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# Powering up places:

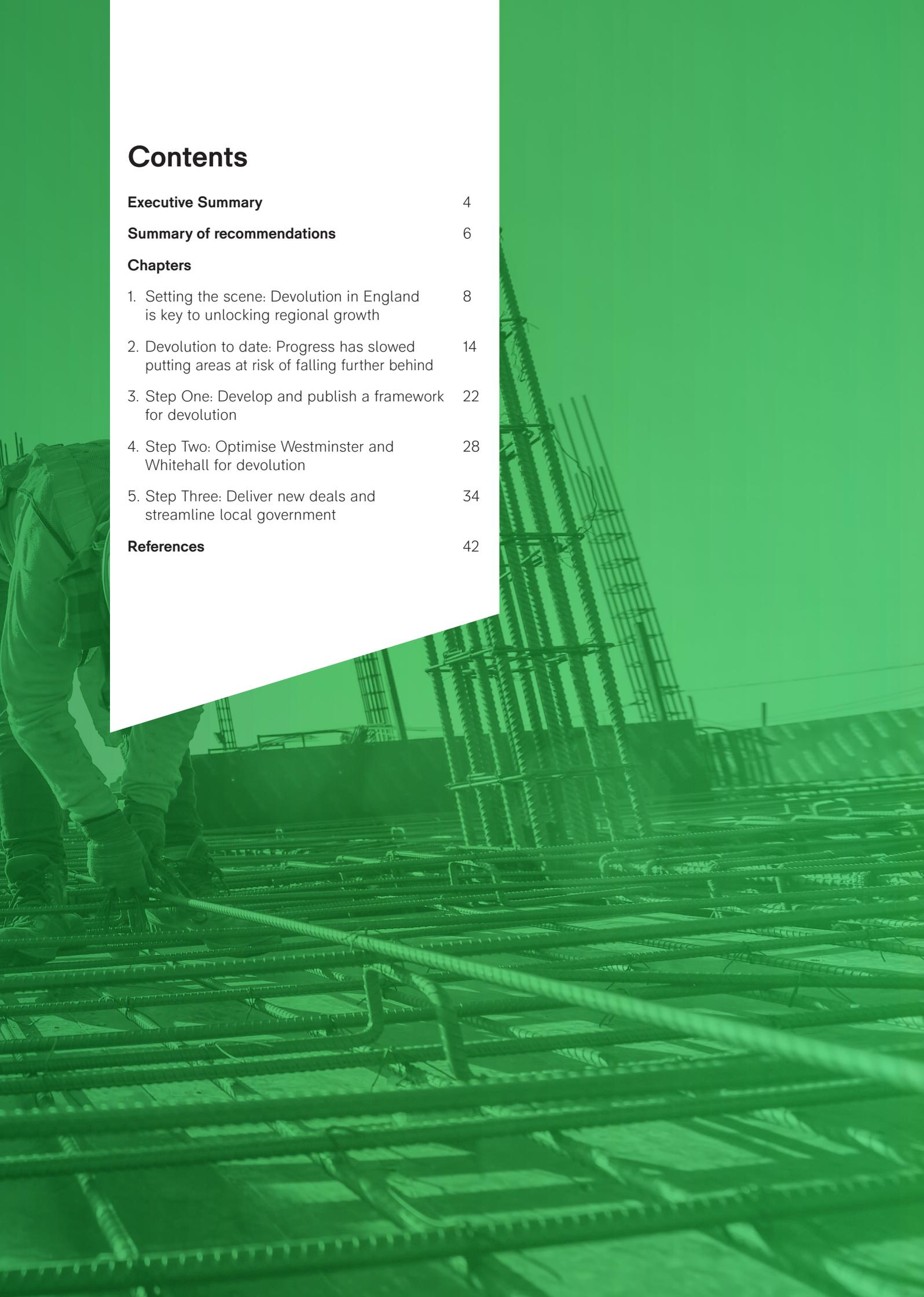
Unlocking regional growth through devolution

October 2019  
Regional Growth



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# Executive Summary

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In 2017 the CBI released its report *Unlocking Regional Growth* stating that as a country “we have a golden opportunity to unlock higher productivity and growth across the regions and nations of the UK.” Since the release of that report, government has adopted several of the CBI’s recommendations. These include establishing the Industrial Strategy and through this addressing the drivers of productivity including education, infrastructure, business practices and exports. We have also seen the launch of Local Industrial Strategies, delivering a place-based approach to policy making across England.

Despite these attempts, the UK’s productivity puzzle remains and tackling it requires bold and sustained action. The UK lags behind international competitors when it comes to productivity levels. With productivity a key driver of wage growth and living standards, addressing it must be a priority, from Whitehall to townhalls. The most productive part of the country is almost three times more productive than the least. Intra-regional variations in productivity are equally stark. For example, the gap between the most and least productive parts of London was £25 per hour in 2017.

The net result of stagnating productivity is growing inequality.<sup>1</sup> This has stark social implications and it matters for business. It impacts skills, infrastructure investment and workforce wellbeing. Efforts to address regional inequalities have been hampered by chopping and changing policies, and by patchy implementation. There’s now an urgent need to get local decision-making, funding and delivery working effectively in all parts of the UK.

The CBI is calling on government to provide a long-term plan for the future of devolution in England as a means to reignite the regions – addressing the productivity puzzle and closing the gap on inequality across regions.

Outside of London, English devolution is still in its formative stages. The idea is that by giving funding and powers to local areas this will help address the growing productivity gap. Businesses in areas with devolution deals have cited a range of positives that have come from a deal. They include the raised international profile that having a Metro Mayor brings, clarity over the strategic direction, increased collaboration with neighbours across the region and the country, as well as a greater focus on inclusive growth, and momentum on key local policy decisions.

However, devolution presents challenges as well as opportunities. Businesses have cited concerns around the additional bureaucracy and complexity that devolution may bring. This is particularly the case where devolution leads to new, locally specific regulations which leaves businesses faced with a range of new approaches to navigate across the country. If not resolved, this could further exacerbate the existing inequalities between different regions.

Progress on devolution – both in expanding existing deals and developing new ones – has slowed. Developing and publishing a framework for devolution will be key to getting devolution back on track, and to ensuring that concerns around regional inequalities are addressed.

The report highlights three steps the government should take in order to kickstart devolution and maximise the potential of English regions. They are:

- **Step One: Develop and publish a framework for devolution** that includes means to assess current and future deals and provides a clear definition of a functional economic area.
- **Step Two: Optimise Westminster and Whitehall for devolution** including prioritising regional growth within Cabinet and across Whitehall, reviewing the Green Book and establishing new ways of working with Metro Mayors.
- **Step Three: Deliver new deals and streamline local government** including government committing to deals covering 60% of the population, advancing unitary authorities and improving local engagement.



# Summary of recommendations

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## Step One: Develop and publish a framework for devolution

1. Government should publish a framework setting out clear guidelines to support the development of new deals and establish criteria for assessing deal proposals.
2. The framework should provide clarity on a definition of a functional economic area, considering what it means for cities, towns and rural areas, and align Combined Authority and Local Enterprise Partnership boundaries.
3. The framework should set out how the success of deals will be measured, with further devolution of power and funding tied to this.

## Step Two: Optimise Westminster and Whitehall for devolution

4. Government should set out how it will prioritise devolution and regional growth at the most senior levels of government and in all departments, ensuring all parts of the country have ministerial champions.
5. Government should establish an Independent Advisory Board to impartially assess and advise on devolution deals against the published framework.
6. Government should commit to a review of the Green Book to better address regional imbalances, and consult on plans for the future of fiscal devolution.
7. A Mayoral Council should be established to convene Metro Mayors alongside the Prime Minister at least twice a year, to determine regional priorities ahead of fiscal events and consider future devolution arrangements.

## Step Three: Deliver new deals and streamline local government

8. Government, working collaboratively with local leaders, should adopt a target for over 60% of the population to be covered by a devolution deal by 2025.
9. Devolution should be used to streamline existing local government structures, moving towards a unitary authority model across the whole country.
10. Improve cooperation between local areas and stakeholders as well as streamline local stakeholder engagement for business.



# Setting the scene: Devolution in England is key to unlocking regional growth

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**The UK lags behind international competitors when it comes to productivity, impacting wage growth and living standards. Addressing productivity must be a priority, from Whitehall to townhalls.**

The UK's productivity has yet to recover since the financial crisis. Output per hour worked in Q2 2019 is just 1.3% higher than it was in Q4 2007. CBI analysis shows that if productivity continued growing at the pre-crisis trend rate, GVA per hour would be 24% higher than it is today.<sup>2</sup> This lagging productivity has a knock-on impact on wages and is estimated to cost private sector workers £5,000 a year on average in lost income.<sup>3</sup>

The UK's productivity problem is not just at a national level but there are also stark disparities at the regional level. GVA per hour in London was nearly £14 per hour higher than the North West in 2017.<sup>4</sup> Beyond this, there's almost as much variation in productivity within the regions as there's between them. In the North West, the highest performing part of the region in 2017, Cheshire East was almost £14 per hour more productive than the lowest performing area – Blackpool.<sup>5</sup> This productivity gap in English regions is costing the economy as much as £40bn.<sup>6</sup>

The CBI's *Unlocking Regional Growth* report, published in 2017, highlighted that closing the gap within regions themselves i.e. Cheshire East and Blackpool and replicating this across each region of the UK could add more than £200bn to the economy in the next decade.

**Successive governments have striven to address the regional productivity challenge. But they have been hampered by a lack of genuine buy-in from all parts of government and in some instances rely heavily on already stretched local institutions.**

The Industrial Strategy was launched in 2017 as a way of addressing lagging productivity levels. It focuses on five foundations – people, ideas, infrastructure, business environment and place – echoing many of the CBI's recommendations. It also reflects the CBI's calls for a place-based approach considering the drivers of productivity. Through this we have seen the introduction of Local Industrial Strategies designed to build upon local strengths and drive growth across the country.

Almost two years on, progress in driving productivity and addressing regional imbalances has been slow. Seven Local Industrial Strategies have been published, less than a quarter of the total planned. The remainder are meant to be agreed with government and published by March 2020. These aim to set out ambitions for the region and provide local insights to feed into the UK Industrial Strategy.

However, whilst Westminster and Whitehall grapple with Brexit, more pressure is being put on local institutions to deliver long-term plans and strategies for growth. Local Enterprise Partnerships (LEPs), responsible for the development of Local Industrial Strategies vary enormously across the country. Some have few full-time staff, illustrated by a report by the National Audit Office published in 2016 which found the average number of staff was only eight.<sup>7</sup> For those who are better resourced, it tends to have come from building expertise in bidding for project specific funding, not long-term funding. In some instances, LEPs have relied heavily upon business stakeholders to facilitate consultation on the Local Industrial Strategies. Whilst this is helpful to ensuring that the Local Industrial Strategies are the result of good business engagement, it reflects the worrying resource constraints that LEPs face.

Beyond resource constraints, there's also a question of governance and consistency of approach between LEPs. Whilst there has been a sustained effort to instil consistency, progress has been slow (**Exhibit 1**). A recent review by the National Audit Office stated that in light of the significant amount of funding "delivered through LEPs, there's a clear rationale for more demonstrable good governance in LEPs and better oversight by the Department [MHCLG]."<sup>8</sup>

### **Exhibit 1:**

#### **Efforts to address LEP governance and consistency<sup>9</sup>**

- 2016: Report by the Public Affairs Committee highlighting the issues facing LEPs around measuring impact and accountability.
- October 2017: *Review of Local Enterprise Partnerships governance and transparency* published.
- June 2018: Best practice guidance published which aimed to support LEPs in meeting the recommendations made by the review.
- July 2018: *Strengthening Local Enterprise Partnerships* published, which set out the government's expectations of LEP roles and responsibilities.

For areas with mayoral devolution deals, the clear figurehead of a Metro Mayor has helped raise business awareness around the opportunities of local political engagement. This has subsequently driven awareness of place-based policy making. One such example is Corporate Social Responsibility, where it has provided a clear, local point of contact for businesses operating across regions. However, much like LEPs, there are discrepancies in Combined Authority staffing **(Exhibit 2)**. The process of devolution doesn't guarantee local resource, and staff are often employed on specific projects that come with their own funding.

With all of this in mind, businesses have continued to raise concerns that without clear local leadership and appropriate resourcing, areas will be unable to maximise the benefits that Local Industrial Strategies and other regional growth initiatives can bring.

### Exhibit 2 Mayoral Combined Authority Staffing, December 2018<sup>10</sup>

Mayoral Combined Authority	Workforce	Approximate population 2015 <sup>11</sup>
Greater London	909 (as of March 2018) <sup>12</sup>	8.67 million
West Midlands	466	2.83 million
Greater Manchester	2013*	2.75 million
Liverpool City Region	107	1.52 million
Sheffield City Region	75	1.37 million
West of England	71	900,000
Cambridgeshire and Peterborough	51	841,000
Tees Valley	94	668,000

*To note, at the time of writing North of Tyne Combined Authority was still hiring its new workforce and therefore has not been included in the data.*

*\*The fire service, police and crime commissioner, and waste disposal authorities are now part of the Greater Manchester CA, representing much of the workforce.*

**Inequality in the UK has continued to grow faster than EU comparisons. This is a business issue, impacting skills, infrastructure investment and the health and wellbeing of the workforce.**

Inequalities in England are having an impact on educational attainment, a key driver of productivity. This has resulted in a range of skills gaps across the country which hampers productivity growth. For example, the poorest children (those eligible for free school meals) in Hackney are still three times more likely to go to university than the equivalent group in Hartlepool.<sup>13</sup> With over three quarters (79%) of businesses expecting to increase the number of high-skilled roles over the coming years,<sup>14</sup> addressing this challenge will be key to avoid creating a two-track system that leaves some parts of the country further behind.

The range of infrastructure investment levels has also put some parts of the country at greater risk. Spending on infrastructure, a key driver of productivity has historically been skewed towards the South and South East. For example, since 2014 transport spending rose by £330pp in London, compared to £149pp in the North.<sup>15</sup> This is in part caused by the government's own assessment through the Green Book, which doesn't account for the long-term effects of infrastructure investment on the local and regional economy. It also promotes investment based on land value uplift, which reinforces a bias towards the Greater South East where land values are higher.<sup>16</sup>

These investments shouldn't be seen as an 'either-or' choice. But some changes could help. First, the government's assessment for infrastructure spending priorities should ensure all parts of the country can make the case for new spend. Second, formula-based funding for the most deprived areas should continue through the recently announced Shared Prosperity Fund and Towns Fund. Finally, meaningful devolution would allow local areas to hold government to account on these decisions and to unlock productivity gains. For businesses in areas with devolution deals, one of the key benefits of Metro Mayors has been the extent to which they have tried to hold the government to account. For example, by raising the profile of the issues rail passengers across the North faced as a result of changes to timetabling. Arguably the campaign for better transport across the North wouldn't have had the same impact without the backing of Metro Mayors.





**Attempts by consecutive governments to resolve regional inequalities and productivity disparities have been piecemeal and have lacked traction. With the country facing growing levels of inequality, there's a need to improve local decision making and develop new funding models.**

The chop and change nature of local policy making, as well as limited incentives for areas to work together strategically has failed to address regional inequalities.<sup>17</sup> Beyond this, the assumption that investment in London and the South East would automatically drive growth across the whole country through an agglomeration effect has not always achieved the desired result. London is one of the richest regions in Northern Europe, but the UK also has six of the ten poorest regions. Inequalities across England are felt at both the inter and intra-regional level.

Even in London the inequalities are stark, with 27% of Londoners living in poverty (after housing costs), 58% of which are in a working family.<sup>18</sup> Businesses recognise the contribution of the capital to the whole economy, for example from the 12.1% of foreign direct investment (FDI) projects in the UK that stem from an investment in London.<sup>19</sup> However, regional development requires an approach that utilises the strength of core cities across the country alongside their surrounding areas, in order to more evenly distribute national growth.<sup>20</sup>

These assumptions and failures of policy have also come alongside a period of austerity. Research by IPPR North shows that between 2009-10 and 2017-18 the North experienced a £3.6bn cut in public spending, whilst the South East and South West saw a £4.7bn rise (in real terms).<sup>21</sup> To note, London also saw a cut in spending of £256m. This has left areas less able to invest in measures linked to the drivers of productivity.

In addition to leaving areas less able to invest in skills, infrastructure and business support, the fall in funding and the variation in public expenditure between areas (**Exhibit 3**) puts places at risk of increased social and economic inequalities.

**Exhibit 3** % change to public expenditure by region, 2009-2013<sup>22</sup>

Region	% change in public expenditure, 2009-13
East	4.2
South West	3.6
East Midlands	3
South East	1.9
Yorkshire and the Humber	1.7
London	0.5
North West	-0.5
West Midlands	-1.3
North East	-2.7

The case for further action is clear. The CBI calls on government to set out plans that support further and meaningful devolution across the country. This must focus on addressing the productivity puzzle across England and empower people and places to hold leaders to account as they address growing inequalities across the country.

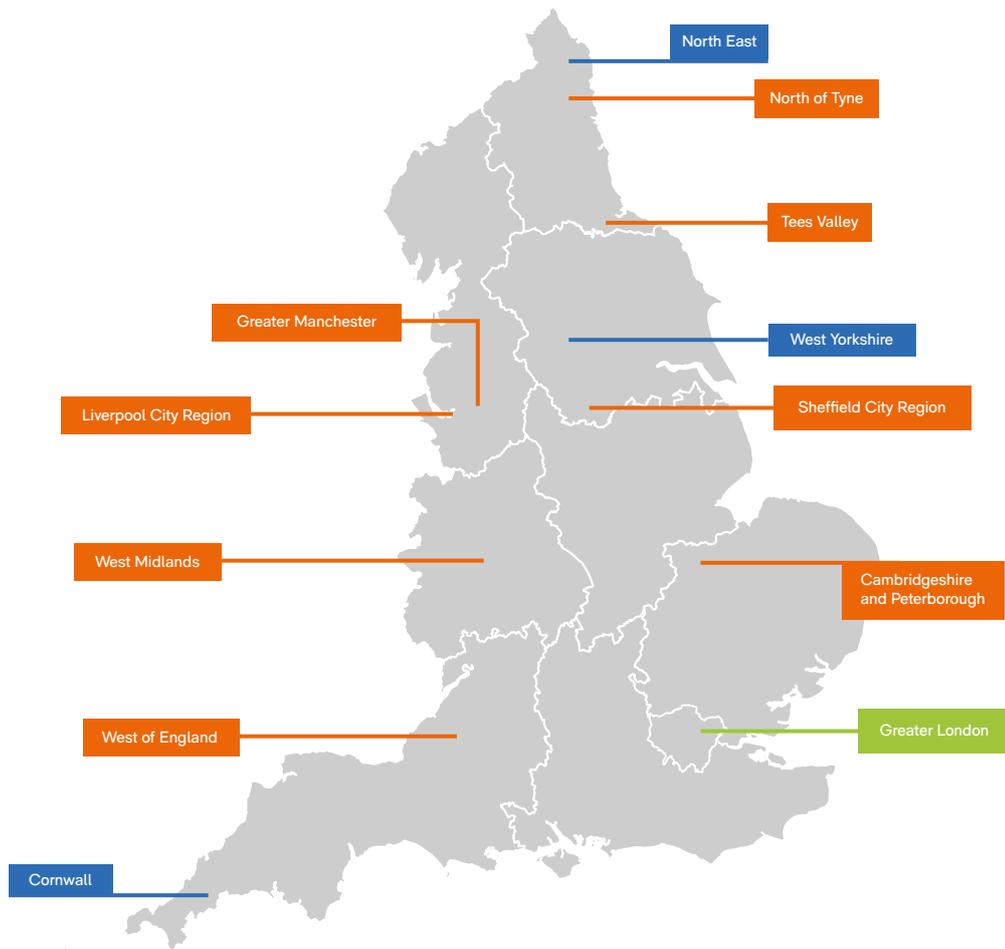


# Devolution to date: Progress has slowed putting areas at risk of falling further behind



Devolution in England is still in its formative stages. The idea is that by giving funding and powers to local areas this will help address the growing productivity gap. As well as opportunities, there are challenges.

**Exhibit 4** Mayoral Combined Authorities and Non-Mayoral Combined Authorities



**Key**

- Mayoral Combined Authority
- Non-Mayoral Combined Authority
- Greater London

With the exception of London, devolution in England is still new, as illustrated by the timeline on **pages 18 and 19**. Devolution deals sought to deliver a bottom-up approach by encouraging local areas to come forward with their plans for devolution. Once government signalled their intention to support devolution in exchange for areas agreeing to have a Metro Mayor, 38 expressions of interest were submitted to government.<sup>23</sup> Many of these were intended to be the foundations for further discussions with government. Of those that were successful, they were quickly negotiated ahead of the spending review, with the detail of these discussions kept secret. The process was far from perfect but offered a ‘foot in the door’ for many parts of the country.

Of the 38 submitted, many have neither progressed, nor been outright rejected by government. However, in the initial wave, six deals were agreed: Greater Manchester, Liverpool City Region, Tees Valley, West Midlands, West of England, and Cambridgeshire and Peterborough. Sheffield City Region was agreed in principle, however, was delayed due to local objections, and a subsequent legal challenge. A map of the deals and existing Combined Authorities can be found in **Exhibit 4**.

Whilst this process was intended to be bottom-up, there’s some evidence that government had a preference of where they would like to have deals and what should be included within them. Some areas were primed for a future deal. For example, both West Yorkshire and the North East established non-mayoral Combined Authorities, paving the way for a future democratically elected Metro Mayor. However, these deals have not materialised. West Yorkshire is yet to agree a deal, preferring instead to lobby for a One Yorkshire deal. The North East Combined Authority has split in two, with the newly created North of Tyne Combined Authority electing a Metro Mayor for only three of the original seven local authority areas. In the North East, this process has left the remaining four councils considering their future role in the region. It also means a Local Industrial Strategy must now be developed and delivered over a range of new political boundaries and a confusing landscape of competing stakeholders.

The process of negotiating deals has also been questioned. This is largely due to the secretive nature of the negotiation process, but also due to the lack of focus and cohesion within government. For those involved in this process, the lack of clear leadership within Whitehall meant having to individually negotiate with a number of different departments. This was a time-consuming process causing frustration for local leaders.

Despite the lack of framework, and the calls for a bottom-up approach, government has shown some consistency on where they have been willing to devolve. This implies the government has a preference of what should or shouldn’t be devolved. **Exhibit 5** on **page 16** sets out which powers have been devolved as well as where there’s future scope.

**Exhibit 5** Current and future powers that have been devolved

	Devolved Power	Level of devolution
Education, skills and demographics	Housing investment fund	●
	Redesign of 16+ further education system	●
	Apprenticeship grant for Employers	●
	Early Years Pilot	●
	19+ Skills Funding	●
	Integration of health and social care	●
	Local commission on health needs	●
Business practices	Work and health programmes	●
	Growth Hub	●
	Productivity commission	●
	Manufacturing advice	●
International links	HMRC Customs support	●
	Export advice (UK Trade and Industry)	●
Infrastructure and connectivity	Bus franchising	●
	Smart Ticketing	●
	Rail	●
	Roads	●
	Integration of flood defence, and water/coastal management	●
Local governance	Spatial planning	●
	Land disposal and utilisation	●
	Mayoral or combined authority corporations	●
	Universal credit pilot	●
	Police and fire services	●
	Commissioning of local criminal justice services	●
	Youth Justice	●

## Key

- Commitments in most devolution deals
- Commitments in some devolution deals
- Areas for further exploration in some deals

Whilst there has never been direct clarity on what powers could be devolved, elements of policy making have continued to remain firmly under central government control. For example, according to the National Audit Office “proposals around school-age education, further fiscal devolution and more substantial transfer of housing and welfare responsibilities were not accepted by government.”<sup>24</sup> The lack of framework has seen some businesses become disengaged from the process as it has, at times, become overly politicised. With this in mind it’s important that a framework supports achieving the purpose of devolution – unlocking regional growth.

**Devolution has slowed since the initial rush for deals in 2015-16. A framework is urgently needed that empowers local areas to make decisions that will drive growth and reduce inequalities across England.**

There has only been one new devolution deal since 2016. Whilst this deal was welcomed by business, it has raised the question as to why more haven’t been agreed despite several attempts. In the context of growing regional inequalities, business is calling on government to provide clarity to local areas seeking a deal in the form of a framework for devolution.

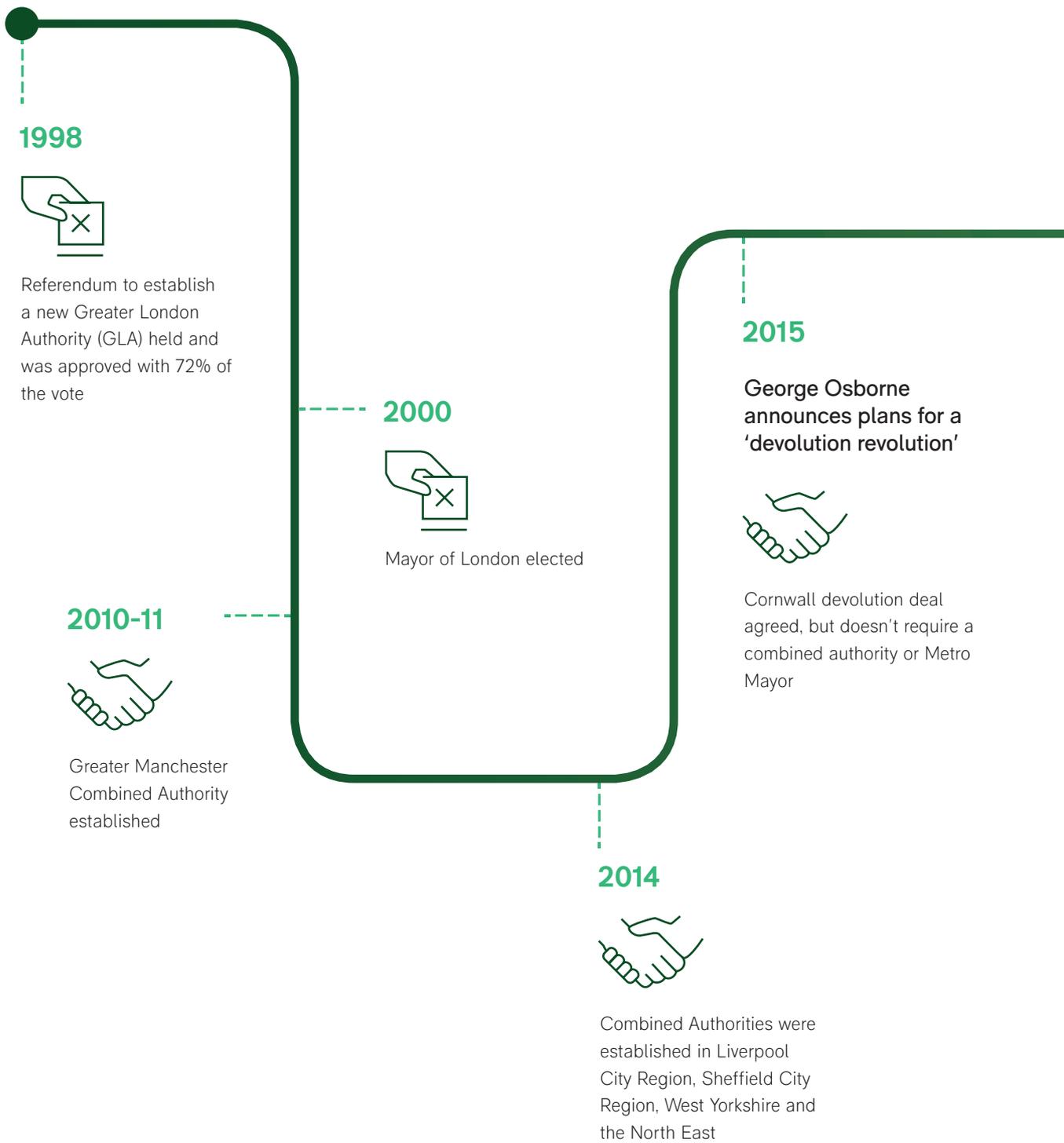
Consultation with business has highlighted a number of key factors that government should consider when developing a framework. This should look to include clear criteria for measuring the success of deals, clarity on what a functional economic area is, and how to more effectively drive cooperation between local areas.

The government should go further by setting out how it will prioritise levelling up places across Whitehall. This should include plans for the long-term financial arrangements for devolution and a review of the Green Book.

Devolution should also be used as an opportunity to have a wider conversation around local government structures. It should be seen as an opportunity to streamline structures to avoid adding extra layers of local government and increasing the administrative burden for business.

Finally, in order to inject momentum into the debate and demonstrate real commitment to devolution, government should deliver a series of new deals by 2025 and establish formal mechanisms for working with Metro Mayors.

## Timeline of devolution in England



## 2016

### 38 bids for devolution submitted



Combined Authorities were established in the West Midlands and Tees Valley



Cities and Local Growth Act passed, giving provision to devolve powers to local areas in exchange for a directly elected Mayor

## 2017

### Discussions started regarding a One Yorkshire devolution deal which continue



Mayoral Combined Authorities were established in West of England, and Cambridgeshire and Peterborough



Metro Mayors Elected in Greater Manchester, Liverpool City Region, Tees Valley, West Midlands, West of England and Cambridgeshire and Peterborough

## 2019



North of Tyne Mayor elected

## 2018



Sheffield City Region Mayor elected



North of Tyne Combined Authority established

## 2020



Upcoming Mayoral Elections for Greater Manchester, Liverpool City Region, Tees Valley, West Midlands, and Greater London



A woman wearing a white hard hat and a high-visibility jacket is looking at a laptop. The background is a blurred construction site with many lights. The entire image has a green tint.

*"Further and meaningful devolution across the country must focus on addressing the productivity puzzle across England."*

# Step One: Develop and publish a framework for devolution

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## 1. Government should publish a framework setting out clear guidelines to support the development of new deals and establish criteria for assessing deal proposals.

Businesses across the country have consistently raised that the lack of criteria for devolution acts as a barrier to new and different devolution deals. The *Cities and Local Growth Act* enables new forms of devolution to be developed, however, the current process has been limited to a specific type of devolution. This suits some areas well, such as Greater Manchester which has a clearly defined city region and a long history of working together. It's not clear how to retrofit this approach to make it work for other parts of the country, particularly rural areas or those without a dominant city.

This has left those seeking a deal and entering into negotiations unclear as to what is on the table. It has also encouraged some areas to bid for a different form of devolution. For example, One Yorkshire has sought to bring together councils spanning an entire county. This has been a resource-consuming process which has been rejected by government on the grounds that it doesn't meet a framework. Until that framework is published areas are left in doubt.

Government has indicated that any criteria would undermine the bottom-up approach to deals. However, experience demonstrates government has a preferred view on devolution, which has played an important role in the negotiation of deals.<sup>25</sup> This is in many ways a good thing,<sup>26</sup> and government should use their existing preferences to set out clear criteria for deal proposals. This should include policy areas they're willing to devolve, would consider in the future, and that they believe should remain centrally led.

These criteria must strike the balance between meeting the needs of different areas, whilst also delivering clarity for areas seeking to secure a deal. In consultation with business, it must also consider policy areas where applying national standards, or considering consistent approaches remains appropriate, as set out in the case study found in **Exhibit 6**.

**Exhibit 6:****Case study demonstrating the balance between local and national air quality standards**

In recent years there has been an increase in the range of local initiatives to address poor air quality, particularly in urban areas. The most common of these schemes are the Clean Air Zones (CAZs). These government-backed schemes seek to improve air quality within a specific area. Government has set out a high-level framework for how local areas might seek to approach their CAZ which involves setting restrictions for certain vehicles, traffic management schemes, and in some cases charging certain vehicles to enter the zone. Whilst the final decision on how to implement the CAZ rests with the local authorities, it can be overruled by central government. Whilst strongly supporting the need for robust air quality standards, business has raised concerns with this approach.

First and foremost, without a consistent approach, some areas have implemented policies that go beyond the requirements of the CAZ, by for example introducing Ultra-Low Emission Zones (ULEZ) or Zero-Emission Zones. This risks creating a patchwork of different approaches making it difficult for business to operate across multiple authorities. For instance, a range of different charging systems and wide-ranging requirements for low-emission vehicles may be in place.

Secondly, local authorities don't always have the resource and therefore the expertise to develop robust, evidence-based policies. When combined with a lack of consultation this can lead to policies that are difficult to fully implement, or that have unintended consequences.

One example is the ULEZ introduced in Hackney which has been the result of limited consultation. It has set an emission target which Heavy Goods Vehicles are unable to meet with current technology, leaving them unable to enter the borough during certain hours. Light Goods Vehicles i.e. vans have to be electric to meet the criteria of a ULEZ which is less than 75g/km CO<sub>2</sub>. This impacts businesses who are unable to deliver goods and services during these hours, but also limits access for specialist vehicles. The short time scales for implementation have meant that, where possible, businesses have had to upgrade their fleets sooner than expected in order to ensure they're compliant with new standards.

Calls by Metro Mayors for more support in implementing these new emissions standards, particularly for smaller businesses who need to upgrade vehicles to meet targets has been welcomed. As part of any framework for devolution, government should look to consider where a national approach to policy making remains the most appropriate. In addition, as powers are devolved, consideration should be made as to what a 'good' consultation looks like at a local level. This will ensure businesses and communities across the country can easily and effectively engage in the local policy making process.

**2. The framework should provide clarity on a definition of a functional economic area, considering what it means for cities, towns and rural areas, and align Combined Authority and Local Enterprise Partnership boundaries.**

Functional economic areas remain a contentious topic. Whilst the model for devolution does need to allow for flexibility, some consideration should be made as to the ideal scale of a deal. Scale may entail economic output, population size, geographic area, and other metrics. Policy makers must also account for existing political, geographical, and decision-making boundaries.

Clarity on this must come from both HM Treasury (HMT) and the Ministry for Housing Communities and Local Government (MHCLG). This is particularly important given the conflicting wish for a bottom-up approach combined with the need for rigid boundaries to ensure accountability.

Business has highlighted that accountability becomes clearer where there are coterminous boundaries. A history of cooperation between local authorities also creates confidence in the stability and longevity of the deals.<sup>27</sup> With both LEPs and Combined Authorities technically deemed to be functional economic areas, LEPs and Combined Authorities should be coterminous, and any LEP overlaps should be eliminated.

In the long term, there should also be further clarity on how devolution deals might evolve to include local authority areas who were initially not part of a deal, but who want to join in the future. For example, the West Midlands Combined Authority (**Exhibit 8**) stretches over three LEP areas and has local authorities that sit within the LEPs but not within the Combined Authority.<sup>28</sup>



### **3. The framework should set out how the success of deals will be measured, with further devolution of power and funding tied to this.**

Since the move to devolve power to parts of the country, the government has shown limited desire to measure the outcomes of devolution – whether positive or negative. In the short term this is understandable, leaving devolved areas and government the time and space to let the deal embed. However, this is unsustainable in the long-term. Many are already looking to more fully understand whether the decision to devolve power has been a good thing, but also where there's scope to offer further devolution. This assessment should be undertaken in conjunction with an Independent Advisory Group to ensure independence. Further detail can be found in Step Two on **page 28**.

An assessment should consider the impact of the devolved funding that has been allocated to each Mayoral Combined Authority, considering increased GVA, employment levels, skill levels, and ultimately growth in productivity within the region. **Exhibit 7** sets out in more detail how MCAs are currently funded.

#### **Exhibit 7:**

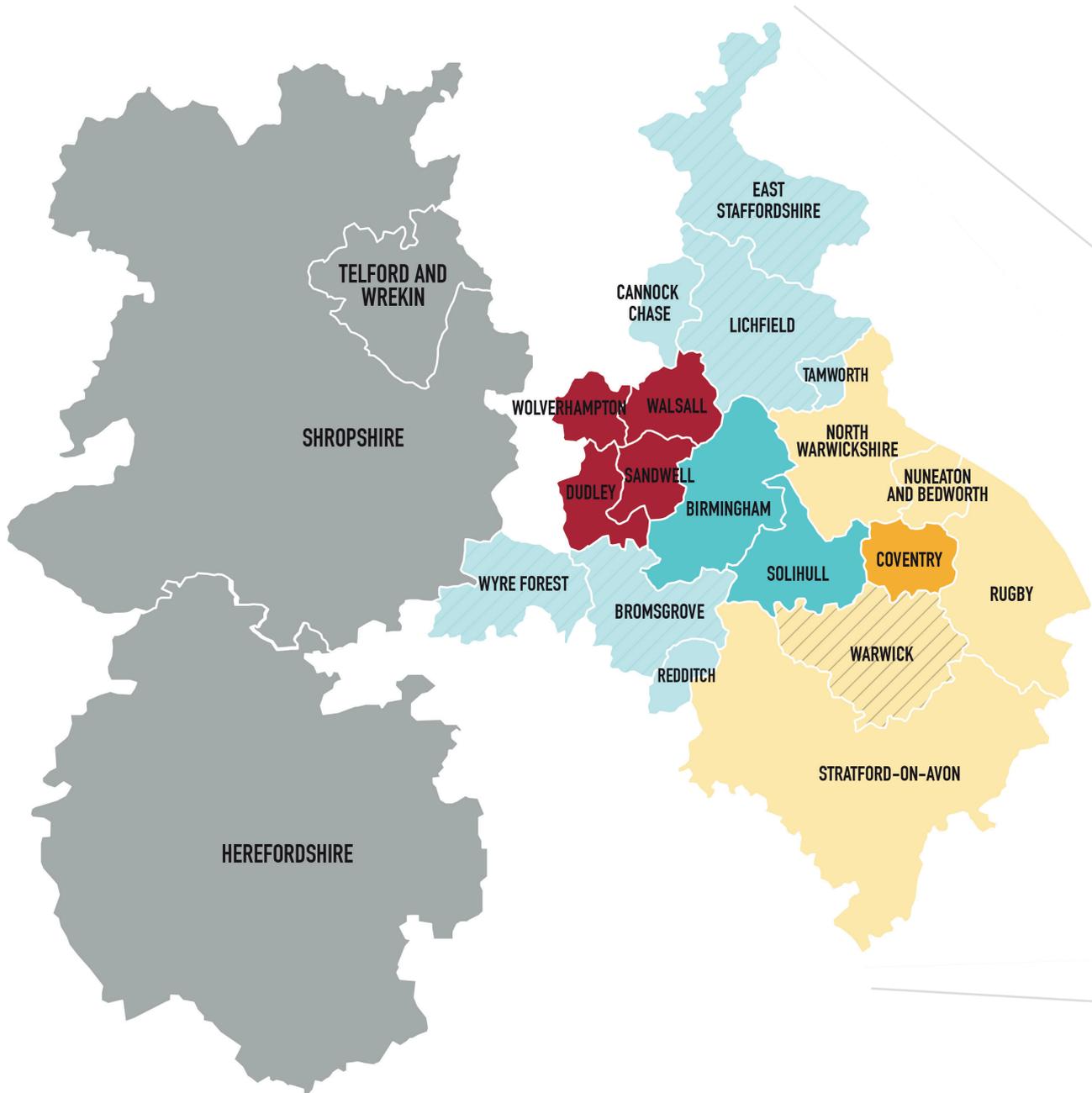
##### **How are Mayoral Combined Authorities (MCAs) funded?**

MCAs are funded largely by central government based on the agreement of their devolution deal. Much of the operational funding comes from transport levies and membership fees paid for by councils.

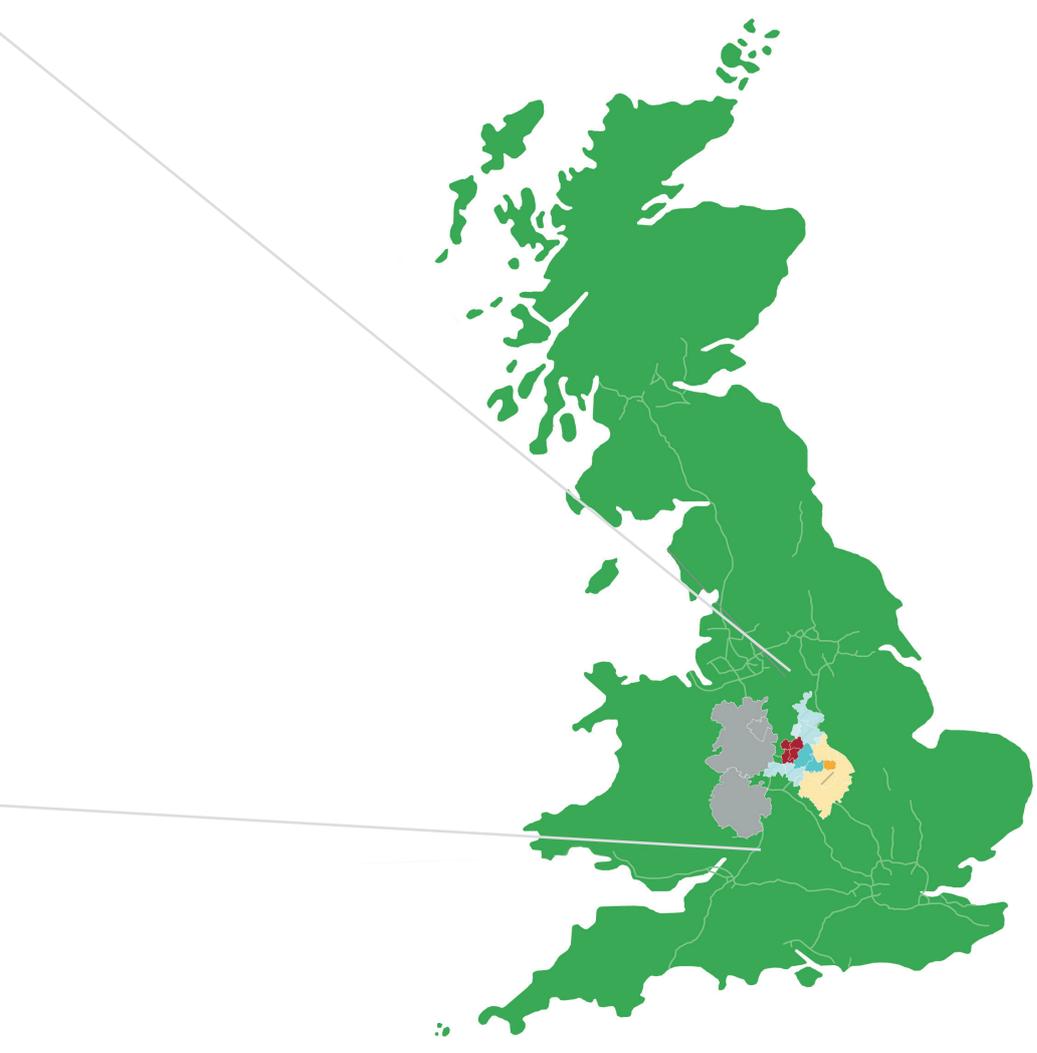
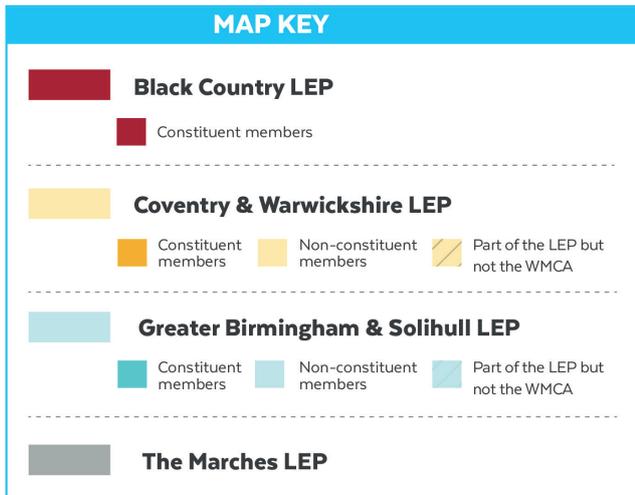
As well as this the MCAs retain 100% of their business rates revenues, and with the exception of the West of England can raise a council tax precept.

MCAs can also have funding removed. For example £68m was removed from the Greater Manchester Combined Authority after it revised housing targets.

**Exhibit 8** West Midlands Combined Authority and the Local Enterprise Partnerships



*Image courtesy of the West Midlands Combined Authority*



# Step Two: Optimise Westminster and Whitehall for devolution

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## **4. Government should set out how it will prioritise devolution and regional growth at the most senior levels of government and in all departments, ensuring all parts of the country have ministerial champions.**

Various attempts have been made by government to create and strengthen regional institutions. This includes most recently from the Prime Minister who demonstrated his commitment by promoting the Northern Powerhouse Minister to Cabinet.

However, in order to ensure all parts of the country can benefit, government should look to identify a Cabinet-level leader for levelling up places as a whole, as well as a ministerial champion covering each region. This is an important step towards cross-departmental working and would give the minister oversight over relevant initiatives seeking to drive regional productivity, such as Local Industrial Strategies.

Beyond specific ministerial positions, devolution requires departments to share power and funding with local areas as well as shift decision-making responsibility. Government should therefore work closely with all departments to embed its devolution strategy. Efforts may be required to confirm departments are willing and prepared to devolve powers. Whilst there are a number of departments responsible for aspects of devolution, only HMT, MHCLG and the Department for Business Energy and Industrial Strategy (BEIS) have devolution prominent within their Single Departmental Plans.<sup>29</sup> All departments must seek to ensure they have political commitment at a senior level to ensure progress.

It's important to note that significant progress on devolution deals was made at a time when HMT, particularly the Chancellor was highly supportive. HMT is critical in driving forward this agenda, and in holding departments and regions to account as deals progress. Whilst devolution sits within the portfolio of responsibilities of a senior Minister within HMT, ensuring this is, and continues to be a strategic priority for the department will be key.

Setting out clear lines of accountability for decision making is also critical. Departmental accounting officers are responsible for ensuring that funds are appropriately spent, considering factors such as value for money and whether it achieved the intended outcomes. As devolution progresses, government will need to ensure there are clear lines of accountability for devolved administrations. This is particularly important where funding is either granted from a specific department to deliver national initiatives locally such as the Adult Education Budget, or where the policy decision sits across a range of departments such as aspects of health and social policy.

**5. Government should establish an Independent Advisory Board to impartially assess and advise on devolution deals against the published framework.**

Business becomes disengaged when the focus shifts from economic priorities to politics. Whilst a published framework helps provide clarity, it will not single-handedly prevent over politicisation of the devolution process.

If an area comes forward with a deal its success should be determined by the extent to which it meets the requirements of the framework. Decisions should not be made based on what political party is expected to perform well in mayoral elections.

By introducing an Independent Advisory Board, the government firstly demonstrates its commitment to the process of English devolution, and also signals a willingness to be assessed and evaluated on the outcomes of their policy decisions. The Advisory Board should seek to bring together stakeholders from across the public and private sectors including subject matter experts, to provide clear, evidence-based advice to the government when it comes to devolution deals.

Their remit should include recommending how to measure the success of devolution against which further devolved powers should be considered. It should also look to hold government to account on the progress of devolution, seeking to ensure new deals continue to develop across the country. Where new deal submissions are made, the Advisory Board should be consulted and able to provide impartial advice against the framework to government, thereby helping to avoid accusations of political bias in the decision-making process.

**6. Government should commit to a review of the Green Book to better address regional imbalances and consult on plans for the future of fiscal devolution.**

Devolution has grown from the desire for local areas to have more autonomy over key local decisions in order to drive economic growth across regions. However, it can also be seen as a response to growing regional inequalities.

Despite the funding through devolution resulting in significant funds being allocated to local areas, often it's still heavily tied to specific projects. Some businesses have suggested that power and funding isn't devolved, but simply delegated.

The devolution of funding hasn't always accounted for the cost of setting up new projects from scratch. For example, the total value of the Adult Education Budget fund remained the same as it was before being devolved. However, local areas must use the fund to establish new administrative systems used to implement and monitor the policy locally. As a result, in the short term the net fund will be lower than how it may first appear.

Addressing regional imbalances will not be resolved by devolution alone. It will require a rethink of the way government assesses regional spending, particularly infrastructure, which is a key driver of productivity. The government should therefore commit to a review of the Green Book. This is a step towards accounting for the long-term effects of infrastructure investment on the local and regional economy.

A review of the Green Book should seek to consider where returns on investment could be greater in the broadest sense.<sup>30</sup> It must be done in conjunction with key local, regional and national stakeholders in order to understand the priorities of local areas, and ensure they're reflected in national priorities. This may include the National Infrastructure Commission, and Mayoral Combined Authorities, as well as other sub-national government bodies such as Midlands Connect and Transport for the North. As **Exhibit 9** demonstrates, even with robust analysis, decisions on infrastructure investment are often made despite evidence demonstrating where the return on investment would be highest.<sup>31</sup> Whilst outside the remit of this report, a review of the Green Book should also look to consider wider priorities such as climate change and sustainability.

The success of devolution deals is linked in part to the funding they receive from government. Each region has negotiated a different amount, depending upon which powers will be devolved and local need, and in part based on population size. Without further meaningful devolution, including scope to raise and spend funds locally, the deals lack independence and could risk diminishing in the future as successive and potentially less supportive governments come into power.

Business recognises the challenge that would come from devolving financial arrangements, including the administrative burden this may create. It's therefore important for any further devolution in this area to be well evidenced, and for any fiscal devolution to be outcome focused. It must focus on how to drive business growth, but also allows business to make positive contributions to wider objectives such as inclusivity, skills and education and sustainability. Any fiscal devolution must importantly look at helping all businesses, regardless of size compete nationally and internationally.

It's also key that any fiscal devolution is tied with previous recommendations around measuring success and accountability. These recommendations must be seen as a package, and the process of fiscal devolution must be seen as a step along the journey for some areas, not a one size fits all approach.

**Exhibit 9** Cost benefit analysis of infrastructure schemes and whether they have been funded in Leeds and London<sup>32</sup>

Scheme	Benefit Cost Ratio
<b>Examples of North and West Yorkshire schemes (not funded)</b>	
Leeds Super tram	2.3
Electrification of Leeds-Harrogate-York Line	3.61-4.27
West Yorkshire Bus – Fares reduction and frequency increase	3.0
Leeds to Bradford Public Transport Improvements	4.0
Northern Hub Option 1 (£860m)	3.1-5.6
<b>North and West Yorkshire (funded)</b>	
Kirkstall Forge and Apperly Bridge	3.6
Northern Hub Option two (£560m)	4.0
Leeds Urban Area Highway Improvements	3.6
<b>Examples of London Schemes (funded)</b>	
DLR to Woolwich	1.1
Crossrail	1.6
Jubilee Line Extension	1.7
DLR to London City Airport	1.7
Thameslink Upgrade	2.1



**7. A Mayoral Council should be established to bring together Mayors with the Prime Minister at least twice a year, to determine regional priorities ahead of fiscal events and consider future devolution arrangements.**

With Metro Mayors gaining more power, and scope for this to expand in the future, the Prime Minister should establish a Mayoral Council in order to formalise engagement with Metro Mayors across the country.

For areas with devolution deals informal collaboration exists through the 'M9' – the coalition of existing Metro Mayors. However, to date there's little formal engagement between the Metro Mayors as a whole and the government. There's a risk engagement may rely on whether the Metro Mayor is in favour with the government of the time which leaves some parts of the country at risk from missing out. With Mayors playing an important role in driving growth locally, as well as setting the strategic direction nationally and internationally for the region, a formal approach to engagement with Westminster and Whitehall is a natural next step.

The Mayoral Council should meet at least twice a year in advance of major fiscal events in order to ensure regional priorities are accounted for in government planning. It should be seen as an opportunity to set out social and economic priorities across regions, provide a feedback loop into national policy and drive collaboration across the country.

The creation of a Mayoral Council would demonstrate government's commitment to devolution and encourage other areas to propose future deals. In order to ensure no part of the country is left behind, as the types of devolution deals develop the Mayoral Council should be equally dynamic. This should include representation from those areas who may have secured a deal without a Metro Mayor. It may also expand to include representation from macro-regions, for example bodies such as the NP11, which brings together LEP leaders from across the Northern Powerhouse, and any future equivalents.

In order to demonstrate commitment to devolution, the government may wish to commit to hosting one of the many international mayoral summits in England. Examples include the Global Parliament of Mayors, C40, the Covenant of Mayors, OECD Champion Mayors for Inclusive Growth or Metropolis. These would provide the opportunity to share ideas and learn from the experiences of Mayors across the world, and showcase the UK internationally. Businesses have already raised concerns that without devolution at scale in England, we can't compete internationally with other countries such as Germany and China that have a strong regional presence. Hosting these summits also go some way to putting regions across England in front of key international partners, fostering new relationships and investment to drive growth across all regions.

A green-tinted photograph of a construction site. In the foreground, several construction workers wearing white hard hats and high-visibility vests are seen from behind, looking towards the site. One worker on the left has their hand raised. In the background, a tall building is under construction, with a crane arm visible in the upper left. The sky is overcast. The entire image has a monochromatic green color scheme.

*"Businesses have already raised concerns that without devolution at scale in England, we can't compete with countries with a comparatively strong regional presence"*

# Step Three: Deliver new deals and streamline local government

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## 8. Government working collaboratively with local leaders should adopt a target for over 60% of the population to be covered by a devolution deal by 2025.

Government has shown it's open to devolution and now must ensure all parts of the country can benefit. Whilst 60% may feel like an ambitious target, well over a third of the country is already covered by a devolution deal (including London). Once London is removed the average-sized deal covers a population of approximately 1.4m people. It would take seven of these average-sized deals to meet the 60% target by 2025. The deadline of 2025 should ensure that any new deals include meaningful devolved funding through the gainshare model, which can be negotiated and agreed within the timeframe of a future spending review.

These deals should look to build on the successes of existing deals, but should also look to be more transparent, and the result of meaningful consultation with local stakeholders. The government must set aside the time and resource to work closely with the local area, helping put together a clear economic case for devolution, and support in managing local stakeholder tensions.

There are several approaches to meeting this target the government should consider. The published framework is a key starting point to achieving the 60% target, encouraging areas to put forward new bids for deals. This ensures the deals are the result of local buy-in and are bottom-up. Areas who have previously failed to secure a deal may come forward once again. With the framework providing clarity on how devolution may work for cities, towns and rural areas, this improved clarity is likely to encourage new bids. With businesses and residents in areas without deals feeling left out twice, first to London and secondly to their larger neighbour,<sup>33</sup> new deals that focus on growth and productivity will have a significant impact.

If more work is needed in order to reach the 60% target, government can take a more proactive approach. Working with the Independent Advisory Board and stakeholders across the country government can identify areas best suited to a deal and actively work with them to ensure that a deal is in place by 2025.

When assessing areas for future deals, government should consider factors such as economic output; a minimum population size; or existing unitary authorities. Government should ensure that a meaningful proportion of the 60% target for new deals are in rural areas, whilst considering the definition of a functional economic area.



## 9. Devolution should be used to streamline existing local government structures, moving towards a unitary authority model across the whole country.

One of the main criticisms and concerns from business when considering existing and future deals is that they will add another layer of governance and create an administrative burden. Therefore, decisions around devolution should be seen as an opportunity to streamline local government structures across the country.

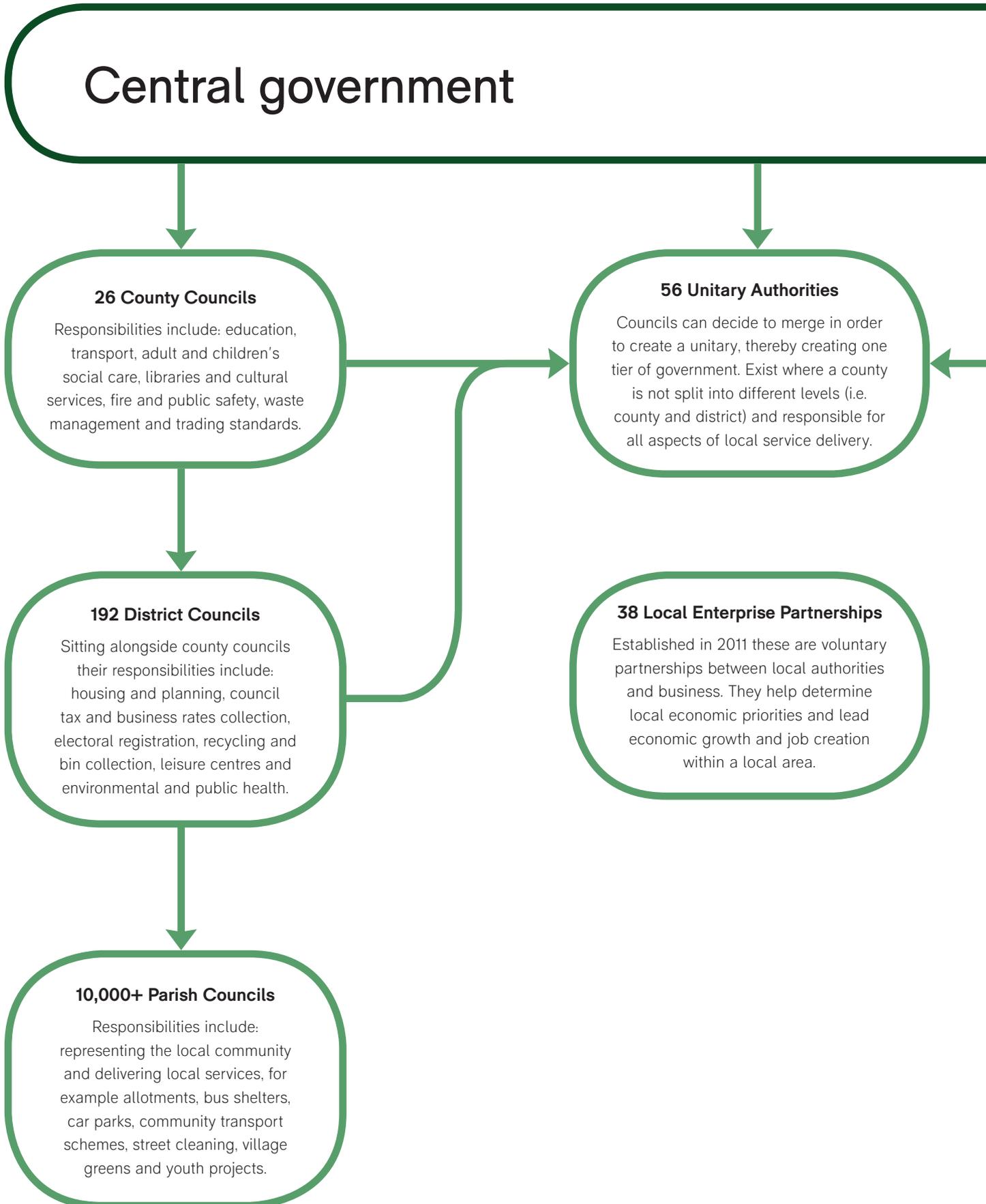
Government has in the past indicated it would welcome greater consolidation of local authorities, bringing together two or more districts within a county area to create a unitary authority. Government should transition towards a unitary model across England in the same way as Scotland and Wales have developed a single tier of local government.

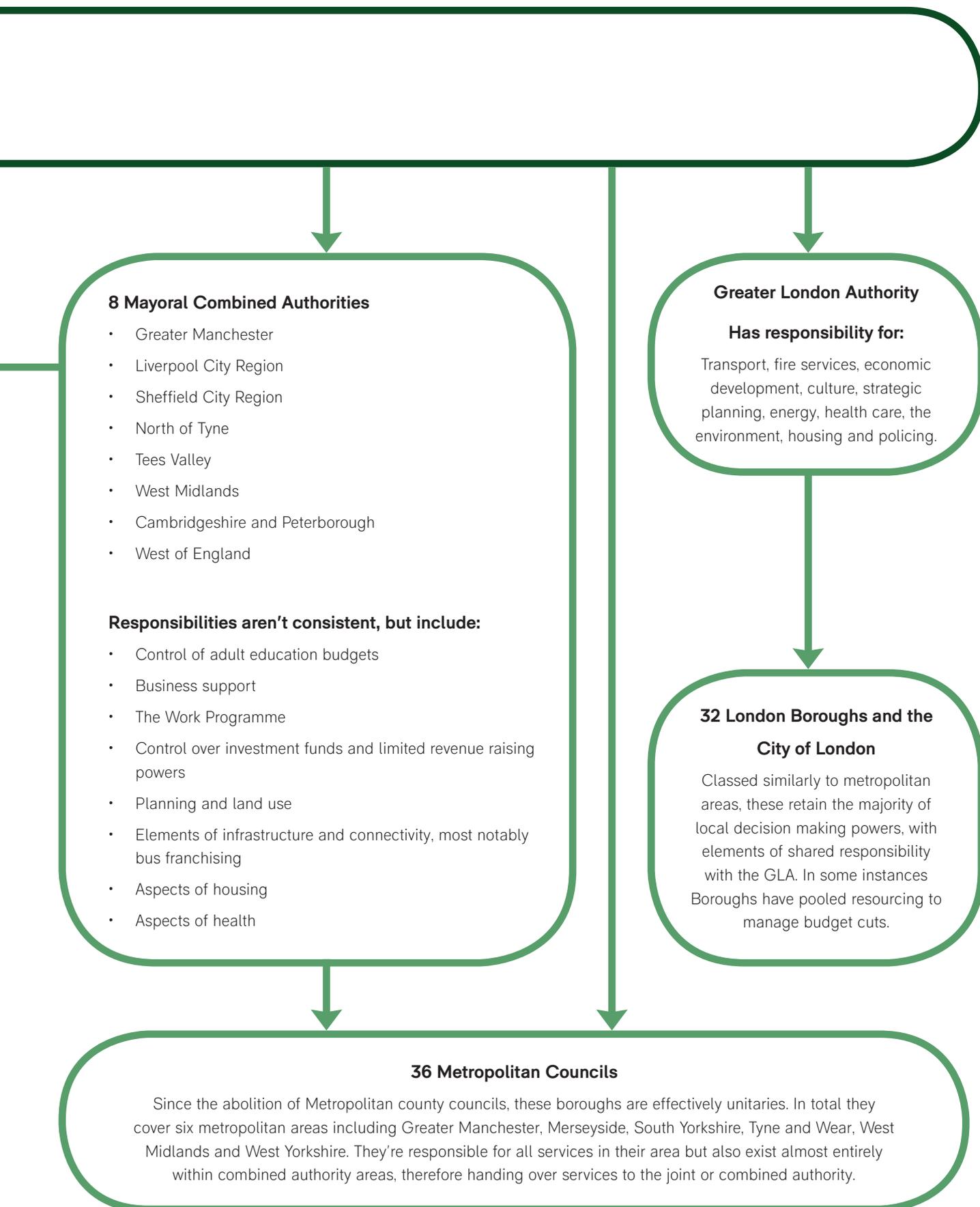
Unitary authorities provide the opportunity to deliver local services at scale, but also to develop fresh operating models. The transition should enable local areas to consider how to design new services around local need and ensure a more joined-up approach. Becoming a unitary should be seen as an opportunity to integrate services and unlock the assets and resources of the combined area.<sup>34</sup> The transition to a unitary model may also give local areas the opportunity to build stronger dialogue with central government.<sup>35</sup> This process may be the initial steps for an area that is considering a more formal devolution deal, demonstrating an ability to work together and collaborate.

Beyond this, with local authority resources already stretched, moving to a unitary model should come with support as well as incentives. This may include considering how to utilise the Shared Prosperity Fund and the Towns Fund to create a simplified regional funding landscape that encourages the transition to a unitary model and coterminous boundaries.

**Exhibit 10** highlights the complexity of the existing system involving county and district councils, parish councils, unitaries, LEPs, Combined Authorities and Metro Mayors. Importantly, this diagram doesn't account for the range of government agencies such as Highways England and National Rail, or Sub-National Transport Bodies, who are also involved in significant policy decisions. **Exhibit 11** sets out in more detail these bodies and their roles.

Exhibit 10 Complexity and inconsistency of local decision making





**Exhibit 11:****Sets out other key regional stakeholders that businesses must engage****Northern Powerhouse:**

Aims to boost economic growth in the North of England. Focus is on core cities such as Manchester, Liverpool, Leeds, Sheffield, and Newcastle. Launched formally as part of the 2010-15 coalition government, it has since been criticised by some for the lack of activity.

**Midlands Engine:**

Established in 2017 as a coalition of Councils, Combined Authorities, LEPs, universities and businesses across the Midlands. Whilst an active stakeholder in the region, business is keen to see a more strategic approach from the body on topics such as transport, innovation and international profile.

**Great South West:**

Established by businesses, universities and LEPs and MPs to promote opportunities, attract investment, and increase the prosperity of the region. Within the Great South West, Cornwall Council received a devolution deal in 2015, the only one in England without a Metro Mayor.

**OxCam Arc:**

Officially backed by government, the Arc seeks to build upon the economic success of Oxford, Milton Keynes and Cambridge, and improve connectivity. It's primarily led by the three LEPs and the Cambridgeshire and Peterborough Combined Authority.

**Transport for the North:**

Established as the first statutory sub-national transport body, it aims to make the case for strategic transport improvements across the North. It brings together key stakeholders along with Network Rail, Highways England, HS2 Ltd and central government. It has developed a strategic transport plan but is not a delivery body for transport.

**Midlands Connect:**

Also a strategic transport body, acting through the Midlands Engine. It's made up of the 22 local authorities, the LEPS, regional airports, Network Rail, Highways England, HS2 Ltd and central government. It published its 25-year strategy calling for a programme of strategic road and rail improvements.

**England's Economic Heartland:**

Covering the OxCam Arc and surrounding areas, this strategic transport body sets out the 30-year strategic vision for the transport system, focusing on a joined-up approach across the region. The body is made up of local council leaders and representatives from the LEPs.

**Transport for the South East:**

Bringing together representatives from the 16 transport authorities and five LEPs across the South East, this strategic transport body seeks to develop a strategic plan for the region which accounts for the many different modes of transport for the region including road, rail, air and sea.



## **10. Improve cooperation between local areas and stakeholders as well as streamline local stakeholder engagement for business.**

A key business concern has been the lack of collaboration between local leaders. Beyond that, with devolution currently taking place over a patchwork of social, political and geographical boundaries, businesses have raised concerns that some parts of the country are at risk of getting left behind. Therefore, whether areas are pursuing a deal, or not, there should be a renewed focus on how to ensure better collaboration across political and geographical boundaries.

The preferred method to ensure a more joined-up approach is the transition to a unitary authority. However, in the short term the government may wish to consider reasonable incentives to encourage areas to work together better in the future. This may include when areas are bidding for new funding, or on key infrastructure projects. There may also be scope to expand or replicate the Statement of Common Ground, as is required in planning, to a wider range of initiatives.

For areas with devolution deals there's strong representation from councils on the Combined Authority Board, but cooperation with the business community remains key. Currently much of this is done through the LEP who also have representation on Combined Authority Boards. Whilst the LEP review has helped foster a positive approach towards consistent business engagement, outcomes are mixed. The review itself only made limited reference to the impact of devolution on the role of LEPs and didn't consider new approaches to business engagement.

When the boundaries between LEPs and Combined Authorities are aligned, it's reasonable to question why two separate bodies are needed. Whilst not the case in all parts of the country, there may be the opportunity to consolidate business engagement within the Combined Authority. There are examples of this within the Cambridge and Peterborough Combined Authority who have developed a Business Board in place of the LEP, or the Greater London Assembly who have bi-annual business council meetings. In both instances these business groups are chaired by the Deputy Mayor and act as the main route for business engagement.

When taking this approach Combined Authorities should ensure robust, and meaningful engagement with business. If a Combined Authority establishes a Business Board in the place of the LEP it should look to ensure there's an independent chair with a strong business background. It should also seek to ensure diverse representation, for example ensuring the board is two thirds business and has a balance of sectors and business sizes. Should the Combined Authority wish to consider this route, it must be done through consultation with business, and should seek to strengthen and build upon the services currently offered by the LEP.



*"Government has shown it's open to the idea of devolution, and now must do more to ensure all parts of the country can benefit."*

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