The Institute of Directors welcomes this opportunity to provide the Committee with evidence on this important and broad ranging issue. Needless to say, as an organisation representing the interests of business leaders, we do not have the expertise or inclination to respond to questions around characteristics of nation-statehood, nor the principles underlying the constitutional structure of the Union. However, we would like to address some of the questions around asymmetric devolution in the UK, especially in relation to the concerns of leaders across the business landscape.

Introduction:

The process of devolving power to Scotland, Wales, and Northern Ireland has undoubtedly impacted the business and economic landscape in those nations. Devolved administrations have enthusiastically taken up the opportunity to tailor support schemes more effectively at the business demographics that they govern. For instance, the popular small business bonus scheme in Scotland is a particular example of this and the Jobs Growth Wales Programme has also been hailed as a notable success. Meanwhile, there has been a steady rise in the relative share of inward investment into devolved nations since 2005

This relative success of the gradual devolution of power to the nations has not been lost on the leaders of England’s cities and regions though, who have felt somewhat side-lined over the past decade. By some reckoning, Scotland has received a ‘significant bonus of around 15% to 18% in public spending’ in relation to relative need. It is also the case that the Wales has spent on a per capita basis a great deal more on economic development than the UK government does in the North East

The IoD therefore welcomes the Government’s intention to redress the balance through handing powers to English cities and regions through tailored arrangements, building on the work done during the last parliament to give local businesses a greater stake in the economic future of their area.

We have been clear that businesses across the UK see the ongoing drive for further devolution as an opportunity to spur growth, promote competition and kick-start regional economies. The results of a member survey in July 2015 showed that 65% of business leaders welcome the Government’s ongoing action to devolve powers to cities and regions. Within that survey, members showed support for devolving powers over housing and planning (78% support), transport (76%) and education and skills (52%).

At the same time the IoD has been supportive of the Chancellor’s move to devolve business rates, Businesses have looked for enterprise to be placed at the heart of the devolution agenda and this decision, alongside the creation/extension of 26 new enterprise zones and injection of £12bn into the Local Growth Fund reaffirms the Government’s intention to do just that. We also acknowledge that significant devolution of power goes hand in hand with devolution of accountability and that local areas may need to adjust their governance structures to take into account new powers. The ‘red-line’ of elected mayors in exchange for greater control – i.e. the power to raise as well as lower business rates – seems appropriate, therefore.

However, while broadly welcoming the new trend towards decentralisation, IoD members are cautious about the prospect of radical fiscal devolution. There is opposition among IoD members to the idea of

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1 Ernst and Young (2015) Attractiveness Survey
2 Unrevised oral evidence to House of Lords Select Committee on Constitution (2015)
3 IPPR North (2014) BBC News
4 IoD (2015) Business leaders call on local government to seize devolution opportunity
handing local councils the power to keep or alter the rates of national business or personal taxes such as national insurance, income tax, corporation tax and VAT.  

Small firms in particular will also be concerned that increasingly dividing up the administrative responsibility for setting rates and collecting tax may lead to a crippling compliance burden. We highlight more of the implications of devolution of tax powers below.

Business stake in local decision making:

While much of the focus for business in this debate has centred rightly on new tax and spending powers for local areas, there is an ongoing issue around how asymmetric devolution effects the stake that local businesses have in local decision making.

Local Enterprise Partnerships were intended to be more private sector focused versions of the Regional Development Agencies and they were welcomed by many business leaders in 2011. However, the reality in 2015 is that disparities in the resourcing of LEPs across the country is leading to local businesses in some areas having much greater clout in local decision making than others. PWC has highlighted that ‘city-region LEPs, like Greater Manchester and Sheffield, already have more direct staff and resources at their disposal than in other areas.’ At the same time, some LEPs have much more productive working relationships with local authorities than others.

The widening gulf between well and poorly equipped partnerships, as well as uncertainty about the formal nature of their relationship with combined authorities, could well lead to private enterprise in some areas falling well short of the influence enjoyed by their counterparts in other parts of the country.

This being the case, the IoD encourages ministers at DCLG to take much greater account of the voice and role of local businesses during discussions on future devolution deals.

Devolution, Taxation Policy & Tax Raising Powers

An econometric study analysing twenty-one OECD economies from 1970 to 2000 concluded that:

“Our main finding is that government efficiency increases with the degree of fiscal decentralisation. This result appears to be robust to a number of different specifications and fiscal decentralisation measures.”

In principle, we consider that devolving powers for individual taxation to the Nations and Regions ought to result in better recognition of the direct link between the level of taxation borne and the public services provided. This should increase the focus upon those services representing value for money.

Our caveat, however, concerns the imperative to simplify UK taxation for both businesses and individual taxpayers. For example, devolving corporation tax to the Regions would significantly increase its complexity and generate substantial compliance costs for business (and, indeed, HMRC) and the economic benefits would need to be demonstrated to be overwhelming to justify this. In principle, it might be possible to introduce limited elements of devolution for corporation tax (and income tax paid by unincorporated businesses) to encourage essential infrastructure spending on a broader basis to the

5 On this note, we are concerned by suggestions arising from the Autumn Statement suggest the Chancellor has ‘opened the door’ to the devolution of corporation tax to Northern Ireland. A dangerous precedent is being set

6 PWC (2015) Delivering Local Growth

existing Enterprise Zones. This doesn’t necessarily apply to Northern Ireland; the land border the
country shares with the Republic of Ireland, in our view, trumps the preference for a single tax rate
across the UK.

In essence, we consider that there ought to be a much higher threshold for devolving the taxation of
business profits but those taxes with simpler compliance requirements such as business rates could be
better administered – and deliver better results – at local or regional levels.

**Regulatory Devolution:**

LEPs are not the sole route for businesses to benefit and engage with the devolution agenda. The
championing of the Primary Authority\(^8\) scheme has been a notable success and reflects the ways in
which de-centralisation should not necessarily be targeted simply on a geographic basis.

The creation, and subsequent extension of Primary Authority – allowing businesses to select the
regulators they want to work with, either sector or locality based – has been broadly popular with the
businesses that have engaged with the scheme.

It has handed businesses a greater stake in the way they are regulated and promoted much greater
regulatory competition. Just as increasing –to a degree – levels of fiscal competition can lead to greater
value for money in the provision of public services\(^9\), so regulatory competition could help in trimming
the bureaucracy that has plagued regulatory development and enforcement for many years.

In this sense, devolution of choice to businesses in terms of which regulators they want to partner with
has been extremely useful. The challenge for the Department for Business is how to publicise the
benefits of the scheme to the wider business audience. 7,000 businesses have taken it up so far but with
nearly 2.5 million registered businesses in the UK, there is some way still to go before all reap the
benefits of the initiative.

**Devolution & Welfare**

So far as welfare spending is concerned, we appreciate that there are opportunities to deliver better
welfare outcomes for the same costs and/or the same welfare outcomes at a lower cost if services are
provided upon a basis which better recognises the regional/metropolitan economic circumstances. By
way of example, the need for welfare services ought to recognise local employment, health issues and
transport issues.

**About the IoD**

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party
political organisation of approximately 35,000 individual members. Its aim is to serve, support,
represent and set standards for directors to enable them to fulfil their leadership responsibilities in
creating wealth for the benefit of business and society as a whole. The membership is drawn from right
across the business spectrum. 71% of FTSE 100 companies and 51% of FTSE 350 companies have IoD
members on their boards, but the majority of members, some 70%, comprise directors of small and
medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies. IoD
members’ organisations are entrepreneurial and growth-orientated, and more than half (57%) export
goods and services internationally.

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\(^8\) Only applies to [specific functions](#) in England and Wales.

\(^9\) In terms of local authorities finding efficiencies in order to accommodate lower levels of tax revenue