

**SMF**

**Social Market  
Foundation**

# Devolution and poverty

SMF Briefing: Can we tackle poverty at a local level?

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## Summary

Greater devolution in England has been largely framed around growth, with much less debate about the effect on poverty. This paper is intended to provide a summary of the key questions and considerations facing policymakers, informed by two roundtable events held in Birmingham and London, with politicians and policymakers from local and central Government, local charities, and experts on city growth and poverty.

Part 1 of this paper outlines the key themes from two expert roundtables, on the potential rationale for localisation and the barriers to tackling poverty from a local perspective.

- There are a number of strong rationales for localisation. Key factors raised by attendees at our roundtables included: the vital role of local knowledge in tackling poverty; the need for local services to be joined up and presented as a complete package; the potential benefits of greater creativity and experimentation; and the political benefits of being able to build a local narrative around the need to address poverty.
- Employment support and skills were highlighted as areas where devolution of services is especially valuable, with suggestions that such devolution should go further, for example, through devolving Jobcentre Plus.
- However, attendees also set out a number of barriers to tackling poverty at a local level through devolution. Some aspects of poverty are difficult to tackle locally, and require cross-local or national-level action.
- Other barriers included the differing capacities of local areas to grow (the effects of which are potentially exacerbated through localisation of tax and welfare); the fact that growth does not necessarily entail a reduction in poverty; the potential for local areas to differ in the priority they place on poverty (especially when this might be due to a lack of democratic accountability), and the differing levels of capacity across local government.

Part 2 of this paper draws out the implications for policymakers in considering when to devolve, and how to devolve, informed by the roundtable discussions and SMF's wider thinking.

- We argue that Government, in deciding when and when not to devolve, should consider: whether the benefits of localisation can be achieved through other means; whether local knowledge is important to the success of the policy; whether local-level incentives are likely to result in better outcomes; whether redistribution and risk-pooling across areas would be significantly undermined; the level of local Government capacity; and the extent to which poverty can be tackled at the local level alone.
- We call on the Government to explicitly set out responsibilities for tackling poverty in devolution deals, and set up a framework for robustly measuring local-level poverty. It should strengthen local involvement in future devolution deals, and ensure that future measures to further localise powers and responsibility are demand-led.

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## Introduction: how policy is becoming localised

The 2015 Conservative Party manifesto promised devolution of “far-reaching powers” to large cities, in an attempt to boost local growth across England. Powers include economic development, transport and social care, to be granted in return for elected mayors across England’s major cities.<sup>1</sup>

The localisation of policy began under the 2010-2015 Coalition Government, with the advent of City Deals. Under these deals, cities were able to negotiate the granting of new powers in exchange for taking greater responsibility to stimulate local growth.<sup>2</sup> Often, these involved devolution of specific elements of capital funding or responsibility for specific programmes.<sup>3</sup>

However, over the last Parliament and into the current Parliament, there has been a growing impetus to devolve even further, partly in response to the Scottish independence debate which focussed attention on the comparative lack of power of English local areas, and partly in response to the Heseltine report, *No Stone Unturned*, which argued for local areas to take more responsibility for economic development.<sup>4</sup> Now, devolution deals go beyond specific economic development programmes to responsibility for public services, such as health and social care.<sup>5</sup>

At the same time, local areas are being given greater control over their finances and direct spending on residents in their areas. Under the last Government, council tax benefit was abolished: instead, councils were able to design and implement their own council tax support schemes. By the end of the Parliament, councils are to benefit from full retention of the amount they raise in business rates, which is itself around 5% of the total national tax take.<sup>6</sup> In addition, elected mayors will be able to add a 2p supplement onto business rates.

Local devolution policy has been very much framed around growth. The Conservative manifesto set out its plans for devolution as part of support for policies that “grow the economy as a whole”.<sup>7</sup> In the 2015 Spending Review, the Government set out that under the “devolution revolution”, local leaders will have “radical new powers to take responsibility for driving local growth”.<sup>8</sup> Underpinning this is an aim to rebalance the economy, recognising that for many years, growth across England has been uneven.<sup>9</sup> A secondary factor that is increasingly mentioned is to “give people control over decisions that affect their local communities.”<sup>10</sup>

However, very little has been said about the role (if any) of devolution in tackling poverty across local areas. This paper explores whether there is a tension between localisation and poverty, the nature of that tension, and what this means for policymakers. The paper is informed by two roundtables on the topic of localisation, devolution and poverty, one in Birmingham and one in London.

Attendees included politicians and policymakers from across local and central government, local charities and experts on city growth and poverty.

Part 1 of this paper reports on the key themes that emerged from our two roundtables on the potential rationale for localisation and the barriers to tackling poverty from a local perspective. Part 2 of this paper draws out the implications for policymakers in considering when to devolve, and how to devolve.

## Part 1: Can devolution help to tackle poverty?

### The rationale for localisation

For many years, the UK's growth has been geographically uneven. The current Government is prioritising reforms designed to close these economic gaps, through encouraging greater decision-making at the local level. There are a range of reasons why devolving powers, responsibilities and finances may increase local growth and, at the same time, reduce poverty.

Participants at our roundtables highlighted a number of factors that argued for greater localisation, which we have grouped into key themes below.

#### **Rationale 1: Better local knowledge**

Attendees at both roundtables highlighted that local government is likely to have detailed knowledge about the causes and consequences of poverty in their local areas. It is likely to be easier for them to identify those in most need and understand how best to deliver services to them. This means that they are likely to be better able to allocate funding and design local programmes specifically tailored to local needs. This point was made especially strongly in the area of skills and employment support, where it was felt that the benefits of local knowledge were particularly important. Some attendees in particular spoke about the potential benefits of localising employment support services such as Jobcentre Plus.

There can be substantial differences in the causes of poverty between areas which mean that local, tailored support can be especially effective. The high cost of living, driven by the high cost of housing in London, was particularly highlighted in at our London roundtable. In Birmingham, more of the discussion focussed on how to attract high quality, high pay jobs into the area, but also how to ensure that local residents had the skills and qualifications to access these jobs. Different areas also have very different profiles of residents, in terms of age, demographics, culture, skills and training needs.

#### **Rationale 2: Joining up information and services**

A common concern around the efficiency of Government more generally is how well different parts of Government work together to deliver seamless packages of support to citizens. The importance of "joining up" was strongly emphasised at our roundtable events, particularly in the context of employment. In particular, the benefits of being able to put together packages of support that include childcare, training and employment support such as through the Work Programme were emphasised. Provided together in an integrated way, such services may be more effective than if provided separately. At our Birmingham roundtable, there was concern that there had not been enough focus on such public service reform in the devolution deals that have been agreed so far, and that funding streams remained fractured.

While it is possible for central Government to reorganise its functions to promote better integration between services, attendees argued that in some cases it is easier and more effective for local Government to ensure that services are integrated. This means local Government being able to pool budgets from different functions and deciding how best to commission to ensure that residents' needs are met. There was also discussion at both events around the positive role that local government can play in bringing together local charities and the voluntary sector to better support the needs of local residents. It was pointed out that the local voluntary sector holds a substantial amount of local knowledge and expertise that is important in tackling poverty.

However, particularly at the Birmingham roundtable, attendees also pointed out that in some cases, the need for local commissioning was more local than simply a city or local authority area; variations in need meant that commissioning might be even more effective at ward-level.

### **Rationale 3: Creativity and experimentation**

Devolution allows different policies and approaches to delivering services to be tested on a small-scale. Attendees pointed out the scope for more experimentation, and the potential for different local areas to trial ideas that centralised Government might be less likely to be initiate or implement.

Over time, provided that the effectiveness of these different experiments are properly measured, and provided that local areas adopt successful policies from other areas, the ways in which services are delivered should improve.

### **Rationale 4: Politically easier to tackle poverty at a local level?**

An argument that has not been made very widely, but came up at our roundtable events was that it may be politically easier to build a case and narrative for spending on reducing poverty at local, rather than national level. This might be, for example, if there is a greater sense of social solidarity at local rather than national level.

There is some wider evidence from other parts of the UK on this. In particular, attitudinal surveys indicate strong support for welfare devolution to the Scottish Government among Scottish citizens. In-depth analysis suggests that this is primarily related to stronger trust in the Scottish Government, which citizens feel they have greater influence over.<sup>11</sup> It is unclear whether these attitudes would be reflected across England. However, it does suggest that strong accountability at the local level is important for devolution to local areas and spending by local government to be politically welcome.

## **What are the barriers to local areas tackling poverty?**

Whilst much of the rationale for devolution rests on improving local growth and meeting local needs, many of the reasons for devolution set out above might be expected to apply equally well to reducing

poverty. In fact, there should be a close link between the two, given that improving local growth should raise local incomes. However, it is clear that there are a number of barriers for local areas, and reasons why poverty may not be adequately tackled through devolution. The key barriers to tackling poverty at local level that were discussed at our roundtables are set out below.

**Barrier 1: Some aspects of and causes of poverty are difficult to tackle locally and through devolution deals**

Whilst local areas may be better informed about local needs and the nature of poverty in their local areas, they may not be well-placed to fully tackle them. An important example that came up in our events was housing, which is especially difficult for some areas of London to address, due to restrictions on space and supply. Such local areas may well suffer from neighbouring localities' failures to properly tackle housing supply. These types of problems may be solved by devolving to a wide enough area that allows local government within a city region to work together to solve such problems.

Another example that was discussed at our events is the existence of poverty traps and inconsistencies in the benefits system that reduce incentives to enter work or increase hours. At the national level, Universal Credit is designed to smooth out such cliff-edges. However, if some benefits are devolved – such as council tax benefit – this risks introducing further complexity into the system. More generally, if some benefits are devolved but not others, it is difficult to see how such poverty traps can be minimised, with different levels of support being provided in different areas.

There was also discussion, particularly at our Birmingham event, about the nature of poverty, and the fact that relationships and social capital were important to take into account alongside more material measures of poverty. It was felt that devolution deals per se would have little direct effect on the likelihood of local areas taking measures to tackle such wider aspects of poverty.

**Barrier 2: Capacity for growth and levels of prosperity differ**

Attendees at both roundtables highlighted the differences across cities and city areas in their capacity to grow; some cities will have a valuable base of infrastructure, skills, natural resources and existing businesses to build on, whereas others will not. The local demographics and economy will differ substantially across areas. This means, that at the very least in the short-term, areas where growth is highest will most likely continue to outpace other areas. The points made at our roundtables reflect wider evidence that efforts at boosting development in areas of poor growth through greater investment have brought disappointing results in the past.<sup>12</sup>

This barrier came up in particular in the context of devolution of tax-raising powers. Fiscal devolution provides an incentive to focus on growth, as an area's tax take can increase if growth increases. But it also risks reducing the ability for poorer local areas that receive less in tax revenues to increase investment. Wider evidence confirms that the business rates tax take, for example, is very uneven



across the country.<sup>13</sup> Some attendees said that this meant that devolution of fiscal powers needed to be accompanied by some degree of risk-pooling. This point is reflected, to some extent, in Government policy on businesses rates, where some redistribution within city-regions will remain, and there will be safety nets for councils that lose a large proportion of rates revenue in a single year.<sup>14</sup>

**Barrier 3: Incentives and ability focussed on growth not poverty per se**

It is not necessarily the case that evening out growth across regions will also mean an evening out of the proceeds of growth across citizens. At our Birmingham event, one attendee highlighted research on city growth, which found that it is not uncommon for poverty rates to either increase or stay static even in cities that are seeing economic growth, with London a prime example. In some cases, employment growth may be either low paid, or largely benefit those outside the area.<sup>15</sup>

A key worry, particularly at our Birmingham roundtable, was that some local areas were doing well in attracting businesses and jobs into the locality, but that much of the benefit would go to those living outside the area. This could happen, for example, if commuters from outside the area, or individuals moving into the area are better able to meet the skill requirements of new jobs that are created. Theoretically, local government can do more to ensure that local populations receive the training and skills investment they need to take advantage of new job opportunities, although getting the “sequencing” right was raised as an issue.

Where incentives are focussed around growth, with little focus on where the proceeds of growth are felt, then local government may financially benefit just as much from highly skilled individuals moving in (and potentially lower skilled individuals moving out) as from investments to upskill existing local populations. This highlights the importance of properly measuring poverty – and flows of people in and out of areas – in measuring the performance of different local areas. At our Birmingham roundtable, it was highlighted that there is much more to do in developing robust measures of local household poverty. The lack of such measures means that it is harder to set poverty-related goals and outcomes for local areas. Overall, the discussion suggested that incentives structured around promoting growth may not be enough to focus sufficient local attention on poverty.

**Barrier 4: Local areas may place different priorities on reducing poverty**

Devolution involves allowing local areas to make different choices over how to spend money and design services. Attendees, particularly at the London roundtable, highlighted that this meant that it is inevitable that support for those in poverty is likely to differ across the country under a devolved system. Where this reflects different needs or different local priorities as determined by local voters (as opposed to weaker democratic accountability, for example) this may well be positive. For example, it could mean that some areas can focus more attention on housing in areas where the cost of housing is high.

However, attendees at our roundtables worried that insufficient focus on poverty might be driven by a lack of proper accountability and democratic scrutiny, particularly with devolution deals appearing to happen “behind closed doors”, with little awareness among local residents. In particular, there were concerns that those living in poverty may be less likely to have a strong democratic voice. A similar argument could be made for the voice of those in poverty at national level, but at national level it is likely to be easier to develop a single powerful voice to campaign on behalf of vulnerable groups.

**Barrier 5: Capacity of local government may differ**

Some areas may have much more capacity – in terms of skills and leadership – to take on responsibility than others. At our events, it was pointed out that local government already has a lot of “soft power” to solve problems, such as by bringing together local employment agencies, schools, colleges and the voluntary sector. Examples include Birmingham City Council, where the Council has encouraged local businesses – and particularly its suppliers – to sign up to a “Birmingham Business Charter for Social Responsibility”, covering issues such as payment of a Living Wage to employees.<sup>16</sup> In London, the performance of some boroughs in working with local schools to push up performance was also discussed.

However, attendees at our roundtables said that not all local councils realise what powers they have, or are not prepared to use them, and many do not have explicit anti-poverty strategies in place. It is unclear whether this would improve if incentives were greater, or accountability and local democracy stronger.

## Part 2: How should Government approach devolution?

In this part of the paper, we set out how Government should approach devolution, informed by the roundtable discussions reported in Part 1, and wider thinking on the rationale and potential benefits of devolution. We discuss when and how Government should devolve responsibility and powers to local areas.

### When to devolve, and when not to devolve

Part 1 set out a number of powerful reasons to devolve, however, it also set out a number of tensions that can arise from greater localisation of powers and responsibility. The discussion above suggests that there are some key questions that should determine whether a service, tax or type of spending should be devolved:

- **Can the benefits of devolution be achieved by other means?** If so, these means should be considered alongside devolution as potential options. For example, good commissioning by central government could in theory accomplish similar objectives to localisation. For example, outcome-based commissioning should give providers the flexibility to try different ways of delivering services,<sup>17</sup> and can bring in knowledge and expertise that Government does not hold. In some cases, providers might even sub-contract services to local organisations and charities that are able to bring local knowledge to bear. Better integration should also be possible, providing central Government is willing to pool budgets across departments when it commissions services. Another approach may be greater use of policies such as personal budgets – which have been used in social care – and which allow users to directly influence how public money that is intended to benefit them is spent.
- **Is local knowledge important to the success of the policy?** If it is then there may be a strong rationale for devolving, particularly if it is difficult to bring in local knowledge through commissioning alone. For very tailored schemes, local-level commissioning could be more effective than national-level commissioning in setting outcomes and monitoring progress. Employment services, including Jobcentre Plus is one area where there is a strong argument for devolution, because of the importance of local knowledge and networks.<sup>18</sup>
- **Are local-level incentives needed?** In theory, measures such as localising tax-raising powers and allowing local areas to keep more of the tax raised could increase local authorities' incentives to improve local business conditions, raise incomes and help people out of poverty so as to increase their tax take. A similar argument can be made for localising welfare. However, a key question is why incentives are required and why local democracy and accountability would not be enough to focus local government on promoting growth provided

it has the powers to do so. At central Government level, economic growth-boosting policies are rarely justified on the basis that they will increase the tax take; instead they are justified on the basis that they will increase prosperity. Where local democracy is strong, there is even a question as to whether financial incentives have much effect at all. The argument for localisation of taxation may be stronger where it allows local areas to more easily borrow to invest, with debt payments funded from future taxation.

- **Would devolution substantially reduce the level of redistribution and risk-pooling between regions or local areas?** Although incentives to focus on growth may be created through devolution of tax and welfare, there are reasons to think that some areas will simply not be able to generate as much growth as others; and incentives to improve growth do not necessarily result in incentives to reduce poverty. The risks can be minimised to some extent by at the very least enabling redistribution and pooling within city-regions (as is the case for business rates). If it is difficult to minimise risks in this way, then there is a strong case against devolving.
- **Is local government capacity high?** Devolving responsibilities and powers is clearly likely to be more effective where local government has the skills and leadership to be successful. This argues for a demand-led approach to devolution, whereby options for devolution are only looked at if and when local areas make a case for it.
- **Can the policy be successfully implemented on a local basis alone?** Some objectives are very hard to achieve at local level. As explored in Part 1, ensuring affordable housing has to be tackled at city-region rather than very local levels. Meanwhile, localising parts of the welfare budget has significant disadvantages in terms of complexity and the potential creation of poverty traps.

In general, these principles suggest that devolution should be largely confined to powers to design, commission and implement local services, rather than tax or welfare. For local services, the benefits of local knowledge are important, and the risk of undermining redistribution and risk-pooling is more limited. At our roundtables, there was particular support for localising employment services and skills training. Suggestions included going beyond devolution of the Work Programme to localising Jobcentre Plus.

## How to devolve

A number of measures should be considered under future devolution plans:

- **Explicitly set out responsibilities for tackling poverty in devolution deals.** There is little guarantee that poverty will be reduced by focussing on growth and incentives for growth alone. An objective and strategy to reduce poverty should be an explicit part of any future deals to devolve more power. We examined the following recently announced devolution deals and found that poverty is not explicitly referred to in any of them: Manchester, Sheffield, North East, Tees Valley; Liverpool City Region, West Midlands, West of England, East Anglia and Greater Lincolnshire.<sup>19</sup>
- **Measure poverty.** The Government should set up a framework for measuring poverty across local areas, with a view to helping it better understand how successful different local areas are in reducing poverty. This includes ensuring that growth and poverty figures are not distorted by population flows within areas. This will also help local areas measure their own performance, and better understand what approaches work in terms of increasing incomes and reducing poverty.
- **Strengthen local involvement and influence.** With more powers and responsibilities being devolved, local accountability and democracy will become even more important. An important first step that Government – local and national – could take is to open up devolution deal negotiations to public scrutiny and consultation. There has been substantial criticism – reflected at our roundtables – that devolution deals have largely happened behind “closed doors” without local involvement.<sup>20</sup>
- **Commission nationally and devolve by choice.** In some cases, even when local knowledge is important, it is not clear-cut whether commissioning of services should happen at local or national level. Good commissioning should bring in valuable external knowledge and expertise. If local government has the capacity to do so, it may be better at managing the commissioning process or delivering services itself, but this may not be true of all local areas. To deal with this, devolution should be demand-led. This might be explicitly, through devolution deals. Or alternatively, in areas where services are currently commissioned nationally, one option is to encourage local areas and institutions (e.g. city regions, local enterprise partnerships or, indeed, local JCP offices) to bid for contracts and act either as a prime contractor or as a subcontractor.<sup>21</sup>

## Endnotes

- <sup>1</sup> Conservative manifesto 2015
- <sup>2</sup> <https://www.gov.uk/government/publications/2010-to-2015-government-policy-city-deals-and-growth-deals/2010-to-2015-government-policy-city-deals-and-growth-deals>
- <sup>3</sup> <http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpublicacc/395/395.pdf>
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- <sup>8</sup> Spending Review 2015
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