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What next for English devolution?

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*English devolution has been a central plank of the "Levelling Up" agenda, enjoying bipartisan support. Ideas have been put forward – but what next in practice? **Max Herbertson** argues that policymakers should focus on three key areas – coverage, local growth plans and a funding overhaul – if devolution is to become a reality.*

English devolution has been a key ingredient in the Levelling Up agenda and efforts to reduce UK regional inequality. Gaining momentum through the Northern Powerhouse, the concept is quite straightforward. Through "devolution deals", local authorities negotiate with central government, allowing them to form a Mayoral Combined Authority

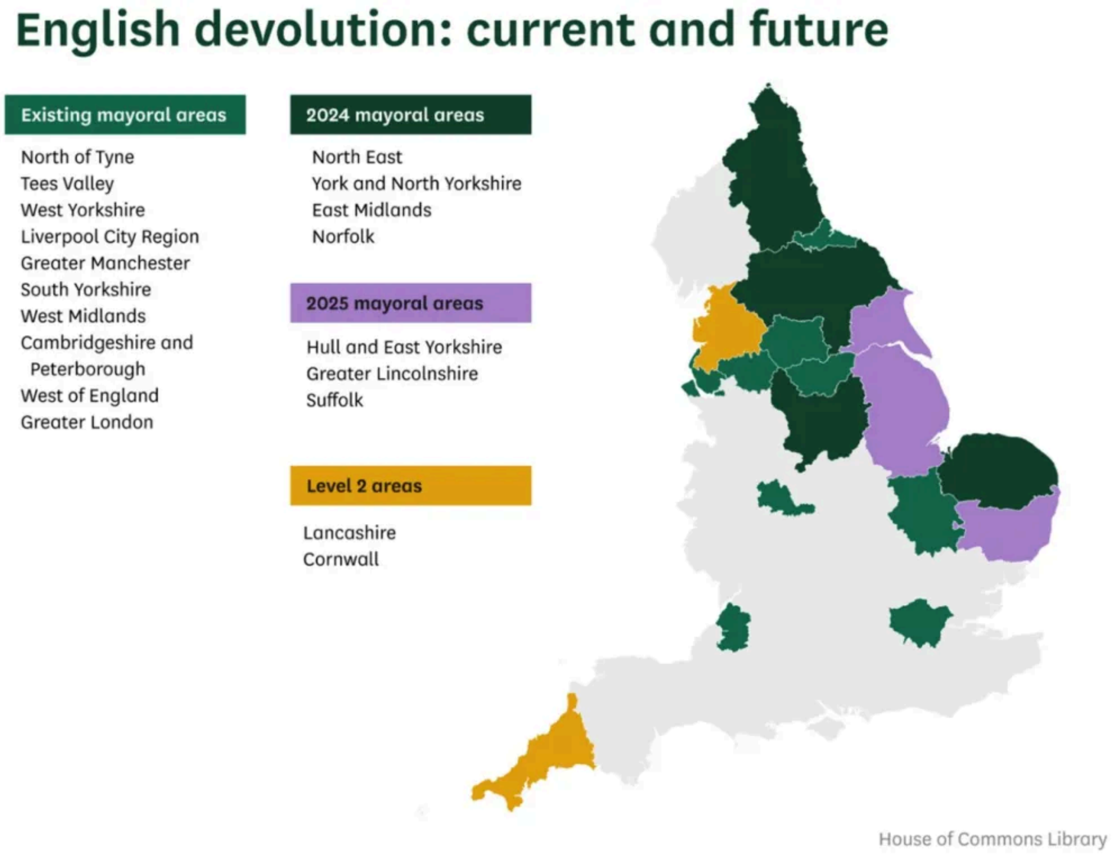
(MCA) led by an elected mayor. This has brought regions like Greater Manchester, the West Midlands, and the Tees Valley closer to London's governance model with the GLA.

The devolution agenda, including this specific model, continues to enjoy bipartisan support. A key factor in its success within the government has been the leadership of Michael Gove, a big beast in cabinet and known for efficiency; this was demonstrated at the 2024 Convention of the North. The Treasury has also shown support, evident in the recent Autumn Statement unveiling new and deeper devolution deals. On the opposition side, under the leadership of Kier Starmer, Labour remains dedicated to devolution as a major priority. In Starmer's 2023 conference speech, he stated: "if we want to challenge the hoarding of potential in our economy then we must win the war against the hoarders in Westminster. Give power back and put communities in control". For Labour, devolution appears to be a mechanism which will support them in their growth mission.

So what next for English devolution? Based on the evidence, here are three areas which future devolution policy should commit to.

(1) Cover the whole of England

By 2025, 57 per cent of England's population, 60 per cent of the national economy and 42 per cent of its landmass will be covered by devolution (see graphic below, courtesy of the House of Commons Library). However, as substantial portions of the country are without agreements, the aim should be to have every area covered by a devolved authority by 2028. As far as possible, these should cover functional economic areas.



This goal is important as OECD research shows that an economic area with twice the number of local authorities within its boundaries is around 6 per cent less productive, due to increased fragmentation and complexity – but that this effect can be reduced by almost half by having a governance body at the economic geography level. These authorities can work more strategically, coordinate action, and have the critical mass to make change happen.

Two challenges are pertinent in achieving complete coverage. First, apart from some recent exceptions, the areas with agreements are predominantly metro areas which have relatively simple and willing local authority structures, with more capacity. Most of the rest of England does not have such a simple local governance set-up, making agreements generally more difficult. Importantly, areas seeking devolution should not exclude neighbouring authorities that lack a meaningful alternative area to join.

Second, local politics often stimies attempts to devolve as disagreements over geography and mayors prevent progress. To get

100 per cent coverage, a balance between "top-down" and "bottom-up" approaches will be important; paradoxically, then, central government may have to impose decisions. Most sensible would be developing the devolution framework initially put forward in the 2022 Levelling Up White Paper and 2023 Autumn Statement. Done correctly, this could systematise easy entry into devolution, set out what the end goal looks like and allow for transitioning up the various levels of devolution, with clear information on what capacity-enhancing resources are on offer. This would signal a better "partnership" approach to devolution and reduce the onus placed on capacity-stripped local areas.

(2) Ensure all devolved areas produce a Local Growth Plan

The current system does not fully incentivise local and devolved government to promote economic development: local authorities have only a limited role in planning economic development, and are largely dependent on bidding for sporadic and centrally-directed policies (such as Investment Zones and Freeports) which are often unrelated to local conditions. If devolved authorities are to tackle low growth in their regions, it is crucial that they work strategically and produce local growth plans.

These plans should allow regions to determine what their core economic assets are and what the currently "adjacent" assets that can be developed are. They should also contribute to solving the binding constraints to growth in the local area, whether that's public transport infrastructure (in Leeds, Manchester, Liverpool and many northern towns) industrial energy prices (in the Tees Valley) or factors like lab space, housing and reservoirs (in Oxford and Cambridge). Local growth plans should also align with a new national industrial strategy, skills agenda and green prosperity plan. Importantly, they should be frank on what needs to be prioritised as spreading the jam too thinly has been a key problem in the UK context.

In areas with an existing MCA, who produces the plan is simple. In areas which do not have an MCA, or are not in the process of devolution, evidence suggests local bodies and partnerships (eg, universities, local authorities, businesses and civil society organisations) could be appointed to take a lead while new institutions are being developed.

Additionally, the UK Infrastructure Bank and the British Business Bank could be given increased advisory functions to support local areas – from direct advice through to joining up places facing similar opportunities or challenges. However, significant investment will be needed to build up this capacity (previously, the European Investment Bank's advisory arm provided this type of support).

(3) Develop multi-year funding settlements and reduce the reliance on competitive pots

In the UK, local government spending as a share of total government expenditure is 20 per cent, the third lowest in the OECD. Furthermore, the UK is outside the top 25 OECD countries for the share of public investment relative to both total government expenditures and relative to GDP.

Holding back sub-national government expenditure and investment is the funding model – in particular, the system of transfers, which account for 31 per cent of local authority funding (and more for combined authorities). Austerity cuts, meanwhile, have reduced economic development spend by around 62 per cent. Central government has replaced this loss by using competitive pots to transfer funds to local and devolved government for economic development. The complex bidding mechanisms offer poor incentives and value for money. On top of this, 18 per cent of all revenue grants and 30 per cent of all capital grants for local authorities are wound up every year, making it difficult to respond to economic conditions or plan for long-term priorities and investment. The priorities of local government, unable to build up capacity, are thus subsumed by national ones, creating a barrier to the development of effective and well-funded place-based policies.

Entering into force in January 2024 is a plan to simplify the funding landscape for local government, however the most radical improvement in this area was developed in the 2023 Spring Budget, which gave two "trailblazer" areas – Greater Manchester and the West Midlands – departmental-style single funding settlements. These replace the numerous separate funding streams which were tied to specific policy areas or projects and offer funding for a whole spending review period, giving these areas greater long-term certainty and flexibility to reallocate funding in line with local needs and priorities. Three further areas are due to be handed these powers, but going forward the transfer system should be comprehensively reformed along these lines everywhere. Meanwhile, other sources of finance should be identified, such as linking devolved areas up with the UK Infrastructure Bank and the British Business Bank, and developing fiscal devolution, which would also help incentivise local growth.

Conclusion

The future of English devolution demands a practical and unified approach for complete coverage. Balancing top-down directives with local politics is crucial. While the Levelling Up devolution framework serves as a foundation, refinement is needed for clearer, systematic collaboration between central and local authorities. Local Growth Plans, grounded in thorough analyses, will be vital for economic development in line with national strategies. And, a shift to single, multi-year funding settlements, departing from competitive pots, is essential for a nationwide overhaul of the transfer system, fostering a robust and flexible English devolution system that is capable of driving growth.

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