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DOI:
10.1080/21582041.2023.2203122

Contemporary Social Science

Journal of the Academy of Social Sciences

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/rsoc21

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CONTEMPORARY SOCIAL SCIENCE
https://doi.org/10.1080/21582041.2023.2203122

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England's catch-22: institutional limitations to achieving balanced growth through devolution

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ABSTRACT

International studies show that relative levels of regional (de)centralisation are associated with more or less balanced patterns of economic growth, well-being and resilience. Alongside supporting specific levels and types of devolution, prior studies emphasise the quality of local institutions as a key factor underlying balanced growth. This study empirically confirms the relative lack of devolution alongside large and growing disparities across England's regions. Drawing on an interview-based case study of the West Midlands, we then identify a Catch-22, with devolution predicated on high-quality local institutions caught in a highly centralised system that undermines the development of the required capacity and competency. We identify specific decision-making and resource allocation mechanisms, appraisal and control systems which underpin the dominance of central government agencies in an ad hoc and asymmetric approach to devolution. In combination these limit progress towards locally-driven 'levelling-up'.

ARTICLE HISTORY
Received 11 January 2023
Accepted 11 April 2023

KEYWORDS
Devolution; decentralisation; institutions; government; inequality; economic growth

1. Introduction

The UK, along with other countries, has experienced increased economic and social inequalities and a marked growth in interregional imbalances in both the capacity for wealth-creation and the distribution of the benefits of economic activity. The Covid-19 pandemic accelerated these inequalities and revealed strengths and weaknesses in the resilience of existing institutional and decision-making structures (Warner et al., 2021). Agile responses to the health and economic impacts of such crises are seen partly to rely on targeted interventions at the local level. Devolved funding and decision-making and strengthening local institutions should therefore be a key focus of attention for policymakers (Seaford et al., 2020), both in relation to rebalancing or 'levelling-up' the economy, and more immediately to improve resilience in the face of economic shocks.

However, there are particularities of the UK's governance system, especially within England, that have significantly limited the devolution process and by extension the capacity for targeted local interventions. Through secondary data analysis, this paper

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reinforces the existing literature (e.g. Forth & Jones, 2020; OECD, 2019a) to show that the UK is highly centralised by international standards, and is regionally unequal in terms of pay, productivity, and deprivation. It then goes a step further, using qualitative interview analysis to identify the hurdles faced by local institutions as they attempt to develop their local economy and petition central government for more powers and funding.

In existing literature, 'devolution' is conceptualised as a specific form of 'decentralisation' (Pike et al., 2012) in which a 'central government allows quasi-autonomous local units of government to exercise power and control over transferred policy' (Schneider, 2003, p. 38). In this paper, we consider devolution in relation to three specific components of governance:

1) Distribution: the distribution of public investment (such as in infrastructure, research and development (R&D) and other endowments which underpin regional growth).
2) Decision-making: the allocation of decision-making power over resource appropriation (e.g. tax-raising) and resource allocation (spending and investment) as central indicators of devolution.
3) Institutional quality: the level of investment and resources to support the capacity and capability of local institutions to develop locally appropriate growth strategies and to target and deliver effective interventions.

This paper argues that the lack of decentralisation of these three components in England creates a Catch-22 for local institutions. That is, a set of circumstances whereby English regions need to evidence capacity and capability to gain devolved resources and powers, but without devolved resources and powers they cannot develop the required capacity and capability to develop their strategies and demonstrate their ability to manage devolved funding and increased responsibility. This Catch-22 is a cyclical, path-dependent, legacy problem which is undermining attempts to reduce regional inequalities across England, with significant socio-economic and political implications. It is a problem that arises because of two features of the UK's political system. Firstly, because subnational institutions lack constitutional protection within the UK's uncodified system of parliamentary sovereignty, their powers and responsibilities are the product of perennial central-local negotiation. This includes primary and secondary legislation and official negotiations over 'devolution deals' but also the informal negotiation of a range of other relationships and power balances. Secondly, because the UK generally, and England specifically, has an asymmetric model of devolution, it contains a patchwork of different institutions with different interests and different relations with the centre. This limits the capacity of subnational government to act as a single bloc in their attempts to secure investment and decision-making powers from the centre. While some collaborative petitioning of central government does occur, the variation between institutions inhibits the emergence of any constitutional norms or conventions protecting the rights of England's subnational institutions.

Therefore, our contribution is to identify the context, functioning, and implications of this Catch-22 in the English context, but also to highlight this as a potential problem for other countries that pursue an ad hoc asymmetric approach to devolution. We explore the nexus between institutions, powers and competency, with findings relevant to the English regional competitiveness agenda and 'levelling-up'. The promise to 'level-up' has been a central message since the current UK government came into power in 2019, aimed at reducing regional economic and social inequalities and dependent on local and regional delivery mechanisms to deliver targeted interventions in 'left-behind' places. The delivery of this agenda depends on an integrated, systemic approach to understanding regional disadvantage, which in turn depends on subnational institutions with the capacities and capabilities to intervene strategically in their local economies. However, we argue that barriers to developing quality institutions affect the capacity and capability of local institutions to devise and implement strategies for growth and development. These barriers include the lack of decentralisation of the three components of governance listed above in relation to 'distribution', 'decision-making' and 'institutional quality' for promoting long-term capacity-building in regions.

The section below provides the conceptual framing for the paper, positioning it within literature that shows why decentralisation and 'quality institutions' are essential for promoting local and regional growth, before evidencing what barriers exist for achieving this in the UK. The case study and methodology are then described before the empirical findings are presented. We focused on the West Midlands metropolitan region as an illustration of more general path-dependent constraints on decentralisation in the country. The last section synthesises the research results, highlights the paper's contributions to existing concepts and debates and proposes a number of policy recommendations.

2. Decentralisation and the quality of institutions

A wide range of studies have examined the advantages and disadvantages of different levels and types of decentralisation (Bartolini et al., 2016; Bentley et al., 2017; Ezcurra & Rodríguez-Pose, 2013). The major conclusion is that history, context, and the specific policy objectives of any move towards less centralisation combine to determine the relative balance between positive and negative outcomes. But the discussion also helps reveal the heterogeneity of places, relevant indicators, and inherent trade-offs as a backdrop to our study.

2.1. The benefits of more or less decentralisation

With the advent of the levelling up agenda, the relationship between decentralisation and growth has become a major concern for policymakers. Studies show that decentralisation of the fiscal type can lead to greater political stability and democratisation (Faguet, 2014). Fiscal decentralisation has also been linked to higher levels of economic output stemming from improvements in productivity and human capital and better educational outcomes (Bartolini et al., 2016). Furthermore, research has found that higher levels of decentralisation improve the allocative efficiency of resources (OECD, 2019a) by allowing places to exploit comparative place-based advantages, address skills shortages and correct infrastructural weaknesses.

Studies have also examined the impact of decentralisation on uneven growth. Canaleta et al. (2004) find a strong negative association between decentralisation, especially of the fiscal type, and uneven regional growth (see also Bartolini et al., 2016). Tselios et al. (2012) also find that greater levels of fiscal decentralisation are related to lower levels of income inequality within regions, with less well-off regions benefitting the most. While studies looking at the impact of political decentralisation are fewer with results more mixed, they tend to suggest either 'a non-existent or positive relationship' between political decentralisation and regional disparities (Ezcurra & Rodríguez-Pose, 2013).

While many researchers agree on the benefits of decentralisation (Bartolini et al., 2016), empirical analysis does not unanimously support claims that decentralisation *always* has a positive effect on economic performance. For example, Ezcurra and Rodríguez-Pose (2013, p. 100) question this link due to a 'lack of adequate regional data'. Others suggest that devolution may even accentuate regional inequalities by encouraging growth in economically strong regions (Bartolini et al., 2016; Tselios et al., 2012). One recent study concludes that some 'localist policymaking has an intrinsic tendency to disadvantage socially marginalised groups' (Fitzpatrick et al., 2020, p. 541). Contrasting this, Gaskell and Stoker (2020) examine the handling of the Covid-19 pandemic and assert that 'decentralised capacity, combined with a constructive relationship at different levels of governance, can result in more effective responses during a crisis'. Overall, many studies advocate selective localisation of specific kinds of resources and decision-making, but with mixed evidence on their effects.

There are several factors that influence whether places experience positive or negative decentralisation outcomes. The first is the form that decentralisation takes, both in its design and implementation (OECD, 2019a). Bartolini et al. (2016) propose that revenue decentralisation has a stronger impact on GDP than spending decentralisation. Research also suggests that positive decentralisation outcomes rely on central government ensuring the co-ordination of policy objectives and tracking the performance of places (OECD, 2019a). It is this argument that is often used by governments as justification for holding onto power (Ayres & Pearce, 2013). At the subnational level, collaboration is needed between institutional bodies that require adequate authority, capacity and accountability for decision-making as well as the resources to act on these decisions (Seaford et al., 2020).

2.2. The role of 'quality' institutions in regional economic development

Institutions are recognised as playing a central role in mediating the performance and growth trajectories of places (Rodríguez-Pose & Ketterer, 2020), and for partly explaining geographically differentiated growth (Tomaney, 2014). This is supported by evidence showing that institutional quality drives employment growth and social inclusion (Di Cataldo & Rodríguez-Pose, 2017). Since the coining of the term 'institutional thickness' by Amin and Thrift in 1994, scholars have since emphasised the importance of institutional 'quality', 'performance' and 'effectiveness' (Rodríguez-Pose, 2013; Tomaney, 2014).

One important reason for this shift of emphasis is that the explanatory power of the three main factors behind economic growth theories, physical capital, human capital (labour) and innovation do not represent a full causal account. The residual includes the quality of institutions as an additional factor (Rodríguez-Pose & Storper, 2006). Studies point to enhanced capacity and capability at the local level to underpin consensus across different agents and improve the targeting and delivery of interventions (Pike at al., 2017). Conversely, place development can be hindered if regions are subject to institutional instability, policy incoherence, weak collaboration, a lack of a shared vision, and shortfalls in institutional capacity (Pike et al., 2017). The amelioration of one of these problems can have positive impacts for the others – so that, for example, longer-term institutional stability will allow for longer-term and therefore strong collaboration, which will in turn contribute to a shared strategic vision. A related series of debates focused on the 'geography of discontent' (Dijkstra et al., 2020; Glaeser & Hausman, 2020; McCann, 2020) have made clear links between local institutional capacity and the path-dependency that differentiates innovative and dynamic city-regions from 'left-behind' places (Rodríguez-Pose, 2020). This led Lago et al. (2020, p. 879) to propose that 'increasing government quality is the most effective policy for increasing regional economic performance in lagging regions'. Institutions have also been found to influence the resilience of places when confronted with economic shocks (Sensier & Uyarra, 2020).

2.3. The political economy of the UK

Since 2010, the UK has seen a new 'devolution' agenda for England promising the transfer of powers and resources from central to local government. This is underpinned by arguments linking to agglomeration economics and redistribution (HM Treasury, 2006, p. 1). This came initially in the form of 39 business-led Local Enterprise Partnerships (LEPs) set-up between 2010–2012 to drive economic growth across functional economic areas, supported by the roll out of City and Growth Deals for places to deliver flexible and responsive local strategies on employment, skills, investment, and business support (HM Government, 2011). England has also seen the introduction of ten Combined Authorities (CAs) since 2014, alongside directly elected metro mayors and Devolution Deals as the 'preferred method of formulating public policy and resource allocation' (Pike et al., 2016, p. 15). At the time of writing, devolution deals have made available to fourteen areas in England a range of core powers across a number of policy areas (see Sandford, 2023). This complex sub-national institutional architecture creates issues relating to overlapping responsibilities and accountabilities (Green et al., 2021).

These decentralisation agendas can disguise the mechanisms through which the central state retains control of subnational institutions (see for example Griffin, 2012; Jessop, 2003). For example, analysis by Bentley et al. (2017) points to four key mechanisms that are constitutive in enabling or constraining the subnational scale of governance: (1) 'the degree of statutory controls', (2) 'the degree of fiscal autonomy', (3) 'control over finance, budget and resources', and (4) 'the degree of scrutiny and oversight of strategies'. This points to the need for analyses to understand the shift of powers and resources between centres and regions (see for example Beel et al., 2016; O'Brien & Pike, 2019). 'Metagovernance' is defined by Bailey and Wood (2017, p. 966) as 'a theory of how governments steer decentralised networks by indirectly shaping the rules and norms of those networks'. Situated in the broader, comparative intergovernmental relations literature (Bergström et al., 2022), it describes the way in which local and regional institutional networking and coordination occurs 'in the shadow of hierarchy' (Etherington & Jones, 2016, p. 384), reflecting national economic priorities (Ayres et al., 2018; Sandford, 2019). This determines the form that structural initiatives and funding arrangements take, the nature of central-local relationships and the extent of local capacities and capabilities, restricting the attempts of the centre to decentralise and the effectiveness of local institutions to act (Sandford, 2019).

Set against the 'centralized nature' of the UK's political economy and the path-dependent nature of territorial management (Pike et al., 2016), English devolution is viewed by some as a strategy to meet the needs of the centre (Haughton et al., 2016; Hoole & Hincks, 2020). Some studies also show how devolution deals impose on local actors centrally-defined 'rules of the game' (Beel et al., 2016). These debates have been given new impetus by the emergence of the levelling up agenda and one of its key missions to 'empower local leaders and communities, especially in places lacking local agency' (HM Government, 2022; xviii). In the Levelling Up White Paper, this is framed as both an end in itself and as a means to achieve the social and economic objectives of levelling up. However, in the analysis below, we show that key features of England's ad hoc and asymmetric governance system are actually working against the empowerment of local institutions, and are least favourable to places that currently lack local agency.

3. Case-study and methods

Our empirical focus is the West Midlands metropolitan region, England's second most populous metropolitan region outside of London consisting of seven local authorities with Birmingham as its core city. The case study is representative of subnational devolution in England and provides broader insights into the decentralisation of the three specific components of governance identified above. The region makes up the West Midlands CA (WMCA) that was established in June 2016 and covers in part three private sector-led LEPs, these being Black Country LEP, Coventry and Warwickshire LEP and Greater Birmingham and Solihull LEP that have been in operation since 2011.[1] In May 2017, the WMCA elected its first Mayor (re-elected in 2021) and soon after negotiated its second devolution deal that secured for the region a capital investment fund of £1,095 million over 30 years alongside a number of political and administrative powers (see Sandford, 2023). Recently, in the Levelling Up White Paper published in February 2022, the Government stated its commitment to negotiate a trailblazer new devolution deal with the West Midlands alongside Greater Manchester to provide greater political and fiscal powers to the region.

The empirical analysis is based on 17 in-depth interviews carried out in 2020 with senior decision-makers in the West Midlands metropolitan region with a high-level of engagement in local and regional policy and governance activities (see Table A1 in Appendix). The interviews were typically 60-90 minutes in length and primarily face-to-face (via various video conferencing portals). We followed a semi-structured interview schedule that was divided into six main themes: 'strategy', 'devolution', 'capabilities', 'centre-local policy coordination', 'regional-local coordination' and 'fiscal accountability'. All interview participants have remained anonymous. The interviews were transcribed for analysis in NVivo, with thematic coding identifying and grouping similar pieces of text within and between interviews (Fielding & Thomas, 2001). Within each theme, the extracts were then organised to identify the 'key points' (usually about five to 10 in each theme). These key points were written as bullets or short paragraphs, each supported with extracts from at least two different interviews. The interview data is contextualised in relation to secondary data analysis, which was used to map the levels of public sector investment in England relative to international comparators, alongside indicators of economic and social performance across English regions.

4 Findings and analysis

The empirical findings are presented in relation to the decentralisation of the three components of governance identified above: (1) the distribution of public investment, (2) the allocation of decision-making power over resource appropriation and resource allocation, and (3) the level of investment and resources to support the capacity and capability of local institutions to develop locally appropriate growth strategies and to target and deliver effective interventions.

The first of these components primarily relates to quantitative data on the distribution of investment, and we therefore present this in relation to a range of compiled secondary data. The other two components are not readily quantifiable, and instead require a more in-depth analysis of local circumstances. We explored these institutional characteristics through semi-structured interviews in the West Midlands. Findings are presented on the allocation of decision-making power over resource appropriation (e.g. tax-raising) and resource allocation (e.g. spending and investment) as central indicators of devolution. Then, findings are presented on the level of investment and resources to support the capacity and capability of local institutions to develop locally appropriate growth strategies and to deliver effective interventions (the quality of institutions). These two factors, detailed in the following sections with illustrative quotes from interviewees, together combine to form the Catch-22 that we return to in our discussion and conclusions below.

4.1. Distribution: the relative centralisation of the UK and the distribution of public investment

Although varied in its extent, there has been a general trend towards decentralisation across OECD countries over recent decades. By comparison the UK stands out as having a highly centralised fiscal and political system (European Commission, 2015; OECD, 2019b).

Data from the OECD on local tax revenues shows that in 2017, 4.9% of tax revenues were raised by local government in the UK (OECD, 2019b). This is low in comparison to other non-federal OECD countries such as Sweden (35.3%), Japan (22.7%) and France (13.3%) (OECD, 2019b) (see Figure 1).[2] Also shown is a long-term trend towards declining fiscal decentralisation in the UK, with only Ireland (−69.9%) seeing a larger percentage share change of tax revenue away from local government than the UK (−55.9%) between 1975 and 2017. Moreover, other data published by the OECD reports that in 2017, central government transfers in the UK accounted for 66.1% of total local government revenues, in comparison to an OECD average of 36.8% (OECD, 2019b).

Data from the ‘self-rule index for local authorities’ in Europe provides another indication that the UK is comparatively centralised. Measured using a combination of 11 variables between 1990 and 2014, this analysis places the UK 35 of 39 countries for ‘self-rule’ and 31 of 39 for ‘local autonomy’ (European Commission, 2015).[3] The trend towards centralisation in the UK is also shown by data on the structure of public sector employment.

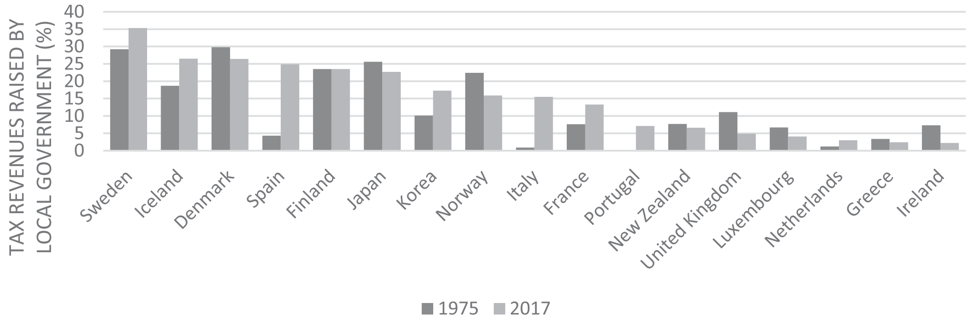

Figure 1. Percentage of tax revenues raised by local government (OECD, 2019b).

This reveals a declining share of overall public sector employees based in local government, from 50.6% in 2000 to 38.5% in 2018 against an increased proportion in central government, from 42.8% in 2000 to 58.2% in 2018 (ONS, 2019).

In the context of limited tax raising powers and a diminishing share of public sector employment in local government, regions in the UK rely heavily on central government decisions over funding, which evidence shows is unevenly distributed across the English regions. For example, data on the geographic distribution of investment in transport infrastructure in England shows that for the period 2021-2022, public expenditure on transport in London was £1,212 per head, almost double all other regions (see Figure 2). A similar pattern is shown in government, university and charity spending on research and development (R&D), with London (£351.8 per head) and its surrounding regions in 2019 receiving well above the rest and the East Midlands (£92.2 per head) receiving the lowest (see Figure 3).

This uneven distribution of spending across England supports the idea that investments to boost productivity in the UK are focused on the most productive regions, reinforced by HM Treasury's *Green Book* methodology for appraising investments that supports this regional imbalance (Coyle & Sensier, 2019). This, as Raikes and Giovannini (2019) state, 'deprives other regions across England of essential investment, and makes it difficult for them to become productive and inclusive economies'.

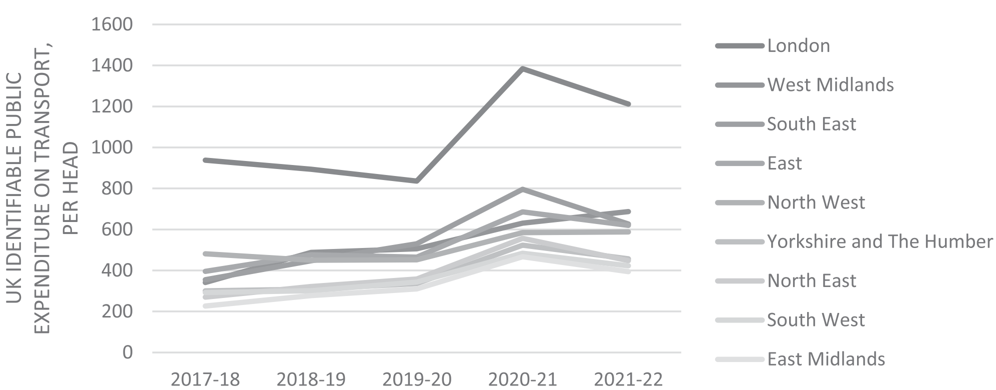

Figure 2. UK identifiable public expenditure on transport (HM Treasury, 2022)

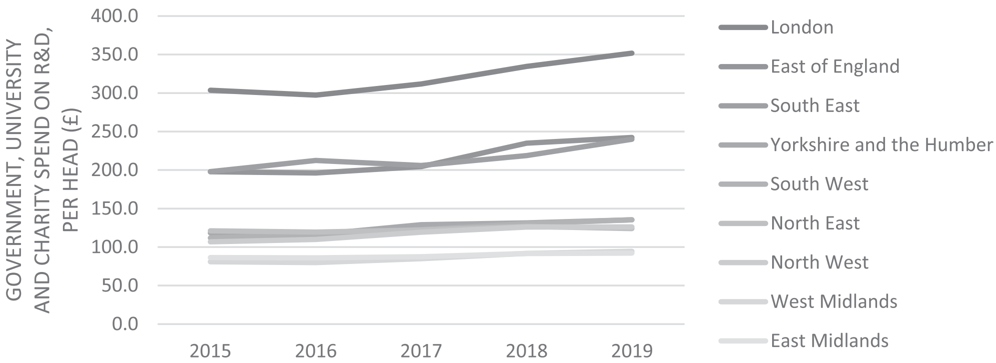

Figure 3. Government, university and charity spend on R&D (ONS, 2021).

We can demonstrate this by comparing the above patterns, showing the relative centralisation of the UK and the regional imbalance of government investments, with indicators that illustrate the uneven distribution of growth and relative levels of deprivation.

First, the varying levels of median gross annual pay for full-time workers (see Figure 4) reflect the patterns of investment above, with London and its surrounding areas positioned well above the other English regions. Second, regional variations in productivity by LEP area (see Figure 5) show a similar divide between London and the South East as the most productive regions, relative to the rest. Third, we find a similar pattern when we look at variations in deprivation by LEP area (see Figure 5), showing low levels of deprivation in London and the South East and high levels in the North of England and the West Midlands.

This confirms that England's regions remain on divergent trajectories. In the face of widening regional disparities, exacerbated by Brexit and Covid-19, rebalancing investment, and enhancing the capacity and capability of regions to respond is critical. In this context, a key question remains about what the current devolution agenda in England can achieve to rebalance the country if the system for which it is embedded remains highly centralised, with funding and investment skewed towards London.

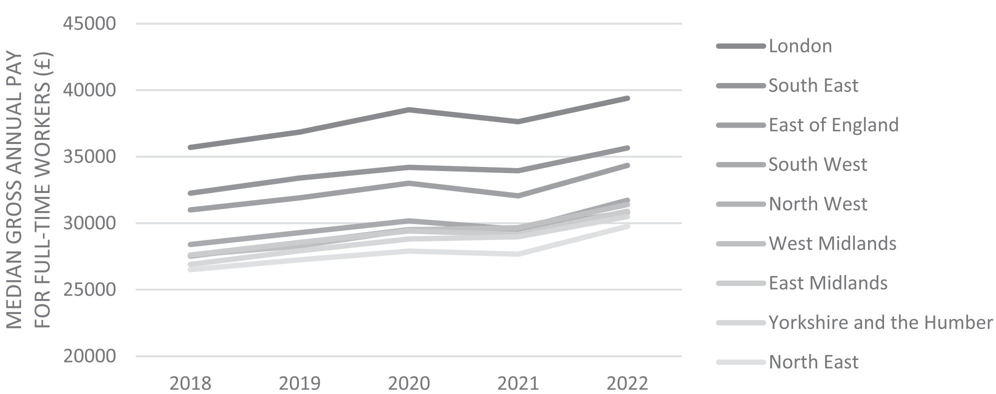

Figure 4. Median gross annual pay for full-time workers (ONS, 2022).

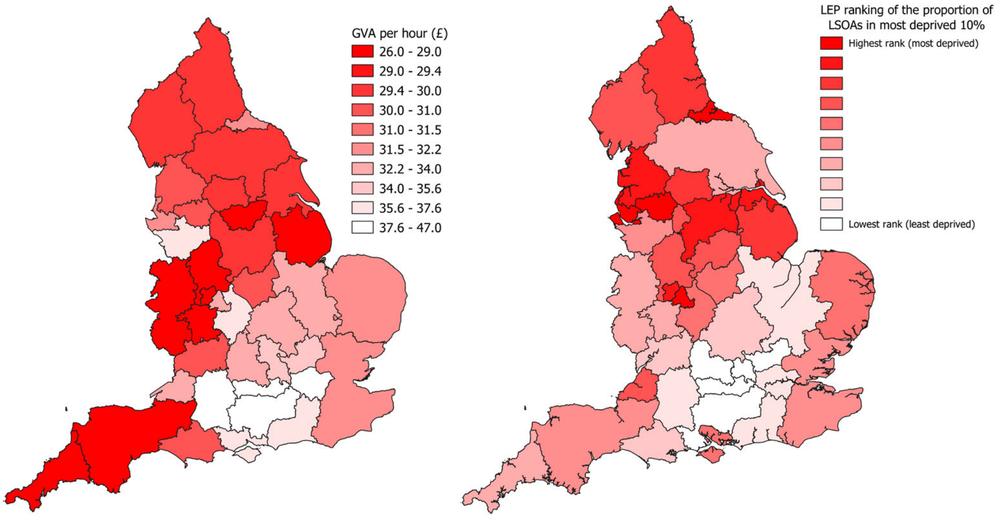

Figure 5. Productivity (ONS, 2020) and deprivation across English LEPs (IMD, 2019).

4.2. Decision-making: the allocation of decision-making power over resource appropriation and resource allocation

The levelling up agenda explicitly offers devolution as a key part of the solution to England's worsening regional inequalities and as a driver of economic growth by transforming central-local relations and supporting local priorities in relation to transport, skills, housing and the environment. However, much depends on the allocation of resources. The availability of funding to support subnational decision-making over these policy domains is crucial, in terms of (a) the central allocation of funding and (b) the extent of fiscal devolution, and how spending is controlled in relation to each of these.

Mayoral-led CAs that have agreed a 'devolution deal' with central government have access to a 'Single Pot' of funding made up of various central grants. These include a core Investment Fund, a Local Growth Fund and for some areas a Transport Grant and Adult Education Budget. But decisions on how funding is spent requires the application of HM Treasury's *Green Book* that limits local autonomy over resource allocation and confines spending to a strict central framework of project evaluation. This structure of financing was seen by interviewees in the West Midlands as a key control mechanism for ensuring that places conform with centrally determined funding priorities and procedures. As one interviewee claimed, ' … we're very restricted about what we can do with the funds that we've got' (INT10). This significantly limits the ability of local institutions to tailor interventions to specific local challenges or respond quickly and flexibly in the face of new challenges. Interviewees also highlighted how this cost–benefit approach to project selection directs 'rewards' to already successful regions and projects, creating greater polarisation: 'there are issues with the green book and the way the funding is done because we'll get better value for money by investing in an area like Solihull than an area like Chelmsley Wood. [But] … morally … I believe the right thing to do [is] to try and ensure that you do get growth spread as best you can across challenged and deprived areas as well as areas of growth and success' (INT4).

The requirement for local decision-making to align with central funding priorities also results from the way that devolution deals have been negotiated, which includes the imposition of central targets. Like others across England, the WMCA Devolution Deal is subject to a '5-yearly gateway assessment process' (p.9) determining the future release of funding based on a thorough evaluation and performance assessment of funded projects. Each policy in the agreement must also undergo a 'full implementation plan' (p.19) to be approved by central government prior to enactment (see also Ayres et al., 2018). These restrictions reveal how funding for English regions remains subject to tightly prescribed deliverables.

In addition to the core funds outlined above, local institutions are also highly dependent on ad hoc funding pots and discretionary grants from central government. These are allocated via a competitive bidding process with other regions. These are often ring-fenced for specific purposes or projects, limiting local flexibility. One interviewee describes how meeting central government requirements at the expense of meeting local priorities has therefore become a pragmatic necessity to release funding: ' … bids are written around the central government's flavour of the month and those are the bids that are pushed, that might not actually be what you really want to do on the ground but actually what we want is the money' (INT11). Interviewees also indicated a lack of clarity from the centre over what bids are for and what funding is available, with one interviewee describing how they 'cobble together these bids at the last minute … [but] no one actually knows the pot that we're bidding into or what funding could be real or isn't real' (INT5).

The conditional and competitive nature of the allocation of funding enables central government to 'pick winners' (INT7) and 'select the projects they like best' (INT4). This, as Warner et al. (2021) point out, falls closely in line with 'pork barrel politics' as is evident in the central allocation of the 2020 Towns Fund. Hanretty (2021) shows that the 101 towns selected for the scheme were more likely to be Conservative-held areas, and often marginal seats.

In terms of fiscal devolution, regional tax-raising powers remain limited. Research by the Institute for Government in 2020 found that for the 2020/21 financial year, devolved taxes would constitute only an estimated 9% of all taxes in England. While the UK government had announced plans to introduce 75% business rates retention nationally from 2021/22, by late 2021 they had abandoned this plan in favour of redistributing funding to the authorities most in need. However, there is still no clear indication of the mechanism for doing this. Additional challenges were also reported in the way that central government 'sets the actual levy' and 'doesn't allow any [local] variation on how you classify your business rates' (INT8). Council tax remains the only other tax for local areas to raise funding, but the system requires reform: 'the council tax band things are bonkers, they're based on 1993 house prices and are regressive in taxation terms' (INT7). Business rates and council tax continue to operate within a nationally controlled system with, as the same interviewee complained, 'neither [being] particularly good for funding places' (INT7).

Overall, interviewees claimed that governance remains 'unbelievably centralised' (INT4) through 'the monopoly at the centre' (INT2). This persistence of fiscal centralisation as well as other related complexities and resource inefficiencies that are outlined in the next section is limiting the capacity and capability of local institutions. This has a direct impact on their ability to develop and implement strategic plans for local economic development, but it also limits their longer-term potential to improve as institutions. Institutions compete directly with one another to secure funding, but also compete indirectly by seeking to be first in line for devolution deals and to be the institutions picked by central government to trail the devolution of new powers and budgets. Within an asymmetrical, ad hoc, and competitive devolution process, this reinforces a path-dependency whereby local institutions are unable to draw down powers and resources partly because they lack the powers and resources to do so.

4.3. Institutional quality: investment and resources to support the capacity and capability of local institutions

Our research indicates that English devolution has not provided subnational authorities with the capacity and capability to develop local growth strategies or deliver effective place-based interventions. This lack of institutional depth also limits the ability of many local institutions to operate successfully within the UK's political system, with limited strategy development, inefficiencies in the bidding process, complex policy landscapes, and difficulties retaining talent.

Without 'significant economic development funds' (INT1) local institutions are forced into 'concentrating on frontline services … what goes is the development time, the training time, [and] the strategic planning time' (INT2). This is supported by another interviewee who claims, ' … they can't afford anything else which means that they don't invest in the nice to haves and unfortunately research and good strategy development is a nice to have' (INT8). And even when strategies are in place, it was stated that local institutions 'don't have the levers to do anything about it'. A lack of fiscal autonomy and a high degree of uncertainty over future funding allocations makes long-term local strategic planning and policy development difficult. Regions are reliant on the short-term and fragmented nature of impromptu central funding announcements. As one interviewee states, ' … [in] a system in which we're bidding for really small pots of money regularly … we can barely have a one-year plan, let alone a three or a five-year plan with any confidence' (INT9) and another commented how ' … we're flying blind at the moment … working hand to mouth' (INT6). The quick turnaround times of initiatives to bid for from government are not providing local stakeholders 'the thinking space' (INT1) to engage in policy development, as one interviewee explains: 'if you are government and you say, I want a list of capital projects from you in a week, you'll get a list of capital projects but you won't have politicians engaged in policy development'. There remains little clarity regarding the future pathway of devolution from central government, making it extremely difficult for regions to develop local growth strategies. As respondents noted: ' … if we know that institutions and policy regimes are going to change every five minutes, that makes it really difficult for us to develop our plans' (INT9) and ' … you're on a constant hamster wheel, following whichever direction government goes that week' (INT1).

Wasteful processes and inefficiencies were also frequently cited. For example, preparing bids to top-up core budgets was seen as bureaucratic, with costs often outweighing the potential benefits. Each bid amounts to monetary costs in the region of 'about £30,000 on average' (INT17) to provide the 'business case [that is required] for every pot of money' (INT9). This is a major drain on already restricted fiscal resources given the uncertainty of the outcome. Interviewees described this process as a 'waste of time and energy' (INT17). Another interviewee shared how 'there [are these] really awful games still … we all panic like lunatics around the local area … writing bids and proposals for things we don't actually know if there is any money for or what they are asking for, just for them to come back two weeks after that and 100% of the programme goes down to 10%, "can you change it to what we wanted in the first place and you can have 80% of that?"' (INT12). The production of local industrial strategies, resulting in no additional funding, despite assurances, was also seen as wasteful: ' … government told us all to write local industrial strategies then there was no funding. I mean, that's an inefficiency, isn't it, because they get you running around writing something and then don't fund it' (INT1).

Adding to these challenges is a complex patchwork of subnational institutions with 'overlaps' and 'grey areas' (INT10) that is leading to ambiguous and divided roles and responsibilities. One interviewee explained how ' … if you think about [it], there is Midlands Engine, Midlands Connect, Transport for West Midlands, seven Local Authorities, three LEPs, Combined Authority. That is insane, isn't it? All of them doing policy work … no-one knows who is influencing what' (INT12). Respondents described how multi-agency co-ordination led to duplication and the ineffective use of limited resources, as well as political competition rather than collaboration. One interviewee cited the example of skills policy: 'if you look across the local authority, LEP, combined authority, in every single institution you've got people who are paid to look at skills … it's not totally clear who's responsible for what' (INT5). Furthermore, a lack of resources and fragmented funding mechanisms are leading to resource-based competition between institutions that is in turn discouraging partnership working: ' … it's the old follow the money thing … the moment there's lack of clarity … you get people trying to get their bit of money as opposed to someone else getting their bit of money' (INT4).

Finally, without 'an enormous amount of power' and 'big flexible budgets' (INT9) at their disposal, there were considerable challenges recruiting and retaining 'really high calibre people' in local government that 'without seeing leaders like that, people are less willing to devolve' (INT9). This sits at the heart of the Catch-22, as one respondent noted: 'the perception [of central government] is that there are fewer quality people in local government … [it] just becomes a self-fulfilling prophecy' (INT7). In other words, central government requires local institutions to demonstrate their capacity and capabilities before powers and resources are devolved, but local institutions struggle to attract talented individuals, or indeed to build wider institutional capacities, due to a current lack of power and resources.

5 Discussion and conclusions

This paper presents evidence that shows a lack of decentralisation in relation to three specific components of governance – (1) distribution, (2) decision-making, and (3) institutional quality – is limiting the capacity and capability of local institutions to devise and implement growth and development strategies in England.

Our use of secondary data, including both international and interregional comparisons shows that England is a highly centralised nation in terms of both finance-raising and resource-spending powers. It also identifies a variety of economic and social imbalances across regions in England and associates these with geographic imbalances in government investment. To examine the underlying causes for these regional imbalances and understand the dynamics of central-local relations we present a case study of the West Midlands metropolitan region.

The empirical analysis of our interview data evidences the limited local allocation of decision-making power over resource appropriation and distribution in relation to a series of indicators, including reduced operational budgets, limited tax-raising powers and ring-fenced funding allocated according to central government priorities. The absence of block grants and devolution deals subject to 'gateway assessments', Green Book and other appraisal mechanisms are examples of a wider set of transactional bidding processes, providing power to central government to pick winners. Interviewees consistently referred to the lack of consistency and clarity regarding both funding priorities and the 'rules of engagement', as well as a pervasive lack of trust undermining central-local relations. In relation to barriers to developing quality local institution, our analysis confirms that the low level of investment and resources to support the development of local capability is a significant factor. Our study also highlights how a complex institutional architecture, including multiple agencies with overlapping, often contested remits significantly reduce the collective capacity and capability of regional institutions (Hoole, 2020). This ambiguity over accountability and the allocation of decision-making powers at the local level appears to incentivise competition rather than collaboration in discussions with government.

Both a low level of direct investment in regions and the limited organisational capabilities of local agencies underpin a path-dependency, which is likely to exist in other regions, making it more difficult for the least productive, most deprived regions to change their growth trajectories. Both also appear to undermine agility, responsiveness, and resilience in the face of shocks, of the kind we have seen in relation to Brexit and Covid-19 (Qamar et al., 2022).

We characterise this situation as a Catch-22, whereby the lack of decentralisation in England is holding back the capacity and capability of local institutions. Yet local capacity and capability is a consistent reason given by central government for limiting both funding and decision-making over local resource allocation, to regional organisations (Ayres & Pearce, 2013). Regions are thus kept in a subordinate relationship characterised by short-termism, an over-emphasis on limited proxy measures of performance and local fragmentation across multiple agencies. This situation is linked to the UK's ad hoc and asymmetric approach to devolution, within which each local institution is in a perpetual state of negotiation with a highly empowered political centre.

5.1. Conceptual and empirical contributions

This study builds on the work of others in connecting local institutional capabilities and the path-dependency that differentiates innovative and dynamic city-regions from declining regions (e.g. Rodríguez-Pose, 2020). Focusing on the quality of local institutions presents conceptual, empirical, and real-world policy challenges. Conceptually, building on the notion of 'metagovernance' (Bailey & Wood, 2017; Etherington & Jones, 2016; Sandford, 2019), it is notable that the UK's ad hoc and asymmetric system of multi-level governance contributes to a Catch-22 for disempowered subnational institutions.

In addition to the 'hands-off' metagovernance mechanisms cited by others (Torfing, 2016), such as network management, fiscal conditionality, and communicative discourse, this study has identified a specific mechanism that limits the capacity and capability of local institutions in a context of conditioned devolution. We find evidence that funding distribution is used as a tool for maintaining the asymmetrical central-local relationships. Beyond simple financial power, this involves the embedding of specific mechanisms (such as Green Book appraisals) into the governance infrastructure as part of the formal 'rules of the (resource allocation) game' (Beel et al., 2016). It could be inferred that this provides a rational legitimacy for maintaining uneven power relations and limits the longer-term development of higher quality local institutions (as defined by Rodríguez-Pose, 2020).

While the Levelling Up White Paper explicitly seeks to empower local institutions, especially those that currently lack agency, the actual functioning of the UK's multi-level political system acts against this empowerment and does so in a differentiated manner that leaves the weakest institutions furthest behind. This conclusion partly echoes the argument that the central steering of English devolution is likely to be a key reason for its failure (Esteve et al., 2019).

5.2. Policy contributions and recommendations

Policy reports (OECD, 2019a) and academic studies (Lago et al., 2020; Rodríguez-Pose & Ketterer, 2020) conclude that 'dysfunctional decentralisation systems' are an important factor behind imbalanced growth and the growing polarisation of opportunity. Increasing the quality of local institutions is cited as an important aim to achieve more balanced growth.

We conclude that there is both an overall weakness of regional structures and significant variability across regions in terms of growth trajectories in England. This is understandably challenging to central government looking to promote functional, effective devolution, but it also potentially provides an excuse for not taking these steps.

At the general level, alongside an increase in resources devolved to subnational institutions, more consistency and clarity in central government policies, priorities and resource allocation criteria is required. This should be driven by an acceptance that, in keeping with OECD counterparts, standard national policies need to be tailored and applied to differing local conditions (OECD, 2019a). Places vary, in terms of their local factor endowments and limitations and therefore in terms of the current challenges they face and their future growth potential (Collinson, 2020). These differences in local conditions should not translate into major differences in the overall capacities and capabilities of local institutions. While some minor differences are inevitable, the functioning of central-local relations should seek to minimise, rather than exaggerate, the implications of such differences for the allocation of resources and remits, so that the strength of local institutions and the size of its public investment is not determined by cost–benefit analyses, but by local needs and a more principled justification for tackling geographical inequality. The capacity and capability of local institutions to customise and implement more precise, place-based policies within a clearly demarked national framework, also requires other changes to take place.

The existing forms of 'funding competitions' should be replaced, given that these appear to add complexity, waste resources and produce a challenging, transactional approach to priority-setting, resource allocation processes and picking winners. Moreover, there are indications, although not conclusive, that these present a barrier to redressing the long-term imbalance in regional resource allocation. More substantial single pots of funding for local decision-makers to allocate within these national framework boundaries would be more effective. They should also be tied to longer-term targets for better, more sustainable, and inclusive growth. To facilitate both priority-setting and implementation at the local level, the decision-rights and division of responsibilities across local agencies need to be clarified, particularly across the CA / LEP / LA governance boundaries. Such clarifications will help strengthen the partnership working that already exists in some areas (Shutt & Liddle, 2020).

Perhaps most importantly, significant resources and support are needed to improve local institutional capacity and capabilities for targeting and implementing locally appropriate interventions, as well as evaluating the impact of investments and adapting policy accordingly. Additional evidence, beyond this study, and including the development of local industrial strategies, suggest that this includes analytical skills and a more sophisticated understanding of industry structures, local labour markets (skills demand-supply mismatches) and innovation infrastructure which can underpin better levels of both productivity and resilience (Tilley et al., 2023; Westwood et al., 2021). Optimising resource allocation to gain the most effective impacts and outcomes requires precision interventions, supported by data and analysis on relative challenges and opportunities at the local level.

Overall, it is important for policymakers to acknowledge that the intentions towards local empowerment and regional rebalancing face countervailing pressures from within the current devolution process. Within a multi-level political system in which each institution must engage in costly processes of negotiation, competition, and informal power struggles, the places that are most in need are least likely to progress. Further research is needed on the local and regional conditions needed to support the economic development of regions in this context.

Notes

1. Following announcements made in the 2023 Budget, the responsibilities of LEPs will transfer to local authorities by April 2024.
2. Non-federal OECD countries only where figures are available for 1975 and 2017.
3. Details of the methodology used can be found here: https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/self_rule_index_en.pdf

Disclosure statement

No potential conflict of interest was reported by the author(s).

Funding

This work was supported by the Economic and Social Research Council (ESRC) under Grant Number ES/T002468/1 as part of the 'Local Institutions, Productivity, Sustainability and Inclusivity Trade-offs' (LIPSIT) project.

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Appendix

Table A1. Table of interview participants.

Interviewee	Type of Organisation
1	Combined Authority
2	Local Authority
3	Local Authority
4	Local Enterprise Partnership
5	Local Chambers of Commerce
6	Trade Union Representative
7	Combined Authority
8	Economic Development Organisation
9	Combined Authority
10	Local Authority
11	Local Authority
12	Local Chambers of Commerce
13	Local Enterprise Partnership
14	Local Enterprise Partnership
15	FE Representative
16	FE Representative
17	Local Authority