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1. Executive summary

- Hampshire County Council (HCC) commissioned the Southern Policy Centre (SPC) to research the views of business as part of the County Council's consultation on the organisation of local government in the Hampshire and Isle of Wight area, and the possibility of further devolution to local government. These findings are based upon a series of semi-structured telephone interviews with 47 participants and six in-depth focus group discussions with 50 participants.
- There was a strong desire to have simpler, easier to engage with local authorities as part of any reorganisation, with little enthusiasm for the existing two-tier structure. However, concerns were expressed that moves towards large unitaries would need to make provision for local decision-making. Some smaller businesses were concerned that SMEs would find it harder to win business and offer innovative service approaches to larger authorities. In general, cost and efficiency should be given significant weight when making decisions about the future of local government, but still need to be carefully balanced against other considerations.
- Business relationships with local government were generally positive. However, many shared common concerns including the consistency of policy making and implementation, the impact of budget cuts, the integration of planning, housing transport and economic development policy, and the need for a more can-do attitude on the part of councils. There was also concern about changes of business rates and local government organisation adding to the uncertainty caused by the UK's exit from the EU. These concerns should be reflected in any changes to the structure of local government in Hampshire.
- Businesses that engage with local authorities were concerned by a loss of expertise and capacity in local authority officer teams following reductions in expenditure. This may be the root cause of a perceived inconsistency and uncertainty experienced in working with local government. In the main, though not exclusively, this problem was more prevalent in some smaller authorities.
- There was strong support for the principle that planning, infrastructure – including digital and road/rail connectivity, and economic development should be planned at a more strategic level. This could potentially be positively addressed, at least in part, through devolution.
- Business in Hampshire recognised distinct geographical and economic areas. One of those which was often identified was between the north and south of the county (including Southampton and Portsmouth). Others identified the relationship between the cities and their hinterland, and between urban and rural areas. There was also some support for a 'whole area' approach.
- Business wanted to see more transparency and accountability over the use of business rates. The move towards 100% retention could improve this relationship. There was little enthusiasm for the prospects of elected mayors and combined authorities raising business rates further and concerns where this burden would fall most heavily was seen as vital, particularly as councils increasingly become funded by this mechanism
- Support for elected mayors appears to have increased when compared to previous research.
- Many businesses were not informed about or engaged in the debate about local government reorganisation and devolution, despite the efforts of organisations such as the Hampshire Chambers of Commerce and the Federation of Small Businesses. Innovative methods of engagement are likely to be required to help improve engagement with any new local authority structures.

2. Background & research methodology

In August 2016 Hampshire County Council (HCC) commissioned the Southern Policy Centre (SPC) to research the views of business as part of the County Council's consultation on the organisation of local government in the Hampshire and Isle of Wight area, and the possibility of further devolution to local government. The work built on previous studies including the survey conducted by SPC for Business South¹ in 2015 and YouGov's survey for the Centre for Cities².

The study was carried out using two complementary and integrated methods: (1) semi-structured telephone interviews and (2) a series of six in-depth focus group discussions. Both methods sought to enable comparisons by business sector and, in the case of SMEs, also by geography.

3. Key findings

(i) Attitudes towards local government and devolution

Business relationships with local government were generally seen as positive. Businesses were particularly positive about the potential benefits of further devolution of powers and resources. (Most businesses engaged with more than one authority, and so all comments should be read as being about local government *in general*, rather than Hampshire County Council specifically.) Despite this, many businesses expressed significant concerns over local authorities' capabilities and capacities.

68% of telephone respondents were currently satisfied with their interactions with local government, although some qualified this with a number of caveats. Larger businesses expressed significantly more concerns than smaller ones, with 53% of larger businesses saying they were satisfied, compared with 79% of smaller ones, as illustrated below in Table 1:

Table 1: Response to the question, 'Are you currently satisfied with the nature of your interaction with local government?'

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
<i>Respondents</i>	47	28	19	31	8	8
Yes	68%	79%	53%	68%	88%	63%
No	17%	11%	26%	16%	-	38%
Don't know/qualified	11%	4%	21%	10%	13%	-
No answer	4%	7%	-	7%	-	-

Where businesses were less than satisfied with their current interactions with local government, a number of clear themes emerged:

Consistency of policy-making and implementation

Businesses were concerned about inconsistencies of policy and delivery within and between different local authorities. A number of businesses identified problems caused by the loss of expertise and capacity in local authority officer teams as a result of reductions in expenditure. This may be one of the root causes of some of the inconsistency and uncertainty they experienced. In

¹ Devo-South: a report for Business South from the Southern Policy Centre, November 2015

² Firm views: the business take on devolution, November 2015

the main - though not exclusively - this was seen to be a problem that was more prevalent in some smaller authorities.

Many authorities were criticised for poor integration of economic development, housing, transport, infrastructure, and planning policy, making it time-consuming and difficult for businesses to engage with local government.

Uncertainty

The UK's exit from the EU is likely to coincide with the introduction of 100% retention of business rates (and possible further increases) in 2019/20. Local government reorganisation and/or devolution might take place over the same period. Concerns were expressed in some focus groups that these factors created an uncertain business environment. *"There's lots of other things happening at the moment...like Brexit for instance: there's almost too much happening, it seems to me."*

It will be important to move forward clearly and decisively with the business rate retention changes, and with any changes to local government, in order to reduce business uncertainty to a minimum. Local authorities will need to engage as closely as possible with the business community, and it is likely that new and innovative methods of engagement will be required.

Current levels of business engagement

It was noticeable that in every focus group, even those where participants had a reasonable understanding of local government, there were always more questions than comments. Despite the fact that some business consultation has taken place, it is clear that knowledge of proposals for local government reorganisation and devolution varies considerably by sector, with a tendency for larger, more service-oriented businesses to have a better grasp of its implications than smaller organisations. This could be due to the increased staff capacity that comes with larger companies and the ability to allocate resources to understanding the political landscape.

Some participants highlighted the fact that engagement with business needs to be a two-way process: *"It doesn't necessarily mean the local authorities aren't doing their bit – I think there's a part for businesses to play in getting their act together to enable that engagement to happen."* ...*"When you do need to engage it's often about simplicity and effectiveness as opposed to how much of it you're actually doing."*

Industry sectors with an increased need for interaction with local government (such as the property and development sector) had a better knowledge of proposed changes, although it should be noted that those who were not as engaged were not particularly concerned about the fact.

Business perceptions of the reorganisation/devolution process

Even though businesses varied considerably in their knowledge of the devolution of local government, there was considerable support in the focus groups, and overwhelming support in the telephone interviews, for the principle of devolving power from central government:

Table 2: Response to the question, ‘Do you agree with the *principle* of more decision-making powers, and potentially more funding, being devolved from central government to all or part of Hampshire?’

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
Respondents	47	28	19	31	8	8
Yes	96%	96%	95%	94%	100%	100%
No	-	-	-	-	-	-
Don't know/qualified	4%	4%	5%	7%	-	-

However, some businesses that engage closely with local government expressed concerns about the way in which local authorities were approaching reorganisation and devolution. Businesses were critical of the decision-making process on devolution to date, with the interests of local authorities sometimes seen as being pursued at the cost of the bigger picture.

Some authorities were seen as ‘jumping on the bandwagon’, basing devolution proposals on deals that had been agreed in other parts of the country rather than taking a proactive approach and trying to genuinely determine what’s best for the local population. Businesses also perceived a power struggle between authorities, with some telephone participants being critical of this. There was also a degree of cynicism, notably among some smaller businesses, that some of the process of local government reorganisation is simply a product of the ‘power struggle’ between different local authorities and their leaders, rather than something that will be of benefit to the general population.

(ii) A single, simple to engage with local authority for all services

There was a very clear desire for a simplification of local government structures among the telephone interview respondents, with this factor scoring the top priority rank across all sectors, as can be seen in table 3:

Table 3: Rank order of priorities to the set question, ‘If local government in Hampshire were to change or reorganise, what factors at a service delivery level do you think are the most important ones to take into consideration?’

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
Respondents	47	28	19	31	8	8
A single, simple-to-engage-with Local Authority for all services including planning, highways, waste, etc.	1	1	1	1	1	2
A cost-effective structure to offer best value for the taxpayer's money	2	2	2	2	2	1
A greater degree of local community involvement in decision making around planning, infrastructure and other key issues	3	3	3	3	3	4
Ensuring greater consistency of services across Hampshire	4	5	4	5	3	3
Minimisation of service disruption through any reorganisation	5	4	5	4	5	5

Simple, accessible and efficient decision-making was identified as a key priority among businesses that took part in the Devo-South consultation last year; the desire for this remains as strong now as it was then.

In general, there is little enthusiasm for the existing two-tier structure; however, many who favour a single tier are also anxious that local decision-making and representation should be retained. A number of SME suppliers expressed their opposition to the idea of a much larger unitary authority:

There was a widespread feeling that the current two-tier structure acts as a barrier to action.

Structure and process, sometimes as a consequence of having two-tier local government, were also seen as barriers to an individual's ability to work effectively within local government:

A majority of businesses identified cost savings as a key deliverable of any proposed local government reorganisation (see table 4):

Table 4: Response to the question, 'Do you agree with the principle of reorganising local government in Hampshire to deliver services more efficiently?'

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
<i>Respondents</i>	47	28	19	31	8	8
Yes	92%	96%	84%	97%	88%	75%
No	-	-	-	-	-	-
No response	8%	4%	16%	3%	12%	25%

In summary, while there was a prevailing view that cost and efficiency should be given significant weight, this needs to be carefully balanced against other considerations.

What local government should be doing to support business

Telephone respondents were asked to rank 5 ways in which local government should be supporting business:

Table 5: Rank order of priorities to the set question, "In terms of the ways in which local government can support business, which of these in your view is the most important?" (1=most important, 5=least important)

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
<i>Respondents</i>	47	28	19	31	8	8
A more responsive, 'can do' approach to supporting the private sector	1	1	1	1	2	1
A well resourced Economic Development team to deliver business support and inward investment	4	2	4	2	4	4
A simple and efficient planning system	2	3	2	4	1	2
An effective approach to ongoing engagement with the business community	3	3	3	2	3	3
Priority given to supporting young people in developing strong levels of skills and employability	5	5	5	5	5	4

‘A responsive, can-do approach to supporting the private sector’ and ‘a simple and efficient planning system’ scored significantly ahead of the other three factors here.

Organisational efficiency, and a need for a more ‘can-do’ approach, were recurrent themes, particularly in the telephone interviews.

Development of appropriate skills, although ranked low here, was nevertheless a recurrent issue in both the interviews and the focus groups. This may reflect the greater importance of the other issues; it may also reflect a perception that local authorities currently have very little role or responsibility in the delivery of the level of adults skills sought by most employers. The manufacturing and technology focus group was especially concerned about skills.

These points were echoed in the SME focus groups, where skills gaps were also identified as a key barrier to driving economic growth and development.

What local government wants from devolution

Devolution is seen by business as a potential way of taking a much more strategic approach to key agendas:

Table 6: Rank order of priorities to the set question, “If more powers are devolved to all or part of Hampshire, at a strategic level which do you think are most important to take into consideration?”

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
<i>Respondents</i>	47	28	19	31	8	8
Strategic leadership of key agendas which support the economy including transport, skills, housing, etc.	1	1	1	1	1	1
A more strategic approach to planning and development across District and LEP boundaries	2	2	2	2	2	1
Creating a clearer single voice for the area to lobby for support from Central Government	3	3	3	3	3	3
Flexibility to transfer money and share expertise across Hampshire, Portsmouth, Southampton, and the Isle of Wight to maximise support for economy	4	3	4	4	5	5
Greater alignment between local government and LEP boundaries	5	5	5	5	3	4

(iii) Planning and infrastructure

As Table 6 above shows, there was widespread support for a more strategic approach to infrastructure and development. Businesses see this more widely than simply physical infrastructure: for them, infrastructure, economic development, planning and housing all need to be part of integrated policy-making.

The current structures of local government were seen as an obstacle to a strategic approach. Connectivity between Portsmouth and Southampton was cited a number of times.

The two-tier structure of local government was often cited as also being an obstacle to more strategic planning.

It will be essential to include digital infrastructure in future strategic planning, a point which was raised particularly by SMEs. A strategic approach to broadband, and the need to be ‘ahead of the curve’ on 5G connectivity, were recurrent themes.

(iv) Structure and geography

Business in Hampshire recognised the challenges and opportunities generated through distinct geographical and economic areas. There were two major recurrent themes: one was the contrast drawn between the north and south of Hampshire (including the two cities), while the other was the relationship between the cities and their hinterland, and between rural and urban areas. There was also some support for a ‘whole county’ approach.

Some focus group participants questioned the use of the ‘status quo’ when thinking about the potential geographies and boundaries of local government:

LEPs were also seen as potential ‘unblockers’ of inter-authority bureaucracy and division.

In the telephone question on devolution (Table 6, above), the need for ‘a more strategic approach across District and LEP boundaries’ came second only to ‘strategic leadership of key agendas to support the economy including transport, skills, housing etc.’

‘Aligning local government and LEP boundaries’ scored lowest in that list of factors, but the subtler point to emerge clearly from the focus groups was that strategic planning and development both need to cut across boundaries. Most business were agnostic about the exact geography of local government reorganisation as long as it results in structures which work more effectively for them. Some were explicitly against aligning local government and LEP boundaries.

(v) Business rates

There was widespread agreement that the proposed changes to the business rates would have a significant impact:

Table 7: Response to the question, ‘Do you believe this change in funding [of business rates] will have a significant impact?’

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
<i>Respondents</i>	47	28	19	31	8	8
Yes	85%	89%	79%	81%	100%	100%
No	6%	4%	11%	10%	-	-
Don't know/qualified	9%	7%	11%	10%	-	-

Feelings ran more strongly among SMEs, of whom nearly two-thirds felt that move to 100% retention would drive fundamental change in the relationship between them and their local authority:

Table 8: Response to the question, ‘Do you believe this change in funding [of business rates] will fundamentally redefine the way business and local government interact?’

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
Respondents	47	28	19	31	8	8
Yes	60%	64%	53%	61%	75%	50%
No	19%	18%	21%	19%	13%	25%
Don't know/qualified	21%	18%	26%	19%	13%	25%

The key theme in regard to the proposed changes in rates was that of accountability.

Although the structure of business rates lay outside the scope of this study, participants, particularly SMEs, were keen to argue that business rates were in need of significant reform, and that they currently serve to stifle small and expanding businesses. This hostility to the business rate system will need to be borne in mind if further increases in business rates are under consideration.

There was very little enthusiasm for an elected mayor exercising the power to vary the business rates by up to an additional 3% (and this was irrespective of whether the money raised would be invested in projects to support business growth). There were concerns that a burden would fall on businesses that would not benefit from the spending. In the focus groups, mention was made of a 'democratic deficit' caused by the business rates. Business owners made the point that they had no say whatsoever over how their rates were spent if they lived in one place but paid business rates elsewhere.

Both focus group and telephone respondents saw business rate variation as a potential driver of economic disparity.

(vi) Elected mayors

Among respondents, a clear majority were in favour of some form of elected mayor:

Table 9: Response to the question, 'Are you broadly supportive of elected mayors?'

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
Respondents	47	28	19	31	8	8
Yes	60%	64%	53%	55%	88%	50%
No	26%	18%	37%	29%	-	38%
Don't know/qualified	14%	18%	10%	16%	12%	12%

Whilst the sample size of 47 is relatively small³, it would indicate that there has been an overall increase in businesses' desire to see an elected mayor. The SPC's 'Devo-South' consultation of a year ago saw a comparable figure of 42% (from a sample size of 66) – the increase would appear to have come from those who were previously 'broadly agnostic'; just over a quarter of those questioned in this study remain in the 'no' camp, as was the case a year ago.

The mayoral characteristics seen as most important by business are their executive capabilities rather than any perceived need for a 'figurehead' role. The first two criteria on the list that

³ When compared to sample surveys adopting totally quantitative methods.

participants in the telephone interviews were asked to rank – clear lines of authority and accountability - were ranked significantly ahead of the other two:

Table 10: Rank order of priorities to the set question, ‘Assuming for the moment that there is an elected mayor, which factors would you rank as being most important?’

	Total	SMEs	Large businesses	Services	Property & development	Transport & infrastructure
<i>Respondents</i>	47	28	19	31	8	8
A clear role with authority to make decisions on key strategic issues such as planning and economic development	1	1	1	1	1	1
Clear lines of accountability (i.e. having an individual with whom 'the buck stops')	2	2	2	2	2	2
Someone who has the ear of central government and can influence Whitehall in a positive manner	3	3	4	3	4	4
A charismatic and recognisable central figurehead who will help 'put Hampshire on the map'	4	4	3	4	3	3

Those who expressed reservations about the benefits of elected mayors mainly did so on two grounds:

1) They were concerned that the election itself would prove to be too personality-based and something of a sideshow.

2) They were concerned that the mayoral office itself would simply be another layer of bureaucracy sitting on top of existing structures. Those who expressed a preference for a different governance model were primarily in favour of a ‘first among equals’ approach drawn from existing elected politicians; a handful of respondents expressed a preference for a mayor to be appointed, rather than elected, and to have a strong grounding in business.

4. Conclusion: guiding principles

The semi-structured telephone interviews and in-depth focus group discussions both demonstrated a clear preference for local authorities that offer:

- A single, simple to engage with local authority
- Strategic leadership of key agendas
- A more responsive 'can-do' approach
- The ability to take advantage of devolution from central government.

However, this preference does not resolve key issues about size, geography and function. If HCC wishes to propose changes to the organization and function of local government it should consider the following principles that emerge from the study:

- Business would welcome single-tier authorities, but there was no clear consensus over their size and geography. Any proposals should set out how they relate to recognized economic areas. The key choice would appear to be between a binary structure, based on the southern urban area and the north and more rural parts of the county, and a single 'county, cities and Isle of Wight' structure
- The need for a strategic approach on development and infrastructure favours larger authorities. Any proposals for larger authorities should set out how local democratic decision-making can be retained on appropriate issues
- Businesses were concerned about the loss of capacity and expertise amongst officer teams in some smaller local authorities. Any proposals for reform should show how sufficient capacity and expertise would be retained and strengthened, and care should be taken not to seek cost savings at the expense of the quality of business engagement with local government
- Any proposals for larger authorities should show how the interests of small businesses in local decision-making and as suppliers would be protected
- The retention of business rates can potentially strengthen the relationship between local government and business, but business rates themselves were widely seen as unfair. Local government must plan now to ensure it is far more accountable to its business rate payers once this change is implemented
- Devolution presents a genuine opportunity to grasp the nettle and become significantly better at planning and delivering transformational infrastructure projects. Any proposals for change must show how a new local authority structure will be able to exercise powers that are now (or in the future may become) available in an efficient, effective and democratic way
- Any proposals for change must be sensitive to the wider uncertainties affecting business, including potential changes to business rates and the UK's exit from the EU. Any reorganisation of local government and/or devolution deal needs to be executed as quickly, cleanly and clearly as possible, across an economic geography that 'makes sense'
- A majority of businesses would support an elected mayor, and there do not seem to be substantial business objections to the creation of such a post.

