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# English Devolution and the Covid-19 Pandemic: Governing Dilemmas in the Shadow of the Treasury

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## Abstract

This article explores the question of devolution in the light of the Covid-19 pandemic's impact on English local government. Criticism of the government's handling of the crisis is widespread and tends to focus on the highly centralised nature of the British state. Here, we attribute the challenges faced by regional and local government in responding to the pandemic primarily to the asymmetric nature of power relations that characterise financial planning and control mechanisms, devised and overseen by the Treasury. We argue that the ongoing crisis underlines the need for a democratic form of devolution—including further fiscal powers for regional and local government—to support the economic recovery. In a context of increasing fiscal uncertainty, the Treasury should seek to unlock the existing powers of local leaders by reforming centralised budgetary constraints and taking accountability and monitoring mechanisms closer to citizens.

**Keywords:** devolution, the Treasury, Covid-19, local government, metro mayors

## Introduction

LOCAL GOVERNMENT has in many ways been the success story of the UK's response to the Covid-19 pandemic. In challenging circumstances, local councils have shown how place-specific knowledge and expertise, adaptability and flexible delivery mechanisms can, at least in part, make up for scarce resources. Metro and city mayors have enjoyed renewed visibility, albeit amid considerable rancour with Whitehall. However, as the medium to long-term fiscal landscape becomes clearer, localities' lack of financial autonomy reinforces their dependency on central government and hinders their ability to plan for the future. In the absence of a meaningful multi-year settlement in November 2020's Spending Review, local leaders find themselves operating in a fog of ever-present financial uncertainty.

There is widespread concern about the repeated blunders of government in response to the pandemic.<sup>1</sup> Despite English devolution, local government has been left ill-equipped to respond to the acute phase of the crisis or drive

the recovery. Paradoxically, for all the rhetoric of local empowerment in recent years, the process of English devolution has been captured by Treasury orthodoxies concerning economic management, financial control and performance monitoring. This reflects the inherent weaknesses of the UK's political culture bound up in the mythology surrounding the Westminster model of government.<sup>2</sup> Normative assumptions about parliamentary sovereignty, a strong executive and accountability through a majoritarian electoral system and ministerial responsibility bequeath a centralised, power-hoarding model based on a set of top-down, hierarchical governance arrangements. This system is underpinned by a highly

<sup>1</sup>J. Gaskell, G. Stoker, W. Jennings and D. Devine, 'Covid-19 and the blunders of our governments: long-run system failings aggravated by political choices', *The Political Quarterly*, vol. 91, no. 3, 2020, pp. 523–533.

<sup>2</sup>R. Rhodes, 'Is Westminster dead in Westminster (and why should we care)?', inaugural lecture in the ANZOG-ANU Public Lecture Series, The Shine Dome, Academy of Science, 23 February 2005.

complex, administrative landscape involving a myriad of fragmented and overlapping policy deliverers on the ground. A combination of centralisation and complexity limits the capacity of local actors to respond to localised challenges in bespoke ways.

The current circumstances offer a critical moment, emerging from a growing consensus on the need to reconfigure central-local relations. Over the years, the Conservative government's vision of English devolution has never been coherent, an issue compounded by George Osborne's departure from office. The pandemic has revealed the current model's limitations, most notably the constraints associated with financial dependency on the centre. Nevertheless, despite the challenges, local government's herculean efforts since March 2020 highlight the considerable potential of English devolution.

There is now a tangible case to re-think the current model, forged in the Treasury's image, and challenge the deep-rooted pathologies associated with existing governance arrangements. Local actors need the capacity and resources to innovate, take informed risks and operate outside pre-ordained parameters. If local government is to drive the economic recovery, overcome regional inequalities ('levelling up') and provide the public services communities desperately need, the Treasury will have to enable greater fiscal autonomy whilst cascading accountability down to more meaningful levels. Such an approach challenges the Treasury's current centralised notion of accountability and its own policy activism. The change is necessary if government is to be seen to be serious about democracy at the local level and break the political impasse surrounding governance reform in the UK.

## The constraints of the 'devolution revolution'

Traditionally, Whitehall has dominated economic and social policy making, leaving the English regions heavily dependent on the centre for policy direction and financial and operational capacity. The 2015 'devolution revolution', spearheaded by then Chancellor of the Exchequer, George Osborne, purported

to transform central-local relations, catalyse economic growth and tackle England's worsening regional inequalities. Under the banner of the 'Northern Powerhouse' and, latterly, the 'Midlands Engine', the Treasury and the then Department for Communities and Local Government (DCLG), alongside regional and local actors, talked up the 'bespoke' nature of city deals, stressing their potential to reflect local priorities in areas like housing, transport, skills and business support, among others. Pragmatism, they argued, was preferable to a more prescriptive or formulaic approach, with the process of English devolution thus being driven by example, not imposition. In metro and city mayors, a new layer of accountability was supposed to ensure that the buck stopped with local leaders, not remote bureaucrats in Whitehall. Value for money, the Treasury's bread and butter, was said to be better protected as public services would be delivered more efficiently and effectively.

Beyond the rhetoric, though, this model of devolution betrays the Treasury's centralising tendencies and leaves the constitutional subordination of English local government intact. Continuing centralised control is exemplified by local government's financial dependency on the centre. Traditionally, the majority of its spending power comes from central grants, though this has shifted somewhat over the last decade. Offering retention of 50 per cent of business rates locally promised some enhanced autonomy. The Localism Act (2011) introduced the option to hold a referendum to increase local council tax above centrally prescribed limits, although to date no local authority has done so, despite increasing pressure on the public services they provide. The previous government's proposals to provide new powers to allow local authorities to cut business rates have been shelved; they are still set centrally. Business rate retention is intended to offer incentives for local leaders to pursue growth, but is enveloped in a complex compensatory 'tariff and top-up' system designed to ensure that regional funding disparities do not significantly widen. Since centrally calculated 'baseline' funding levels have not been re-set since 2013/14, the Treasury's strategy with respect to how the combination of incentives and equalisation mechanisms will

interact to address entrenched inequalities is unclear.<sup>3</sup>

This is a classic wicked problem with no simple answer. The amount raised through business rates and council tax, both of which can and do fluctuate, does not fully offset what local authorities have lost in central grants. There has been a transfer of risk to localities. Moreover, as local authorities in deprived areas raise less revenue from council tax, they tend to lose out compared to previous arrangements, despite the complex balancing formulae.<sup>4</sup> Tinkering with the spending power of local authorities through council tax rates, including the centre stipulating what the money should be spent on, does not address this problem. Similarly, as there is no local discretion over setting business rates, Treasury officials' claims about enhanced fiscal powers ring hollow. Ministers and officials have not addressed these fundamental dilemmas, but instead have chosen *ad hoc* remedies that risk reinforcing existing pathologies and essentially leave local funding under central control.

An assessment of the new regional governance structures of English devolution confirms this view. The Treasury has promoted an economic model strongly favouring private sector-led investment and growth as the path to improved prosperity. Governance arrangements reflect this landscape, with local business leaders given a seat at the decision-making table through Local Enterprise Partnerships (LEP). When devising the deals, the Treasury effectively shaped the nature of policy networks from the centre by controlling resources, reinforcing centrally defined priorities and framing the 'rules of the game'.<sup>5</sup> The original Greater Manchester Combined Authority agreement included the stipulation that funding arrangements remained subject to national priorities regarding fiscal con-

solidation. 'Extensive' evaluation work and evidence of satisfactory performance determines future tranches of five-yearly financing. This is not unique to the Manchester deal. The notion of 'robust evaluation', cost-benefit analysis and departmental accounting officer sign-off are consistent features of devolution deals across England and reflect Treasury priorities.<sup>6</sup>

English devolution promotes a contradictory set of governance arrangements. Regional and local government have been formally released from a range of mechanisms of centralised oversight, but remain constrained in practice by the realities of a restrictive fiscal environment. Since 2010, government has become less concerned with operational and performance measurements, reflected in the abolition of Public Service Agreements and the Audit Commission. Yet, the Treasury has tightened its grip on financial control as part of its commitment to deficit reduction. Local government must navigate the challenges associated with responsibility for delivering frontline services in some of the most complex and challenging areas of public policy, whilst satisfying its statutory duty to balance the books. Top-down accountability has increasingly focussed on financial conformance, as crude financial levers designed to keep a tight rein on public expenditure consistently trump concerns surrounding policy outcomes.<sup>7</sup>

An evolving system of financial monitoring, outlined by Melanie Dawes, former Permanent Secretary at DCLG, to the Public Accounts Committee, included: close oversight of priorities; powers of intervention; and mechanisms to ensure sub-national government operated in accordance with *Managing Public Money*—the Treasury's handbook on the management of public funds—before any allocations are made.<sup>8</sup> The rules governing infrastructure investment, codified in the

<sup>3</sup>This discussion is informed by M. Sandbrook, 'Reviewing and reforming local government finance', Briefing Paper 07538, London, House of Commons, August 2020.

<sup>4</sup>T. Harris, L. Hodge and D. Phillips, *English Local Government Funding: Trends and Challenges in 2019 and Beyond*, London, Institute for Fiscal Studies, 2019.

<sup>5</sup>D. Bailey and M. Wood, 'The metagovernance of English devolution', *Local Government Studies*, vol. 43, no. 6, 2017, pp. 966–991.

<sup>6</sup>S. Ayres, M. Flinders and M. Sandford, 'Territory, power and statecraft: understanding English devolution', *Regional Studies*, vol. 52, no. 6, 2018, p. 859.

<sup>7</sup>L. Ferry and P. Eckersley, 'Budgeting and governing for deficit reduction in the UK public sector: act three "accountability and audit arrangements"', *Public Money and Management*, vol. 35, no. 3, 2015, pp. 203–210.

<sup>8</sup>Public Accounts Committee, *Oral evidence: Wave 1 City Deals*, HC395, 16 September 2015, Q53 and Q82; <http://data.parliament.uk/writtenevidence/>

Treasury's Green Book, have been captured by principles of agglomeration—that economic activity clusters around urban areas—and place demonstrable 'economic returns' above a broader set of concerns, including social need. This has served to reinforce regional disparities and puts the emphasis on city regions in existing devolution deals. There has been some acknowledgment of the flaws in the Treasury's methodologies, both through revisions to the Green Book and a renewed focus on an industrial strategy, although, to date, it has proved challenging to provide 'objective evidence' of the broader dynamic effects of potential infrastructure projects, leaving the status quo largely intact.<sup>9</sup>

The current structure of financing for mayors' offices and combined authorities, primarily involving centrally managed funds, leaves metro mayors as the figureheads of 'grant coalitions' at the mercy of central policy priorities rather than autonomous regional actors with executive power. Their powers are often shared with other public bodies and they must conform to financial practices devised in Whitehall or risk being frozen out of funding opportunities governed by an institutionalised 'bid culture'.<sup>10</sup> They are effectively the delivery arm of Whitehall. The danger is that the government's use of competitive central grants strays close to a form of 'pork barrel' politics. Investigations into the allocation of the Towns Fund, a central fund to tackle regional inequalities, found that sixty of the sixty-one areas selected for support by ministers were in Conservative marginals.<sup>11</sup> The Levelling Up Fund, a £4.8 billion fund announced at the November 2020 Spending

Review to invest in local infrastructure, has attracted similar criticism. The priority allocation groups, supposedly designed to reflect need, are questionably weighted in favour of Conservative-held areas.<sup>12</sup> This is a concerning trend.

The structures outlined in this section highlight long-held suspicions that central government does not trust the competence of local government, a fact that has been flagged as a reason for the near constant policy reinvention associated with the UK system of government.<sup>13</sup> However, interview evidence shows a good deal of satisfaction among local leaders with the Treasury's approach, often driven by a desire to gain new powers and enhance existing local cooperation. Compromises are aplenty—local leaders in Greater Manchester did not want a mayor, for example—but the opportunity presented by an active advocate for English devolution at the helm of the Treasury was too good an opportunity to pass up. Trust only goes so far and the Treasury has still set the parameters of the deals. Despite this, a number of local leaders have characterised a deal as the quickest route to more autonomy in a context of inevitable cuts, even if it is one stop on a much longer devolution journey.<sup>14</sup> Concerns persist over the extent to which decision making remains informal and has taken place behind closed doors. This form of 'elite co-option' leaves Treasury and Ministry of Housing, Communities and Local Government (MHCLG) officials free to negotiate with favoured local leaders. Other stakeholders and the public more generally are frozen out of the process.<sup>15</sup>

committeeevidence.svc/evidencedocument/public-accounts-committee/wave-one-city-deals/oral/21665.html (accessed 28 November 2020).

<sup>9</sup>D. Coyle and M. Sensier, 'The imperial treasury: appraisal methodology and regional economic performance in the UK', *Regional Studies*, vol. 54, no. 3, 2020, pp. 283–295.

<sup>10</sup>M. Sandford, 'Money talks: The finances of English combined authorities', *Local Economy*, vol. 34, no. 2, 2019, pp. 106–122.

<sup>11</sup>E. Webber, 'Robert Jenrick ignored civil servants to spend Towns Fund millions in Tory marginals', *Times*, 24 September 2020; <https://www.thetimes.co.uk/article/robert-jenrick-ignored-civil-servants-to-spend-towns-fund-millions-on-tory-marginals-9150g32t8> (accessed 4 December 2020).

<sup>12</sup>A. Bounds and A. Smith, 'Levelling Up Fund bias in favour of Tory seats "pretty blatant"', *Financial Times*, 5 March 2021; <https://www.ft.com/content/d485da2a-5778-45ae-9fa8-ca024bc8bbcf?shareType=nongift> (accessed 5 March 2021).

<sup>13</sup>E. Norris and R. Adam, 'All change: why Britain is so prone to policy reinvention, and what can be done about it', London, Institute for Government, 2012.

<sup>14</sup>D. Kenealy, 'A tale of one city: the *devo Manc* deal and its implications for English devolution', *The Political Quarterly*, vol. 87, no. 4, pp. 572–581; S. Ayres, M. Flinders and M. Sandford, 'Territory, power and statecraft: understanding English devolution', *Regional Studies*, vol. 52, no. 6, 2018, p. 855 and p. 860.

<sup>15</sup>D. Richards and M. J. Smith, 'Devolution in England, the British political tradition and the absence of consultation, consensus and

The 'purpose' of English devolution as it stands is at cross purposes and contradictory. The Treasury advocates city regions taking control of their own affairs, whilst creating a fiscal environment in which autonomy is limited and policy innovation is difficult. It passes responsibility down without suitable lines of accountability between local leaders and their constituents, and without adequate resources or revenue raising powers. It creates further complexity, fragmentation and confusion in local governance structures whilst simultaneously attempting to have devolution on the cheap. The current model of English devolution shrouds the inadequacies of the status quo associated with the Westminster model, a position exemplified by central and local government's response to the Covid-19 pandemic.

## Local government and the Covid-19 pandemic

The stringent nature of financial conformance shaped by the Treasury restricts local government, exacerbating the challenges associated with the acute phase of the crisis, and leaving it ill-equipped and constrained in its efforts to drive recovery. Research by the Institute for Government found that, across a range of public services, underinvestment had undermined resilience and meant that the capacity to meet the needs of citizens had been compromised whilst standards had declined. Moreover, staffing pressures left many local authorities stretched from day one of the pandemic.<sup>16</sup> The Institute for Public Policy Research highlights that real-terms cuts to public health grants, used by local authorities to fund preventative treatment services and improve local health outcomes, were three times higher in the North East than the South East, the most pronounced of unequal allocations nationally.<sup>17</sup> This forms part of an emerging body of work that demonstrates how health

inequalities and unequal central grant allocation have contributed to worse outcomes from Covid-19.

Entering the pandemic, then, the foundations were already shaky. This problem was compounded by the government's lacklustre response. The Public Accounts Committee recorded being 'astonished' by the lack of preparedness for the economic impact of the crisis, among other failings. Most importantly, despite local budgets being under severe pressure, the committee concluded that central government was not making sufficient funds available.<sup>18</sup> Not only had restrictive financial controls forced localities to become the front-line deliverers of the austerity agenda, but their financial dependency on the centre paralysed them in their response to the pandemic as the Treasury's preference for the use of discretionary grants lacked pace and precision. For example, as care homes became the epicentre of the crisis, local authorities were left waiting for resources to trickle down from Whitehall.

Relatedly, the pandemic has drawn attention to significant information asymmetries that work against the Treasury and undermine the effectiveness of government policies. The Institute for Fiscal Studies argues that poor quality, often out-dated data led to an over-general assessment of needs when allocating emergency grants to local authorities early in the pandemic. This task, which was acknowledged to be 'near impossible' within the existing system, could have been improved by enabling councils to borrow and then be reimbursed at a later date.<sup>19</sup> This would have allowed for more place-specific responses. Recently, the Treasury has also been forced to intervene to outlaw the risky investment practices of cash strapped local authorities, namely taking advantage of the low interest rates offered by the Public Works Loan Board to partake in property speculation, as numerous examples have begun to unravel as a result of ongoing market uncertainty caused by the

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consideration', *Representation*, vol. 51, no. 4, 2015, pp. 385–401.

<sup>16</sup>N. Davies, G. Atkins, B. Guerin and S. Sodhi, 'How fit were public services for coronavirus?', London, Institute for Government, 2020.

<sup>17</sup>C. Thomas, A. Round and S. Longlands, 'Levelling up for health prosperity', Manchester, IPPR North, 2020.

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<sup>18</sup>Public Accounts Committee, *Whole of Government Response to Covid-19, Thirteenth Report*, House of Commons HC404, London, HMSO, 2020, p. 3 and p. 7.

<sup>19</sup>D. Phillips, 'How much emergency coronavirus funding are different councils in England receiving? And is the funding allocation sensible?', London, Institute for Fiscal Studies, 2020.

pandemic.<sup>20</sup> That such interventions are necessary illustrates the fragility of some aspects of local government's financial practices.

In April 2020, as the crisis unfolded, the Chair of the Local Government Association (LGA), James Jamieson, informed the Housing, Communities and Local Government Select Committee that the government's £3.2 billion emergency support package was 'three or even four times' short of what was required. By mid-November, funding had been increased through a range of support packages totalling around £6 billion. Local leaders estimated a shortfall in the region of £1 billion for 2020 and over £4 billion for the next financial year.<sup>21</sup> The November 2020 Spending Review settlement—announcing an estimated increase in core spending power of 4.5 per cent—does not end the uncertainty. The bulk of the resources will come from hefty council tax rises, with local authorities given the green light for increases of 5 per cent (2 per cent in council tax and a further 3 per cent adult social care precept).<sup>22</sup> This will keep the wolves from the doors, but also presents a range of problems associated with existing inequalities and the considerable financial pressures many people face.

Across the sector, local leaders are being forced—once again—to make difficult decisions about where the axe should fall. Recently, James Jamieson informed the Public Accounts Committee that the 'well-renowned lower-hanging fruit had long gone'. Whilst the acute phase of the crisis has presented unparalleled challenges, he argued, this is nothing compared to what is down the track for local government if its finances are not secured in the medium to long term. As local authorities must balance their books and have

limited revenue raising or borrowing powers, further cuts to non-essential (but nevertheless important) services will follow. The perversity of this situation is that preventative services, such as early intervention work to support children, families and the elderly, will be targeted, a situation he describes as a 'false economy'.

As with the 1980s, the spectre of local government bankruptcies has re-emerged, Croydon being the most notable example. The Chartered Institute of Public Finance and Accountancy has discouraged councils from making Section 114 applications under the Local Government Finance Act (1988) if their financial difficulties stem *directly* from the pandemic. Such notices, issued by the Chief Finance Officer when they believe expenditure in a financial year is likely to exceed resources, prohibits new expenditure for any purpose outside a local authority's statutory duties. Discussions over a programme of capitalisations across the sector, allowing for capital budgets to be used to fund day-to-day spending, have commenced between a number of councils and MHCLG.<sup>23</sup> It remains to be seen how effective these negotiations are. Nevertheless, the Treasury's decision to ignore calls for a meaningful multi-year settlement further binds the hands of local leaders. Local authorities are complex organisations operating in an increasingly fragmented environment. Without financial certainty, their choices—and the resulting outcomes for service users—are often intolerable.

Meaningful investment is only part of the solution. Strategic leadership, innovation and the cross-fertilisation of ideas is needed at the best of times, and even more so during a crisis. George Osborne commented that he believed metro mayors had 'come of age' as the voice of their regions during the pandemic.<sup>24</sup> This was a reference to the new-found visibility of figures like Andy Burnham in the autumn of

<sup>20</sup>HM Treasury, *Public Works Loan Board: Future Lending Terms*, London, HMSO, p. 3.

<sup>21</sup>Housing, Communities and Local Government Committee, *Oral evidence: The Work of the Department*, HC302, 27 April 2020, Q1; <https://committees.parliament.uk/oralevidence/304/html/>; Housing, Communities and Local Government Committee, *Oral evidence: The Spending Review and Local Government Finance*, HC924, 12 November 2020, Q2; <https://committees.parliament.uk/oralevidence/1206/html/> (both accessed 7 December 2020).

<sup>22</sup>HM Treasury, *Spending Review 2020*, London, HMSO, 2020.

<sup>23</sup>Housing, Communities and Local Government Committee, *Oral Evidence: The Spending Review and Local Government Finance*, HC924, 12 November 2020, Q5; <https://committees.parliament.uk/oralevidence/1206/html/> (accessed 7 December 2020).

<sup>24</sup>G. Osborne, Newscast, 22 October 2020; <https://www.bbc.co.uk/sounds/play/p08w2p43> (accessed 3 December 2020).

2020, as they battled Whitehall for resources when regional restrictions were tightened across the north of England. There was a brief but palpable sense that regional mayors had real power to influence Whitehall. But Osborne's assessment seems premature when local leaders remain largely frozen out of the policy-making process. These fractious events, accelerating a deterioration in central-local relations, have conditioned the government's subsequent behaviour. As England emerged from a second national lockdown in November 2020, uniform rules were prescribed from the centre meaning that potentially embarrassing regional negotiations were avoided.

With reference to current funding arrangements, Andy Burnham recently described the status quo as 'begging-bowl devolution, where we constantly go on bended knee' asking for money.<sup>25</sup> Mayors can provide strategic leadership, but have struggled to catalyse a rapid response without resources. They were intended to be accountable, visible spokespersons for their regions and it remains to be seen how the role develops as the pandemic reveals different interpretations. Andy Burnham has been relatively high profile and enjoyed considerable media attention. Andy Street, metro mayor of the West Midlands, despite being far from uncritical of the government during the pandemic, claims to be 'less inclined to rush to the microphone', instead preferring to pick up the phone to Whitehall.<sup>26</sup> Forming part of a worrying trend, like negotiations surrounding lockdowns, the Levelling Up Fund increases the prominence of local MPs relative to local leaders. Local authorities are expected to consult MPs when devising a bid, even if their support is not a necessary condition of success.<sup>27</sup> In the current context, mayors

remain important regional figureheads capable of bringing together various stakeholders to achieve particular priorities but, as Covid-19 demonstrates, their potential is unfulfilled and their power severely limited, in large part as a result of their financial subordination.

## What next for the Treasury and devolution?

The process of English devolution is at a crossroads. A Fair Funding Review is underway, but its report has been delayed to avoid further disruption during the pandemic. The long-promised White Paper on English devolution has been pushed back for an unspecified period and the business rates review won't report until the autumn. Still, an opportunity presents itself to empower, once and for all, actors at the local level and shake up central-local relations. Local leaders need real power to shape outcomes and take decisions informed by their regional expertise and knowledge. This does not mean being abandoned by the centre, but being trusted to act in the interests of the communities they serve.

We contend that throughout the process of English devolution, the Treasury has acted to reinforce rather than challenge the core tenets of the Westminster model. This model of devolution, however, may well have run out of road. In its evidence to the 2020 Spending Review, the LGA argued for the traditional model of departmental spending to be replaced with 'a degree of fiscal decentralisation in line with some of the world's most productive economies'. Crucially, the document cautions against piecemeal reforms, as a place-based approach to fiscal devolution cannot be achieved by attempting to 'fit new and bold ideas into old frameworks'.<sup>28</sup>

By giving primacy to its traditional finance ministry role, the Treasury has neglected the bigger picture. The Treasury's approach to English devolution favours a particular economic model that cannot be said to have a

<sup>25</sup>Select Committee on Economic Affairs, *Corrected oral evidence: Employment and Covid-19*, 27 October 2020; <https://committees.parliament.uk/oral-evidence/1109/pdf/> (accessed 15 November 2020).

<sup>26</sup>S. Bloomfield, 'Has Britain's second largest city reached breaking point?', *The Guardian*, 22 November 2020; <https://www.theguardian.com/uk-news/2020/nov/22/has-britains-second-largest-city-reached-breaking-point> (accessed 28 November 2020).

<sup>27</sup>HM Treasury, Ministry of Housing Communities and Local Government and Department for

Transport, *Levelling Up Fund: Prospectus*, London, HMSO, 2021, p. 7.

<sup>28</sup>Local Government Association, *Comprehensive Spending Review 2020 Submission*, 29 September 2020; <https://www.local.gov.uk/publications/re-thinking-public-finances> (accessed 25 November 2020).



clean track record as a decade of secular stagnation pre-dates the Covid-19 pandemic. The Treasury's reform of the Green Book is a welcome development in addressing regional imbalances, although its new emphasis on investment decisions being consistent with the government's strategic direction refers to central government priorities. Nonetheless, the scale of investment being proposed promises to be inadequate relative to the needs. Furthermore, there are serious questions to be asked about how regional infrastructure spending is distributed so as to put local leaders in the driving seat. To challenge the norms governing Treasury thinking, Whitehall needs to embrace England's cities and regions as a dynamic system, not view them in isolation. Moving Treasury officials to Darlington, but moving the new UK Infrastructure Bank to Leeds and parts of the MHCLG to Wolverhampton is likely to add to coordination problems. It does not indicate a change of mindset or the devolution of power, but instead, provides further evidence of the continuing strength of the centre.

Recent reappraisals of the Treasury have highlighted its tendency to exert 'over-control' as an obstacle to greater devolution.<sup>29</sup> The Treasury in many respects is the most powerful policy actor through its control of the purse strings and ability to shape the rules of financial management. This is problematic on a number of levels. First, as the difficulties associated with the early support packages to local authorities illustrate, compared to local leaders and public service providers, the Treasury lacks specific knowledge of local priorities and circumstances. Second, its power in negotiations does not stem from its policy knowledge, but from the dominance it enjoys in Whitehall and beyond, owing to its role as custodian of the public finances. This power makes it essentially a veto player, blocking initiatives rather than enabling innovation and informed risk taking. Third, the failure to promote holistic, joined-up solutions adequately at the local level means that savings in one area often lead to costs being pushed elsewhere, resulting in suboptimal outcomes. Fourth, the Treasury's economics and finance ministry

roles can conflict, to the detriment of strategic decision making and effectiveness. This was an issue recognised by the Wilson government over fifty years ago when creating the Department for Economic Affairs, and more recently in the now abandoned industrial strategy.

A serious conversation needs to commence about fiscal devolution in order to end the dependency of local government on the centre. This might be controversial in Whitehall, and it is of course no panacea, but it is necessary if localities are to gain the autonomy needed to respond rapidly to the needs of the citizens they serve, to innovate and to drive true efficiencies. The LGA Chair, again, spoke candidly about the future of financial management, arguing that in a more decentralised economy, local government will be able to deliver better public service outcomes for residents.<sup>30</sup> There are legitimate concerns that some local authorities could find themselves further restricted as regional inequalities widen. Careful consideration of such issues, aided by widening the pool of participants involved in the conversation, will go some way to overcoming these very real challenges. The debate is sometimes framed in terms of a binary choice between national standards for spending and services, or local fiscal autonomy. This is a false dichotomy as it overlooks the potential for greater local financial autonomy to reshape the terrain by more strategic decision making. This crisis has confirmed that local government possesses leadership strengths, but lacks effective capacity. Fiscal autonomy—including tax raising and borrowing powers—will help by solving the problems of short-termism associated with Treasury funding settlements and sticking plaster financial management governed by conditionality. The centre should target resources at pockets of deprivation or long-term structural impediments to growth, but ultimately thriving regional economies can only be built from the bottom up.

Whitehall must trust local leaders to drive change if public service providers are to be

<sup>29</sup>R. Kerslake, *Rethinking the Treasury*, independent review commissioned by shadow Chancellor, John McDonnell, February 2017.

<sup>30</sup>Housing, Communities and Local Government Committee, *Oral evidence: The Spending Review and Local Government Finance*, HC924, 12 November 2020, Q9; <https://committees.parliament.uk/oralevidence/1206/html/> (accessed 7 December 2020).

empowered to respond to the bewilderingly complex and fragmented governance landscape that has emerged in recent years. Devolution decision making, therefore, should foreground local information, expertise and skills in financial management. It is about more than responsibility for centrally allocated funding streams. The Treasury's focus needs to be on ensuring a strong financial framework, not determining how policy outcomes at local level are achieved. The Treasury's new performance monitoring system, including the Public Value Framework, has intuitive appeal because it focusses on outcomes as an aspect of the planning and control of public expenditure.<sup>31</sup> However, connecting ministers to service users through existing hierarchical structures may reinforce rather than challenge existing tensions in the system. The jury remains out.

Similarly, whilst greater focus on joined-up working is welcome, within the confines of existing accountability structures, the complexity of the challenges may still prove overwhelming. The £165 million Troubled Families Fund for local authorities, for example, is still administered by MHCLG in the usual way, albeit in cooperation with the Department for Education, Health and Social Care, the Treasury and the Home Office. The fact that the Treasury has affirmed the system of departmental accounting officers suggests that there is some way to go to win this argument. For devolution to work, a rethink of the traditional notion that all accountability runs through ministers is needed. Alternative ways of building accountability between local decision makers and communities are long overdue. Clearer attribution of responsibility would help, something that has become increasingly obscured in recent years.

All of this points to the need to frame English devolution differently amid the new circumstances created by Covid-19. The basis for this should be a democratic process driven from the bottom up, connecting communities with local leaders and encompassing consultation, consensus and consideration. Covid-19 provides an opportunity, however challenging, to pursue changes to the ways in which we are governed. It will require a fundamental

re-set of the structures and attitudes governing central-local relations, including the way local public services are funded and investment decisions made. If the regions of England are to become the engines of the recovery, they need to be released from financial dependency on the centre. If fiscal devolution is to stand the test of time, a serious rethink of constitutional arrangements is required to ensure that hard-wired centralising tendencies are overcome. Meaningful reform cannot be layered on to existing arrangements.

## Conclusion: A new model of devolution

The UK's sluggish response to the Covid-19 pandemic has been alarming as governance arrangements have been found wanting. The Treasury was nimble and effective in its initial response to the pandemic, but appears less able to adapt to the systemic problems it has revealed. No one is suggesting that the events of recent months have not presented unprecedented challenges. However, a focus on local government points clearly to a number of entrenched structural impediments to a more accomplished response. This is extremely serious because the financial constraints faced at the regional and local level of government, coming on the back of a decade's worth of fiscal austerity, mean that while the acute phase of the crisis may be over, the consequences for local government in particular will persist for some time.

Our argument is that the next phase of devolution should not only empower local leaders but also fundamentally reconfigure central-local relations. This will necessarily involve Whitehall generally, and the Treasury specifically, adopting an alternative approach to governance to that of the Westminster model. The public policy challenges thrown up by the pandemic confirm that local leaders should have the ability to respond quickly, but cannot do so when operating in a context of restrictive Treasury financial control. Narratives of evolutionary change and adaptability associated with the UK's constitutional settlement look archaic in the face of mounting 'wicked problems' that require serious national deliberation, not quick fixes. The enduring economic uncertainty created by Brexit adds to the

<sup>31</sup>Treasury, *Spending Review 2020*, pp. 46–50.

enormity of the challenge, but does not detract from the need for reform. Commencing inclusive discussions between policy makers and local communities about greater fiscal autonomy and an enhanced role for metro and city mayors would be an excellent starting point to bring about meaningful change. A serious debate about reforming the vertical accountability structures associated with ministerial responsibility and forging horizontal structures to promote accountability lines between local leaders and the communities they serve is also needed.

Fundamentally, reform needs to challenge a deeply embedded set of power asymmetries that have rendered local government as agent for delivering fiscal consolidation at the sub-national level. The Treasury's historic mission is to ensure value for money and to protect the public finances. We see no contradiction between this and a system of governance that is preventative, communicative and inclusive of a range of actors in financial management locally. All the evidence suggests that this will not only save money but also deliver better outcomes for citizens.

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