In the wake of Scotland’s independence referendum, public debate about regional devolution shifted from the fringe to the mainstream within England. Cities are negotiating devolved powers, and local authorities are grouping together to make the case for locally led growth.

Polling has found support for changing the way England is governed among 65% of people, with almost half in favour of transferring significant powers from Westminster to local leaders.

The most prominent argument for greater devolution made by cities is that it promises stronger regional growth, yielding returns to the national purse.

Remarkably little attention has been paid to whether, or how, devolving powers would deliver fundamentally important outcomes such as a more equitable distribution of economic growth, increased environmental sustainability, or improvement in people’s quality of life and employment.

Amidst the current devolution debate it is crucial to make the case for an approach for political and economic decentralisation that empowers local regions to devise development strategies that tackle inequalities in wealth and power, respect environmental limits, contribute to carbon reduction and generate opportunities for the development of diverse, balanced and resilient local economies.

Of the current approach to devolution we should ask whether it contributes to this agenda or does it in fact risk entrenching the failings of the current economic system.

Devolution presents significant opportunities, but also significant risks, to any project which aims to systemically change how the economy functions in the UK to deliver positive social, environmental and local economic outcomes.

Decentralisation in and of itself may promise greater political and economic democratisation or more regionally sensitive economic policy making. Conversely it may threaten progressive redistribution of wealth and effective national
coordination of health and education services.

Crucial to whether devolution is a force for good depends on the precise nature of the decentralised systems, the degrees of decentralisation, the governance structures applied, and the manner in which they function.

This paper aims to open up discussion by highlighting three aspects of the current direction of travel the UK’s city devolution deals are taking which lead us to question whether devolution as currently specified will result in an economy which works better for the people of England and the planet.

**What is a strong regional economy?**

There are three characteristics which can be used to describe a successful regional economy from the perspective of the local population.

1. **A financially thriving population.** There is a decent level of wealth within households and/or individual savings; wealth and income are evenly distributed across the population, supporting people to invest in locally-based enterprises, and assets. The ratio of income to the cost of living is such that the population enjoys a good standard of living.

2. **A strong local business sector.** There is a business sector that is resilient to external shocks due to a diversity of goods and services produced, business size and ownership models. Growth in the number and size of enterprises may be part of this but, more importantly, it is the degree to which local supply chains connect small and larger businesses so that money flows efficiently around the local economy (strong local multiplier effect), providing sufficient numbers of good jobs.

3. **An efficient use of resources.** Low levels of waste are produced in local and regional supply chains, and there are high levels of resource productivity (high levels of reuse of materials), a retention of highly skilled people, and access to good quality training.

In order to create a regional economic governance system that is able to deliver this kind of regional economy, any devolution process must include strategies on:

- Developing and sustaining good jobs, including the provision of related training and skills development provision.
- Developing regional industry including the development and strengthening of sectors to support a more balanced and resilient regional economy.
- Provision of supportive infrastructure in terms of both physical infrastructure such as inter-regional transport links which minimise carbon emissions, and effective business support and financial services which prioritise regional investment.
- Providing a mix of workspace and housing to reduce travel to work distances, and developing liveable neighbourhoods and towns.

**Three priorities**

Underpinning all of these aspects of a strong regional economic strategy are three priority changes which, this paper argues, would greatly strengthen the current devolution model - and the ability of cities granted devolution powers to begin tackling the strategic policy areas listed above in a meaningful way.

These three priorities are: embedding suitable measures of economic progress, enabling local revenue generation and strengthening democratic structures.

Because they concern the structures on which the current devolution process is being built, the way these three aspects of devolution are approached will set the parameters within which all further regional economic policy and strategy can be made.

**I. Embedding suitable measures of economic progress**

In the new English devolution debate, the focus on GVA growth has so far been definitive. Funding for city deals is to be spent on infrastructure investment, housing, and skills development.

The emphasis is explicitly on fuelling growth: the deals are also supposed to secure “better use of local authority assets to unlock resources to be invested in growth”; “commitments to pro-
growth reforms” and “greater influence over key levers affecting local growth and freedoms and flexibilities”.  

The standard measure of regional economic development, used not only to gauge the strength of a city regional economy, but as the ultimate goal of regional economic strategies, is Gross Value Added (GVA). Regional GVA measures the increase in the value of the economy due to the production of goods and services for each region of the UK.

The income approach to measuring this involves adding up the income generated in the production of goods and services, for example wages and profits. In other words the economic success of a region is measured by how much it contributes to national growth.

Economic strategies that seek primarily to increase a region’s GVA focus on the production of goods and services – usually, high-end growth industries – and the infrastructure or business support that facilitates this.

These strategies do not, however, necessarily help achieve any of the following:

- a more equal distribution of wealth across the population;
- a diversity of small and large businesses or sectors;
- a high local economic multiplier;
- provision of good jobs

If they are pursued at all, those kinds of economic outcomes tend to be the focus of separate training and skills, business development, or poverty-reduction programmes. These are too often required to mitigate the negative effects of a regional economic strategy focused primarily on GVA.

In their efforts to win powers through the devolution process, local authorities are driven to put forward economic priorities that align with central government’s approach to growth.

If they resist this pressure, they risk being awarded fewer powers and less substantial resources.

The tendency is therefore for city regional growth strategies to emulate London’s economy, where GVA growth rose by 15.4%, compared with 6.9% in the other 11 UK regions between 2007 and 2012.

London’s share of UK output now stands at 22.2% – higher than any city in the UK.

But it also has the highest child poverty rates in the country, an unemployment rate among women of 30.7% which is almost double that of men’s at 15.6% (a wider gender gap in employment rates than any other UK region), and a housing market unaffordable to its own population.

We must consider how to develop the characteristics we actually want to see regional economies displaying, over and above what level of GVA growth they achieve.

Devolution deals should be based on success measures that reflect these characteristics, rather than on how well they propose to deliver a rise in GVA.

II. Enabling revenue generation

In October, the Chancellor promised to build on his previous ‘Northern Powerhouse’ proposals – promising investment in the north of the country – with a roll-out of variable business rates (local taxes) for local authorities.

This was confirmed in the Autumn Statement and Spending Review, and accompanied a provision allowing local authorities responsible for social care to levy a new social care tax of up to 2% on council tax.

However, most local authorities will only be allowed to vary their rates downwards, while new metropolitan authorities will only be able to vary rates upwards with approval from their Local Economic Partnership (LEP).

LEPs are primarily led by business representatives, generally from large rather than small or medium sizes enterprises, with other stakeholders having a relatively limited role.

When these constraints are combined
with continued restrictions on central government grants, it can be predicted that the temptation for local authorities – particularly those with lower spending needs – will be to compete with their neighbours for business investment by offering lower business rates.

This is likely to result in a race to the bottom, with the winners being authorities best able to shrink their expenditure needs.\(^{17}\)

This can be expected to substantially undermine the potential of city regions to define and deliver the kinds of economic outcomes we have already discussed as characteristics of a strong regional economy.\(^{18}\)

Moreover, the flagship agreement between the Treasury and the Greater Manchester Combined Authority (GMCA), as well as proposed agreements with other urban areas, retain tight central controls over the grants paid to the new combined authorities, and the level of borrowing permitted.

This undermines the possibility of new, larger urban authorities being able to use their expanded tax base as leverage for ambitious regional development plans, paid for initially through borrowing.

To **fulfil many of the promises of devolution, some further relaxation of borrowing requirements, matched by greater flexibility in adjusting local tax rates, is crucial.**

III. Strengthening democratic structures

NEF has long argued that outcomes for people and society improve when decision making structures follow the principle of subsidiarity.

This involves a greater role for direct involvement from citizens and stakeholders through approaches such as co-production, citizen assemblies, and participatory budgeting.\(^{19}\)

The promise that “directly-elected mayors would help reanimate English democracy by opening up important new sites of power that are more in tune with local communities”\(^{20}\) is encouraging.

Given the right approach\(^ {21}\), this could change the structure of democracy in England for the better.

But if power is concentrated in the centre of regions, in the hands of elected mayors who will not necessarily act in a more democratic or participatory manner than politicians in central government, this could weaken regional democracy.

In fact, combined authorities may simply syphon off power from town councils to the regional level, creating greater distance between citizens and decision makers.

Given that devolution deals are currently being made on an ad hoc basis, the role of elected members at each level will vary from place to place, confusing lines of accountability.

With this in mind, it is essential that the Department for Communities and Local Government and groups of local authorities proposing devolution deals consider how they will engage citizens and increase accountability.\(^ {22}\)

In particular, they should focus on:

- Clear accountability structures – showing where responsibility lies between combined authorities, local authorities and central government, and how citizens can hold each set of leaders to account.

- Meaningful structures for citizen participation – in the design and delivery of services, the development of strategic visions and budget-setting, with clear channels of influence to policy making and accountability ties to representative institutions.

Finally, given the ad hoc process for devolution, it is important to consider a potential ‘boomerang effect’.

This is a process whereby central government, which is supposed to be transferring power away from itself, paradoxically ends up with more power because of its role in granting concessions and monitoring devolution agreements.

Presently, power remains firmly in the hands of Westminster to decide which deals to progress without any transparent criteria for selection, and from which to revoke devolved functions and budgets in future.\(^ {23}\)
The Secretary of State’s judgement as to whether devolution is improving “the exercise of statutory functions in the area” is the only measure of success, aside from looking for a rise in GVA.24

Devolved powers are effectively on loan until further notice, and could be withdrawn at any time. The balance of power is tipped in favour of central government.

To prevent this, the goals combined authorities agree with central government should be clear and realistic for the powers devolved. They should be fair and proportionate, without giving special treatment to Whitehall’s favourite pioneers.

They should take into account the role that central government will play in supporting their realisation, with local governments treated as equal partners in achieving the desired outcomes – whether these be poverty reduction, increased investment in housing, and/or the revival of particular industries.

To realise the democratic potential of devolution, better mechanisms for accountability and participation are essential.

To ensure that power is genuinely devolved, the role and limits of central government scrutiny should be better defined.

The future

Devolution deals could provide a catalyst for stronger regional economies in England.

But if they are to do so, they must be explicitly designed to pursue economic outcomes that relate directly to financially thriving populations, strong local business sectors and more efficient and sustainable use and distribution of resources.

Devolution deals should include meaningful revenue raising powers for regional government and include overarching structures for co-ordination and information exchange.

They should also be built around a greater level of citizen participation, and a clearer accountability structure defining which powers remain with central government and which will be genuinely shifted to regional and local government.

Based on these principles, devolution deals would be in a far stronger position to enable the regional government, social and business sector to develop the economic mechanisms and strategies – whether on employment, finance, housing or other crucial areas mentioned above – that could radically improve the social, environmental and economic sustainability of our economic system at a regional level.

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Endnotes


6. An economic multiplier effect describes the impact that spending has in the economy, taking into consideration knock-on effects. The measuring process starts with a source of income and follows how it is spent and re-spent within a defined geographic area. See http://www.nef-consulting.co.uk/our-services/evaluation-impact-assessment/local-multiplier-3-fm3/ for further information on the L3 tool developed by New Economics Foundation to measure this effect of different interventions in a local economy.

7. NEF defines ‘Good Jobs’ as those which provide a decent income: enough to participate actively in society and to pursue a fulfilling life; provide reasonable levels of job satisfaction, and the opportunity for career progression; are reasonably secure; do not require people to leave their community to get them; do not require long working hours; and do not threaten environmental sustainability. See Shaheen, F and Seaford, C (2012), Good Jobs for Non-Graduates (New Economics Foundation: http://b33cdn.nelfoundation/f6aad1a7b4acae692c9_tzm6bly3.pdf


23. For example, the Greater Manchester Agreement sets out that the Treasury will be able to withhold funding for the earn back scheme if they are not satisfied that the investment has contributed to national growth within the first 5 years.