



UNDERSTANDING DEVOLUTION

A CRITICAL APPRAISAL OF THE GREATER
MANCHESTER DEVOLUTION DEAL

There has never been a more urgent sense across the UK of how desperately we need to rebalance the regional economic differences that see wealth and decision-making so concentrated in the capital, and leave so many communities feeling left out of both entirely.

The devolution agenda of recent years has been heavily promoted by its proponents as the key to tackling both economic imbalance and democratic deficits. Yet it has not, to date, represented the kind of fundamental paradigm shift in how we design economic strategy nationally as well as regionally, which would really transform the centralisation of our economy in a way that shifts wealth and prosperity substantially to the communities that feel so left behind.

The New Economics Foundation has long argued for decentralisation of the economic and financial system, as well as for the power of economic decision-making to flow from the bottom up rather than the top down. Devolution could offer an exciting opening to pursue these agendas – and we have been eagerly following the process to understand how far it may enable this shift. The Greater Manchester devolution deal was the first to take shape formally within this process. Beginning in negotiations for a ‘city deal’¹ in 2011, and developing through further iterations between the Conservative-Liberal and Conservative

governments led by David Cameron, it has most recently culminated with a fourth 'devolution deal' struck between Whitehall and the Greater Manchester Combined Authority (GMCA) in March 2016.²

Exploring how this process has been taking shape within the GMCA offers huge insight into the possibilities and challenges of the national process. This briefing is based on a combination of interviews with senior officials, policy experts, document analysis, and an analysis of the basic socio-economic dynamics of the GMCA area as well as their historical trajectory. Its aim is to evaluate the ambitions and plans of policymakers, and offer recommendations for how, under the existing devolutionary framework, those implementing the devolution deal, and the communities this affects, might best advance a more sustainable, democratic, fair, and balanced economy and political system.

Regarding the national pursuit of devolution, we argue that:

- **Devolution needs broader economic policy change.** This includes a shift away from a model that continues to rely on the hope of trickle down dividends from the economic dynamo of London and the South East. This centralised economic structure cannot be overcome by devolution in its current form.
- **Fiscal devolution needs re-thinking.** The current approach relies on business rate localisation to grant more financial independence. This will lead to a febrile regulatory 'race to the bottom' to attract business investment. It will also make local government finance much more vulnerable to economic fluctuations and will lead to a mismatch in many areas between level of need and level of resource.

- **Devolution is too top-down.** In its current form, it primarily reflects the priorities of central government, which are to increase aggregate growth and reduce public spending. Many devolved mechanisms can be clawed back by central government if the growth requirement is not met, and are also circumscribed by government requirements on how resources are spent – often by contracting private sector deliverers. Powers to deliver centrally determined objectives is hardly 'localism'.
- **Devolution deal making undermines democratic decentralisation.** Deals have been struck between elites behind closed doors, with minimal, and post-hoc public participation. Given the well documented ailments of representative democracy, electoral links are not sufficient to legitimate these changes. Devolution's democratic deficit needs addressing through genuine, upstream, public participation.

Given this, we outline the challenges that face Greater Manchester policy makers who wish to pursue deeper and more systemic positive changes within the region, through the devolution agenda. We suggest they will need to:

- **Challenge the dominance of a 'trickle down' logic.** This prioritises boosting the city centre through big-business led development, external investment, and demographic change. This is a well-trodden path towards gentrification, the marginalisation of existing residents, and increases in inequality. Growth can be pursued but it should be a means to improve conditions for *existing* residents through endogenous and community-led approaches to economic *development*.

- **Be wary of ‘responsibilisation’.** We challenge the idea that disadvantage portrays individual failure to take advantage of opportunities, compounded by welfare dependence. Ills such as social inequality, and are *systemic* failings. The corollary of this narrative, a “carrots and sticks” welfare regime is mistaken: it incentivises individuals to take advantage of trickle down benefits that don’t materialise.
- **Pay attention to the need for local democracy.** Devolution offers Manchester an opportunity to revitalise local politics and democracy which needs to be more decisively grasped. The role of civic participation is currently limited to generic, consultative forms of engagement. GM should experiment with radical approaches to participatory democracy such as substantive participatory budgeting, which can both increase the effectiveness of public spending, empower citizens and, in doing so, connect democratic renewal and social justice agendas.

INTRODUCTION

Devolution was one of the central pillars of Cameron’s Conservative government (2015-2016) economic (2010-2015) policy. Building on the coalition government policy of city deals, the ‘devolution revolution’ was underpinned by a stated ambition to rebalance the UK’s economy by giving greater freedom to city regions, especially in the North, to develop and implement economic strategies. However, the vote in favour of Brexit at the EU referendum in June 2016, and the consequent change in government cast some doubt over the future of this devolution agenda. Political centralisation in Westminster and economic centralisation in the South East is the natural centre of gravity within the UK’s system. One of the vulnerabilities of devolution was

always that it was heavily dependent on the political will of the government in Westminster, especially that of the previous Chancellor George Osborne who drove the agenda and, crucially, kept the Treasury on side.

Prior to the Brexit vote and the subsequent change in administration, the devolution agenda had continued to evolve. This report focuses on developments in the devolution process to the GMCA, from its genesis in the city deals of 2012, through its acceleration with the Northern Powerhouse pioneered with the GMCA in 2015. Devolution was extended nationally by the Cities and Local Government Devolution Act (2016), which applies primarily to the core cities group,³ and generalises provisions for introducing directly elected mayors (who can also replace police and crime commissioners) to combined authorities. It also removes statutory limitations on functions of local authorities, thus paving the way for new deals, covering new competencies, to be developed.

The new government has emphasised the need to develop an industrial strategy for the whole of the UK. This has dampened a specific focus on the Northern Powerhouse. However, the devolution agenda has not ground to a halt. When the new minister for the Northern Powerhouse, Andrew Percy, was appointed in July 2016, he embarked on a tour of the Northern regions to reassure these that the policy would continue. The new chancellor, Phillip Hammond, expressed his support for transport investments in the North. The government published a Northern Powerhouse strategy committing £1.8 billion funding for regions from 2017,⁴ and commitments to continue developing the Northern Powerhouse were made in the 2016 autumn statement – although it featured to a lesser extent than in previous statements.⁵

The devolution agenda is therefore still an evolving process. Theresa May's inauguration speech focused heavily on the need for greater social equality, and the development of an inclusive economy, recognising that the referendum result in favour of Brexit reflected big spatial inequalities in the UK. In many ways, the in and out vote spread reflected the economic geography of the winners and losers from economic restructuring since the 1970s. Devolution and real empowerment, both economic and political, of those regions that have been left behind, would be crucial to fulfil May's stated ambitions for more equality and inclusion in the UK.

At the New Economics Foundation, we welcome the continuation of devolutionary ambitions, and are excited about the potential interaction of the policy with stronger rhetoric about developing a more equal economy. However, there are very real concerns that bear scrutinising, about the specific way in which devolution has been, and is being, implemented at national level, as well as devolved city-regional level. This briefing explores these concerns, and sets out an alternative vision both for how devolution could be approached by central government, and how GMCA policymakers might most effectively respond to the powers on offer.

DEVOLUTION TO THE GMCA: POWERS, CONDITIONS, AND PROGRESS

Devolution to Greater Manchester began in 2011 with the negotiations for a city deal⁶ upon which the GMCA was established. Further powers have been handed down through various iterations of this deal-making approach, which has been described by academics tracking the process as 'informal governance' – relatively uncoded in nature and characterised by the importance of social and professional relationships and networks.⁷ The ad-hoc policy style and resulting patchy nature of official documentation makes the process difficult to track and predict. However, one of the clearest aspects of the devolution deal is its conditionality upon consolidating the GMCA structure under the leadership of a directly elected mayor, which advocates argue provides clearer local accountability structures for the new powers being handed down.⁸ Many of the powers will not be fully drawn down until an elected mayor enters office in May 2017.

The main elements that we have identified so far are the following:

- **Creation of a Combined Authority and the position of elected mayor:** Established in 2011, the GMCA is directed by a mayor, held accountable by a cabinet consisting of the leaders of the ten local authorities. Greater Manchester Police and Crime Commissioner Tony Lloyd was appointed interim mayor in the run-up to the mayoral elections planned for May 2017, for which Andy Burnham has been confirmed as the Labour candidate, Sean Anstee stands for the Conservatives and Jane Brophy for the Liberal Democrats.

- **The integration of health and social care:** This is the most significant aspect of devolution, which reflects a long-standing national policy priority to deliver efficiency gains and improve services through health and social care integration. Through the devolution deal, Greater Manchester is one of the pioneers of this national policy agenda. In collaboration with the local NHS, devolved powers in this area cover a £6.6 billion budget. Integration operated in shadow form in 2015, and went live in April 2016.
- **Employment support:** The GMCA has received co-commissioning rights with the DWP 'working well' pilot which began commissioning projects in January 2016. The main objective is to reduce out-of-work benefit claimants. It was initially expected to cover 50,000 individuals by 2020, with a £100 million budget. It was set up as a payment-by-results mechanism, to be delivered by private contractors, with new payments and a phased programme expansion subject to evaluations to demonstrate success. In March 2016, the pilot was expanded from 4,000 to 15,000 interventions.⁹ In addition, central government has agreed to co-commission a new Work and Health programme from April 2017.¹⁰
- **The housing investment fund:** Established in 2015, the fund has given Greater Manchester access to £300 million to be drawn down over 10 years, conditional on constituent local authorities taking collective responsibility for repayment of £240 million by 2025. Housing development programmes must be delivered by the private sector, funded on the basis of recoverable loans, which the GMCA can recycle three times before returning funds to central government in 2025.

Draw down of funds from central government is scheduled as £40 million in year 1, £120 million in year 2, and £140 million in year 3. Plans are to develop 10,000 units of 'high quality, market-facing housing' per year, which will increase the private-rented and owner-occupied sector – especially targeted towards attracting a young, skilled, and highly mobile demographic. Interviews with relevant officials suggest that, incentivised by the ability to recycle recovered loan funds, 50% of the moneys had been committed by July 2016 – under the condition that private partners front-finance 50% of the contracted developments. By October 2016, a further £20 million had been committed to three private contractors to develop 150 units across three sites.¹¹ The August 2016 Greater Manchester Spatial Framework document, to be approved by the GMCA following the election of the new mayor, sets ambitions for the development of circa 230,000 new homes by 2035.

- **Transport:**
 - » Operational since 2013, the 'earn back' tax-increment financing mechanism was expanded in the 2015 deal. The GMCA will receive 30 annual payments of £30 million to invest in infrastructure, with further draw-downs being subject to reviews every five years to ensure that growth objectives are being met. So far the fund has been used to build extensions of the city's Metrolink and to accelerate the delivery of the SEMMS road strategy aimed mainly at reducing airport congestion. Building has also begun on a Metrolink extension to Trafford Park, the largest employment zone outside the city centre.¹² Future plans for earn back are to

deliver further expansion of the light rail network, and projects to increase connectivity between different urban centres in Greater Manchester.

- » The 2015 deal included powers for Greater Manchester to introduce bus franchising, and deliver integrated ticketing across all modes of transport in the area. Our interviewees argued this was a significant step in moving beyond the failings of a fractured transport system that has failed to deliver quality service to users. The devolution of management of train stations is another power received, which local advocates argue allows Greater Manchester to invest in peripheral stations that have been under-funded by central agencies in the past. Greater Manchester officials argue that this raft of measures as a whole will allow them to plan transport services more effectively across the area.

- **Devolution of business rates:**

In a move towards self-financing of local authorities, central government plans, through the Local Government Finance Bill (previously referred to as the Local Growth and Jobs Bill), to phase out the revenue support grant and replace it with the local retention of business rates by 2020. The GMCA is a trailblazer in this respect. In March 2015 plans were announced to allow Greater Manchester to retain 100% of growth in business rates from April 2017. This was announced alongside a national raise in the qualifying threshold, which will lead, at least in the short term, to a reduction in intake. However, it is expected that the elected mayor will also have the power to introduce a business rates'

supplement, subject to the support of the mayor's cabinet and with the agreement of the local business community through the Local Enterprise Partnership.

- **Power to vary council tax by 2%:**

In the 2015 autumn statement, George Osborne announced plans to allow councils to increase council tax by 2%, with the condition that funds raised are spent on adult social care. In December 2016, Theresa May's government announced that this ceiling would be raised to 3% over 2017/2018 and 2018/2019. This is a national measure that is not specific to Manchester but will likely interact with the devolution of health and social care to the GMCA.

There are plans in place to devolve further competencies to the elected GMCA mayor, some of which were passed through the Cities and Local Government Act (2016). The main developments include:

- Fire and rescue services to be absorbed into GMCA April 2017.
- The mayor to take on the role of the Police and Crime Commissioner.
- A commitment to establish principles governing expansion of prudential borrowing capacity.
- Powers to implement a Community Infrastructure Levy to spend on development, regeneration, and infrastructure projects.

THE SOCIO-ECONOMIC CONTEXT

The Greater Manchester region has a population of 2.75 million spread between 10 local authorities, with Manchester representing approximately 25% of the region's population (Figure 1). The devolution settlement essentially crystallises a history of collaboration between the 10 constituent local councils that goes back to the Association of Greater Manchester Authorities in 1985.

In terms of the national macro-economic context, the most salient development since the early 1980s is that Great Manchester has been affected by a wider pattern of economic divergence across the UK territory.¹³ This divergence process between London and the South-East with other British regions has resulted record-high regional inequalities, which are unparalleled in Western Europe.¹⁴ Reversing these regional inequalities is one of the main aims of devolution nationally.

Focusing specifically on the North West, beyond peaks and troughs, the region has diverged from the rest of the UK: its average income per head was about 10% lower than the UK average in 1989; it is now about 16% lower.¹⁵ However, Great Manchester has fared better than the North-Western average by keeping up with economic growth rates of other UK conurbations.¹⁶

But despite a relatively decent performance throughout the 2000s and 2010s, Great Manchester's income per head is still 8.3% lower than the EU28 average (Figure 2) – an average which includes the poorest regions of the EU. Similarly, its productivity growth has lagged similar EU agglomerations – for example comparable second-tier cities in France and Germany.¹⁷

FIGURE 1: POPULATION BREAKDOWN OF GREAT MANCHESTER

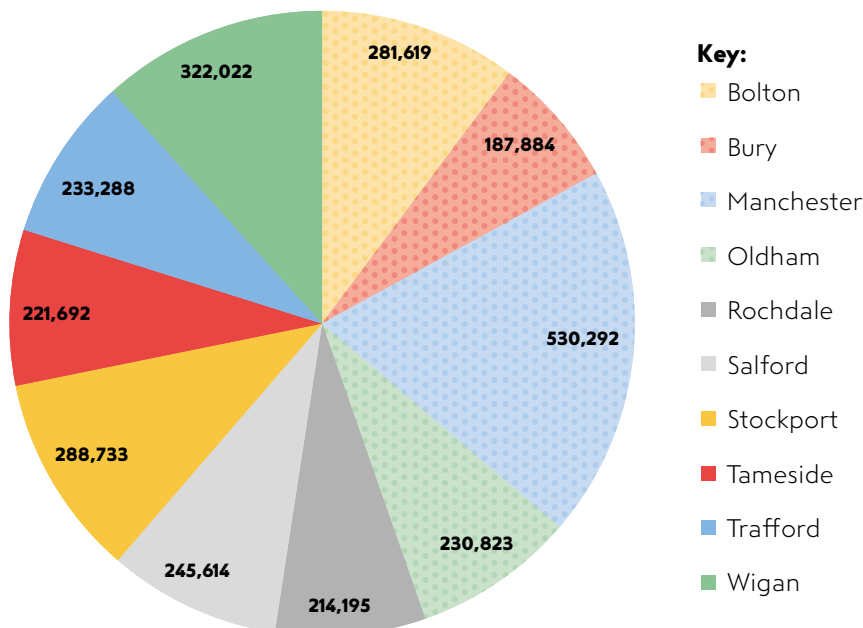


FIGURE 2: AVERAGE INCOME PER HEAD BY NUTS2 REGIONS COMPARED TO EU-28 AVERAGESource: NEF based Eurostat¹⁸

Great Manchester is, on average, not only lagging UK average economic performance – both in terms of income per head and productivity – but also behind comparable second-tier European cities. Some of the policymakers we interviewed in both Whitehall and Greater Manchester framed devolution explicitly as a response to this relatively poor performance. Although this was sometimes expressed in reference to London, the overriding logic is that it is not possible for the UK's peripheral regions such as Greater Manchester to catch up with London – nor is it

seen as desirable, for fear of holding London back as an economic dynamo. Comments by one Treasury official encapsulate this broad consensus:

*"We do not want to hold London back. We want to level up over time. London is not the only reference point here. There are many others, compared to other European cities, Northern Cities underperform. We have a serious issue in our second-tier cities compared with France, Germany and probably even Spain – suggesting there is untapped potential."*¹⁹

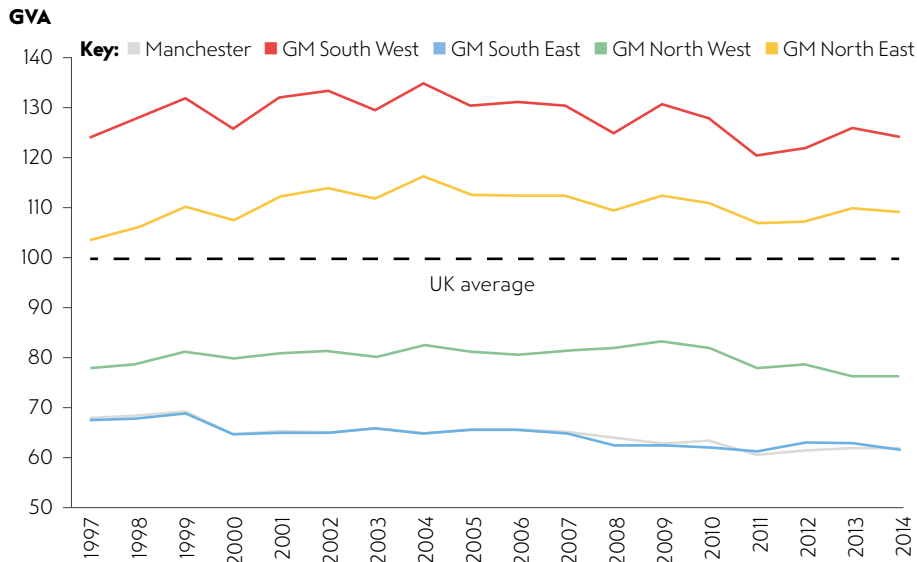
The devolutionary logic is that it can unlock this untapped potential. Our baseline analysis shows that Northern regions of the UK also post lower levels of employment, as well as performing worse on health and education indicators, such as life expectancy and the proportion of people with higher education degrees, respectively (Appendix 1). The logic underpinning devolution is that decentralising decision-making to more local units will enable policy-making that is more responsive to local circumstances and therefore produces an economic dividend that will lead to improvements in these, and other, areas.²⁰ In the next section, we take a more detailed look at the plans that policymakers are developing and assess to what extent they can achieve these aims, as well as develop the fairer, more sustainable, and balanced economy that we advocate at the New Economics Foundation.

DEVOLUTION TO THE GMCA: POLICY INTENTIONS

Through our research three policy areas emerged as the central pillars of the devolution deal in Greater Manchester: economic development, public service reform, and political reforms. Within each, we set out an overview of the goals of the GMCA; the strategy being developed to deliver these; our evaluation of the goals and strategy; and some consideration of alternative approaches.

Economic development

The main priority for all local and national policymakers we interviewed is for devolution to deliver economic growth. This priority is reflected in an annual 2.5% GVA increase in the Spatial Framework consultation document published in August 2016.²¹ Related to this is the ambition of closing the output gap with national averages and comparable second-tier European cities, which, as already explained, is seen as a more realistic, and desirable, ambition than catching up with London. The focus on redressing imbalances within the region is less explicit from our interviews. However, as illustrated in Figure 3, there are wide differences within the conurbation of Greater Manchester. Geographical disparities are between the relatively affluent central and South West areas, scoring above national average in income per head, and South East, North West, and North East areas that are well below. Data within the Greater Manchester Spatial Framework provides a more granular picture of these imbalances: Central Manchester has an average annual income per head above the UK average while Bolton's, Wigan's, or Oldham's income is significantly lower than the UK average.²²

**FIGURE 3: GVA OF GREATER MANCHESTER'S REGIONS AS A PROPORTION OF UK AVERAGE:
NEF BASED ON OFFICE FOR NATIONAL STATISTICS²³**

Where they do arise within current policy, concerns with delivering intra-regional rebalancing are tied into the notion that growth will be delivered as the 'indigenous' populations benefit from increasing the region's role as a growth dynamo. This relies heavily on the assumption that economic opportunity and wealth will trickle down, and that geographical disparities will be ironed out in the process – an assumption that, as will be explained, we find problematic.

Accordingly, within the documents and interviews we analysed, all powers being devolved are framed in one way or another as policy levers to deliver growth. Public service reforms in welfare, education, and skills are seen as a mechanism to boost greater labour market participation by Greater Manchester's existing residents. Transport and infrastructure investments are explicitly linked to central government objectives to increase Greater Manchester's GVA; social policy areas such as housing and health and social care are also tied into this. For national politicians, the primary objective of the integration of health and social care is to reduce

pressure on acute hospital services.

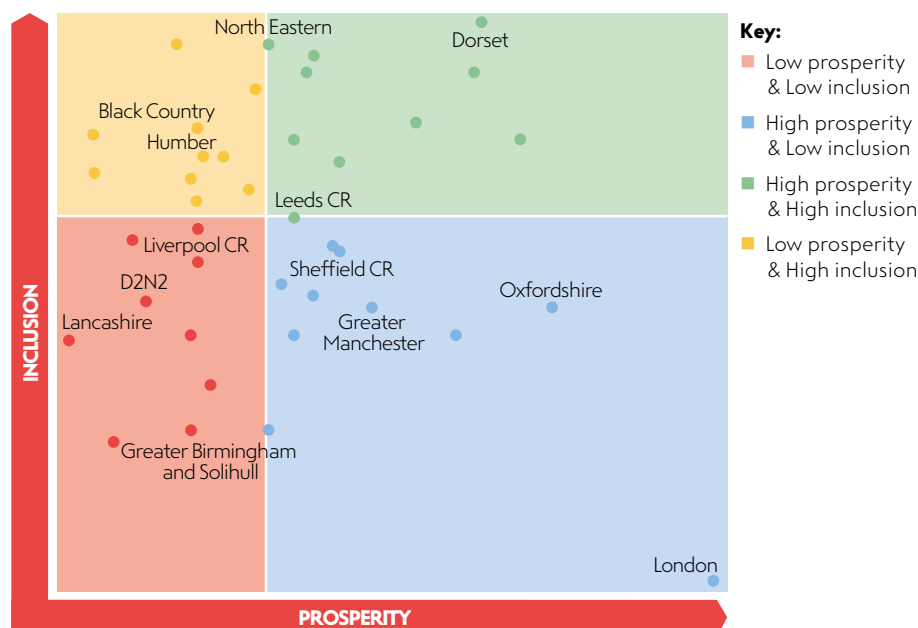
At GMCA level, greater control over health appears also to be linked to an ambition to increase participation in the labour market, especially through improved mental health interventions. In housing, the main ambition is to increase the proportion of private rentals and owner occupation, which is itself linked to a strategy seeking transformation of the labour force by attracting young, affluent, and highly skilled workers who, our respondents suggested, currently commute to Manchester from surrounding areas, especially Cheshire – essentially, a substantial demographic change. Thus, the Greater Manchester Spatial Framework foresees population growth of 294,800, and sets a target of 227,200 new homes by 2035. Accommodation needs for new dwellers are to be delivered by private sector property development, perpetuating a trend since de-industrialisation in the 1980s.²⁴ Complementing this, improved early intervention in schools, incentives, and punitive social policy measures are intended to increase employment of the indigenous workforce and future cohorts.

Ambitions to close the UK output gaps are hampered by a continuation of what has been called the “Anglo-liberal”²⁵ / “privatized Keynesian”²⁶ growth model (based on consumption fuelled by private credit, housing price inflation, and service industry concentrated in the South East) which is structurally advantageous to London and the South East.²⁷ Despite this context, Greater Manchester’s “growth at all costs” strategy may deliver increased GVA. The main problem is that the kind of economic development which is being planned rests on the assumption that a rising tide lifts all boats. Unfortunately, this is a well-trodden path towards increased inequalities and the displacement and marginalisation of significant parts of the population. Figure 4 uses data from 2010–2014 to correlate ‘prosperity’ (a compound measure made up of multiple indicators of human capital, employment, and output) with ‘inclusion’ (measured by indicators of income disparity, living costs, and unemployment/economic inactivity).

Figure 4 shows a relatively weak correlation between both measures, with London as a notable outlier. Interestingly, relative to other British metropolitan areas and regions, Greater Manchester sits within the ‘high prosperity, low inclusion’ quadrant, suggesting that a significant part of the local population is locked out of the proceeds of growth. It is possible these patterns of exclusion also match onto the intra-regional inequalities shown in Figure 1.

We do not expect that the GMCA’s plans under the new devolution deal will reverse this situation. First, the speed with which growth is sought is greater than the speed with which sufficient capacity for existing populations to take part can be developed – for this reason demographic change is both an outcome and a strategy. Second, and related to this, the parallel economy, or ‘gentrification effect’, can be expected to be deepened between those able to and those unable to participate in the

FIGURE 4: REGIONAL INCLUSIVE GROWTH BETWEEN 2010 AND 2014 SHOWS AREAS ARE STRUGGLING TO BOOST PROSPERITY AND INCLUSION²⁸



well-paid economy and occupy new, private accommodation. Indeed, recent research into the relationship between city growth and poverty alleviation in the UK from 2000 to 2010 concludes that the relationship is tenuous at best. Decreasing poverty depends on the kinds of jobs created and who accesses them. There is a danger that the kind of economic development being planned in the GMCA will not deliver for existing residents.²⁹ Third, a focus on increasing the 'aspiration' of disadvantaged communities risks placing the blame on those individuals for their predicament, rather than focusing on the underlying structures of inequality. This logic very much underpins changes in the scope and focus of welfare provision which will exacerbate social inequalities.

We suggest that ambitions to deliver increased growth need to be more clearly aligned with strategies that ensure a fairer distribution of opportunities and proceeds. The GMCA is influenced by theories of urban agglomeration, positing that cities can follow generic approaches to development based on the clustering of enterprises in specific sectors where they can develop competitive advantages. This approach has been criticised for failing to understand the diversity of cities as well as the dependence of their development on variable historical legacies, economic 'hinterlands' (including geographical surroundings and national / international economic networks) and national economic contexts.^{30,31} The urban agglomeration approach is a deficient framework for policy making. As such, we recommend that GMCA policymakers should be more creative.

DEVOLUTION DEALS AND PRODUCTIVITY

The self-stated objective of current devolution deals is to raise the productivity of peripheral UK regions. One way of expressing productivity is in terms of output produced per hour worked. This measures the efficiency of an economy in producing goods and services, and, to a great extent, it determines national income (GDP) per head. Overall, the UK has consistently lagged behind many of its international counterparts: British workers need to work longer hours to produce the same value of goods as their German or French counterparts. But this pattern is localised: whereas London and the South East have higher-than-EU-average productivity, most British regions, including Greater Manchester, are lagging.

Regarding devolution initiatives, the overwhelming focus on productivity growth raises three questions: should productivity growth be the only economic target of devolution initiatives? Is higher productivity growth alone likely to result in inclusive regional growth models? Are current devolution plans likely to deliver higher productivity growth, and be successful against their own targets?

First, productivity growth is not an end in itself, but can be a means to achieving more and better jobs, higher wages, and a better quality of life. Historically, productivity has been central to raising living standards, but there is no automatic link between average productivity growth and an increase in living standards for all. For example, average productivity can be pulled up by a handful of concentrated high value added economic sectors

which are detached from local economies and the local population – resulting in what French economic geographer Pierre Veltz has called an “archipelago economy”, a model whereby high productivity agglomerations linked to the global market become detached from their hinterlands.³² The example of London’s agglomeration clearly contradicts that wealth simply trickles down to the benefit of everyone just because a concentration of high value added activities is taking place.³³

Secondly, the GMCA deal’s definition of economic success is narrow. The economy is, of course, composed of the market sector, which forms the basis of mainstream economic indicators such as GDP or GVA. But the economy is also composed of, and depends on, realms of life which are not represented or accounted for by the market economy. This includes, for example, the environment, on which economic activity ultimately depends, as well as what is commonly called the core economy – human activities such as care, social participation, or citizenship, which support the economic system and societal wellbeing without being accounted for in conventional economic metrics. These crucial components of the economic system are peripheral to the GMCA agreement as it stands.

Thirdly, as the foundational economy literature highlights, a significant part of economic activity in regional economies does not take place in the realm of high-end technology sectors, or high productivity activities – but in services such as retail and wholesale, social care and healthcare, or utilities distribution.³⁴ Although developing clusters of high productivity sectors (e.g. sectors linked to high-end manufacturing or creative services) is certainly important, these sectors are unlikely to provide a sufficient

number of good jobs across all Greater Manchester’s communities. As such, interventions which aim to improve local supply chains in more mundane sectors of regional economies are necessary for increasing incomes and jobs retention across local communities. For example, empirical research has shown that money spent in local shops brings about 2.5 times more value to the local economy and local jobs compared to money spent in chain stores.³⁵ Empowering Greater Manchester’s communities to strengthen sectors in the foundational economy should be central to devolution efforts.

Fourthly, the current GMCA deal seems set to fail even on its own terms, as it takes a narrow approach to raising productivity. Although productivity growth is a complex and multifaceted phenomenon, there is wide agreement that the key causes of the UK’s poor productivity performance have historically been:³⁶

a) Low private investment in new plants, machinery, and tools. Low investment has notably been driven by the short-term profit imperatives of the shareholder capitalism model, as well as lack of provision of sufficient patient finance for companies across the counties, in particular for small and medium enterprises (SMEs).

b) Low public and private research and development spending, which has historically hindered both cutting-edge innovation and the uptake of new technologies across all sectors of the economy.

c) Low investment in public infrastructure, such as transport or communications networks, including high-speed broadband across the UK territory. Poor infrastructure impedes better business performance.

d) A skills and education gap.³⁷

The UK has one of the highest rates of youth innumeracy and illiteracy of all OECD countries. The skills and education gap in turn is heavily determined by high socio-economic inequalities which impede the educational advancement of most disadvantaged groups.³⁸

The GMCA deal comprises no instruments to tackle poor productivity drivers, such as low business investment or the skills and education gap. And although it does encompass mechanisms for improving public infrastructure, the financial and institutional firepower granted to local and regional authorities is in reality extremely limited. It is consequently doubtful that the instruments devolved to Greater Manchester authorities will be a game changer for improving the area's economic performance.

The focus on achieving rapid growth through agglomeration and competitive advantage should be complemented, and tempered, by alternative approaches, including community economic development, social innovation, and a focus on improving conditions in the less glamorous foundational economy.³⁹ Such an approach would include developing an economy made up of smaller enterprises and a variety of ownership models, an economy that is designed to deliver on a range of broader socio-economic outcomes beyond increased GVA. To be sure, the incentives of devolution deals from central government are not aligned to these ambitions, but local policymakers can still exercise discretion. We encourage GMCA

officials to take inspiration from international examples of alternative approaches to economic development, including the development of the social economy in Quebec which was underpinned by a long term strategy that developed the necessary business support infrastructure, especially in local finance.⁴⁰ For example, the GMCA could give greater consideration to how health and social care budgets, for example, can be aligned with economic development powers to develop similar approaches.

Public service reform

One of the main arguments made in favour of devolution is that it can lead to more locally responsive and accountable public services. Indeed, having gained increased influence over health as well as (to a more limited extent) employment support, GMCA policymakers are pushing for increased powers over education and skills, but report significant resistance from central government for devolution in this area. The main pillar of public service reform linked to devolution is currently the integration of health and social care, whereby Greater Manchester will collaborate with the local NHS in the management of a £6.6 billion budget. The main aim underpinning integration is the need to contribute to fiscal consolidation through generating greater efficiencies. GMCA officials highlighted that if the current trajectory continues, there will be a 2.1 billion funding shortfall by 2021 in local health and social care. More localised delivery and integration of health and social care is a key plank of the strategy to deliver efficiencies and stop "paying for the costs of failure" as one official put it. The shift to an integrated model is supported by a £450 million transformation fund provided by central government. Health policy aims to engender behaviour change that leads to health

improvement, especially around greater prevention and focusing on the social determinants of health. This is complemented by the search for more efficient, joined-up, person-oriented pathways that integrate providers, NHS commissioners, and local authorities within and across localities as well as changes in clinical provision aimed at reducing duplication across hospitals. The main development has been the creation of pooled NHS and social care budgets across the 10 local authority areas.

The £300 million housing fund is another important aspect related to public service reform – insofar as it is contributing to the perpetuation of the national model of predominantly private housing provision. Although a reduction in social housing is not an explicit aim of devolution, policy officials were clear that this would be an effect of national policy against which devolution should not be used as a shield. Indeed, the devolution deal specifies that moneys from the housing fund are to be used to provide loans to private providers. We agree with the recent assessment made by the Centre for Research on Socio-Cultural Change that this approach perpetuates a model that favours private property developers at the price of exclusive growth and gross inequalities. There remains a huge gap in provision of alternative funds for Greater Manchester to embark on a substantial social housing programme.⁴¹

Broadly, the approach to public service provision continues to be one of outsourcing the delivery of services to private contractors, sometimes with the use of payment-by-results mechanisms, such as in the working-well employment support scheme. In employment support, this is a requirement of the devolution deals, and there is therefore little space for

change. Research into outsourcing has demonstrated that this risks both waste and inefficiency, and increases the influence of corporate interests over politics.⁴² National policy change is necessary here. However, in housing, for example, the GMCA has some discretion to make demands of private developers. The same applies to interaction with the private sector more generally. A recent report outlining an economic strategy for Wales argued that the public sector could “raise the social ask”⁴³ of private firms delivering basic goods and services: the GMCA could follow this approach to ensure that businesses operating locally make a fair contribution to the Greater Manchester economy, and to increase the social impact of public funds spent financing projects led by the private sector – local labour clauses, public realm development, and local procurement commitments are just some of the ways a more positive social impact could be achieved.

It is in transport where local policymakers are most critical of the previous approach to delivery, arguing that the outsourcing model has led to a fragmented service while delivering returns for private providers. By taking control of local bus franchising and integrating ticketing across trains, trams, and busses, Greater Manchester officials plan to improve intra-city connectivity. While local policymakers welcome increased powers, they also note that the national austerity imperative is holding them back. They mentioned projects that are either on hold, or have been modestly delivered. For example, Greater Manchester would like to significantly develop an active travel agenda based on cycling and walking, but progress has been limited because of funds. “We’ve had a bit of money to do that, but we’re not going to become Amsterdam”, as one official put it.⁴⁴

Finally, as noted earlier, many of the welfare policies and plans are underpinned by a logic of responsabilisation, i.e., justifying changes in the scope and focus of welfare provision that places the onus on individual behaviour change. This includes 'workfare' models based on meeting training and employment conditions, using a carrot-and-stick approach. This approach is locked in by programmes such as the Working Well pilot, which focuses on individuals and pays providers once outcomes such as a return to employment are met. This is concerning, especially given that the prevailing approach to economic development is likely to marginalise and displace significant parts of the current population. It is also compounded by a punitive approach to welfare provision that mistakenly attributes failings to individuals. This narrative justifies an approach that continues to seek trickle-down dividends, while also retrenching welfare provision, or reconfiguring it in ways that are based on what we argue is a misdiagnosis of the failings of social policy.

Political reforms

Devolution to Greater Manchester was conditional on the establishment of a Combined Authority led by a directly elected mayor. This office was set up in 2011 and has been operating in an interim capacity, in the lead-up to elections in 2017. Our desk research suggests a decision was made not to go for a London-style elected assembly.⁴⁵ Arguably, an elected assembly model may have increased the democratic quality of local institutions. The decision *may* have been taken in order to increase buy-in to the formation of the GMCA and cater to the devolutionary ambitions of the leaders of the 10 local authorities. We are not aware of any other processes being set up. However, the handing down of powers and budgets cited

in this report will generate new demands and require the creation of new policy-making processes to channel these. In more decentralised political systems, a greater amount of political activity is directed at local institutions; local politics is more salient. The key question is regarding the quality of the institutions that exist and their ability to channel demands. These are of electoral and non-electoral varieties, such as elected mayors or different forms of public consultation and participatory policy-making. The extent to which the political processes that accompany devolution will improve governance and democracy is an open question. Supporters of decentralisation claim that it can provide clearer channels for participation and accountability, while critics argue that it could increase opportunities for elites to capture policy processes.

As noted, mayoral models have been favoured for their ability to increase responsiveness and accountability; however, the main advantage identified by respondents to our research was increased bureaucratic capacity. We find this a concerning reflection of a broader absence of ambitions for democratic renewal through devolution. This came through in our interviews with Treasury officials and is also reflected in evaluations of the devolution process at national level.^{46,47} However, there was also little attention given to considerations of local democracy by local actors. Given the radical ambitions of the devolution agenda to reshape Manchester, this lack of involvement of citizens poses serious questions as to the legitimacy and sustainability of the process. If the local public is not engaged in devolution, lower electoral turnouts could legitimise a drawback of powers by the centre, which would further reinforce the centripetal dynamics of British statecraft.

As well as increasing local buy-in and therefore ensuring the sustainability of the current drive towards devolution, participatory democracy could ensure that devolution evolves in ways that are more favourable to existing residents and ‘ordinary’ people. The GMCA is undertaking some public engagement following traditional approaches, such as survey-based engagement techniques, to understand citizen priorities for health and social care policy,⁴⁸ for example. Consultations have also been held on the broad question of how the GMCA should use its powers⁴⁹ as well as to seek responses to proposals for a spatial strategy.⁵⁰ We suggest, however, that devolution offers Greater Manchester an opportunity to be more ambitious and creative, and become a pioneer of democratic innovation in the UK. Comparative analysis of *genuine* participatory budgeting,⁵¹ for example, has demonstrated that this can increase the effectiveness of public spending by delivering investments that cohere to the priorities of existing populations. It also empowers citizens and civic groups to take part in the process and can make substantial contributions to distributive justice.⁵²

We say ‘genuine’ because as it travelled the globe, participatory budgeting has been designed and implemented differently. Especially in its application in the UK (and Europe more broadly), more modest versions have been adopted. Its central aim – to deliver social justice by empowering citizens to influence significant budgets – has been dropped in favour of a softer approach that seeks simply to increase engagement in local politics. This has led to changes in its institutional design that have rendered participatory budgeting less able to deliver meaningful change.⁵³ However, while it is no panacea, a commitment to meaningful and large-scale participatory budgeting could successfully connect a democratic renewal agenda with the need for the proceeds of local economic development to be more equitably shared amongst the population of Greater Manchester.

CONCLUSIONS AND RECOMMENDATIONS

While we support the decentralising and democratising ambitions that the devolution agenda offers, we are concerned about how the process is being driven and carried out at national level. These are important concerns in themselves, but also because they impinge on the way in which devolution is taking shape from the bottom up. We summarise here four concerns with the national process and three concerns with how devolution is unfolding in the GMCA. If devolution is going to deliver on stated ambitions for a more inclusive, equal, and balanced UK, the new government should take heed of the following:

National process:

- **Devolution needs broader economic policy change.** Devolution has not been accompanied by a rethink of the broader economic model followed by the UK. The country continues to be dependent on consumption fuelled by private credit, a deregulated financial sector, and housing price inflation as well as service sector growth in the South East. Devolution deals aim to enhance business-led growth, with local areas focusing on developing competitive advantages which will produce growth and a trickle-down effect. This approach is essentially akin to the model for regional growth followed by New Labour, adding devolution deals and subtracting some of the redistribution from growth in the South East through public sector job creation and welfare. This was a strong characteristic of the British political economy in the New Labour years. The current approach is highly likely to result in increased social and spatial inequalities. The Brexit vote can be understood as

a loud scream for a fundamental rebalancing between and within regions: this is not the current direction of travel.

- **Fiscal devolution needs re-thinking.** More financial independence for local authorities is a very welcome development. But the current approach risks backfiring on several fronts. First, dependence on business rates threatens a regulatory race to the bottom by encouraging competition between areas to attract new businesses. This would result in a simple displacement of economic activities from one place to another resulting in a zero-sum game between regions, rather than an actual increase of businesses. Second, a dependence on business rates alone means that local government income will be highly dependent on economic fluctuations, which would generate significant uncertainty while hindering its capacity to deliver in difficult times. Third, there is a mismatch between the capacity to increase funds from business rates and the needs across different areas: clearly, poorer areas have high needs (notably investment needs to improve infrastructure and private sector performance) and these areas will face the double-whammy of high need and low tax-raising capacity. This clearly risks a vicious cycle for poor regions. Avoiding this febrile form of localism will depend on whether and how equalisation and redistribution measures are embedded in the system.
- **Devolution is too top-down.** Some steps towards decentralisation have been taken through devolution deals. However, the powers on offer, and the conditions under which they are decentralised, reflect first and foremost the priorities of central government in terms of achieving increased

aggregate growth and reducing public spending.⁵⁴ Moreover, central government retains the ability to pull these powers back, or reward local authorities, depending on evaluations of growth delivered, as in the earn-back model, where new sources of capital expenditure accessed are subject to central approval that moneys are well spent. Freedom to spend in a manner approved of by central government is hardly localist. Powers allowing local authorities to increase council tax by 2% are conditional on those moneys being spent on adult social care, and there are no powers to reform council tax itself by making it more progressive. In short, devolution deals grant some financial powers to deliver centrally determined objectives, and are underpinned by a logic that is reminiscent of the 'earned autonomy' principle underpinning previous approaches to the centralised management of local government.

- **The approach to deal-making undermines *democratic decentralisation*.** Devolution deals have been developed through negotiations between local and national elites behind closed doors. This approach of informal governance has the virtues of increasing flexibility, adaptability, and speed in decision-making, but these gains come at the cost of transparency and accountability. The approach purportedly enables deals to be crafted to meet local need and capacity. However, researchers report that for other cities, the context of uncertainty and lack of knowledge regarding what's on the table has ironically led to the GMCA model becoming a blueprint for other regions.⁵⁵ Moreover, the deal-making approach has not engaged in any substantial way with citizens. Politicians might claim

that their legitimacy as elected officials is sufficient. However, if devolution does constitute a fundamental change for the British state (as claimed in the rhetoric), then electoral links are hardly sufficient in terms of democratic legitimacy, especially given the well-documented ailments of local, and national, representative democracy in the UK.

These issues lead us to be sceptical of the prospects for devolution in its current form to deliver the kind of socially just and sustainable political economy that the New Economics Foundation would like to see.

Despite this unfavourable context, however, there is some leeway for Greater Manchester to leverage new powers in pursuit of an alternative economic model. To capitalise on this leeway effectively, it will be important for Greater Manchester policymakers to avoid repeating the failings of previous approaches. We have identified three main constructive recommendations to policymakers working on devolution now and in the immediate future:

- **Challenge the dominance of a trickle-down logic.** Plans for economic development are underpinned by an assumption that wealth trickles down, which has been shown to be fundamentally deficient at improving economic and social outcomes for communities. Local policymakers are prioritising an approach that focuses on boosting the city centre; delivering big business-led development mainly through external investment; and generating demographic change by attracting younger, more affluent, and highly skilled residents. This is a well-trodden path towards gentrification, the marginalisation of existing residents, and increases in inequality. We argue

that policy needs to be composed of a judicious mixture of exogenous and endogenous approaches to economic *development*. Growth is an important part of this development model, but should feature alongside other, equally important, measures of socio-economic performance. The dominance of aggregate growth as a measure of success and a driver of strategy is understandable, given the conditions imposed upon Greater Manchester by central government. However, we think more can be made of these powers to deliver for, rather than displace, *existing* communities. It is important to take this approach if devolution is to work for Greater Manchester, but it is also important that other areas follow it if devolution is to prove a sustainable model for an improved political economy. The Joseph Rowntree Foundation has recently developed an inclusive growth index that highlights the failure of growth to deliver prosperity for all, but also offers one potentially useful tool that policymakers could use to track progress, in Greater Manchester and other regions.⁵⁶

- **Be wary of a focus on responsibilisation.** Within our research, GMCA officials explained the failure of the city-centre-focused growth model, at delivering for the wider community, in terms of the personal failures of those in disadvantaged positions to take advantage of previous opportunities offered by economic growth, and dependency on a generous welfare state. We question the causal logic underpinning this approach: ills such as social inequality and unemployment cannot be explained away at individual level, but are *systemic* failings. However, this narrative justifies an approach that continues to seek dividends from trickle-down approaches, in much

the same way seen in the Thatcher and New Labour eras, with the added dimension of retrenchment in welfare provision, as well as policies that are more aggressive in their use of carrots and sticks to incentivise individuals to benefit from an increase in the 'size of the pie', for example, by prioritising on social housing lists those who have made a 'community contribution' (i.e., participated in education, training or employment).⁵⁷

- **Paying attention to the need for local democracy.** Elsewhere, we have argued that devolution is an opportunity to revitalise local politics and democracy, by engaging citizens and moving power closer to them.⁵⁸ However, the notion that devolution might revitalise local democracy was notable for its absence in the interviews we carried out. Arguments in favour of a mayor's office were cast in terms of the increased bureaucratic capacity to handle new powers and responsibilities, rather than in terms of improved accountability and participation in local politics. Moreover, the role of civic participation is currently limited to fairly generic, consultative forms of engagement. Devolution could offer Greater Manchester an invaluable opportunity to experiment with radical approaches to participatory democracy that should be explored to a greater extent. Comparative analysis of *genuine* participatory budgeting, for example, has demonstrated that this can increase the effectiveness of public spending and empower citizens and, in doing so, contribute to distributive justice.⁵⁹ Greater Manchester should embrace this opportunity to become a pioneer of democratic innovation and renewal.

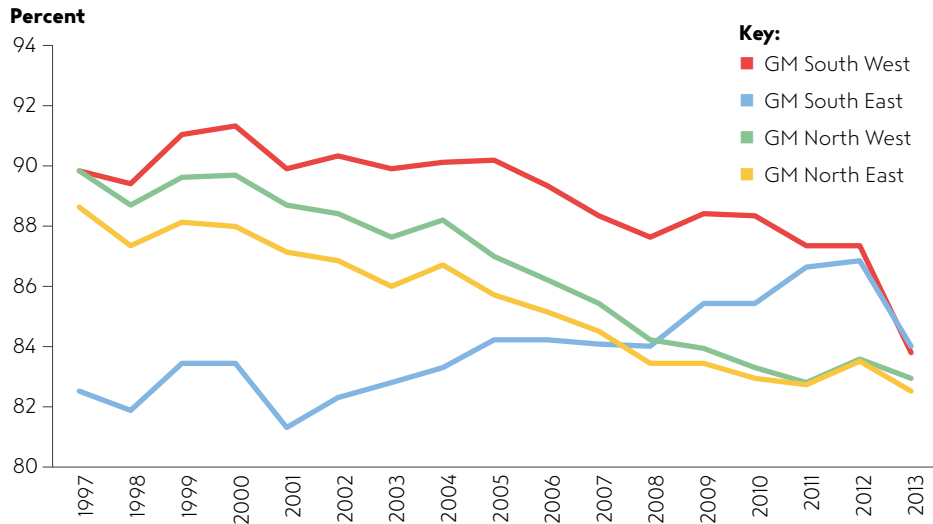
**APPENDIX 1: SOCIO-ECONOMIC CHARACTERISTICS
 OF GREATER MANCHESTER IN PERSPECTIVE**

	GREATER MANCHESTER	UK AVERAGE	GREATER LONDON
GROSS VALUE ADDED PER HEAD OF POPULATION (CURRENT BASIC PRICES)	£21,626	£25,601	£43,629
GVA PER HOUR WORKED (LABOUR PRODUCTIVITY)	£25.8	£27.8	£36.5
MEDIAN HOURLY PAY (EMPLOYEE JOBS)	£11.32	£12.18	£14.96
EMPLOYMENT RATE, % OF 15-64 YEARS	69.6%	72.7%	71.7%
PROPORTION OF EMPLOYEES PAID BELOW THE OFFICIAL LIVING WAGE	25.8%	24.4%	19.1%
TERTIARY EDUCATIONAL ATTAINMENT, % OF 25-64	46.5%	47.4%	63.9%
NOT IN EDUCATION, EMPLOYMENT OR TRAINING (NEET), % OF 15-24	13.6%	11.9%	9.7%
AVOIDABLE MORTALITY RATE PER 100,000 OF POPULATION	222.96	195.4	204.6
LIFE EXPECTANCY AT BIRTH (YEARS)	79.7	80.8	82.5

 Sources: Office for National Statistics and Eurostat Regional Accounts⁶⁰

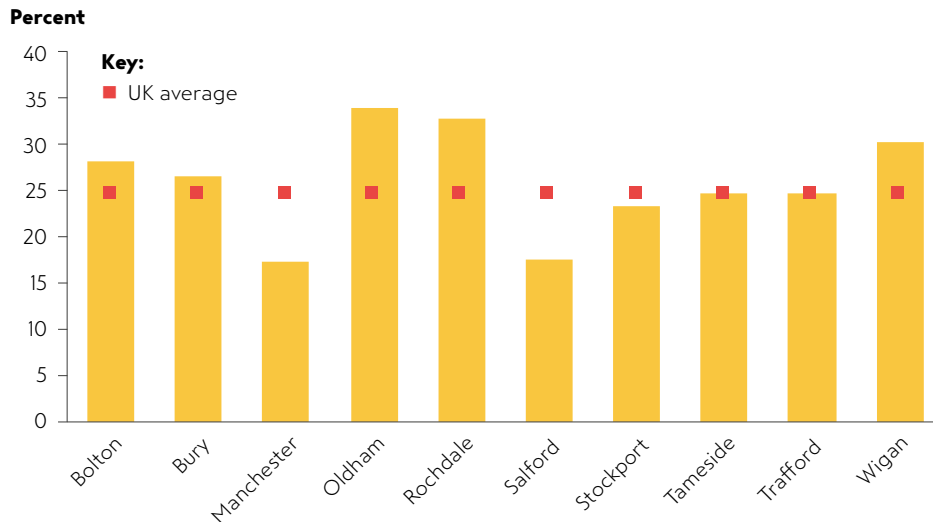
APPENDIX 2: SELECTED SOCIO-ECONOMIC DISPARITIES WITHIN THE GREATER MANCHESTER REGION

**FIGURE A1: HOUSEHOLD DISPOSABLE INCOME AS A PERCENTAGE OF UK AVERAGE ACROSS
SECTIONS OF GREATER MANCHESTER (UK AVERAGE = 100)**

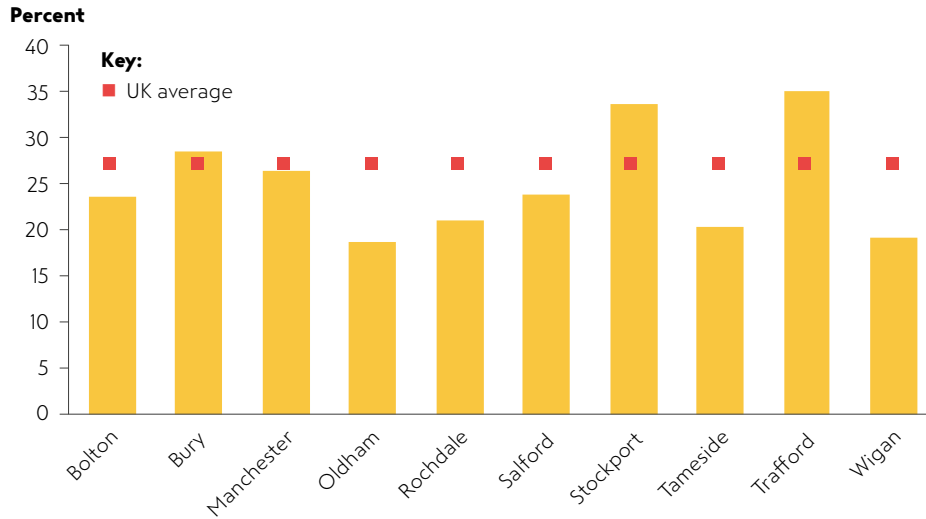
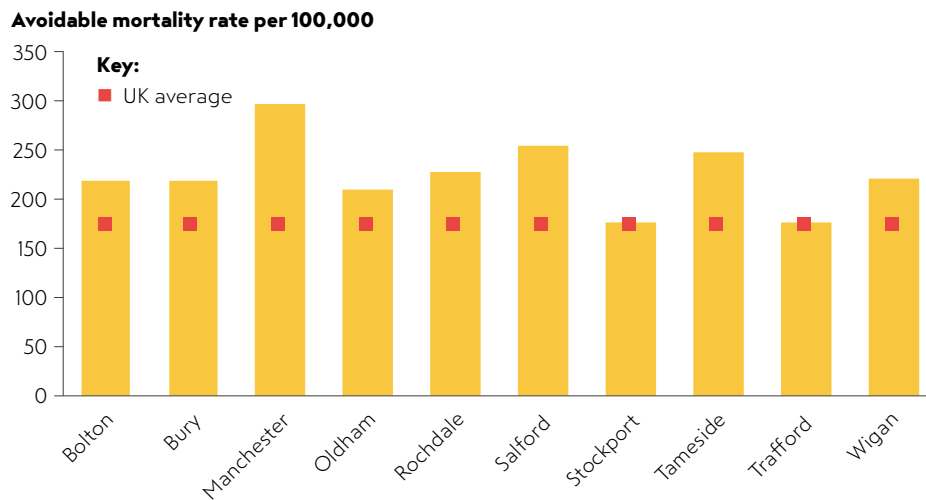


Source: Office for National Statistics⁶¹

**FIGURE A2: PERCENTAGE OF EMPLOYEES PAID BELOW THE OFFICIAL LIVING WAGE ACROSS
GREATER MANCHESTER'S LOCAL AUTHORITIES**



Source: Office for National Statistics⁶²

**FIGURE A3: PROPORTION OF POPULATION WITH LEVEL 4+ EDUCATIONAL ATTAINMENT
ACROSS GREATER MANCHESTER'S LOCAL AUTHORITIES**Source: Office for National Statistics⁶³**FIGURE A4: AVOIDABLE MORTALITY RATE PER 100,000 INHABITANTS ACROSS GREATER
MANCHESTER'S LOCAL AUTHORITIES (2014 AS PER LATEST LOCAL FIGURES)**Source: Office for National Statistics⁶⁴

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