

# The English regions after regionalism

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## Summary

This paper explores the prospects for, and problems faced by, regional government in England after the heavy defeat of the proposal for an elected regional assembly in the North-East region in November 2004. It describes the motivations of the leading politicians involved: Deputy Prime Minister John Prescott (who had two distinct agendas) and then-Chief Economic Adviser to the Treasury Ed Balls. It details the measures that the current UK government is taking, and that face its successor, as they advance the two Prescott agendas (viz., improving the flow of data on regional public expenditure; and assigning difficult political problems to bodies at the level of the nine standard regions); and the Balls agenda, to improve the relative economic performance of the lagging regions. The Balls agenda is enshrined in a Public Service Agreement (PSA) binding three central government departments: the Treasury, the Department of Trade & Industry, and the Office of the Deputy Prime minister. The paper concludes that as the pressures for reform will not go away whatever the outcome of the 2005 General Election, so neither will the (unelected) regional institutions needed to provide solutions. A demand for their democratisation could re-emerge.

## John Prescott's two agendas

John Prescott, Deputy Prime Minister in the UK Labour governments of 1997-2001 and 2001-5, is a man with a mission. Or rather two missions: one sharply political, the other more bureaucratic. The political mission is for fair treatment of all regions of the UK, especially the poorer ones such as Yorkshire & the Humber<sup>1</sup>, where his own constituency lies. From time to time this has exploded into public annoyance with the “Barnett Formula”, which Prescott, like many other politicians in the English regions, sees as giving unduly favourable treatment to Scotland, Wales, and Northern Ireland. In an interview with the *Guardian* newspaper during the 2001 election campaign, Prescott predicted that there would soon be “blood on the carpet” on this issue. In the short term, the only blood to hit the carpet was Prescott's, as the Prime Minister's Press Secretary Alastair Campbell brusquely denied the following day that Prescott had said what he actually had said (and had been recorded as saying). Prescott nevertheless returned to the fray, giving an interview to the Newcastle-upon-Tyne *Journal* in 2004 on the same subject. The *Journal* has for many years (in the 1970s and again in the 1990s/2000s) campaigned against the Barnett ‘advantage’ to Scotland. It points to startling anomalies in public spending per head between Northumberland (in England) and the socially identical Borders region (in Scotland), where expenditure per pupil or per patient is anything from 20% to (it claims) as much as 50% higher than in Northumberland. Prescott's choice of the *Journal* of all papers was a strong sign that his passion on the issue has not evaporated.

Of the nine standard regions of England, anti-Barnett resentment is traceable in five. They are the three northern regions, two of which have a border with Scotland (NE, NW, and YH); the other region most remote from London (SW); and London itself. This alignment is not just rich versus poor. The three richest regions are the three that comprise the ‘greater South East’, viz., L, SE, and EE. The poorer regions are the remaining six. Two things put London into the anti-Barnett camp. One is that, although it has the highest public expenditure per head of any English region (by some distance), it also has the highest tax receipts per head (again by some distance). The second is that it has elected local government. Not only current Mayor Ken Livingstone, but anyone who

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<sup>1</sup> From this point onwards, the English regions are labelled by the short codes for them used in government departments.

Code	Full name
NE	North-east
NW	North-west
YH	Yorkshire & the Humber
EM	East Midlands
WM	West Midlands
EE	East of England
SE	South-east
L	Greater London
SW	South-west

would like his job, has a natural pulpit from which to complain about the alleged featherbedding of Scotland, Wales, and Northern Ireland.

The second-term plan to offer elected assemblies to those regions which demanded them was Prescott's main response to this perceived unfairness. Within Whitehall and the Cabinet, however, Prescott lacked allies. Ministers did not want to reopen questions of devolution which, they maintained, had been settled by the grant of devolution to Scotland and Wales, and the Good Friday Agreement in Northern Ireland. Departmental ministers, in charge of their Whitehall silos, expressed their officials' reluctance to have a regional tier of decision crosscut the top-down policy making which naturally appealed to Whitehall-based officials. In the end the offer of regional assemblies was restricted in three ways:

- In the first instance it was to be offered only to the three northern regions (NE, NW, and YH), which were thought to be the most likely to vote in favour. After problems with postal ballots (but really problems with haemorrhaging political support) in the summer of 2004, this offer was further reduced to only NE.
- Elected assemblies were not to go ahead unless the electors simultaneously agreed a pattern of single-tier local government in the region. This provision was introduced (it is said at the demand of Prime Minister Tony Blair) in order to defend the regional assembly plan against a cry of 'too many politicians'. There are exogenous, and powerful, arguments in favour of single-tier local government, which (in NE) would probably have resulted only in the abolition of a handful of extremely thinly populated district councils in Northumberland and Durham. But it was not those arguments that led to the single-tier provision being inserted into the regional White Paper.
- Crucially, the big Whitehall spending departments (especially Health, Education, and the law and order departments) were bitterly opposed to elected regional assemblies having any power over these functions, although they are all devolved in Scotland, Wales and (with reservations on security) Northern Ireland. The regional assemblies were not even to have control over the Government Offices (GOs) for each region, which house the regional delivery arms of the main Whitehall departments. They were to have some control over the Regional Development Agencies (RDAs), which are responsible for regional economic development. The distinction between GOs and RDAs is probably lost on most people, but the idea that the regional assembly was to have few substantive functions was not.

It is therefore no surprise that the North-east elected assembly went down to heavy defeat in 2004. The *No* campaign had a very easy task, involving white-elephant-shaped balloons. The *Yes* campaign had bishops, but a much harder task. Complaints about Barnett relativities are widespread in the political class, but not particularly salient even in NE (despite the efforts of the *Journal*). The conventional wisdom is that elected assemblies are dead for the foreseeable future. We will return to this wisdom in the Conclusion.

However, Prescott's department the Office of the Deputy Prime Minister (ODPM) has

another set of functions that survive the demise of elected regional assemblies. It is responsible for land-use planning (zoning) and for housing. Planning and housing problems come together in the fact that the rich regions (EE, L and SE) suffer from congestion, lack of physical space for new development, and inflated house prices. Many parts of the remaining six regions suffer the reverse problems of urban blight and hard-to-let or unsaleable houses.

Housing and planning are local authority functions, and ODPM's core function is as the department in charge of English local government. There is a fundamental asymmetry in the local authority planning regime. Those who are opposed to a controversial development already live there; those who would support it typically do not. Therefore, fewer developments were approved than would be the case if they were determined by national referendum, or by central government fiat. In the case of housing, those who would benefit probably do not yet live in the local authority, and do not have votes in it. Those who would suffer loss of amenity do, and do. In the case of industry and commercial development, the planning authority apparently suffers no loss if it refuses permission. A natural incentive is missing because business rates (National Non-Domestic Rates – NNDR) was nationalised at the time of the Poll Tax controversy. In other words, although local authorities collect NNDR, the government sets the rate in the £, having promised to hold annual increases to the rate of inflation (which has the mathematically inescapable consequence that domestic property taxation – Council Tax – rises above inflation every year). And central government pools the entire proceeds of NNDR across England, and then distributes them on an equal per capita (EPC) basis to all local authorities. There are reasons for this policy, the main one being that without it a few London authorities, especially Westminster, Camden, Kensington & Chelsea, and Hillingdon (which includes Heathrow) would get such a generous yield from NNDR that they might fall 'out of grant' (i.e., be uncontrollable by strings attached to equalisation grants from the centre). But it has the undesirable consequence that an authority sees no benefit from promoting development in its area, as it will only see its population share (typically less than 1%, often less than 0.1%) of the resulting uplift returned to it. There it is always tempting to give in to the NIMBYs and declare all your development sites to be priceless sites of special scientific interest (aka urban wasteland). It is cosy, cuddly, and apparently costless.

Because tax incentives fail, government has to have other means to encourage development in EE, L and SE. It has turned to the unelected Regional Assemblies and Chambers to do NIMBY-provoking things such as announce targets for new house building in each region, and hence in each local authority area; and to draw up a Regional Plan.

## Ed Balls' agenda

Ed Balls is the prospective Labour candidate for Normanton (which, by the way, the Boundary Commission propose to abolish in the redistricting that will come into force before the 2009 General Election. Much of Normanton would be merged with Pontefract & Castleford, the MP for which is Yvette Cooper, aka Mrs Ed Balls). He is, of course, better known as the chief economic adviser to Gordon Brown since 1992, first in

opposition, then, from 1997 until his resignation on adoption as a PPC in 2004, as Chief Economic Adviser at HM Treasury. His agenda is partly (like Prescott's) an equity agenda. As both of them represent, or presumably will soon represent, seats in one of the relatively deprived regions, namely YH, this is only to be expected. But the interesting factor about the Balls agenda is that it is presented as an efficiency agenda rather than as an equity agenda. In other words, if the poorly performing regions were brought up to the economic standard of the well-performing regions, UK GDP would rise substantially – especially in the poorly performing regions themselves. In pursuit of this aim, numerous targets have been presented in successive Spending Reviews, Pre-Budget Reports, and Budgets since the change of government in 1997. We discuss the latest version of the relevant PSA (Public Service Agreement) below. The Balls agenda is also reflected in various rather cloudier initiatives. For example, the three northern RDAs have linked together to form something called The Northern Way, though where that leads I know not. And in Budget 2004 Newcastle, Leeds, Manchester and York were designated Science Cities, the idea being that their research universities would form the kernel of high-growth regions. In Budget 2005 this policy was extended to other English cities outside the L/SE/EE group, again with little definition of what this would involve.

## Advancing the Prescott agenda

The Prescott agenda is driven by some well-known numbers, which we have presented and discussed in numerous other places (e.g., McLean and McMillan 2003a, b, 2005; McLean 2005). In 1976-7 the Treasury, with the unwilling compliance of the territorial departments, started to calculate the relative “needs” of England, Scotland, Wales and Northern Ireland for public expenditure per head on the services which it was then proposed would be devolved in Scotland and Wales - under what became the short-lived Scotland and Wales Acts 1978. The data in Table 1 were finally published in 1979, when the Acts had already been repealed and devolution had disappeared from the political agenda. Only recently have they again become a focus of attention.

[Table 1 here]

Table 1 shows that if England's ‘needs’ and spending are both calibrated to 100, the Scotland and Northern Ireland were receiving public spending per head above their ‘needs’, but Wales was receiving spending below her needs. In other work (McLean 2005; McLean and McMillan 2005) we have argued that this arose because Ireland (later Northern Ireland) and Scotland pose credible threats to the Union of the United Kingdom. Ireland hosted military revolts against the Union in the 1640s; 1689-90; 1798; and 1916. Scotland did the same in 1715 and 1745. In the era of democratic elections, Ireland posed a constant threat of secession from 1874 onwards, which turned into reality in 1921. After the failure of the Home Rule Bill of 1886, the incoming Unionist government decided to preserve the Union by a device of quiet redistribution known as the ‘Goschen formula’, or ‘proportion’. That assigned a proportion of public expenditure to Ireland and Scotland in excess of their contribution and (for Scotland, from 1901) in excess of population share.

The Goschen formula failed to save Ireland for the Union. But the six counties of Northern Ireland, which remained part of the UK at the end of the painful process of Irish independence, remained uncommonly dependent on the Union – and Unionist governments, of both parties, had an incentive to buy off disorder and potential disorder there. In Scotland there has been almost no violence (although the threat of a Scottish land war led to the creation of the Crofters' Commission in 1886, a body which to this day protects the highly favourable land tenure of small farmers in north and west Scotland). But there has been a credible threat to the Union, as echoed (?magnified) by successive Secretaries of State. If the Scottish Nationalists (SNP) came to power, they would negotiate secession, which would endanger some projects dear to Unionists of all parties – such as the UK's seats in the UN Security Council (worrying to Conservative Unionists) and the capacity of Labour to govern the UK, which usually (although not since 1997) depends on the Labour-held seats in Scotland.

Wales, and the English regions outside London, posed no comparably credible threat to the Union. Welsh administrative devolution dated only to 1964; it is not certain whether Plaid Cymru would secede if it won more than half of the seats in Wales; and because it is a party of language and culture it finds it very hard to break out of the Welsh-speaking 20% of Wales in the north and west. There is no Welsh Crofters' Commission. The English regions have no elected governments; their MPs rarely act as geographical blocks (although enough of them did combine to defeat the Labour government's original devolution plans in 1977).

It was to address the anomalies revealed by Table 1 that the Treasury introduced the much misunderstood and (it is now known) misnamed Barnett formula. Though associated with Joel (now Lord) Barnett, Chief Secretary to the Treasury 1974-79 and named the 'Barnett formula' in 1980, it is now known that the Treasury were already using in January 1974, before Barnett and his party entered office. Barnett is designed to bring about convergence towards equal spending per capita (EPC) in each of the four countries of the Union. That is a bad idea from almost every point of view. There is nothing with bringing about convergence, but it has to be convergence on the right thing. It should be convergence on equal treatment of needs, not equal spending per head. And in the 30 years that Barnett has operated, it has actually produced very little convergence, essentially because Unionist politicians have needed to protect (especially ) Scotland from the consequences of their own formula for the selfsame reason that caused the formula to be introduced in the first place, namely that Scotland poses a credible threat to the Union.

Therefore Barnett satisfies nobody except the Scottish Executive, and it will cease to satisfy even them before long. Fig. 1 shows expenditure per head, 1999-2000, on the services that are devolved in Scotland, Wales, and Northern Ireland. Fig. 2 shows what expenditure per head would look like if compared to an 'inverse GDP' standard, where public expenditure per head in a region was an inverse function of the region's GDP per head.

[Fig. 1 here]

[Fig. 2 here]

By both methods of displaying the data, it can be seen that out of the UK's twelve standard regions there are three upward outliers, namely Scotland, Northern Ireland, and London. At first sight, Fig. 1 shows no association at all between regional GDP per head and regional public expenditure per head, whereas one would expect the association to be strong and negative. Were the data based on a sample rather than a population, it would be possible to say that the relationship between public expenditure per head and GDP per head was statistically insignificant. Closer inspection shows that there are two subgroups of regions, each of which, taken on its own, displays the expected negative (downward-sloping) relationship between expenditure and GDP. One group is the three upward outliers; the other comprises eight of the nine English regions, and Wales.

However, before Prescott (or anybody else) could judge the 'fairness' of the regional distribution, he needed to know more accurately than in Figs 1 and 2 (which use 2000 data) what the regions actually get. Two recent reports to government addressed the necessary data improvements.

- McLean et al. report to ODPM

In 2002 I was contracted by the then DTLR (now ODPM) to "investigate the flow of domestic and European expenditure into the English regions". The report of the resulting 18-month investigation, involving about 20 researchers, was published as McLean et al 2003. Our report finds that some departments, including such large spenders as Education, DEFRA, and the law and order departments, had very poor data on the actual incidence of their expenditure in the English regions, and the European Union appeared to have none at all.

Since then substantial improvements have occurred. The Treasury described our report as 'important and challenging' (HM Treasury 2004, pp. 47-8). The UK government adopted most although not all of the recommendations in McLean et al. One of the more important recommendations was that all UK government departments should use the standard English regional boundaries when reporting regional data.

- Allsopp report to HMT

In 2003 Christopher Allsopp was commissioned by the Treasury and the Office for National Statistics (ONS) to report on the statistical requirements for better regional policy. His main recommendation (Allsopp 2003, 2004) was the ONS should be funded more generously to produce reliable Gross Value Added (GVA, approximately the same as GDP) per head data for the 12 regions of the UK.

In response to the McLean and Allsopp reports, the Treasury has revised its main statistical series *PESA* (*Public Expenditure – Statistical Analyses*) which is published each year. A technical note on the Treasury's website at [http://www.hm-treasury.gov.uk/media/461/A0/pesa04\\_cra\\_article.pdf](http://www.hm-treasury.gov.uk/media/461/A0/pesa04_cra_article.pdf) explains the changes, and why



they have been made. They restate the regional public expenditure numbers back to 1995-96. The effect of the changes is generally to damp the outliers shown in Figs 1 and 2. But they do not alter the relative ranking of the English regions, either to each other or to the three non-English territories.

## Whose blood will be on the carpet after the General Election?

- Barnett and post-Barnett possibilities

The Prescott agenda will still require attention after the 2005 General Election, regardless of who wins, of whether or not Mr Prescott is still in office, and despite the defeat of the NE elected assembly proposal. Fundamentally, this is because the distributional arrangements for spatial public expenditure have broken down, both to the Territories and within England. The mark of the former is that the Barnett regime cannot survive long. Only Scotland still believes that it profits from it and even in Scotland voices are starting to be raised against it. Meanwhile in England, the protests about the above-inflation annual increases in Council Tax have raised that issue to election salience. Both of the opposition parties going into the election have produced eye-catching and fiscally irresponsible solutions to the council tax 'crisis'. Whoever is in office after the election will have to address the crisis, and not by the means that either of the main opposition parties is currently proclaiming. A currently sitting review (the Lyons Review) into options for local taxation will report in late 2005. Rateable values for NNDR are being revised in 2005 and there will be a council tax revaluation in 2007. Pain all round, for whatever party is in office. The pain may be sufficient to force a radical review of the territorial and regional distribution of public expenditure. Two viable possibilities are a 'grants commission' regime (McLean and McMillan 2003; McLean 2005) and an 'assigned taxation' regime. In the latter regime, a proportion of the proceeds of one or more of the main UK taxes (viz., Income Tax, National Insurance contributions and VAT) would be assigned to the subnational units either on an EPC or, more promisingly, on a "needs" basis, and the subnational governments left to get on with fair onward distribution. That would be currently possible for Scotland, Wales, London, and (in principle) Northern Ireland which have elected governments, but not for the other eight English regions. It may generate a new argument for looking again at the case for elected regional governments in England.

## The Balls agenda after the General Election

Of course the PPC for Normanton is interested in regional fairness. But as stated above, the Balls agenda concerns economic efficiency rather than (or, he might say, as a route towards) inter-regional equity. Like the Prescott agenda, the Balls agenda will face whatever government is elected in 2005, because it has been entrenched in the PSA (Public Service Agreement) regime that governs the Treasury Public Expenditure control

process until 2006-7. An incoming government may not like the PSA regime but would be unlikely to unwind it until it had something to put in its place, something which neither main opposition party has signalled that it possesses.

The Regional Performance PSA binds three departments (ODPM, DTI, Treasury). It is not clear how the Treasury, which operates the rewards and punishments meted out to departments which achieve or fail to achieve their PSA targets, will punish itself if it fails to meet its own. The latest (2004) version of the relevant target reads:

#### ODPM PSA Target II.2 (summer 2004 version)

*Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006, including by establishing Elected Regional Assemblies in regions which vote in a referendum to have one.*

But how can this be measured?

*The target for making sustainable improvements in economic performance will have been met successfully if for every region the trend rate of growth in GVA per head measured over the period 2003-2008 is higher than the baseline. (DTI technical note)*

To measure whether the target has been met, government will need to know regional GVA ( $\approx$  GDP) first! So much hangs on whether the ONS can produce the improvements requested by the Allsopp report in time. The DTI note continues...

*The gap in growth rates will be measured by comparing the average growth rate of regions that currently have above average GVA per head with the average growth rate of regions that currently have below average GVA per head. This measurement involves comparing a single average growth rate for London, South East and East with a single average growth rate for North East, North West, Yorkshire and the Humber, West Midlands, East Midlands and South West, weighted by population. As the provisional baseline data shows that trend growth in the three leading regions was 5.25%, and 4.5% in the six lagging regions, the provisional gap in growth rates is 0.75 percentage points.*

As it is unlikely that this target, thus interpreted, will be met, the political economy of regionalism will remain a live issue for the next UK government whatever happens in May 2005.

In conclusion:

- Elected regional assemblies are out for now
- Unelected bodies – RDAs, Government Offices, Regional Chambers – have more and more work to do
- Demands for democratic control of them may resurface.

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Table 1. “Needs” and public expenditure per head 1979

HM Treasury ‘Needs Assessment’, 1979 (data for 1976-7).

	England	Scotland	Wales	NI
Relative needs assessment	100	116	109	131
Actual spending levels 1976-7	100	122	106	135

Source: HM Treasury (1979), esp. para 6.5.

Fig. 1. Scatter-plot of per capita Public Expenditure and GDP, for UK regions and territories

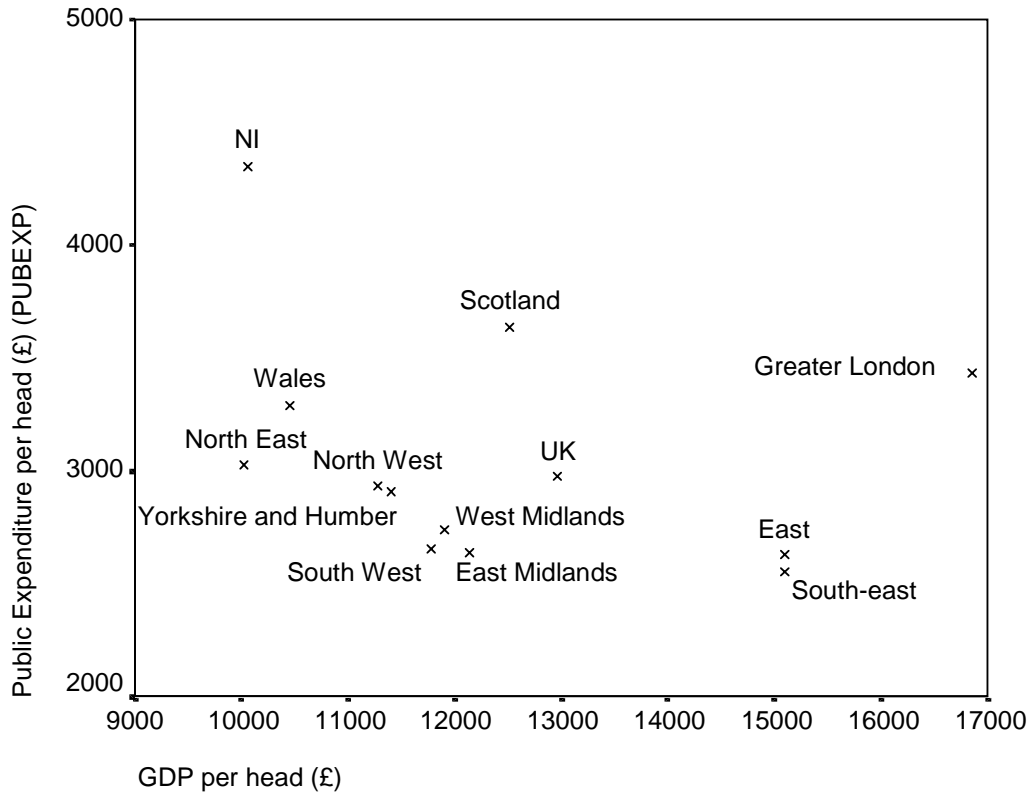


Figure 2: Raw and PPP-adjusted residuals: actual regional government expenditure per head minus simulated expenditure under inverse GDP formula, £

