



Firm views

The business take on devolution

Ed Clarke & Simon Jeffrey
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About Centre for Cities

Centre for Cities is a research and policy institute, dedicated to improving the economic success of UK cities.

We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

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UK law firm, TLT, supports large corporates, public institutions and high growth businesses on their strategic and day-to-day legal needs, across the three UK legal jurisdictions of England & Wales, Northern Ireland and Scotland.

With significant experience in the energy & renewables, financial services, housing, leisure, public sector, retail & consumer goods and TMT sectors, the firm has over 100 partners and employs around 900 people. TLT is supporting 'the business take on devolution' report from Centre for Cities to put business views at the heart of the national and local debates.



Setting the context

Within days of winning the 2015 General Election, both the Prime Minister and Chancellor of the Exchequer had made clear that improving the economic performance of areas outside of London and the South East would be a major policy priority for the Government.

In order to achieve this aim while continuing to cut public spending, we have seen a deepening and broadening of the devolution agenda pioneered under the previous Coalition Government. Local authorities across the country are being encouraged to come together in combined authorities and adopt a directly elected mayor in exchange for a range of new powers, including local transport, skills and planning. They also have the option to bid for responsibilities in new policy areas such as local health spending, as seen in Greater Manchester.

Most recently, we have even seen the first steps towards greater fiscal devolution, with the Government announcing that it intends to allow all local authorities to retain, cut, and – for those combined authorities with mayors – have the option to raise business rates by 2020.

Each of these reforms will have a significant impact on businesses across the country, as more of the big decisions that affect their performance are taken locally and different places move at different speeds towards more devolved arrangements. This divergence could lead to businesses considering new factors when deciding where in the UK to locate in the future. Ultimately, the success of devolution will largely be judged on whether new city-region mayors use their

new powers in ways that help firms to access the skilled workers, new technologies, customers, suppliers, and competition that can enable them and their city economies to thrive.

Yet to date, most of the debates and negotiations regarding specific devolution settlements have been undertaken by senior national and local politicians and national bodies. This reflects the necessity of elected politicians being in the driving seat regarding decisions over where responsibility for publicly funded services and policy interventions should lie. It has also been a result of the Government working at a rapid pace. To expedite the process, the Government has insisted upon a degree of privacy during negotiations, in part to allow neighbours – many of whom have needed to bridge long-standing divides to work together – to have more honest and frank conversations. One of the consequences, however, has been to limit the involvement of other stakeholders from across local communities, including businesses, resulting in a lack of knowledge about the extent of private sector support for devolution.

This report seeks to redress this. The national and local polling summarised in this report, together with the findings of in depth conversations with businesses held across four UK cities, provides a better understanding of the private sector's views on the devolution agenda to date.

The work has been undertaken at a critical time. The Cities and Local Government Devolution Bill, the passage of which the majority of these reforms depend upon, is nearing the end of its Parliamentary journey, and the Government intends to finalise a series of additional devolution deals ahead of the Comprehensive Spending Review.

In 2016, the focus will increasingly turn to implementing these new arrangements at the local level, translating the rhetoric and ambition of devolution agreements into action on the ground. That is exactly the time for businesses to become more involved in helping to shape how devolution is put into practice in their area.

To begin this process ahead of the upcoming Comprehensive Spending Review, this report asks the timely question – what do businesses really think of devolution?

Box 1: The research process

Research for this report included a major **national poll** of business leaders, **local polls** in three selected areas, and then **high-level roundtables** with business leaders in four major UK cities.

YouGov conducted a nationwide poll of 1,000 business leaders. The data was then split into business size, sector and location. This is used as a representative snapshot of what business leaders think across the UK.

To support this national polling, we also ran smaller surveys with the local Chambers of Commerce of business leaders in three selected areas: Bristol and the West of England, Greater Birmingham and Greater Manchester. These allowed us to understand how these views vary in different cities.

These were then followed by roundtables (in each of these cities and also in Glasgow) where senior business representatives reflected on the particular conditions and priorities in each of their cities. The cities were chosen to reflect differing sizes, geographies, political challenges and progression along the road to devolution.

Bristol and the West of England

Although Bristol has had a Mayor since 2012, the powers of that office are limited and only relate to the Bristol local authority area. Plans for further devolved powers rely on Bristol and the surrounding authorities coming together in a combined authority and agreeing to a mayor for the entire city-region.

Greater Birmingham

In Birmingham, local representatives have made rapid progress in establishing the West Midlands Combined Authority and are currently negotiating to secure a city-region devolution deal.

Glasgow

In Glasgow, a city deal was finalised with the UK parliament in 2014 with the focus now on delivering on the terms of that agreement, while also maintaining pressure for further powers to be devolved in the future.

Greater Manchester

Greater Manchester has been the forerunner amongst UK cities in the context of devolution, and has secured the most far-reaching of the current wave of devolution deals.



Do businesses feel they will benefit from devolution?

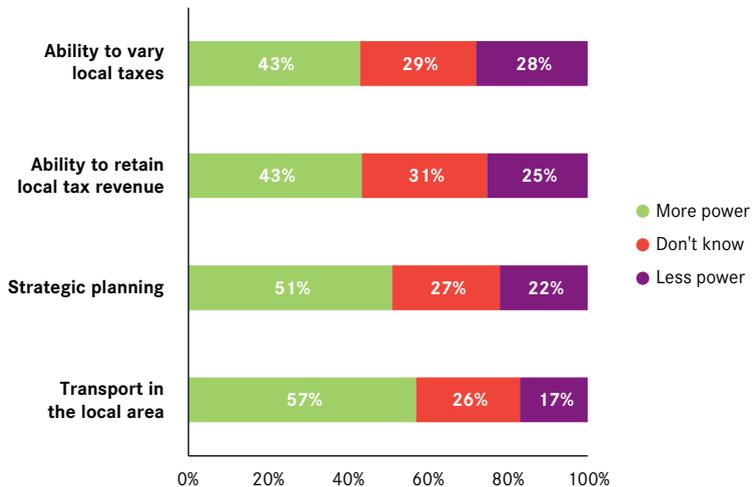
Overall, businesses appear to be in favour of more powers for local government (see Figure 1). National polling of 1,000 business leaders found that a majority think that their firm would benefit if local government had more power over certain infrastructure decisions. For transport, 57 per cent said they would benefit versus only 17 per cent who said less power for local government would help them. For strategic planning, 51 per cent said that more power for local government would be good for their business, against 22 per cent who said less power would be better for them.

This indicates that the majority of businesses see local governments as better able to make more effective decisions to deliver major local infrastructure projects or housing developments than national government. It may also reflect a sense – expressed in some of the roundtables – that businesses will have a greater ability to influence priorities for their area if more power is held at the local level. While it is unlikely that most local business leaders could meet and make their case to ministers and Whitehall civil servants for particular investments, such as an upgraded motorway junction or more housing in their area, in our roundtables some participants commented that they felt their views were more likely to be heard by local leaders or a directly elected mayor.

Businesses were also broadly supportive of local tax-raising powers. When asked about giving their local political leaders the ability to vary or hold on to more local taxes, while the level of business

support did fall, firms remained positive about doing so. 43 per cent thought that giving local government more power to vary local taxes (such as council tax, business rates and stamp duty) would benefit them, against 28 per cent who would prefer local government to have less power in this area. When asked about giving local government more powers to retain taxes raised locally, again 43 per cent felt that they would benefit from this, against 25 per cent who did not.

Figure 1: “Do you think your business would benefit if the local government had more or less power over the following areas?”



Source: YouGov 2015. Sample size 1000.

Within city-regions, private sector views vary according to the particular circumstances that those cities face. For example, firms polled in the West of England were much keener on greater local powers over transport and housing investment than local tax-raising powers, whereas firms polled in Greater Manchester and Greater Birmingham supported greater local control over all of these powers.

These variations were largely reflected during the roundtable discussions held in each of these places. For example, in Bristol businesses felt that housing and planning must be the priority for the

economy and therefore more local control over where and what sort of housing and developments could be built were seen as essential.

In Birmingham, the focus was on alleviating transport pressures and using public assets more efficiently. In Manchester businesses were very positive about more powers being devolved, but there were concerns over the ground-breaking devolution of health budgets given their magnitude, and possible limited local capacity and institutional inexperience. In Glasgow, business leaders discussed the impact that Scottish devolution could have on the city’s position relative to its English and Welsh peers. As they gain powers from Westminster, it is not certain whether Glasgow will also receive these freedoms from Holyrood, which would restrict its ability to react to its own particular circumstances.

The national polling also revealed that views on the benefits of greater local policy making don’t just vary from place to place, but according to the size of the firm too. While all firms were supportive of greater local control of strategic planning, medium-sized and large firms were more likely to be in favour than small businesses (see Figure 2).

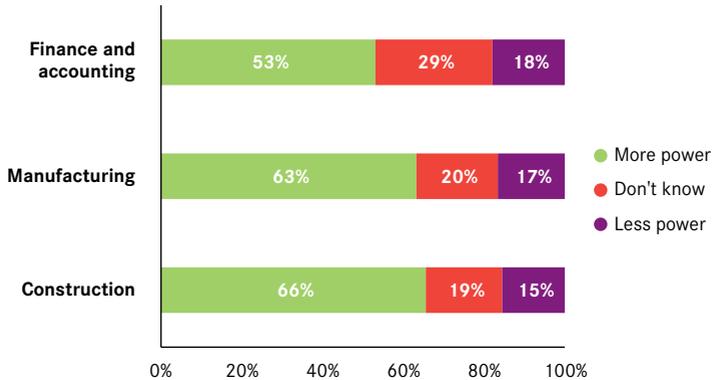
Figure 2: “Do you think your business would benefit if the local government had more or less power over strategic planning?”



Source: YouGov 2015. Sample size 1000.

Similarly, the industry in which a business operates matters: financial and accounting firms were less keen on transport powers than manufacturing and construction firms, for example (see Figure 3).

Figure 3: “Do you think your business would benefit if the local government had more or less power over the transport network in the local area?”



Source: YouGov 2015. Sample size 1,000.



Would businesses pay more tax to fund investment in their city?

The question of whether businesses would pay more tax for local investments is, unsurprisingly, controversial. As we have seen, nationally, firms were supportive of more fiscal powers being devolved to the local level. However local polls show that the principle of paying supplementary charges to fund local investments is viewed less favourably.

While London businesses directly contributed to the funding of Crossrail with a supplementary charge, the businesses polled across the three city-region areas did not support similar measures in their cities. This opposition to extra charges could pose a significant challenge for cities looking to make use of the 2p business rate supplement available for directly elected mayors, which is only available with the express consent of businesses on the LEP and only then to invest in infrastructure.

There were some differences between city-regions in our local polling. In Greater Manchester fewer businesses (15 per cent) were strongly opposed to contributing towards local funding, whereas in Greater Birmingham and the West of England this was closer to one in four (23 per cent and 24 per cent respectively).

However, during the roundtable discussions it became clear that attitudes to additional tax are more nuanced, with businesses more willing to pay if they are confident in local leaders and about what taxes will be used for. So once

questions around taxation move from principle to practical delivery and the tangible benefits of infrastructure are clearly laid out, then business responses change. For example, in Birmingham, business leaders made the point that they would be uneasy about local leaders in the area having the right to increase business rates by 2p to fund infrastructure generally. But if local leaders proposed raising business rates to fund specific improvements at problem junctions on the M6 or M5, that would receive a different response.

In other roundtables, business leaders were clear that supplementary local taxes would have to be very carefully 'sold' to businesses, especially for investments at the city-region level. A respondent in Glasgow highlighted that the business view on such a charge would be very different for a tram stop in front of a workplace rather than a tramlink from the airport to the city. While the latter may have more gains for the city as a whole, the former has a more direct and visible impact on the businesses themselves.

This sentiment was echoed by another participant who warned that while there was precedent for businesses to pay for improvements in their operating vicinity through Business Improvement Districts, this may be harder to achieve for city-wide spending. It was also felt in Manchester that city decision-makers were still feeling the effects of the failed attempt to introduce a congestion charge in the city.



Do businesses favour Mayors?

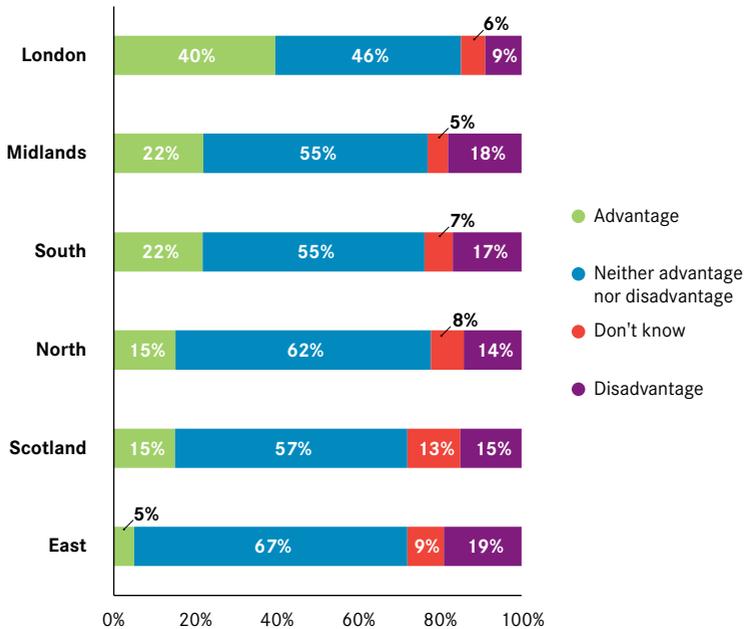
Mayors are a significant issue for debate nationally but less controversial for local businesses. The introduction of a directly elected mayor at the city-region level is a pre-condition of any substantial devolution deal from the Government. Yet in the national poll, while respondents who thought a mayor would be an advantage to their business (23 per cent) outnumbered those who thought that it would be a disadvantage (15 per cent), more than half of businesses polled (55 per cent) thought that having a mayor would make no difference to them.

Interestingly, the views towards the benefits or downsides of mayors vary according to firm size. Medium-sized and large businesses were significantly more supportive of a directly elected mayor than small firms. And London businesses, who have had a Mayor since 2000, felt that a mayor was an advantage by 40 per cent, compared with 9 per cent that felt it was a disadvantage (see Figure 4). This could mean that as other cities adopt similar models, attitudes towards mayors may improve as the benefits of more directly accountable strategic leadership are felt.

In our local surveys, there was also general support for the introduction of mayors: a majority of firms in Greater Manchester, and a near-majority in Greater Birmingham saw a powerful combined authority led by a mayor as positive. In our West of England survey centred around Bristol (one of the few cities to vote for a mayor in a the 2012 referenda), support for a more powerful combined authority

stood at 43 per cent, with only 12 per cent of business leaders thinking this would be negative.

Figure 4: “Overall, do you think that having an elected Mayor in the area your business is mainly based would be / is an advantage or disadvantage for your business?”



Source: YouGov 2015. Sample size 1,000.

Participants in the city roundtable discussions offered differing views as to what the advantages and drawbacks of the mayoral model were. In Birmingham and Bristol, a mayor was seen as a figure who could ‘sell’ the city to investors and businesses, as well as a central point of contact for both Whitehall and businesses. In Manchester business leaders suggested decisions will be made more efficiently with devolution, as it is simpler to get ‘all the right people in the room’ where they would be ‘speaking the same language’. Bristol businesses also felt that a mayor might provide the leadership and geography to break the local political stalemate on housing delivery – the area’s priority for business growth.



Do businesses feel that their voice is being heard?

Overwhelmingly, business leaders surveyed nationally do not feel they have been consulted very much during the ongoing devolution process (79 per cent feel they were consulted only a little or not at all against 2 per cent who felt they had been consulted a lot).

Figure 5: “To what extent, if at all, do you feel that local government leaders have consulted you / your business for your views about proposals for more devolved powers?”

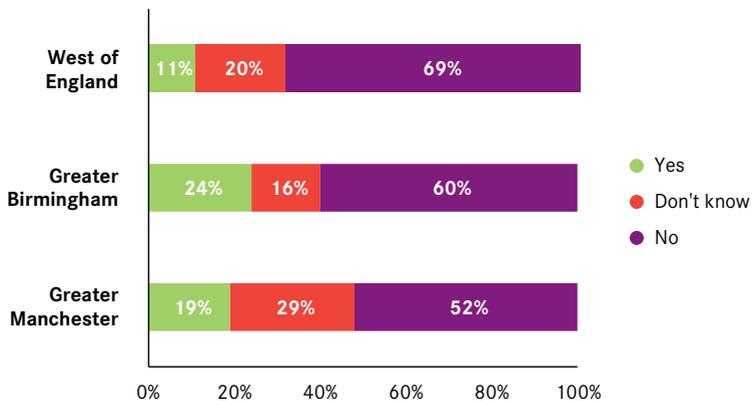


Source: YouGov 2015. Sample size 1,000.

This feeling was particularly acute among smaller firms. Only 5 per cent of small firms thought that they had been consulted either a lot or a little about the proposals for devolved powers, whereas 16 per cent of medium-sized firms and 14 per cent of large firms felt

that way. Over two-thirds of small businesses (67 per cent) said they were not consulted at all, compared to 57 per cent of medium-sized businesses and only 44 per cent of large firms. This is perhaps to be expected. With greater individual resources, visibility and a more consistent and wide-ranging interest in national policy debates, large firms are more likely to be engaged with local and national politicians on these issues.

Figure 6: “As a business owner do you feel that you have had the opportunity to voice your opinion in the devolution process?”



Source: Centre for Cities local Chamber of Commerce surveys. Samples size: 819

In all of the city-regions polled, businesses were unanimous in saying that they have not had their say on recent developments, but there was variation across the cities we surveyed.

Six out of 10 businesses in Greater Birmingham felt that they have not had the opportunity to voice their opinion on devolution, while nearly seven out of 10 businesses in the West of England felt that way. In Greater Manchester, which has progressed furthest in the latest devolution deals, around half of firms felt they have not had their voice heard, and a fifth felt they had. Almost a third said that they didn't know.

This sentiment was reflected in the Manchester roundtable which saw a level of confusion amongst some businesses as to when and

what they would be consulted on. Participants highlighted that in many respects it is the current ‘stage’ of the process that they can most usefully contribute to – the decision over which powers would be useful and the way in which they are deployed – rather than earlier phases of political deal making and bargaining.

In Birmingham, while businesses did not feel that they had been consulted, there was an understanding that the speed at which negotiations of this kind need to progress mean that consultation is often not possible.

How should business be consulted?

Firms across our case study city-regions were uncertain about how to get involved in the debate. The opportunity to shape the debate was important to them, but the Government’s proposal for a ‘majority of businesses or LEPs’ to sign off some decisions was not viewed as the only option for them to be consulted.

Around half of firms in Greater Manchester (51 per cent) and Greater Birmingham (47 per cent) were happy for their LEP or local Chamber to represent them. In the West of England, business leaders were split, with 38 per cent wishing to engage through their Chamber or LEP, against 38 per cent who would rather be consulted directly about any proposed changes to policy.

In all the roundtables business leaders talked of business’ role in the process of devolution as integral, but this meant different things in different cities. In Manchester, it was felt that the speed of progress meant some businesses would be left behind in discussions. In Glasgow, some commented that they had found the process by which they made their voices heard both opaque and difficult. In Birmingham, participants warned that while the LEP and Chamber were useful tools, there was some concern about whether certain large embedded firms would have a greater say in investment priorities at the expense of smaller firms.



Conclusions

The national and local polling contained in this report, supported by the in-depth conversations held with businesses in four major UK cities, reveals businesses to be broadly in favour of more powers being devolved to local governments – particularly when it comes to those powers that relate to the strategic drivers of local growth such as transport, housing and planning.

Equally, more are in favour of increased local tax retention and variation than are against it. And, providing proposals are tied to specific projects where the benefits to the local business community are clear, there is also support for the idea of ‘supplementary taxes’ to provide additional investment in local economies.

Yet there is also clearly a sense that up until now, they have not felt sufficiently consulted. Despite the Government’s devolution agenda being focused on improving the economic performance of UK cities, businesses feel they have not yet had the opportunity to have their voice heard. Throughout the roundtable discussions there was consensus that now is the time to change that and to get more businesses involved in shaping the delivery of devolution on the ground.

Nevertheless, decision-makers face a challenge in consulting ‘business’ effectively in a way that reflects such a varied group without burdening them with endless, sometimes unhelpful, engagements. The businesses we spoke to were clear that there was no singular ‘business voice’ and this was reflected in national polling which showed that small businesses felt the least well represented.

Equally decision-makers must be aware that although membership bodies provide useful conduits and valuable insights, they too will struggle to represent the entire business community in any city.

While these factors make consultation more difficult for national and local government, the need to step up efforts to engage the business community will only grow as more cities and regions agree significant devolution deals with the Government. In light of the findings in this report, local and national policymakers should:

- **Provide a clear timeline for firms**, setting out what is happening and when (where possible), and updating it regularly in order to help business leaders understand when they will be expected to get involved.
- **Have one devolution point of contact in the combined authority / lead council for business representatives** to speak to as and when questions arise.
- **Continue to work closely with local Chambers, representative bodies and LEAs to discuss and agree aspects of the delivery of devolution deals**, including business leaders where appropriate in discussions regarding how newly devolved powers will be used to boost economic growth, and specifically what those changes mean for the local business community over the short and medium term.
- **Develop and set out a strategy for talking to small businesses in particular**, accepting that this agenda will have more relevance for some than others. This could include interfacing with the Federation for Small Businesses, local Business Improvement Districts and other existing networks.

As the findings of this report demonstrate, there is an appetite within the private sector across UK cities to see devolution happen and to become more engaged in it. As we move from discussing deals to delivering on them, now is the time for businesses to play a bigger role in helping to shape what devolution means for their place.



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