system of local government and its impact on the national economy

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The Economy 2030 Inquiry

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Executive summary

For over a decade, Britain's economy has been stuck. Real wages have seen minimal growth, business investment to expand the productive potential of the economy has not increased, and public services have deteriorated. The task of the 2020s is to overcome this stagnation while wrestling with a decade of significant economic change, as Britain recovers from the pandemic, adjusts to exiting the EU, and transitions towards a net zero future.

There is not though just one single economy. Rather, the national economy is a combination of dozens of local labour markets across the country. How subnational government handles economic change at the local level has implications for how the national economy experiences change as a whole.

Cities are particularly important for the process of managing national economic change given their role as places of innovative and highly-skilled activity, their size, and for some of them, their underperformance. Variation in local economic performance across the country, especially the underperformance of the large cities outside London, has been a persistent problem for British policymakers for at least a century, and has repeatedly placed demands and limits upon the national economy.

However, subnational government currently lacks the ability and the mandate to improve local economies. It struggles to deliver positive economic change in underperforming cities, and often resists or blocks economic growth in prosperous places, with knock-on costs for the national economy. As a result, despite

Whitehall's disappointing track record over the past century of local economic policy, central government is forced to take on responsibilities to manage local economic change in every part of the country with little support or even outright opposition to growth from local government.

Britain's model of economic growth is stuck partly because so many of its local economies are stuck, as subnational government is not set up to deliver the change that they and the national economy require. As this report shows:

- Britain's system of subnational government is marked by internationally exceptional fiscal centralisation, high fragmentation and variation of governance across local economies, and little resource or responsibility for improving local economies.

- Despite recent waves of devolution, Britain has become even more fiscally centralised since 2015, further reducing the already-weak incentive for local authorities to grow their local economies.

- The fragmentation of local government structures in England is a bottleneck on not just local but likely on national economic performance, and makes it harder to deliver comprehensive reform of responsibilities and funding.

- Improving local prosperity is not currently an important responsibility of local government. Councils only spend 9 per cent of their budgets on local economic development, despite the political and economic importance of overcoming Britain's geographic divides. Resources have been squeezed by cuts in a centralised funding model, but contrast to the relative protection of funding for services where there is a clear statutory obligation on local government, most importantly social care.

National government will always have some role to play in managing national economic change and redistribution across the country. But the division of responsibility between local and central government is unbalanced towards the centre, and this seems to be linked to poor local and national economic performance.

Ultimately, improving economic governance will require institutional reforms at the subnational level. Central government must therefore make a choice. If national government decides to sustain centralisation and take responsibility for managing local economic change, then local government must be stripped of its power to block local economic growth. Sustained centralisation would come with significant costs, as national government has historically shown itself to be an ineffective vehicle for managing local economic change.

The alternative is that local government takes true responsibility for local prosperity. The devolution agenda has begun to move in this direction, and recognises the importance of big cities, but exactly how reform should proceed or where it should aim for is poorly understood. Simply shifting powers and funding onto unreformed structures will not significantly change local or national economic performance, as key incentives and responsibilities will not have changed.

If subnational government is to properly take on a mandate for managing local economic change, then reformers must grapple with the trade offs this entails and understand the interconnections between nominally separate policy areas. Reforming the system as a whole is an easier task than trying to reform one issue at a time when the rest of the system is failing. Change is possible, though, and other countries with similar structures for subnational government, including France, Japan and Ukraine, have made progress on overcoming similar challenges.

Greater devolution by itself does not necessarily lead to improved local and national economic performance, but the part of the state that does take responsibility for managing local economies needs to have the ability to deliver local economic change. There is no one-size-fits all solution here – different places may need different arrangements. That said, there are a clear set of interconnected problems that any serious programme of devolution aiming to improve local and national prosperity should address. Those problems include:

- A lack of fiscal devolution and local control over local tax bases and rates. The local government funding debate must address local economic growth as well as local services.

- Fragmentation of local government structures and boundaries. Artificial divides within places and between tiers of government make local management of the economy and other reforms more challenging.

- Low levels of resources and low prioritisation both reduce the ability of local government to improve their local economies. More resource for local government must come with greater responsibility for economic development.

Section 1

Introduction

In recent years, the British economy has found itself stuck. The rate of British productivity growth never recovered from the financial crisis. Accordingly, GDP growth has slowed, incomes have flatlined, and economic dynamism has declined. The Interim Report of the Economy 2030 Inquiry shows that, despite the UK's strengths, the past 15 years have seen Britain experience stubbornly poor rates of investment, low growth and high inequality, with knock-on effects for living standards, public services, and the public finances.[1]

British economic policy over the 2020s must not just overcome this stagnation, but also manage a decade of significant economic change. As Britain recovers from the Covid-19 pandemic, adjusts to Brexit, and shifts towards net zero carbon emissions, policymakers need to allow and deepen further economic change to make the decade a success.

However, the British economy is not a single, flat, uniform space. Where people and firms locate and work has important implications for their outcomes. The national economy should be understood, at least in part, as a collection of dozens of distinct local economies.

The most important local economies are cities, due to the special benefits that urban areas offer workers and firms. As with countries, cities are themselves complex economies with multiple actors. One trend has been for cities to embrace economic change in recent decade and so have higher productivity and incomes than those areas that have seen stagnation and replicated existing patterns of work.[2]

As the British national economy is a composite of many local labour markets, the ability of local governments to manage local economic change in turn affects the national economy's ability to embrace change. As we come on to discuss in more detail below, the UK is unusually centralised by international standards, with little role for local government in managing the local economy for a country of its size. It also faces large

1 Resolution Foundation & Centre for Economic Performance, LSE, Stagnation nation: Navigating a route to a fairer and more prosperous Britain, Resolution Foundation, July 2022.
2 G Rodrigues & A Breach, What levelling up really means – changing the geography of knowledge, Centre for Cities, 2021; P Swinney & E Thomas, A century of cities: Urban economic change since 1911, Centre for Cities, 2015.

divides in local economic performance. While it does not necessarily follow that greater devolution by itself improves local and national economic performance, the part of the state that does take responsibility for managing local economies needs to have the ability to deliver local economic change for the national economy to do well.

This report assesses the ability of the framework of subnational government to manage local economic change across: structures, funding and autonomy. It identifies priorities for reform in the context of Britain's persistent national economic stagnation. It will explain how problems in local economic governance are damaging national economic performance and the trade offs that reform will need to address.

The primary focus of the report is England, as England's devolution debate is focused on local economies, whereas debates in the three other nations tend to focus on devolution towards their legislatures. Local government in each of the three devolved nations has also been comprehensively reformed within the past 30 years, both leaving England behind and reducing the scope for further large-scale reform. That said, there may well be lessons from our analysis of sub-national economic governance in England that would apply to the other nations of the UK.

This paper asks whether the UK manages local economic change well and shows that it struggles to do so. Central government seems to think it is better placed to manage local economies than local government, when in fact it faces serious difficulties in doing so. Local government is severely underpowered due to centralisation of funding, fragmentation of structures, and underfunding, and as a result it struggles to exercise any mandate to deliver local prosperity.

The report also reviews how unitary states facing comparable problems – France, Japan, and Ukraine – have reformed their systems of subnational government in recent years, before concluding with an overall summary of the trade offs that policymakers will face when undertaking significant subnational government reform seeking to improve local and national economic performance.[3]

With all that in mind, the rest of the report is structured as follows:

- Section 2 looks at how local economic change is managed in Britain.
- Section 3 considers the funding framework for local government.
- Section 4 presents the problems that emerge from the fragmentation and governance structures of local government.

3 For example, see: N Amin-Smith, T Harris & D Phillips, Taking control: which taxes could be devolved to English local government, Institute for Fiscal Studies, March 2019; P Swinney & S Jeffrey, Levelling up local government in England, Centre for Cities, September 2020.

- Section 5 discusses local government's limited resources and economic responsibilities.
- Section 6 examines the experience in other countries, focusing on what we can learn from successful devolution elsewhere.
- Finally, Section 7 sets out our conclusions.

Section 2

Does Britain manage local economic change well?

Over the course of the 20th and the beginning of the 21st century, Britain's economy has experienced dramatic change. An industrial inheritance of absolute advantages in the exports of manufactures, services, and energy in the early 20th century was reshaped multiple times through global competition, technological change, and public and private investment. Notwithstanding the past 15 years of relative stagnation, the British economy's track record is one of repeated and successful adaptation, largely thanks to sustained strengths in exportable services.

However, at the local level there has been a deeper pattern of replication over change, with many places still struggling with the fallout from deindustrialisation in the 20th century. The underlying economic geography across the country has not changed nearly as much as the national economy, even if some cities have seen their economies begin to change and improve. Overcoming deep-rooted stagnation of this type will not just need to address recent challenges, but also problems that have persisted for decades in large parts of the country, especially in the big cities outside the capital.

Local economic governance has struggled to manage these challenges as it lacks the tools to do so, and the changes that the British economy has experienced have not been matched by equivalent change in its institutions. Tinkering with local funding, responsibilities, structures and boundaries has not counteracted a trend towards greater centralisation as the problems within local economic governance have grown.

National government has tried to overcome these divides by assuming greater control over local economic policy for over a century, with little success. Britain's highly and increasingly centralised government has over the period found it difficult to manage dozens of distinct local economies from Whitehall. Centralisation also means that local government has struggled to manage the local economic responsibilities it does have, and in fact induces local resistance to growth. Reform to improve Britain's ability to improve local – and thereby national – prosperity must therefore alter the settlement where local government is not responsible for increasing local economic growth but can and does reduce it. One consistent approach would be for central government to assume control by stripping local government of its economic powers and its vetoes, although this further centralisation would come with significant costs and uncertain success.

An obvious alternative would be to give clear responsibility for local economic change to local government. In turn, this would require not just changes to funding, but reforms across the incentives, structures, and resource of local government. Policy makers pursuing reform need to understand the trade offs present in each area and the links between them, and the lessons to be learned from other countries that have faced similar problems.

Geographic inequality across Britain is wide, persistent, and urban

Britain's economy has experienced profound change over the course of the 20th century and the early years of this one, and this history is largely one of successful and multiple adaptations. Plenty of precedent exists for policy makers to adapt to the challenges of the forthcoming decade, as the British economy has repeatedly changed along with the nature of its comparative advantages. Its role as an exporter of energy, manufactures and capital has diminished, the role of the state has expanded, and yet its role as a globally important exporter of tradable services has been sustained and is the foundation of our modern prosperity.[4]

Britain does not just experience deindustrialisation and a shift to the knowledge economy as other developed countries do, however. It has also experienced an unusually stark underperformance in local economic success of cities outside London. For instance, while cities in the Greater South East (South East, London, East of England) in 2015 were 7 per cent more productive than Germany, those in other parts of England and Wales are often only as productive as second-tier cities in Eastern Europe. In 2011 productivity per worker in Gdansk was £46,000 and in Leipzig it was £42,000, compared to £43,300 in Birmingham and £41,900 in Nottingham.[5]

In part, this is a consequence of the British national economy's strengths. Its exporting specialisation in high-value tradable services, such as law, consulting and publishing appears to be linked to greater concentration of activity in certain locations than countries with different comparative advantages.[6] These 'exporting' services experience especially strong concentrations within cities due to the special agglomeration benefits that this activity draws from highly urban locations. Although non-urban local economies

4 D Edgerton, The Rise and Fall of the British Nation – A Twentieth Century History, Penguin, 2019; D Weldon, Two Hundred Years of Muddling Through – The surprising story of Britain's economy from boom to bust and back again, Little, Brown, 2021; G C Peden, Arms, Economics, and British Strategy – From Dreadnoughts to Hydrogen Bombs, Cambridge University Press, 2007; S Broadberry, Market Services and the Productivity Race, 1850–2000, Cambridge University Press, 2006.

5 P Swinney & A Breach, The role of place in the UK's productivity problem, Centre for Cities, 2017; H Bessis, Competing with the continent: How do UK cities match up to the rest of Europe?, Centre for Cities, 2016.

6 P Brandily et al., Bridging the gap: What would it take to narrow the UK's productivity disparities?, Resolution Foundation, June 2022.

play an important role in the economy and for their residents, strong urban economies have a special role in the British economy as the location of Britain's most successful industries.

Despite this, Britain's biggest cities outside of the capital actually stand out for their poor performance. Second-tier cities elsewhere in Europe and the world are usually more productive than the national average; but in Britain they are not.[7] That the big cities outside of London are not meeting their potential is therefore doubly damaging – it widens spatial disparities across the UK, and it damages the national economy given the UK's strengths in tradable services.[8]

The underperformance of the big cities is the core problem underpinning Britain's spatial divides, but their large size means that the potential benefits of progress in urban Britain are large. Centre for Cities has calculated that the eight largest cities in Britain after London are performing below their potential by £47 billion, approximately 57 per cent of the total gap between the Greater South East and the rest of the UK.[9] Therefore, reducing spatial inequality across the UK requires policy makers to focus on the big cities. For instance, increasing (Greater) Manchester's levels of physical capital, graduates in the workforce, and size of the labour market up by 30 per cent would roughly halve the economic gap between London and Manchester.[10]

Just as important as the size of these divides is their persistence. Cities in Britain without knowledge-intensive work 100 years ago tend to lack it today, and the number of 'reinventor' cities that have generated new highly skilled activity from shallow roots is small.[11] This is part of the problem facing Britain's large cities: although the economic performance of the largest cities such as Manchester and Glasgow has slowly begun to improve since the 1980s, they have not yet achieved convergence with more productive but much smaller urban areas such as Basildon or Swindon.

Improving local economic performance in struggling cities is not just a policy problem, but also a political one. Concern about geographic inequality in Britain in the 2020s has grown enough that 'levelling up' has become the signature domestic agenda item of the recent Government of Prime Minister Johnson. For this reason, the Levelling Up White Paper stresses the importance of cities and states that overcoming their underperformance is crucial both for the national economy and the levelling up agenda.

7 P Swinney, So you want to level up?, Centre for Cities, 2021.
8 Resolution Foundation & Centre for Economic Performance, LSE, Stagnation nation: Navigating a route to a fairer and more prosperous Britain, Resolution Foundation, July 2022.
9 P Swinney, So you want to level up?, Centre for Cities, 2021.
10 P Brandily et al., Bridging the gap: What would it take to narrow the UK's productivity disparities?, Resolution Foundation, June 2022.
11 P Swinney & E Thomas, A century of cities: Urban economic change since 1911, Centre for Cities, 2015; G Rodrigues & A Breach, What levelling up really means – changing the geography of knowledge, Centre for Cities, 2021.

National government has been trying to improve local economic performance in Britain for a century, and failed

The levelling up agenda is not the first time that policy has made efforts to address gaps in local economic performance in the UK, however. There is a long history of national initiatives that have struggled to overcome these divides, but few have succeeded due to both poor policy choices that ignored the role of urban economies as well as the challenges that central government faces in managing individual local economies.

So-called 'Regional policy' properly begins with the creation of the Industrial Transference Board in 1928, which paid workers in depressed local labour markets to move to growing local economies. This was followed by the Special Areas Act in 1934 that aimed to encourage industries to locate to depressed areas. That the areas designated in the Special Areas Act are broadly the same places underperforming today is not for a lack of funds or effort, with dozens of different measures tried over the century since.[12]

Although large cities across the developed world experienced difficulties over the following post-war period, British policy was blind to the importance of cities or even explicitly antiurban. In 1940, the Barlow Report successfully called for the Government to attempt to disperse economic activity outside of the existing large cities, deepening the challenges that large urban areas were already beginning to face from deindustrialisation. Accordingly, the 1946 New Towns Act inaugurated decades of policy that aimed to actively shrink the population of the big cities, with millions of people declared to be 'overspill' by the state and moved out of large urban labour markets to new settlements.

To the extent that cities were a focus of public policy, it was typically as problems to be managed rather than as places of potential and innovation, even when they were successful. The 'Brown Ban' in 1965 prevented new office and industrial development in both London and Birmingham in an attempt to encourage economic development in underperforming areas, with Birmingham's then low unemployment considered a "threatening situation" by the Government.[13] It was unsuccessful – three quarters of firms based in London that applied for permits to the Location of Offices Bureau simply moved from the capital to other parts of the South East.[14]

Successful management of local economies was made much more challenging over this period by deep confusions in the goals of spatial policy, as economic dispersion was combined with urban containment. Green belts were imposed around the largest and the

12 P Swinney & E Thomas, A century of cities: Urban economic change since 1911, Centre for Cities, 2015.
13 Hansard HC Deb. vol. 718, cols 1164-1165, 3 November 1965.
14 M Ray, P Hall & D O'Donoghue, The elusive quest for balanced regional growth from Barlow to Brexit: Lessons from partitioning regional employment growth in Great Britain, Growth and Change vol. 50, Issue 1, 2018.

most productive cities to prevent their outwards expansion, reducing their ability to grow and adapt to change in the national and global economy.[15]

A consistent problem with these efforts is that they approached Britain's economic geography in terms of regions, industries, and sectors, instead of urban economies. These were all things which could nominally be controlled by policy set in Whitehall, while designing local approaches to match actual local needs from the centre was and remains much harder without strong local institutions. Even though parts of central government now have a better understanding of the economic importance of cities, national policy failures of this sort have continued into the present. For instance, at the national level, the National Audit Office recently expressed disappointment that the Department for Housing, Levelling Up, and Communities spends billions of pounds to "improve local economic growth" with little knowledge or use of evidence.[16]

There are reasons why centralised government will be less effective in addressing issues at the local level

Central government has not though struggled to solve local economic problems solely due to poor policy choices. As we show below, growing concern over geographic inequality has been associated with an extreme level of centralisation rather than stronger local government. Britain's centralisation means that local economic performance has limited ability to shape local economic policy, as choices by national government have an outsize impact on local economic policy in its attempts to improve local performance.

The weaknesses of a centralised approach to local economic policy are most clearly shown in how fiscal transfers are used to compensate for geographic inequality. The current approach of national government in our highly centralised system is to focus on national output and then use control of national tax revenues to transfer funding. In this model, London and the Greater South East are very productive, taxed heavily, and see large fiscal transfers to other parts of the country. For instance, in the financial year ending 2020, London had a net fiscal surplus – paying more in tax than it received in spending on public services – of £36.1 billion, essentially meaning that Londoners paid £4,000 more per head in taxes than they received in public services and spending. In contrast, the North West of England had a net fiscal deficit of £22.7 billion, receiving £3,100 more per head in spending and services from the public sector than it paid in tax.[17]

Living standards and consumption are somewhat balanced by this approach, but

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15 P Hall, The Containment of Urban England: Vol. I: Urban and Metropolitan Growth Processes, or, Megalopolis Denied, Allen and Unwin, 1973.
16 Supporting local economic growth, National Audit Office, 2022.
17 Source: Country and regional public sector finances: financial year ending 2020, ONS, 2021.

economic dynamism and production are not. The underperformance of big cities outside London is extremely difficult to resolve with this level of centralisation, even before the challenges of designing appropriate policy for each place are considered.

Although this may have convenient aspects for national government and the Treasury, these issues have deepened as the importance of cities to national prosperity has grown and their underperformance has become more glaring. Highly centralised government affects the ability of local economies – and thereby the national economy – to embrace economic change, as local government struggles to be an effective partner that can deliver good economic policy alongside central government.

Local government is not responsible for economic change, and often blocks it

While central government exercises power over local economies for which it has poor information and incentives, local government lacks the ability to manage economic change. This means no part of the state is truly responsible for delivering improvements to local prosperity in any part of England.

Local government does of course have some nominal responsibilities and powers to improve economic growth. Some local authorities have used these successfully, and the positive economic trajectory of certain large cities such as Manchester, Birmingham, and Leeds over the past 30 years are in part due to supportive and pro-urban policy that has encouraged local economic growth.

Most places struggle to pursue growth effectively, however, as local government as an institution is not set up to deliver growth. Although progressive councils and individuals within councils do of course exist in England these issues are systemic and emerge out of how central government has designed subnational government and determined its responsibilities. For instance, the planning system in England affects the performance of local and national economies through its control of change in the built environment. Rather than managing or shaping change as much as it can though, the planning system tends to 'freeze' land-use, resulting in minimal change to the built environment within cities and the oldest housing stock in Europe.[18] But even if individual councils are ambitious in their approach to development, as a system local government struggles to provide sufficient housing, due to design features of the planning system that are under the control of national government.

These issues faced by local government result in economic stagnation in two ways. First, some places, including most of the big cities outside of London, exhibit persistent

18 A Breach & E Magrini, Sleepy Suburbs: the role of the suburbs in solving the housing crisis, Centre for Cities, 2020; A Breach, Planning for the Future: How flexible zoning will end the housing crisis, Centre for Cities, 2020.

underperformance and lack the power to improve local economic growth to its full potential, as this section has already discussed. And second, other local authorities, usually in prosperous parts of the country, often use the powers they do have to reduce local economic growth, as Box 1 discusses.

BOX 1: Prosperous places are frequently anti-growth

While the perception is often that policy makers aspire to maximise economic growth, this is frequently not the case within British subnational governance. Opposition to local economic growth is common and a formidable force in current structures. The collapse of the spatial framework for the Oxford-Cambridge Arc earlier in 2022, and that of the Oxfordshire Housing and Growth Deal in 2021 are two of the most recent and damaging examples of prosperous places blocking local economic growth, but the trend long pre-dates the current Government.[19]

Opposition to growth does not just emerge from 'Nimby' activists but can often be found at the centre of local authority decisions and strategy. Examples include Hampshire County Council's sustained efforts in the post-war period to prevent the urbanisation of Southampton and Portsmouth;[20] York's failure to agree a local plan since 1954; and the imposition of the metropolitan green belt in the 1950s through to the 1980s by local authorities to block the growth of London through into the present.

Local opposition to changes in land use frequently cascades up to have severe costs on national economic performance through reducing the delivery of nationally important infrastructure. Heathrow's third runway and HS2 are the most nationally prominent debates, but the expansion of ports, power stations, solar and wind farms, reservoirs have all been blocked and resisted by local decisionmakers and activists.

Part of the reason why spatial inequality has been so persistent and the British economy has seen relative decline from victory in the Second World War through to the present compared to its international peers is that different levels of the British state often make choices that ensure well-performing local economies do not actually grow.

19 Lab space shortage threatens life science boom in Oxford and Cambridge, Financial Times, August 2022; What's next after the collapse of the Oxfordshire Plan 2050?, The MJ, August 2022.
20 N Phelps, An Anatomy of Sprawl: Planning and Politics in Britain, Routledge, 2012.

To some extent, this is rational under the current system. As discussed further below, Britain's centralised model depends on high fiscal transfers from highly productive areas to poorer areas to smooth out consumption across the country. This means a large share of any local economic growth in prosperous places flows away and so does not translate into corresponding improvements in local living standards or services. The reward for voters and local politicians from increasing economic activity in affluent places are the dis-amenity costs of increased congestion, land development, and pressure on local services.

Nevertheless, allowing prosperous places to veto or reduce local growth sabotages national economic performance. The current centralised model's approach to this induces a form of economic stagnation as damaging as the persistent issues faced by struggling places. Yet decentralisation without mitigation of local authorities' attempts to veto or reduce economic growth will also struggle to deliver improvements to local or national economic growth.

Local institutions have not changed nearly as much as the economy

At a minimum, the division of responsibility between local and central government is unbalanced towards the centre, and this seems to be linked to poor local and national economic performance. This is despite on-going churn in local economic policy over the 20th and 21st centuries and dramatic change in the national economy over this period, local economic governance has in contrast been subject to little more than tinkering. The persistence of Britain's underperforming and unequal economic geography has been mirrored by the persistence of its structures of local governance. For example, local government taxation has seen little reform since the creation of Council Tax in 1991. Despite interventions by Whitehall in the period since, the architecture of local authorities in England was last overhauled in 1972, and before that in the Acts of 1888 and 1894. The modern town planning system was created in 1947, with the last significant reforms in primary legislation occurring in 1990.

Successful changes, such as the creation of the metro mayors in the 2010s, have typically been deals negotiated with specific places or policy areas rather than comprehensive reforms of the system. Decades of tweaks rather than adaptation have not addressed the underlying problems in Britain's local economies, and the problems and the reform agenda they require are now both very large.

None of this is to say that devolution or institutional reform automatically increases local economic growth or living standards. As the national economy has changed and undergone pressure to change over the past fifty years however, the institutions that manage it have not changed nearly as much.[21] As city economies have become much more important to the national economy, a mismatch between where highly productive activity takes place and how the economy is managed by the state has slowly grown into a national problem that remains unresolved.

Local economic governance must adapt if the national economy is to embrace change

All this means that policy makers looking to renew the relationship between central and local government should review responsibilities for managing decisions that affect local economic growth.

If central government is to take more responsibility for improving the performance of Britain's local economies, then it is important that local government takes decisions that compliment this approach. If local government has the power to stop economic change without internalising the costs of doing so, this risks bottlenecking national economic growth.

Without responsibility for the performance of the local economy, local government would in this arrangement be a simple delivery vehicle for national policy and public services. In a practical sense, central government may find it difficult with its competing responsibilities and electorates to concentrate economic policy support on the large cities outside of London over the timelines required to reduce spatial inequality and improve national economic performance.

There is a distinct decision about what is the best strategy for reducing regional disparities. On most metrics, the big cities outside of London underperform the most relative to their international and domestic peers as well as the national economy. Their sustained economic weakness is a key contributing factor behind Britain's high levels of spatial inequality.[22] The flip side of this is that they are the most promising places for reducing it, especially given the UK's national strengths in tradable services. Addressing the weakness of the big cities would require considerable investment and a long-term commitment to support their highly skilled tradable services industries. A risk in this context, however, would be an increase in intra-regional inequality between the big cities and their hinterlands, as they would change and become more similar to other global cities.

21 S Westlake & J Haskel, Restarting the Future: How to Fix the Intangible Economy, Princeton University Press, 2020.
22 P Brandily et al., Bridging the gap: What would it take to narrow the UK's productivity disparities?,The Resolution Foundation, June 2022.

True devolution depends on giving local government the tools to manage local economic change

An alternative here is that local government should truly be given responsibility for local economic change, and the ability to deliver on this new mandate. This does not mean that it would be completely separated from national government, or that national policy would play no role in local economies, but that local government would become truly accountable for whether the local economy does well and improves, or deteriorates and does poorly. The big cities would under this model become much more responsible for their prosperity and compete more against each other, while the responsibility of national government would shift towards redistribution towards areas that have few prospects of paying for all the public services they need, the welfare state, and national economic policy.

In short, Britain's difficulties in overcoming its persistent geographic inequalities have been underpinned by the fact that policy to improve local economic performance has often been separated from policy to improve institutional performance, especially of local government. Successful reform will have to achieve both at the same time, and the problems are so large multiple areas of policy will need to undergo changes in process and governance.

Change of these institutions is not easy. There will be winners and losers in any reforms of this kind. Compromises and negotiation will shape any eventual outcome. Achieving efficient and effective change depends on policymakers recognising the scale of the challenge, and the trade offs involved. There is no one single approach to institutional renewal of this type, and there are lessons to be learned from other countries.

Local government currently has poor incentives to handle economic change, experiences fragmentation, and is under-resourced, all of which make it difficult for subnational government to successfully steward their places – and by extension, the UK – to embrace growth and greater prosperity. These issues are interconnected – reform across only one or even two of these areas will not be enough to set local government up to drive economic change due to the size of the challenge.

We leave setting out a full set of policy recommendations to future work and instead in this report we set out the trade offs and lessons that need to be considered across the incentives, structures and fragmentation, and resourcing and responsibilities of subnational government. If reform is to achieve lasting change, it will first need to understand the barriers that prevent subnational government from managing local economies well.

Section 3

The centralised funding framework disconnects local government from local economies

If subnational government is to have greater responsibility and ability to manage local economies, then the local government funding and finance framework will need reform to reduce centralisation and reconnect local government to local economies. Although the amount of resources local government has at its disposal and what responsibilities it has matters, and is discussed later in the report, the design of the funding system itself is important as it produces incentives that determine institutions' behaviour. Although local government bears quite a lot of the costs of growth in terms of spending, their funding is not linked to the benefits of growth in the same way.

Local authorities are not encouraged to grow their local economies because the funding model is so centralised that local government's resources have little connection to their economic performance. Local government funding in Britain is still extremely centralised by international standards. Local authorities have a much narrower range of property taxes to raise money from than international peers, and central government exercises extensive control over these taxes, weakening their role as incentives for councils to pursue growth.

A concern in this context is that more money will make little difference to economic outcomes if the funding system is not set up to encourage a focus on managing economic change. Even though redistribution of funding between local authorities will always be an important responsibility of central government, it is difficult to see how local government can work with central government more effectively without its funding becoming more self-reliant with greater fiscal devolution. Local government funding reform must think about improving economic incentives as well as providing more resource.

Centralised local government funding weakens the incentives to pursue local growth

In general, centralisation of local funding weakens the connection between local economies and local government, and accordingly the incentives for local government to take decisions that improve economic growth. If local authorities need to raise local taxes to pay for services, then they are encouraged to grow the economy instead of increasing taxes on their voters to pay for services.

National governments always need to balance this incentive with their responsibility to provide good public services everywhere and for all citizens, especially as the pendulum can swing too far in one direction, especially for struggling local economies. Too much fiscal devolution means poorer places with greater need for services are starved of resources. Too much centralisation can mean those poorer places are discouraged from growing their local economies for their residents and workers, if less deprivation leads to less funding.

By the standards of other developed countries, the UK is however unusually centralised across both taxation and spending. Central government recognises this and a political consensus in favour of greater devolution exists, and has done for some time – for example, the current Secretary of State for local government wrote a report calling for fiscal devolution back in 2003. [23] Nevertheless, the UK has not yet experienced significant decentralisation.

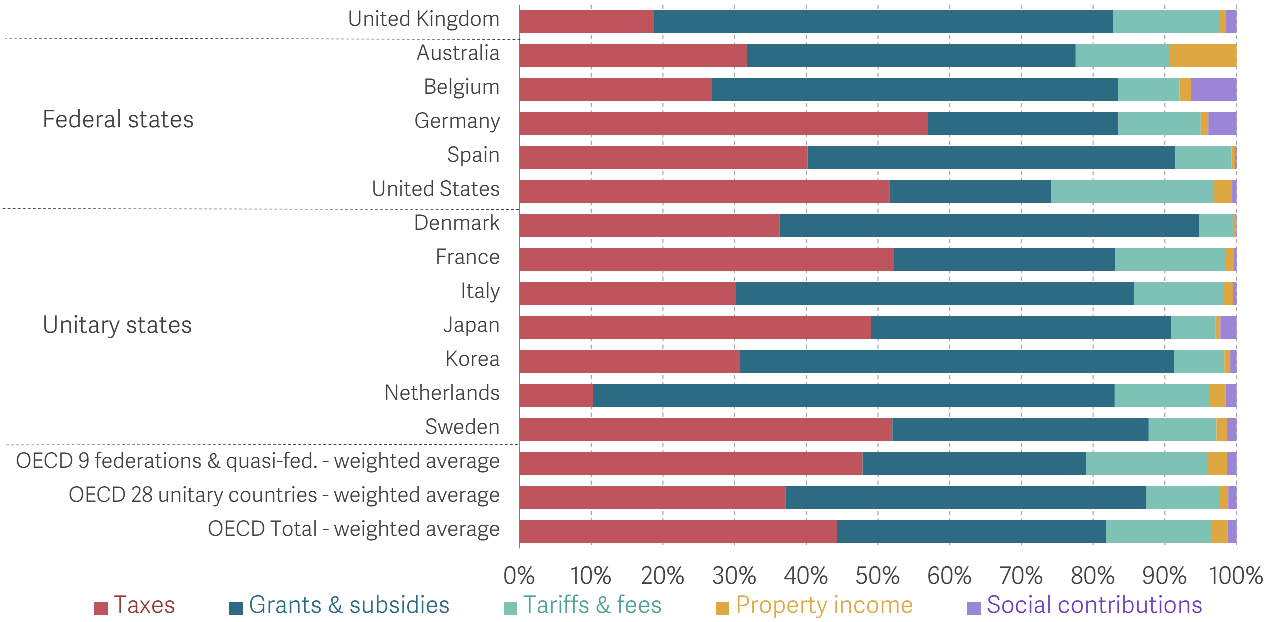
Using data from the OECD, it is possible to compare trends in subnational expenditure and revenues across developed economies. Figure 1 shows that although 19 per cent of funding for UK subnational government (defined as local government funding excluding the funding of the devolved national governments) came from local taxation in 2019, in the average OECD unitary state 37 per cent of subnational funding was raised locally.[24]

Nevertheless, local taxes do actually now fund a higher share of local spending than they did in the recent past. Cuts in grant funding by central government since 2010 mean that the share of subnational spending in the UK funded has shifted away from grant funding towards local taxes by roughly 4 percentage points from 2015-2019.[25] This is not necessarily unusual – Italy and Belgium both saw larger swings over this period.

23 G Clark & J Mather, Total Politics – Labour's Command State, Conservative Policy Unit, 2003.
24 OECD data for subnational revenue and spending does include some funding streams which British local government is just a delivery vehicle for such as housing benefit – but this is also the case for other countries.
25 Source: OECD, Revenue Statistics and Fiscal Decentralisation databases.

FIGURE 1: **Subnational government in the UK relies on central grants**

Subnational government revenue by source: selected countries, 2019



SOURCE: OECD, Fiscal Decentralisation database.

Local taxes in Britain are few and unreformed

Yet the reason why local government funding is still so centralised even after large cuts to central grants is that local taxation has not been reformed, and still accounts for a small share of revenues.

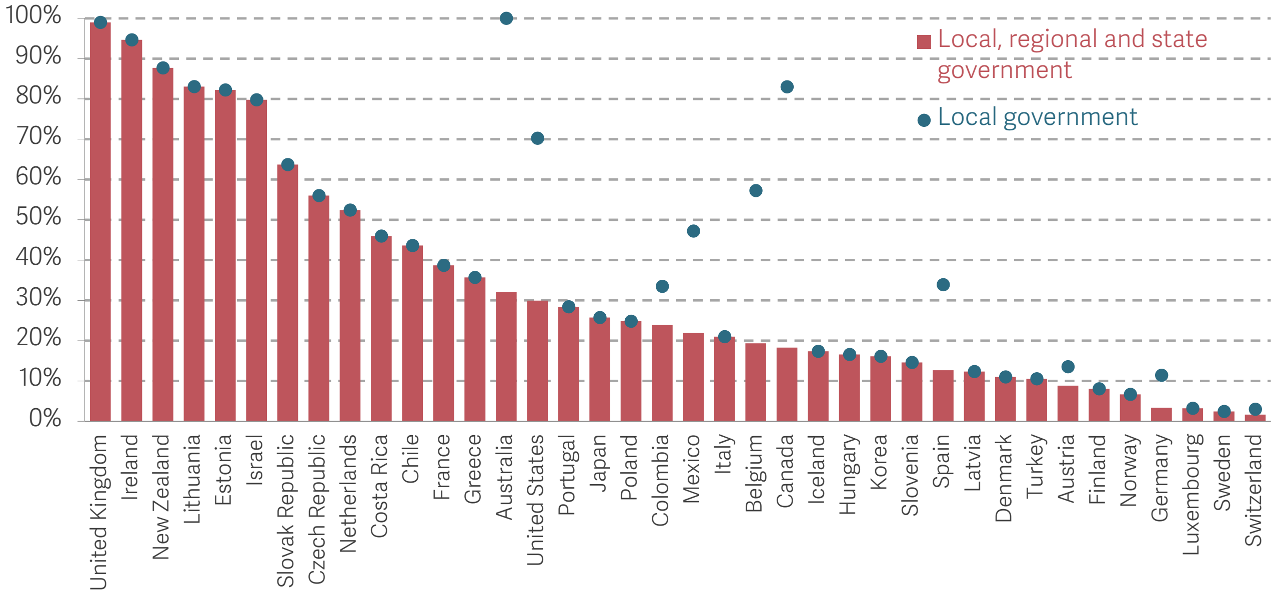
Local authorities rely on council tax and business rates for local tax revenues. Figure 2 shows that Britain is unique in the OECD in using property taxes to provide 99 per cent of tax revenues for subnational government, compared to the average for an OECD state of 40 per cent for local government and 33 percent for local regional and state government.[26] Other countries allow local government to levy significant taxes on income or consumption, but this is not permitted in Britain.

Even the Greater London Authority (GLA) and the London Boroughs – nominally where devolution has gone furthest within England – have just these two taxes (arguably, one single tax on property split by residential and commercial property), omitting the special cases of the congestion charge and levies on air pollution. In contrast, Paris has nine local taxes, Tokyo has at least 17, Berlin at least 18, and New York City at least 22.[27]

26 This data excludes fees and charges, such as parking tickets or fees to use local authority gyms, which make up a small share of revenues for local authorities in the UK, and are collected in other countries too.
27 E Slack, International Comparison of Global City Financing, London Finance Commission, 2016.

FIGURE 2: **Only the UK in the OECD exclusively uses property taxation to provide tax revenues for subnational government**

Share of subnational government tax revenue derived from property taxes: selected countries, 2019



SOURCE: OECD, Revenue Statistics and Fiscal Decentralisation databases.

Local government's tax base is not just narrow, it also raises a small amount of revenue. For instance, while the London Boroughs and the GLA spend a roughly similar amount on services per person to other global cities, local tax revenues per person in 2015 only amounted to £420 in London, compared to £1,650 in Paris, £2,170 in Tokyo, £3,060 in Berlin, and £3,760 in New York City.[28] In essence, how well the capital's economy is performing matters less to local and city-region government in London than other global cities, as local government revenues are disconnected from local economic performance.

Even the taxes that local authorities do have – council tax and business rates – are nevertheless barely local taxes due to the control that central government maintains over their design and levying.[29]

Council tax revenues are disconnected from the local economy

The problems with council tax are many and well known.[30] At a minimum, it is highly regressive due to being disconnected from current property values, and it is increasingly complex due to a web of different precepts and billing authorities.

28 E Slack, International Comparison of Global City Financing, London Finance Commission, 2016.
29 For a theoretical treatment of what makes a local tax 'local', see: E Slack & A Côté, Comparative Urban Governance – Future of cities: working paper, Government Office for Science, 2014.
30 For a summary, see G Atkins & S Hoddinott, Local government funding in England, Institute for Government, 2022; S Adam et al., Revaluation and reform: bringing council tax in England into the 21st century, Institute for Fiscal Studies, 2020.

But while proposals to reform council tax often focus on fairness and the need to repair local authority budgets, it also provides poor incentives for councils to take tough choices that improve economic growth. Changes in local property values from a growing local economy do not change council tax revenues. Local authorities are not able to close holes in their budgets like national government can through economic growth. Conversely, local economic stagnation imposes no penalty on council tax revenues and local authority budgets.

Council tax gives poor incentives because councils have limited control over the base and the rate of council tax. Council tax bands are set by national government according to 1991 property values. The rate by which council tax is levied is controlled by national government through a 'capping' system that since 2012 that has prevented council tax increases above a certain percentage using a referendum lock (which has never been successfully attempted or used by a local authority).

Local authorities in England cannot decide to change the shape of their council tax base to change the amount of revenue they raise to suit local needs, as it was designed and set 30 years ago by Whitehall. Nor can they increase council tax rates on their local residents to raise more revenue beyond a level determined acceptable by national government.

However, council tax is an increasingly large share of funding for local authorities, including in cities, due to cuts in central grant funding. Looking across income from grants, business rates and council tax, cities saw council tax increase as a share of their income from 36 per cent in the financial years 2009-10 to 42 per cent in 2017-18.[31]

Council tax's growing importance is not fiscal devolution but simple inertia. Local authorities currently face the worst of both worlds – too reliant on a single 'local' tax over which they have minimal control.

Business rates have seen minor reforms, but these have ground to a halt

As with council tax, when business rates are the subject of public debate it is usually regarding whether or not they are fair. Centre for Cities has in its research also identified technical problems with business rates, including too many reliefs and inconsistencies, infrequent valuations, overtaxation of machinery, and poor geographies.[32] However, business rates as a tax on local commercial property also matter as an incentive for local economic growth.

31 Source: Centre for Cities calculations, using same tables as Cities Outlook 2019.
32 K Enenkel, T Sells & T Aubrey, Reforming business rates: Fixing a broken system, Centre for Cities, 2020.

Business rates – which have a much closer relationship to land values than council tax bands – are calculated centrally, with the amount of money raised and the multiplier on commercial property values used to do so decided by central government. In the past, these revenues went into a central fund, and were then redistributed to local authorities across the country using a complex formula. In effect, it was not really a local tax at all, and it provided poor incentives for local authorities to grow their business rates base.

Unlike council tax though, business rates have been subject to reforms in this area since 2012 in England. Now, while 50 per cent of business rates revenue still goes to central government in this manner, local government retains the other 50 per cent of revenues plus growth in those revenues (and more in some pilot areas), subject to tariffs and top-ups that redistribute the retained revenues between different local authorities.

The underlying idea of these reforms was to reward local authorities that successfully increased economic growth with more revenues. However, the current retention of 50 per cent of business rates grants less control of local taxes than it first seems.

The system of top-ups and tariffs that redistribute the retained revenues between local authorities is complex, but essentially mean that the share of business rates raised and then retained locally is still small and lower than 50 per cent, especially for councils that are net contributors.[33] Total revenue collected is also still controlled and capped by central government.

Unfortunately, the reform process has since run out of steam. A government commitment to move towards 75 per cent retention everywhere appears to have been shelved.[34] The Business Rates Review run by the Treasury has set out a roadmap for legislation to address some of the technical issues raised by Centre for Cities over the next five years, but not all of them and not some of the biggest issues. The Fair Funding Review, which will reset how central government reallocates the 50 per cent of business rates revenues that went to central government, has been forthcoming since 2017, and is expected to be a cautious document.

Even though the reforms were relatively cautious, debate in business rates reform has drifted away from local government's responsibility for the local economy, and is now back where it started before 2012, focused on the role of national government in redistributing money around the country to pay for public services.

33 M Sandford, Reviewing and reforming local government finance, House of Commons Library, 2020.
34 R Harbord, What will happen with business rates, Room 151 (accessed on 26 August 2022), November 2021.

The failure to reform local taxes has disconnected local authorities from the performance of local economies

The overarching problem with the local government funding and finance is that while funding levels and the national and local economies have changed since 1991, the local funding framework has ossified. Reform and the debates around reform have focused on changing individual taxes, rather than reform of the system as a whole. As such, fiscal devolution proposals are typically small things such as introducing tourist taxes or minor council tax precepts.[35] These are not necessarily bad ideas, but they do not fundamentally change the incentives faced by subnational government.

This is perhaps understandable given the complexity of systemic reform of local funding frameworks. But as pressure on local government budgets has increased, questions on what local government's responsibilities should be have become muddled with how to pay for local government's existing spending responsibilities. If local government is to take on a greater role in pursuing economic development, then this responsibility needs to be made clear and joined to new funding.

Competitive bidding deepens centralisation and makes long-run planning harder

The failure to reform has also induced other negative consequences, such as the proliferation of 'competitive bids' or 'pots', where subnational government and bodies make applications to central government to receive grant funding. Reducing competitive bidding has long been a stated goal of local government, and since the publication of the Levelling Up White Paper central government has agreed that it must be reduced. The system that has been built up around these bidding mechanisms is exceptionally complex and provides extremely poor incentives and value for money.

Competitive bidding not only wastes enormous amounts of local authorities' limited time and resources, often for no reward. They are also a mechanism of centralisation, as central government uses its judgement – with limited information – to decide what local authorities should be doing in their local areas, rather than trusting local government with the resources required to deliver on local priorities.

Combined with the sheer churn in pots, with 18 per cent of all revenue grants and 30 per cent of all capital grants for local authorities being wound up every year, responding to economic conditions or planning for long-term priorities is very difficult. Centre for Cities and research commissioned by the Local Government Association have both tried to do further analysis on competitive bidding to try to determine any relationship to economic

35 Fiscal devolution: Adopting an international approach, Local Government Association, 2020.

performance and it is not actually possible due to the complexity of the data at a national level.[36]

When the system is this complex and arbitrary, no clear incentives are provided to local authorities. Competitive bids are not an accountable or long-term solution for funding because they lack any connection to the local economy.

This is the real problem with the failure to reform – local government revenues are not connected to local economic performance. They do not reward success in managing economic change, or penalise poor local leadership. Such a system has a tendency towards creating greater short-termism for local government, mitigating against more long-term sub-national strategies. But the system persists because of the centralised approach to managing local economic change in every part of the country and local government has such limited control over its own revenue funding. Neither voters nor the Government can hold local authorities accountable for how they use it or local economic performance due to both the complexity of the funding system and the fact it is not local authorities' money.

Stronger local government requires better incentives to pursue growth

Reform of the local government funding framework in England is overdue. Public debate is beginning to recognise this, and recent moves by central government to begin repair of local authority budgets after years of cuts are welcome.

Local government funding reform must think about economic growth, not just public services

Within this debate, there is a simple trade off at the heart of local government funding and finance frameworks, between local responsibility for the economy and national redistribution. Greater levels of fiscal devolution – in which local government has more control over the local tax base and rate and is more self-reliant for funding – mean that subnational government is rewarded with greater revenues for successfully managing local economic change, but different places do have different resources for public services.

Greater levels of national redistribution – in which revenues are provided to local authorities either by other local authorities or by national government – help ensure different places can pay for similar levels of public services, but disconnect subnational government from the performance of local economies. There is a spectrum between

36 Fragmented Funding: Research into the nature of central government funding for local government, Local Government Association, 2020.

these two poles, and there will always be a role for some of both in a country as large as the UK. But if funding for local services arrives from (or is sent) elsewhere instead of being raised locally, then the performance of the local – and the national – economy is by definition less important than the delivery of services. At the most extreme end, local government is not responsible for managing the local economy if it is denied control over its own funding.

Reform needs to begin by establishing what the purpose of subnational government is, and then designing a funding and finance framework that both funds and encourages successful delivery of those responsibilities. If government wants councils to take greater responsibility for local economies and be more effective at doing so, then local funding reform cannot focus solely on public services and the restoration of grant funding.

Broad fiscal devolution should be on the table if reformers are serious

If subnational government is to take on a larger role in managing local economic change than it does today, then it will need to raise and retain more of its own revenues than it does at present as shown earlier in Section 3. By international standards, the UK's framework for funding places is extremely centralised and the local tax base is unusually narrow – there is scope for greater fiscal devolution and a broader tax base than at present.

How exactly policy makers should decide to do this is beyond the scope of this paper, that issue will be the subject of future work. But serious reform will need to consider ideas more comprehensive than tourist taxes or an extra band levied on top of council tax, or tweaks to the existing business rates retention regime. Debate should consider whether existing national taxes that relate to economic activity, such as income tax, should be shared with local authorities, and whether entirely new taxes should be created to broaden the tax base.

Fiscal devolution would need to be designed to help protect poorer places

An argument frequently heard against serious fiscal devolution is that it would supposedly penalise poorer places and reward prosperous places. But this depends on how a new funding framework is designed, and how subnational government would use its new powers.

It is true that places would have different levels of resource under fiscal devolution. But places also have different levels of responsibility. Achieving uniform ability to manage the local economy may entail different levels of resource and powers for places – management of the economy of Greater London is a greater operational challenge than the economy of Lincolnshire. Given this, places need different levels of resource. What fiscal devolution means is that control over local funding will see a relative shift from technical debates over spending formulas to political debates over the level of local taxation.

Poorer places are already penalised under the current framework, as it has struggled to deliver improvements in economic performance in straggler areas, and they have been subject to large cuts in spending due to decisions in Whitehall outside their control. Places have experienced huge cuts to their services due not to fiscal devolution, but the centralised control exercised over their local funding. If England had enjoyed significantly more advanced fiscal devolution in 2010, then austerity could not have been inflicted upon local government by central government to the same degree.

In addition, the international evidence suggests that low fiscal devolution is associated with lower average incomes, lower productivity, and less investment, especially in human capital.[37] Although it is hard to establish causality from these studies, centralisation of public spending actually appears to be to be linked with more inequality between places stemming from bigger differences in local economic performance.[38]

Fiscal devolution depends on reform of local government structures

The complexity of the current local funding framework presents a major barrier to reform. In part, this reflects how difficult it is to understand and operate the existing system. It also stems though from the amount of variation and fragmentation in existing local government structures. These structures can though be changed, and fiscal devolution in a simpler and much more uniform system of local government would be less daunting.

As a result, serious reform to local funding frameworks – to enhance the ability of subnational government to manage local economic change – will in turn depend on serious reform to the structures of local government. Section 4 explores this topic in more detail.

37 H Blöchliger, Decentralisation and Economic Growth – Parts 1 and 2, OECD, 2013.
38 A Rodríguez-Pose & R Ezcurra, Does Decentralization Matter for Regional Disparities? A Cross-Country Analysis, SERC, 2009.

Section 4

Local government is weakened by fragmentation

The difficulty of managing local economic change in Britain is increased by the sheer complexity of structures for subnational governance, especially within England. The UK does not have a uniform system of administration, but a patchwork of different bodies with varying geographies, responsibilities and powers, and structures and tiers of governance.

This institutional fragmentation is not just inelegant or headache-inducing for civil servants and politicians, it also damages the ability of subnational government to take responsibility for managing local economic change and solve problems. Horizontal and vertical fragmentation as well as weaknesses in governing arrangements make it extremely difficult to give the individual authorities that make up subnational government a comprehensive set of powers to manage local economic change. It weakens the incentives for places to pursue economic growth by disconnecting local tax revenues and local services from local economic geography, and makes it harder for local policy makers to affect change across their local economies.

In addition, reform across related areas – including funding, powers, and capacity – is made much more difficult due to the level of fragmentation in structures that currently need to be accommodated. Improving Britain's ability to embrace national economic change will require addressing fragmentation in subnational government.

English local government is fragmented horizontally across geography and vertically across tiers

The evidence on local government structures and their relationship to economic change is mixed. The evidence suggests that it is not true, for example, that greater levels of centralisation or devolution automatically increase rates of economic growth.[39] There

39 For example, see: H Davoodi & H Zou, Fiscal Decentralization and Economic Growth: A Cross-Country Study, Journal of Urban Economics Vol. 43, Issue 2, 1998; A Rodríguez-Pose & R Ezcurra, Does Decentralization Matter for Regional Disparities? A Cross-Country Analysis, SERC Discussion Paper 25, 2009; U Thiessen, Fiscal Decentralisation and Economic Growth in High-Income OECD Countries, Fiscal Studies, Vol. 24, Issue 3, 2003; D Stansel, Local decentralization and local economic growth: A cross-sectional examination of US metropolitan areas, Journal of Urban Economics Vol 57, Issue 1, 2005.

is however clearer evidence that fragmentation of governance across local economies causes problems for local economic performance.[40] For example, multiple jurisdictions applying across a local economy – a local labour market, marked by commuting patterns, built up areas, and their hinterlands – are broadly considered to make it harder for local policy to deliver economic change.

A recent paper to reconcile these two strands of literature was published by the OECD.[41] It argues that there are two conditions that need to be present for devolution to improve economic performance – when the quality of local government is high, and if devolution overcomes fragmentation in local economies.

In the UK therefore, where local autonomy is low and the quality of governance is good, it predicts that increasing devolution in Britain will have outsize productivity effects. For instance, its model predicts that Leicester's local productivity would be 21 per cent higher if the city had a similar level of autonomy to Helsinki.

However, this OECD analysis understates the degree of fragmentation in English local government, as local authorities do not match local economies. While it is true, for instance, that the UK does not have small local government units – it has the second largest of any lowest-tier municipalities (districts and unitaries) of any country in the OECD, after South Korea – these units typically do not match local economic areas.

The fragmentation of English local government becomes clearer once the sheer variety of arrangements is considered, as Box 2 shows. In short, there are two types – horizontal fragmentation, when multiple councils with the same responsibilities cover a single local economy, and vertical fragmentation, when multiple councils with different responsibilities cover the same geography.

BOX 2: **The structure of local authorities varies considerably in England**

Local authorities in England are one of three types, each with different powers. There are large 'upper-tier' counties, 'lower-tier' districts that sit underneath counties, and 'single-tier' unitaries, which have the power of both. Combined authorities sit on top of these and are typically led by a metro mayor.

Some places in England have a two-tier system, with both county councils like

40 For example, see: P Cheshire & S Magrini, European Urban Growth - throwing some Economic Light into the Black Box, 45th Congress of the European Regional Science Association, 2005; P Cheshire & S Magrini, Urban Growth Drivers in a Europe of Sticky People and Implicit Boundaries, Journal of Economic Geography, Vol. 9, Issue 1, 2009; P Cheshire, M Nathan & H Overman, Urban Economics and Urban Policy, Edward Elgar Publishing, 2014.

41 D Jong et al., A comprehensive approach to understanding urban productivity effects of local governments, OECD, 2021.

Oxfordshire and its districts, including Oxford, that experience horizontal and vertical fragmentation across the local economy. Meanwhile, 'doughnut' counties like Derbyshire are similar, but their city is separated from the rest of the county by residing in a single-tier unitary. Large unitaries such as Buckinghamshire or Wiltshire have very different economic geographies to small rural unitaries like Bracknell Forest or Rutland and urban boroughs with unitary powers like Bromley or Gateshead.

Across the big cities there is further complexity. Most now have combined authorities, but not all. Some of these combined authorities have geographies that match their economic geography like Greater Manchester – others like North of Tyne and West of England do not. Cambridgeshire and Peterborough uniquely covers county, district, and unitary authorities, while the forthcoming Cumbria and North Yorkshire combined authorities will have only two new merged unitaries under them.

At the other extreme, parish and town councils have a limited set of responsibilities that are not economic or linked to the welfare state and are usually not considered a 'tier' of local government for this reason. They provide community services, such as allotments and street fairs, are not universal in England, and are largely absent from urban areas.

Under the current system it is difficult for local government within England to take on greater responsibility for managing local economic change, because many local authorities do not match local economies. For instance, more fragmentation means local tax revenues are not shared across economic geographies, creating inequitable outcomes and poor incentives for growth. Westminster council exemplifies this, with the UK's most expensive and valuable property facing the lowest council tax of anywhere in the country, despite extensive deprivation in other parts of London.

Governance is made harder too. Earlier research by Centre for Cities has given the example of Nottingham's urban area, which is governed by nine different authorities. There is no single authority in charge of the metropolitan area – the actual urban labour market.[42]

Fragmentation between public services also exists at the local level. Services such as policing, fire and rescue, and NHS commissioning all have different jurisdictions from each other and from local government in England, with even more variation when including public services in the devolved nations.

42 P Swinney & S Jeffrey, Levelling up local government in England, Centre for Cities, 2020.

When there is this is much variation, it is extremely difficult to allocate responsibilities and funding simply across local authorities. The multiplication of tiers and geographies means that governance of local economies is often fragmented across several different bodies – sometimes horizontally between arbitrary geographic divisions, or vertically with powers separated between different tiers of administration.

For example, while Local Transport Plans are prepared by upper-tier county councils, the Local Plans that actually determine where new homes are built, are prepared by lower-tier district councils. A council in this scenario may adopt a positive approach to growth in their local area, but have delivery of their strategy botched or vetoed by a different approach in the council in the other tier. England has reformed local government before, but is currently tinkering

These issues are well understood by specialists in British local government. For instance, Centre for Cities published a report in 2020 calling for a consolidation of 69 English unitary and combined authorities around local labour markets.[43]

But the initial idea of local government reorganisation in England dates back to at least the 1960s and the Redcliffe-Maud Report, as Box 3 shows.

BOX 3: **Central government interferes with English local government, but does not solve its problems**

In the immediate post-war era, when Britain's economy was undergoing significant change, it was recognised that England's Victorian system of local government, dating back to the Local Government Acts of 1888 and 1894 which was highly fragmented and inconsistent, was hampering economic development and the delivery of services.

The Redcliffe-Maud report in 1969 proposed large unitaries based on economic geography for all of England, except for a two-tier city-region structure for Greater London and the Manchester, Birmingham and Liverpool conurbations. A crucial principle of the report was overcoming the "artificial divide between town and country" that was built into the fragmentation of the old system. Urban areas provide employment for residents of their suburbs and hinterlands, and solving the bread-and-butter problems of local economic development – infrastructure, housing, training for the local labour market – requires local policy to bridge this divide.

43 P Swinney & S Jeffrey, Levelling up local government in England, Centre for Cities, 2020.

While the Wilson Government accepted the report and pledged to implement it, the election of the Heath Government in 1970 meant reform proceeded down a different path. The 1972 Local Government Act removed a lot of the old fragmentation, but imposed a two-tier county and district system for the entire country. With adjacent urban and rural places sitting in different districts, this maintained England's divide between town and country in local governance, where it largely remains to the present.

After coming into force into 1974, this system only survived 12 years before it was altered by national government. The Thatcher Government abolished the metropolitan counties and the Greater London Council with the Local Government Act 1985, removing city-region governance from the largest cities in the country.

As the problems with the two-tier system become clearer by the 1990s, some smaller districts such as those in Berkshire were unitarized, before a turn in the early 2000s towards unitarization of counties (e.g. Durham) and the creation of the Mayor of London, and the restoration of metropolitan governance with the metro mayors in the 2010s, followed by the creation of the forthcoming County Mayors in the Levelling Up White Paper. Alongside this, Regional Development Agencies were in a period of 12 years created, then abolished and replaced with smaller Local Enterprise Partnerships.

In 2022, the underlying problem of governance not matching local economies identified by Redcliffe-Maud remain unresolved. While different political parties will have different views on the role of local government, the inconsistent patchwork of local authorities has emerged because central government has the right to constantly meddle in local government while feeling no obligation to fix the systemic problems it has created.

England's failure to reorganise local government stands out within the UK. Scotland, Wales, and Northern Ireland have all completed unitarization without significant complaint or regret. Scotland and Wales show that this can be done swiftly – unitarization was announced in 1993, legislation was passed in 1994, and the new unitaries came into existence in 1996. This is comparable to the two-year timeline from the passage of the 1972 Local Government Act to the new two-tier authorities in England coming into existence in 1974.

The devolution process within England has taken much longer as it has deferred to local consent. Although economic geography is part of the criteria for agreeing devolution deals, central government relies on coalitions of the willing to agree new deals. As local authorities are, in general, unwilling to reform themselves, this leads to a slow trickle of proposals. The instinct is then to get deals agreed despite their flaws, instead of thinking first about what the purpose of devolution to a particular place is supposed to achieve.

The ongoing devolution process to create governance structures at the level of economic geography within England is, therefore, slowly fixing some of these problems, but in a piecemeal and flawed fashion. While some combined authorities like Greater Manchester are a snug fit for their economic geographies, others such as North of Tyne or West of England are missing large parts of their city-region. At the other extreme, the proposed Nottinghamshire-Derbyshire combined authority would combine two different economic geographies into a single structure.

The fragmentation of the current system in England is not being resolved quickly, and the problems it presents for local economic governance, for funding public services, and for incentivising growth are persisting.

Governance structures in local government are varied and weak

The structural problems with subnational government that hamper its ability to manage local economic change are not just geographic. The electoral and governing arrangements of local authorities are varied, but make effective leadership harder and increase the difficulty of holding councils accountable for their decisions. Although councillors are empowered by these structures, councils are not.

Councils in England run elections in one of two ways. Most are elected in 'all out' elections, where every councillor is up for election – examples include London boroughs and Birmingham city council. However, a significant minority of councils, including most metropolitan districts, elect their council in 'thirds', with one third of councillors standing for election every year, with one off-year. Electing councils in thirds induces instability, and makes it difficult for local authorities to take unpopular but necessary decisions – at most they have a two-year gap between elections, once every four years. Arrangements in other parts of the UK differ further – for instance, Scotland uses an all-out system, but a proportional system rather than first past the post.

The leadership structures, or executive arrangements, vary too. Most councils use a leader-cabinet model – councillors are elected by the public, who then elect one of their own to lead the council and assemble a cabinet. A minority of local authorities, and almost all the combined authorities, use a mayoral model, whereby the mayor is directly elected and has a separate mandate to councillors.

Mayors appear to have strong local mandates. For instance, while 33 per cent of people with metro mayors can name their mayor, only 8 per cent of people can name their council leader.[44] Council leaders are also vulnerable to internal instability among councillors, as they can be replaced at any time, while mayors have defined four-year terms.

A small number of councils use the committee model, in which a leader is optional and policy is instead decided by councillors sitting across committees in proportion to their share of seats. The committee model was the norm before the Local Government Act 2000, and was reintroduced as an option in the Localism Act 2011. Both Sheffield and Bristol City Council are examples of major local authorities that have recently reverted to committee arrangements after referendum campaigns against strong executive leadership with support from opposition councillors from minority parties.

As with the variation in geography, the variation in governing structures makes it difficult for local authorities to develop a mandate for managing the local economy, and therefore be rewarded for good policymaking. Local elections in Britain are primarily seen by voters and commentators as 'second-order' elections, where voting behaviour is largely driven by sentiment towards national government because local authorities have such limited power to change policy.[45]

The combination of these weak structures mean that councils are either extremely safe, with some councils having few or no opposition councillors, or extreme volatility, with local political fortunes determined by the party in ascendancy at Westminster. In neither case are councils rewarded for good local leadership or penalised for poor stewardship of the economy.

Stronger local government requires reorganisation and less fragmentation

Improving the ability of subnational government to manage the local economy will require local government's structures to change. Britain's centralised state stems in part from the problems of fragmentation and weak leadership in English local government that have been left unresolved since the 1970s.

Less fragmentation and variation would strengthen local government

Central government has historically responded to these problems by permitting variation in structures, but this has made the existing system more complex and less accountable. Moreover, the variation in boundaries and leadership arrangements in English local

44 A Breach, The metro mayors are a success – now they need more responsibilities, Centre for Cities, 2021.
45 A Heath, Between first and second order: A comparison of voting behaviour in European and local elections in Britain, European Journal of Political Research Vol. 35, 1999.

government stands in stark contrast to the lack of variation allowed by central government in local policy, priorities, and taxation.

A more uniform and less fragmented structure of local government in England is necessary if it is to truly take responsibility for local economic change. Doing so would overcome the multiplication of effort and vetoes that fracture local governance and lay the foundations for a universal transfer of powers and responsibility from central to local government. Making local government simpler also makes it easier to do other complex reforms such as fiscal devolution or planning reform.

Central government must take the lead on reforming local government

Reorganisation and reform of the structure of local government cannot be done by local government itself or proceed only if local authorities consent. Reform in recent decades has proceeded in this manner, and it has not resolved any of these issues. In a country as centralised as the UK, only central government can fix the systemic problems in subnational governance.

Reform of structures and boundaries will need to consider economic and non-economic factors

There are several trade offs that will need to be considered in how any new system of local government would be designed. There is a tension between localism and representing small communities and historic boundaries; and between achieving economic efficiency and representing larger identities of place and economic boundaries. No geography will satisfy everyone, and reformers will have to decide their priorities before they decide their new boundaries, just like Lord Redcliffe-Maud did.[46]

There is also a trade off between empowering local government and empowering local councillors. The two are connected, but are not the same – local councillors are responsible to the neighbourhood they represent and their political party, while local government should be responsible to its entire geography and the local economy. Giving one institution more power will in some form depend on a relatively diminished role for the other.

Continuous consultation of residents, and strong executive leadership are also subject to trade offs. While consultation and input from residents is important, it can slow down or prevent effective decision making. Likewise, some decisions may depend on adopting a longer-term view than that of annual election cycles.

However, there is no trade off between a greater role for local government and professionalism. Central government may at present have better skills and mistrust

46 Hansard HC Deb. vol. 784, cols 1461-1463, 11 June 1969.

local government's ability to deliver, but this emerges from local government's current weakness. Local government already has better information than central government on local economies, but it lacks the resources, incentives, or structures to use it as they are denied them by central government.

The limits that central government imposes on the ability of subnational government to manage economic change are clearest in the level of funding local authorities have to deliver their existing responsibilities, as the next section will demonstrate.

Section 5

Local government lacks the resource and responsibility to manage local economic change

If subnational governance is to have a mandate to manage local economic change, then it needs a level of resource and capacity to deliver on its responsibilities. This does not mean that more revenue and more spending always ensure more effective management economic change, but rather that responsibilities come with a need for resources. Centralisation of spending in Britain is high, and has deepened in recent years. Yet despite the problems this causes, it is not the sole reason why local authorities spend so little on economic affairs, such as planning, transport, and training, when Britain's problematic economic geography attracts such public and political concern.

Austerity has deepened imbalances in local government funding. Partly this is because retrenchment in spending has concentrated local authority activity on statutory public services, especially social care. It has also created imbalances in the revenue and capital budgets of local authorities. Tight restrictions on revenue spending and cheap capital spending have created perverse incentives, without leading to increases in investment in local economies due to the lack of responsibilities councils have for driving local growth.

While political debate about local government funding and finance typically focuses on how these responsibilities can be funded, enhancing local government's economic role will require changes to those responsibilities and providing the funding to match.

Despite devolution, Britain is centralising spending

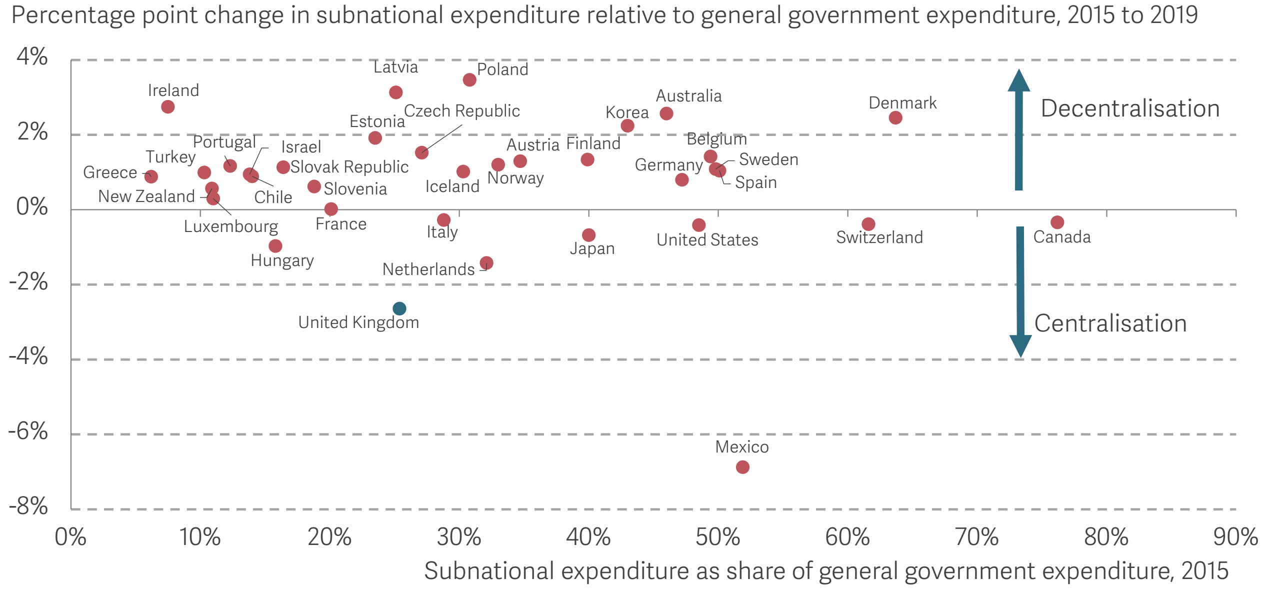
As a centralised and unitary state (especially within England), local government does have a smaller role in providing services than other developed countries. Indeed, 29 per cent of government spending in the average unitary OECD state in 2019 was subnational, compared to 22 per cent in the UK.[47] Yet despite the reforms and rhetoric around the devolution agenda in the UK, spending has become more centralised in Britain in recent years, even as most peer countries pursued decentralisation of spending. Figure 3 shows

47 OECD data for subnational revenue and spending does include some funding streams which British local government is just a delivery vehicle for, such as housing benefit, but this is also the case for other countries.

subnational current and capital spending as a share of total public spending in 2015, and how the balance shifted away from local government in Britain from 2015 to 2019.[48]

FIGURE 3: **The UK has centralised public spending since 2015**

Subnational expenditure relative to general government expenditure: OECD countries, 2015-2019



SOURCE: OECD, Fiscal Decentralisation database.

Although most countries have decentralised spending over time, the UK stands out for having both comparatively centralised public spending in 2015 and centralising yet further from 2015-2019.

Other rich countries are increasing resources for local government, but the UK is not

Although the British state's centralisation is longstanding, centralisation of spending has advanced further in part because resources for local government have shrunk in recent years. Local government has experienced deep austerity since 2010, especially in urban areas. Centre for Cities research shows that there has been an 18 per cent fall in the day-to-day spending by local government in British cities between 2009-10 and 2017-18,[49] compared to a 9 per cent fall in other parts of Britain.[50]

48 Central government's cuts to local government grants have both resulted in total spending has becoming more centralised, and local government's revenue becoming more reliant on local taxes, as discussed in Section 3.
49 The financial situation for local authorities changed dramatically, but temporarily, from 2020-21 due to the emergency support given to local government during the Covid-19 pandemic. A one-year funding and finance settlement from 2022-23 is more generous than the previous decade, but is too short term to draw strong conclusions about the future funding trends facing local government in an unreformed system.
50 Cities Outlook 2019 – A Decade of Austerity, Centre for Cities, 2019.

Subnational austerity also stands out internationally. Table 1 shows subnational current and capital spending across a selection of OECD countries from 2015-2019. British local government spending per person in 2015 was not just unusually low, but it only increased by 2 per cent, or $100 in nominal terms through to 2019 – a real terms cut and a smaller increase than many peer countries.

TABLE 1: **British local government has been starved of resources**

Subnational Government Expenditure, USD PPP, current prices

	USD PPP at current prices		Nominal change 2015-19	
	2015	*2019*	*(USD PPP)*	*(%)*
United Kingdom	$4,600	$4,700	$100	2%
Australia	$7,900	$9,600	$1,700	21%
Belgium	$12,200	$14,900	$2,700	22%
Germany	$10,000	$12,500	$2,500	25%
Spain	$7,600	$9,300	$1,700	23%
United States	$10,300	$12,000	$1,700	17%
Denmark	$17,100	$20,200	$3,100	18%
France	$4,700	$5,700	$1,000	21%
Italy	$5,400	$6,300	$900	18%
Japan	$6,300	$6,500	$300	4%
Korea	$4,800	$6,800	$1,900	40%
Netherlands	$7,200	$7,900	$700	10%
Sweden	$12,000	$14,200	$2,300	19%

NOTES: Figures rounded to the nearest hundred.
SOURCE: OECD.

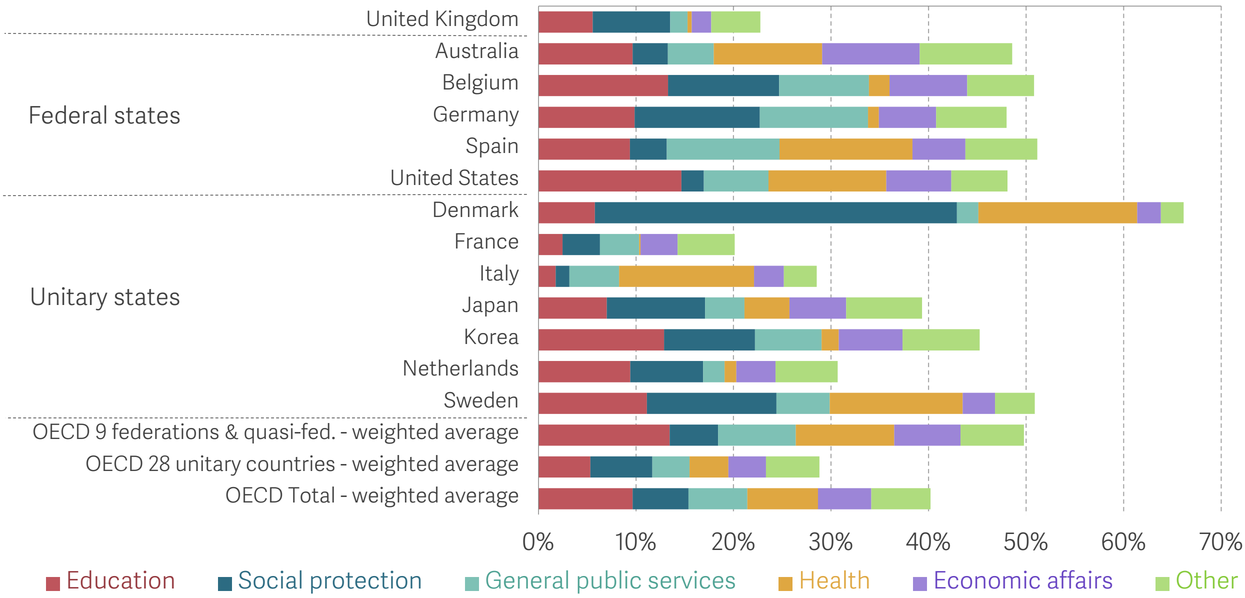
This recent austerity period has stunted the capacity of local government to deliver its responsibilities, both towards public services and local economies.

British subnational government is focused on its responsibility for social care, not the local economy

A lack of funding is not the only constraint on providing resource to local economic development. Despite high variation in the performance of local economies across Britain, subnational government in the UK spends less overall on improving local economic affairs than other comparable countries. Figure 4 shows that while, weighting for population, local economic affairs was 5.5 per cent of all government current and capital spending in the average OECD country in 2019, and 3.9 per cent in the average unitary OECD country, it was only 2 per cent in the UK.

FIGURE 4: **The UK spends much less on local economic affairs than other developed economies**

Subnational government expenditure by function (COFAG definition) as share of general government expenditure: selected countries, 2019



SOURCE: OECD, Fiscal Decentralisation database.

The UK's low share of spending on local economic affairs is not just a product of centralisation. Other centralised unitary states such as France also have a comparatively small role for local government as a share of their total public spending, but dedicate more capacity to local economic affairs than the UK.

The high centralisation of the British state does mean that overall subnational spending is lower than in peer countries. But it does mean that certain policy areas connected to the welfare state that are a large share of local government spending in other unitary countries. These include healthcare and education which are only a small or absent share of local spending in the UK, as health is not a local responsibility and the role of local authorities in providing schooling has diminished in England over the past decade. In principle, the UK could ensure that local government dedicates significant resource to local economic affairs even while retaining a relatively centralised welfare state.

Instead, social protection – that is, social care – dominates subnational spending in Britain. Even though local social protection is only 8 per cent of total public spending in the UK, a smaller share than that of other countries, as a share of local spending it crowds out spending on local economic affairs and other public services because subnational government in Britain spends so little in total.

The reason for this is that social care, unlike economic development, is a defined responsibility of local government in Britain. It is a statutory service that legally must be provided. As a result, steady growth in social care spending in a period of austerity has squeezed out other priorities for unitary and English upper-tier county councils. Social care spending grew by 8 per cent across Britain from 2009-10 to 2017-18, and went from 38 per cent of spending in cities to 46 per cent. In 2009-10, four cities spent more than half of their budgets on social care – by 2017-18, half of all cities did so.[51] Due to the fragmentation of local government, lower-tier district councils and combined authorities have not faced comparable fiscal pressures due to their differing responsibilities.

As a consequence of these changes, however, local economic development spending is now particularly low in England where austerity within local government went further and deeper. Table 2 shows that local government within England spends just over £200 per person in current and capital spending on economic affairs, roughly 9 per cent of all local government spending. In contrast, over £820 is spent per person on social protection, which is primarily provision of social care. Although Scotland and Wales have somewhat higher levels of spending per person, in no part of the UK is economic affairs or economic development a significant responsibility of local government.

TABLE 2: **Local government in England has particularly low capacity to spend on economic affairs**

Local government current and capital expenditure per capita: UK, 2019-20

	England	Scotland	Wales	Northern Ireland
1. General public services	£60	£169	£78	£0
of which: public and common services	£60	£169	£78	£0
2. Defence	£1	£1	£1	£0
3. Public order and safety	£273	£0	£296	£0
4. Economic affairs	£206	£282	£141	£18
of which: enterprise and economic development	£53	£91	£26	£18
of which: agriculture, fisheries and forestry	£4	£9	£5	£0
of which: transport	£148	£182	£110	£0
5. Environment protection	£92	£174	£127	£126
6. Housing and community amenities	£83	£55	£105	£123
7. Health	£58	£0	£0	£29
8. Recreation, culture and religion	£58	£207	£78	£161
9. Education	£623	£1,197	£972	£0
10. Social protection	£827	£896	£1,002	£0
Total	£2,280	£2,980	£2,799	£455
Ecconomic Affairs as a Share of the Total	9%	9%	5%	4%

SOURCE: HMT, Public Expenditure Analyses.

Social care for vulnerable people is an important responsibility of government, and the arguments about how it should be reformed and growing need should be paid for go beyond the scope of this paper. It is though only ever consumed by a small minority of local residents at any one time and of limited relevance to national economic

51 Cities Outlook 2019 – A Decade of Austerity, Centre for Cities, 2019.

performance. As a public service, it is primarily a form of redistribution and consumption, not a form of investment that improves the underlying fundamentals of the local economy.

Strict central rules on local spending make it harder to deliver for local economies

All of local government's responsibilities have become much more difficult to meet due to not just the spending cuts but also the implementation of austerity. In particular, the extreme suppression of revenue spending (primarily day-to-day spending on services and payroll), while capital spending (borrowing to invest and acquire assets) has remained cheap, has created perverse incentives and false economies for local government, while deepening centralisation. For example, spending on children's social care to keep vulnerable young people on a stable lifepath is an investment in the community and reduces long-run costs to the public sector, even if it does not improve economic performance. Children's social care has, though, been subject to extreme funding pressure because it is considered revenue spending – local authorities cannot use their cheap capital spending to pay the daily costs of caring for vulnerable children. As they also have limited tax raising powers due to the centralisation of funding, local authorities' ability to provide services and prosperity to all of their residents is reduced by both decisions and structures that are under the control of central government.

Similarly, and perhaps surprisingly, cheap capital spending does not necessarily help local government improve the performance of their local economy. The tight restrictions on revenue spending and comparatively cheap capital spending of recent years, typically accessed from central government through the Public Works Loan Board (PWLB) at a few basis points above UK gilts mean that local authorities have been encouraged to borrow to acquire assets that deliver a revenue stream that can support local services. For instance, Spelthorne Borough Council, with a population of roughly 100,000, has acquired a £1 billion commercial property portfolio over the past decade. This capital spend has not been used to improve local economic performance, but simply to acquire assets and collect rents from elsewhere to support revenue spending, which now exceed local council tax revenues.[52] Other local authorities have attempted similar initiatives, some with rather more mixed success.

Across these schemes, gearing of capital budgets was used to overcome central government's tight restrictions on revenue budgets. This was possible as the capital financing was acquired from the PWLB rather than capital markets, which meant that local authority capital budgets were not subject to significant external scrutiny or pricing

52 G Davies, The Public Service Gamble: Councils Borrowing Billions to Play the Property Market, The Bureau of Investigation Journalism, 2018.

of risk. As a result, rather than using their investment spending to invest in the local economy, local authorities were incentivised to use it to support their spending on local services.

Since then, central government has rolled back the freedoms councils previously enjoyed with their capital budgets. This advances central government's control over local authority finances. It is in a certain sense though financially prudent, as the current incentives and responsibilities of local government encourage this arbitrage. Stronger local government requires more resource and more economic responsibilities

Local government's low level of spending on economic development means it struggles to fund activities that increase the net worth of the national economy. As the British economy's national underperformance stems largely from severe underinvestment in the public and private sectors, local government in its current form is not able to deliver the increases in local public investment that might be required, due to both lack of funding and its focus on providing social care to the exclusion of other responsibilities.[53]

Local government needs more than just increased funding from central government

In the short term, local authorities will need an injection of funding from central government just to meet their current responsibilities. Recent funding and finance settlements from central government acknowledge this and are somewhat more generous than earlier settlements.

But over the medium and long term, if local government is to take on a greater level of responsibility for managing local economic change, subnational government funding faces trade offs that cannot be avoided. Reversing the cuts to the grants would, at best, just wind the clock back to levels of service provision in social care seen earlier in the decade, and would have to go beyond those levels to account for growing demand for public services, particularly social care. If this was delivered solely through increases to grant funding, an already centralised funding framework would become even more centralised – disempowering subnational government even further and leaving it vulnerable to future cuts.

Local government becoming more responsible for local prosperity would entail different priorities

Furthermore, it would be unwise to assume that increasing grant funding to local authorities would automatically increase their ability to manage economic change.

53 Resolution Foundation & Centre for Economic Performance, LSE, Stagnation nation: Navigating a route to a fairer and more prosperous Britain, Resolution Foundation, July 2022.

Local government in England concentrates its resources on social care and other public services because they have a statutory duty to do so, and local economic affairs are a lower priority.

The alternative is for local government to take on greater responsibility for raising its own revenue, with advances in fiscal devolution, as discussed in the earlier section. Exactly what those new priorities would be would vary from place to place, as local needs would differ. But just as fiscal devolution would entail that the revenue streams of local authorities would broaden and become more varied, so would local authority investment as it would aim to grow local economies and increase tax revenues to pay for local services.

It makes sense for more autonomy over revenue budgets to be matched by more autonomy over capital budgets

An underdiscussed implication of fiscal devolution is that capital spending would likely have to become more expensive for the typical local authority. Reducing or removing central control over local authority revenue and capital budgets would relax pressure on revenue budgets, but would also entail a greater reliance on capital markets for capital budgets. Cheap borrowing through the PWLB is a tool of central government, and does not provide clear incentives for local authorities to make worthwhile local investments that increase local tax revenues by growing the local economy.

In all likelihood, this would require a shift back towards councils issuing municipal bonds as an important tool for accessing capital, and variation in rates paid on those bonds depending on the capital structure of the council, the underlying fundamentals of the local economy and tax revenues, and trust in the leadership and strategy. Minimising the spread in those rates would depend on councils being placed on a firm and equal footing in terms of structures, resource, and incentives to pursue economic growth.

Fixing the resources, responsibilities, and geography of local government could plausibly improve local services and economic performance

Fiscal devolution would also depend on systemic reforms to shift local structures towards fiscal devolution and overcoming fragmentation, as discussed in the previous chapters. All three of these issues are connected, even if there are trade offs and choices to be made in how each of these issues is resolved. Crucially, though, increasing the capacity and autonomy of local government with reform across these three areas will have large benefits as this is one of the few areas where reform can both improve public services in the short-term while improving long-run trend economic growth.

While other policy areas – notably central government spending – face sharp trade offs due to limited resource, rising demand for services and stagnating growth, improving the performance of local government is primarily a question of political will. Embedding autonomy over revenue and capital spending in stronger local authorities with better incentives to pursue growth would unlock more opportunities for the state to fix the problems it faces in different locations and policy areas, rather than waiting for central government alone to fix everything alone.

The subsequent section gives examples of how three other countries have approached these same three issues, and their success in doing so.

Section 6

How do successful devolution processes work?

The UK Government is aware that the British state is highly centralised, and this has driven the devolution agenda over the past decade. The establishment of the metro mayors has changed politics in England, even if their ability to shape their places is currently limited. Devolution has so far been a series of case-by-case deals rather than comprehensive reform.

But other countries have experienced similar challenges to the UK and handled them differently. They show that it is possible to overcome difficult and complex challenges in subnational government and deliver improvements to outcomes. As federal countries have limited relevance for Britain, and especially England, as a unitary state, the three case studies are all unitary states that have each undertaken reforms to improve subnational government in recent decades.

These are: France, which is also attempting to overcome centralisation of the state and fragmentation of local government; Japan, which has undergone comprehensive local government funding and finance reforms in the context of pressure on budgets and places' differing ability to raise revenues; and Ukraine, which implemented a programme of greater local taxation and overcome fragmentation in subnational government over a six-year period.

The three case studies show that other countries facing similar, if less severe problems to the UK have already embarked on bolder institutional reforms than Britain has. Reforms to funding, geography, and responsibilities complement each other and together make it possible to deliver to stronger and more effective local government.

France – Reforming but drifting

The experience in France serves as example of how reformers are attempting to overcome fragmentation in subnational government by clarifying its responsibilities and shifting to city-region governance. It also shows how a lack of consensus and policy drift can lead to decades of little or no progress.

France, like the UK, is a unitary state with a centralised system of taxation and expenditure. France has also struggled for decades with the questions of decentralisation and how to rationalise complex systems of subnational governance to ensure they can act cohesively to support economic development.

In contrast to the UK, France has a three-tier system of subnational governance, with 35,000 lower-tier municipalities (communes) forming the bottom layer.[54] Over 27,000 of these are very small, and had less than 1,000 residents in 2016.[55] Above the municipalities sit 101 middle-tier departments, and above them sit 13 upper-tier regions in metropolitan France. Urban areas and cities are particularly underserved by this system, due to the fragmentation of responsibility between urban planning and economic development across municipalities and between municipalities and departments.

In addition, most municipalities are part of inter-municipal structures which have the competencies of their municipalities. There are at least four types of these inter-municipal structures, including the recently created 'métropoles' which oversee France's cities – similar to England's combined authorities.

Devolution has struggled to progress since the 1960s

Modern decentralisation in France began with a rocky start, when President de Gaulle's failed 1969 referendum on decentralisation led to his resignation. The regions were created regardless in 1972, and granted additional powers in 1982 and 1983. Still, the regions remained weak and the French state strongly centralised. Attempts to encourage the municipalities to amalgamate had also largely failed. Progress was incremental until the 1999 Chevènement law. This sought to standardise organisation of inter-municipal structures, with clearer delineation of competencies, and further reforms and competencies were granted to various tiers of subnational government in 2003 and 2004.

However, the division of competencies between tiers of sub-national government remained unclear. A lack of a direct hierarchy between these tiers meant that an upper-tier region could not compel co-operation from its lower-tier municipalities. Even in circumstances where the division of competencies was clear, electoral incentives led local authorities to act in areas they knew where not primarily under their remit.

Recent devolution has focused on city-regions

The Balladur Committee report, published in 2009, helped generate consensus for further reforms. The report criticised the inefficiencies created by the ambiguous delineation of roles for the three tiers of local authorities, and the horizontal fragmentation caused by such a large number of municipalities. The report also specifically identifies the

54 France: country profile, The Council of European Municipalities and Region, France (cemr.eu), accessed on 26 August 2022.
55 Local and regional democracy in France, The Congress of Local and Regional Authorities and Council of Europe, 2016.

difficulties in developing coherent urban policy, with the relevant competencies to do so divided between the municipalities and departments.[56]

A series of legislative changes initiated by President Sarkozy in 2010 were cut short by a change of governing party in 2012. President Hollande's government also recognised the need for change and passed a number of different but related laws between 2014 and 2015. These reforms collectively enabled urban municipalities to form métropoles to improve governance across economic geography. The 21 métropoles include the largest cities in France, and are the most integrated of the intermunicipal structures. They have the powers of the municipalities as well as additional powers, such as those over metropolitan planning (including public space and housing policy), economic development, transport, higher education, research institutions, a range of local public services. They also have fiscal powers, including levying taxes on businesses and properties, for example the 'versement mobilité' tax which is levied on payroll to support urban transport. Paris and Marseilles métropoles have an additional special status, and the Metropolis of Lyon is a local authority in its own right, and not an inter-municipal structure.

France's most recent reforms have blurred responsibilities

However, the responsibilities of local authorities remained confused. In a bid to clarify them, reforms in the mid-2010s removed the general competency clause from upper-tier regions and middle-tier departments, leaving it only with municipalities.[57] Regions were merged to reduce their numbers to the current 13, and retained a clear mandate for strategic economic infrastructure, regional transport, and high schools. Departments have seen their role decline, with some of their powers transferred to regions and the inter-municipal structures.

Some of these new structures now have powers that British cities lack. For example, the 2014 devolution reforms passed control of local water companies out of the hands of water boards controlled by various municipalities into the hands of the métropoles. Water in and near Rennes, for instance, is delivered by a new body, the 'Collectivité Eau du Bassin Rennais', with Rennes Métropole given a leading role to manage the water network of its area, with the aim of reducing fragmentation and costs.[58]

Devolution remains incomplete, however, and recent reforms have introduced drift into the agenda. In February 2022, the '3Ds' law – standing for decentralise, deconcentrate, differentiate and simplify local public action – aimed to reduce frictions between local authorities, but in practice may muddle some of the responsibilities of local authorities.

56 J Griffith, The French Metropole: How it Gained Legal Status as a Metropolis, Journal of Comparative Urban Law and Policy, 2017.
57 J Griffith, The French Metropole: How it Gained Legal Status as a Metropolis, Journal of Comparative Urban Law and Policy, 2017.
58 Evolution du Syndicat d'Eau, Collectivité Eau du Bassin Rennais, accessed August 26th 2022.

[59] For example, management of roads can now be devolved from the upper-tier regions to departments or metropolises, and a trial is planned to recentralise the RSA – income support for unemployed and low-income workers – from participating departments to the central state. Whether these reforms will grant necessary flexibility to local authorities or create more complexities and coordination difficulties in an already complex space is yet to be seen.

Japan – Fiscal devolution in a unitary state with strong local government

Japan offers an example of how strong local government can exist within a unitary state, and how difficult reforms in local government structures and funding and finance can be achieved despite robust opposition. In contrast to Britain, local government is protected in the constitution: Japanese local authorities have the right to manage their own property and affairs without interference from central government. If central government wishes to reform local government, it therefore must reform the framework as a whole rather than tinker with each authority individually.

Japanese local government has a two-tier system, with upper-tier ‘prefectures’, roughly comparable to counties or city-regions, responsible for economic affairs, secondary schools, regional transport, and town planning; while lower-tier ‘municipalities’ are responsible for primary schools, local roads, sewerage and personal administrative services. There is also a special division of powers for the upper-tier Tokyo Metropolis and its lower-tier ‘Special Wards’ similar to that of Greater London and its Boroughs: every local authority has a directly elected mayor or governor, and an elected council.

Japan faces some of the same challenges as Britain, but gives local government more responsibility

Local government in Japan plays a larger role than in Britain in the delivery of public services, especially education, and management of the local economy. Subnational government in 2019 accounts for 39 per cent of all public spending in Japan, compared to 22 per cent in the UK, and 6 per cent of all public spending is subnational spending on local economic affairs, compared to 2 per cent in Britain.

Fiscal devolution is also more advanced in Japan than in the UK. Japanese local authorities today have at least 18 different taxes for both tiers of local government – ranging from taxes on local incomes, property, dividends, corporate earnings, and consumption and motor vehicle taxes, to smaller items such as the local hot springs tax

59 Law 3DS decentralization deconcentration local authorities | vie-publique.fr, accessed 26 August 2022.

and the golf tax. Prefectures and municipalities have the ability to set tax rates across the taxes they control, within overall bands set by national government.[60]

However, Japan faces similar policy problems to Britain: there are major economic divides between the capital region and the rest of the country; an aging population putting pressure on public services; and several decades of poor national economic performance. In addition, earmarked central grants played a large role in Japanese local government funding historically, providing little freedom to local authorities on how to spend their funds.

These problems have driven reforms of the Japanese local government system over the past thirty years deepening devolution across its responsibilities, funding, and structures.

Devolution of powers was made easier by a clear and uniform structure

The autonomy and the powers of local government were increased by central government from the early 1990s, after the end of the Japanese bubble economy. This was relatively straightforward as the uniform structure of governance made reform scalable, and because local capacity within these institutions was already reasonably strong.[61]

Greater decentralisation of power has been matched by reductions in fragmentation, especially for the lower-tier municipalities that are struggling to provide services due to their small and shrinking tax base. The number of lower-tier municipalities fell from around 3,200 in 2003 to around 1,700 today to save money, due to a mixture of regular case-by-case amalgamations initiated by the municipalities, and occasional top-down mass mergers of multiple municipalities by national government. In addition, there are ongoing debates about transferring powers from the prefectures down towards the major cities, and extending Tokyo's special Metropolis status to Osaka and Nagoya, with two unsuccessful referendums in Osaka in 2015 and 2020 decided by less than 1 per cent of the vote.[62]

Balancing fiscal devolution with simpler redistribution is possible

Fiscal devolution was a focus of reform efforts in the 2000s and was considerably more challenging.[63] Even though central government was convinced of the need for fiscal devolution, local and national politicians worried that changes to funding formulas would result in certain places losing out due to variation in local capacity to raise revenues.

60 N V Pokrovskaia & A V Belov, Tax Revenues of Local Budgets in Unitary States: A Case Study of Japan. Journal of Tax Reform, vol. 6, pages 73–89, 2020.
61 H Ikawa, 15 Years of Decentralization Reform in Japan, CLAIR, 2008.
62 S Kimura, Urban Policy III:The Change of Japanese Metropolises, 2020.
63 S Kimura, Goals and Reforms of Current Japanese Local Tax System, Hitotsubashi Journal of Law and Politics 43, 2015.

The 'Trinity Reform' as passed comprised of three elements that tried to balance the trade off of improving self-reliance in local government while not damaging the provision of public services between places:

- A reduction in earmarked grant funding from central to local government, in which funds were given to local authorities to accomplish specific responsibilities.
- A greater share of taxes was paid to local government rather than central government.
- The 'Local Allocation Tax' (LAT), which allocates a slice of national tax revenues to prefectures and municipalities via a formula, was reduced and saw its formula simplified.

The reformed LAT combines 33 per cent of nationally collected income tax and corporation tax, 50 per cent of liquor tax, and 21 per cent of consumption tax into a pot which is then allocated to local authorities across the country. The allocation formula closes the gap between the estimated costs of providing local services and local revenues, subject to a taper.[64]

The LAT ensures that successful places are self-reliant, while ensuring that places with less successful economies can still provide public services. For example, while Tokyo receives nothing from the LAT, Osaka receives 10 per cent of its funding from the LAT, and the struggling Kochi Prefecture receives 38 per cent.[65] Likewise for municipalities, the LAT provides 11 per cent of revenue in medium-sized cities, but 37 per cent of revenue of towns and villages with fewer than 10,000 people.[66]

Arguably, fiscal devolution in Japan could go further. Places are still penalised for growing their economies and reducing their reliance on the LAT – for municipalities, 40 per cent of any increases in own-source revenue are offset by a reduction in grants, although a taper will always be a feature of any system of redistribution between local authorities.[67] On the other hand, the reliance of Tokyo and other successful places on local taxation to pay for local services means that they are strongly encouraged to grow their local economies – and by extension, the national economy – to pay for local services, instead of blocking growth. The political process successfully navigated a complicated set of reforms of the local government funding system by making trade offs but sticking to the original goal of advancing fiscal devolution.

64 White Paper on Local Public Finance 2021 (Illustrated), Japanese Ministry of Internal Affairs and Communications, 2021.
65 Japan Statistical Yearbook 2022, Chapter 5 Public Finance, Table 5-12 F, https://www.stat.go.jp/english/data/nenkan/71nenkan/1431-05.html, accessed on 26 August 2022.
66 White Paper on Local Public Finance 2021 (Illustrated), Japanese Ministry of Internal Affairs and Communications, 2021.
67 S Bessho & H Ogawa, Fiscal adjustment in Japanese municipalities, Journal of Comparative Economics, Volume 43, 2015.

Ukraine – Rapid reform under pressure

Over the course of six years from 2014 to 2020,which preceded the Russian invasion, Ukraine completely overhauled its system of subnational government, across structures, governance, boundaries, and fiscal devolution. The speed of these changes demonstrates what a rapid reform agenda can reasonably achieve, and how measures to devolve power can strengthen the state and improve public service delivery.

Although Ukraine has taken a prominent place on the British political agenda following Russia's invasion in February 2022, one of the underpinnings of the largely-unexpected Ukrainian domestic resilience was the extensive domestic reform programme that followed the Revolution of Dignity on the Maidan and Russia's illegal occupation of Crimea and the Donbas in 2014. While this reform process is still unfinished, one of the most successful areas of reform has been subnational government.

Ukrainian local government was fragmented, weak and lacked clear mandates

Before 2014, Ukraine was one of the most centralised states in Europe, in part because the system of subnational government was wracked by horizontal and vertical fragmentation that prevented it from exercising power.[68] It had inherited upon independence a weak three-tier system of local government, with 24 upper-tier regions, 490 middle-tier 'raions', and roughly 11,000 municipalities. [69] Decentralisation was impossible without some amalgamation of these separate bodies, but tinkering reforms in the period up to 2014 had failed to overcome the political barriers of doing so.

Alongside this fragmentation, Ukraine's system of subnational government faced centralised funding, unclear responsibilities for different tiers, and poor accountability. Despite relatively high economic complexity and a skilled workforce, Ukraine's national economic performance since independence in 1991 had been poor, and most urban economies struggled to handle the profound changes that followed the collapse of the command economy and Soviet supply chains.

Ukraine had a plan for local government reform and implemented it

In 2014, a 'Compact Framework' was launched to overhaul Ukrainian local government, committing the Government to a programme of fiscal, administrative, and political devolution.[70] This framework set the stage for new legislation that clarified the responsibilities of the different tiers and created a new 'amalgamated' municipality with special powers and access to greater fiscal devolution,o encouraging the lowest-tier authorities to merge to overcome horizontal fragmentation.

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68 S Roberts & O Fiskun, Local Governance and Decentralization Assessment: Implications of Proposed Reforms in Ukraine, USAID, 2014.
69 Maintaining the Momentum of Decentralisation in Ukraine, OECD, 2018.
70 B Jarabik & Y Yesmukhanova, Ukraine's Slow Struggle for Decentralization, Carnegie Endowment for International Peace, 2017.

By 2019, voluntary amalgamation of the lower-tier municipalities was 40 per cent complete, with 70 per cent of the population living in either cities or amalgamated places, before compulsory amalgamation was imposed on the remaining municipalities and all the middle-tier 'raions', re-establishing a uniform system of governance.[71] In total, the number of municipalities fell from just under 11,000 to roughly 1,500, and the number of raions was reduced from 490 to 136.[72] Within this uniform system, Kyiv and Sevastopol as large cities continue to maintain a special status, and all municipalities have directly elected mayors.

Local government reform was made easier by advancing fiscal devolution

Fiscal devolution accompanied amalgamation. Although before 2014 Ukrainian local authorities had a broader tax base than British local authorities – with revenues raised across income, property, corporation, and consumption and excise taxes – they had limited autonomy as revenues were typically shared with central government.

With fiscal devolution, though, municipalities that amalgamated saw their retained share of income tax – the largest and most important local tax – increase from 25 per cent to 60 per cent. As a result, the share of local taxes in municipal budgets increased from 0.7 per cent in 2014 to 26 per cent in 2018.[73] Along with cuts to central government grants from 59 per cent of local government revenues in 2015 to 34 per cent in 2021, the share of subnational authorities' budgets' own revenue as a share of GDP increased from 5.1 per cent in 2015 to 7.3 per cent in 2021.[74]

Fiscal devolution has been popular among Ukrainian voters, as it has been connected to improvements in local public services. In a 2015 survey at the start of the process, 19 per cent of respondents said that budgetary decentralisation had brought positive changes to their localities; by 2018, that share had risen to 40 per cent, despite the incomplete devolution process. In addition, 22 per cent of respondents said they had heard about the benefits of amalgamation and fiscal devolution in other places and expected similar improvements where they lived.[75]

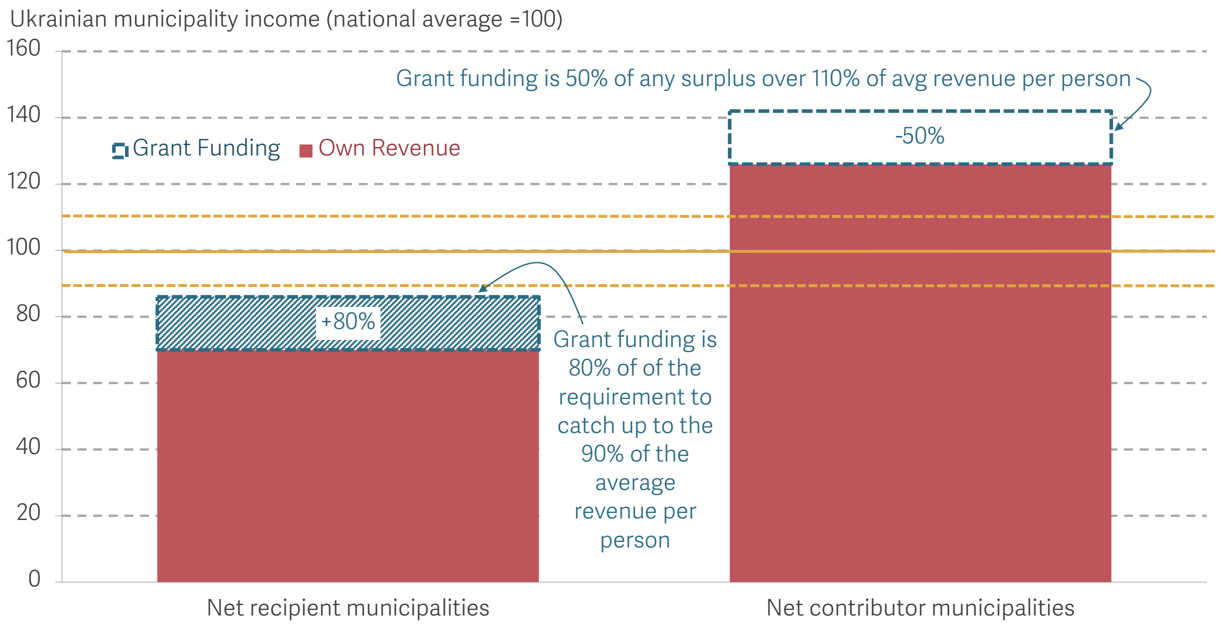
Equality in public service provision has been sustained despite fiscal devolution with the creation of a new, simple system of horizontal redistribution. As Figure 5 shows, local authorities with a surplus of revenue above 110 per cent of the average authority's

71 V Romanova & A Umland, Ukraine's Decentralization Reforms Since 2014 Initial Achievements and Future Challenges, Chatham House, 2019.
72 V Romanova, Ukraine's resilience to Russia's military invasion in the context of the decentralisation reform, Stefan Bathory Foundation, 2022.
73 OECD (2018), Maintaining the Momentum of Decentralisation in Ukraine, OECD and Romanova, V. and Umland, A. (2019), Ukraine's Decentralization Reforms Since 2014 Initial Achievements and Future Challenges, Chatham House.
74 Romanova, V. (2022), Ukraine's resilience to Russia's military invasion in the context of the decentralisation reform, Stefan Bathory Foundation.
75 Romanova, V. and Umland, A. (2019), Ukraine's Decentralization Reforms Since 2014 Initial Achievements and Future Challenges, Chatham House.

revenue give 50 per cent of that surplus in a 'reverse grant' to local authorities with a revenue deficit below 90 per cent of the average authority's revenue as 'basic grants' that close 80 per cent of the deficit.

FIGURE 5: **Ukraine's system of redistribution between local authorities is straightforward**

Hypothecated model for horizontal fiscal transfers between Ukrainian local authorities



SOURCE: OECD (2018), Maintaining the Momentum of Decentralisation in Ukraine

This encourages places to continue growing their local economies even if already prosperous, as they continue to retain 50 per cent of additional revenues earned, while ensuring that every place can meet a minimum standard of public service provision.

Non-partisan foreign experts – and moving quickly – helped Ukraine's reform programme

While the reforms built on previous failed attempts, the role of foreign experts was crucial, for two reasons. First, foreign support was able to provide technical advice and resource to help Ukraine undergo these complex changes. Second, foreign experts' recommendations were seen as technical because they were non-partisan, building trust in the reform process and making it easier to overcome opposition.

Problems do remain with Ukraine's structure of local government, however. Vertical fragmentation between the three tiers of government is an unresolved issue, and fiscal devolution still has further to go. But the new system has been widely praised as an improvement on the previous model and has strengthened the state in its fight for survival against Russia's invasion.[76] The mayors of the new amalgamated municipalities have drawn particular attention for their role as elected leaders of their local communities, in charge of maintaining public services under extreme conditions.[77]

Furthermore, Ukraine shows that substantial progress can be achieved within a short period of time, if central government has a clear plan and is committed to reform and overcoming opposition. Public support and improvements to public services can be realised in a short timeframe if Government acts quickly and grants genuine devolution of power.

Devolution depends on a clear plan led by central government

Every country has different institutions and faces a different situation. There are, though, some common factors to success across all three case studies and lessons for UK reformers to learn:

- Reform of local government depends on central government setting and pursuing clear objectives, even while being flexible on detail. Negotiation by politicians is how these reforms navigate the political system, but the process is made easier if reformers are clear and do not compromise on the underlying goals.
- Funding, geography, and responsibilities are all connected. There is a complementarity between fiscal devolution, local government reorganisation, and increasing the strength of local government. Only interrelated solutions can address the interrelated problems of institutional weakness in local government – for instance, fiscal devolution becomes much easier to deliver in a simple and uniform system set of boundaries.
- Unitary states around the world are pursuing fiscal devolution. Successful devolution processes connect increased responsibilities and boundary or geographic changes with more tax powers. Voters can be convinced to support fiscal devolution if it leads to visible improvements in local public services, it is compatible with some role for national government in redistributing across the country, and there are multiple ways for reform can to advance it.
- The smallest local authorities are often tempted to merge or co-operate due to a lack of funding or capacity. England appears to be unusual in that the lowest-tier (district) councils face much less funding pressure than upper-tier (county and unitary) councils, which potentially limits the ability of 'voluntary' approaches to

76 V Romanova, Ukraine's resilience to Russia's military invasion in the context of the decentralisation reform, Stefan Bathory Foundation, 2022; T Brik & J Murtazashvili, The Source of Ukraine's Resilience: How Decentralized Government Brought the Country Together, Foreign Affairs, 2022.accessed 26 August 2022.
77 W Steavenson, Ukraine's mayors are leading from the front, 1843, 2022. accessed 26 August 2022.

reduce fragmentation and increases the responsibility on central government to lead amalgamation. Parish or town councils have no economic or welfare responsibilities or powers and provide only local community services in England, such as looking after war memorials and organising street markets, and may not face the same pressures as municipalities in other countries.

- Special arrangements for large cities depend upon a uniform framework for everywhere else. Larger cities have different needs and may need to take on extra powers. But delineating what they are and fitting them into the rest of the system is made much easier if there is a foundation of basic responsibilities that can be built upon.

Section 7

Conclusion: what needs to change for local and the national economies to improve?

Britain's institutions and state are exceptionally centralised and arguably unbalanced. They appear to be linked to poor local and national economic performance, and many other developed countries allow local government considerably more autonomy and responsibility than Britain does.

If the national economy's performance is to improve, then it must successfully manage a forthcoming decade of change in the national economy while also tackling almost a century of stagnation in local economies. This depends on improving the performance of many of Britain's urban economies, especially the big cities.

Addressing centralisation and the persistent underperformance of certain city economies depends on reforms across local economic governance and there is no single tweak or change that can fix problems of this size and complexity. If English local government is to be set up to manage change on the scale required, serious reform must address its incentives and responsibilities, its boundaries and structures, and its resourcing and powers over taxation all together.

Only reforming all three of these areas can strengthen local government's ability to absorb greater responsibility to the degree the forthcoming decade requires, as successful reforms in each area depend on interrelated progress within the other two areas. Similarly, improvements to funding alone will not overcome the institutional problems at the heart of the Britain's spatial divides.

Change is necessary because at present no part of the state is truly responsible for improving the performance of local economies. National government often seems to think it can, but struggles to do so, and it faces few penalties for failure until the consequences for the national economy become unavoidable.

Local government in Britain often struggles to overcome significant economic headwinds, and often blocks positive economic change despite its important role in providing local services. Local authorities are not typically penalised for persistent underperformance, but nor are they rewarded as much as they should be for improving local living standards and national prosperity. Reform to improve local government's ability to deliver on these issues as clearer responsibilities is compatible with national government ensuring public services are available and of a high quality to everyone in the country, while local governments provide local services.

Countless ideas and initiatives have been implemented over the decades in response to the problems caused by this tension. But British local economies have had too many policy changes and not enough tough reforms. The institutional problems that underpin this lack of responsibility and success remain unsolved. Until they have been solved, Britain's economic geography will not change.

Central government may well be tempted to again avoid the difficult debates that reform of local government presents by splitting the difference and opting for a small package of tweaks. This would replicate previous failed attempts to improve local economic performance without tackling the underlying problems in local governance, which is that the design of these institutions is rooted in political settlements dating to the mid-20th century and has not kept pace with the change the national economy has experienced since their creation.

If central government truly wishes to commit to embracing economic change over the next decade, then it needs to make a clear decision as to where responsibility for changing local economies truly lies. In the UK's highly centralised system, only central government can make this decision, and it faces two broad options:

One option is that central government can assume responsibility for local economic change from local government in England, and attempt to manage every local economy from the centre. The ability of local authorities to block local economic change would have to be removed, as local economies are too important to remain unchanged when the national economy is trying to change and escape stagnation. This would come with significant political and economic costs, as the track record of central government's attempts to manage local economic change is poor.

The alternative is that local government in England would truly be given the mandate to deliver local prosperity. There are many different options available to Britain in how exactly it might choose to do this. It would depend however on solving the problems addressed in this report – poor incentives from a broken funding and finance framework; horizontal, vertical, and internal fragmentation of governance structures across local economies; and a lack of resource and focus on the local economy.

These would change the British state and British politics. It would be a new system, and moving to it would entail winners and losers. It would be complex and technically difficult to enact these reforms, with no political pay-off until the reforms have actually changed the structures on the ground. And there will be trade offs to manage in each of these areas, with a degree of uncertainty over the consequences and little chance of agreeing on a 'perfect' system that raises no objections.

It is possible, though. Other countries face similar problems, and have made real progress in addressing them. Moving to an entirely new system will be an effort that likely stretches across more than one Parliament, but individual changes can be proposed, designed, passed into law, and implemented in only several years.

Addressing the entire system will be easier than trying to fix each problem individually – a uniform framework of local government will make it easier to deliver fiscal devolution, which in turn will enable places to truly take on responsibility for their local economies, which in turn means that a new framework of local government is more likely to be a success.

Fixing local economic governance also lays the foundation to fix other problems that have occupied higher places on the national political agenda but have remained unsolved due to the weakness of local government. For instance, boosting the level and autonomy of funding for local government opens up options for social care reform. Overcoming fragmentation across tiers and geography makes planning reform and the housing crisis much easier to deliver and solve. And strengthening local decision making through improved governance structures will reduce the pressure on Westminster and Whitehall to be held accountable for things that are in practice are outside their control.

That there is little hope of local economic change without institutional change is why the latter is so possible. Fixing subnational governance in Britain makes it easier to solve all manner of other problems, from housing, to social care, to transport, to geographic inequality, and to overcoming national economic stagnation. Neither fatalism nor complacency are warranted – change is possible, and the real debate on the purpose and future of devolution needs to start now.

THE
ECONOMY 2030
INQUIRY
SHAPING A DECADE OF CHANGE

The UK is on the brink of a decade of huge economic change – from the Covid-19 recovery, to exiting the EU and transitioning towards a Net Zero future. The Economy 2030 Inquiry will examine this decisive decade for Britain, and set out a plan for how we can successfully navigate it.

The Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics. It is funded by the Nuffield Foundation.

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