JUNE 2021

Equal opportunity?

Making sense of 'levelling up'

CIPFA The Chartered Institute of Public Finance & Accountancy

PF Perspectives

This is the 12th in a series of *PF Perspectives*, produced by CIPFA and *Public Finance* to stimulate discussion on key public finance and policy issues. This collection of essays, by leading public sector practitioners and experts, explores what the UK government's flagship policy of 'levelling up' actually means and how its aims can be achieved

CONTENTS

FOREWORD

ROB WHITEMAN
Chief executive of CIPFA

Editor
Colin Marrs

Consulting editor
Karen Day

Design
Gene Cornelius
Gary Hill

Illustrations
Dan Funderburgh
Paddy Mills

Printing
The Manson Group

Redactive Publishing Ltd
Level 5
78 Chamber Street
London E1 8BL
020 7880 6200
www.publicfinance.co.uk

redactive

CIPFA The Chartered Institute of Public Finance & Accountancy

Tel 020 7543 5600
Fax 020 7543 5700
www.cipfa.org
CIPFA, 77 Mansell Street,
London, E1 8AN

ISSN 2058-1777

'Levelling up' has become the Johnson administration's buzzword *du jour* – when we are not talking about Covid-19, that is.

While a clear definition of what 'levelling up' means in practice has yet to be fully articulated, the overall gist is of a drive to tackle outcomes gaps across the country and to unlock untapped potential and productivity. Such lofty ambitions are certainly admirable and generate excellent, positive public relations. However, as is often the case, the devil will be in the detail.

Inequality across a diverse range of measures is at an all-time high in the UK. The pandemic has widened the existing gap between the 'haves' and the 'have-nots'. Research by charity the Health Foundation into the impact of coronavirus has demonstrated that poorer areas are more likely to have experienced high death rates and intense financial hardship. At the same time, young people are most likely to have lost employment – one in three 18- to 24-year-olds were put on furlough or lost their job. This is twice the rate seen among working-age adults.

The public will expect the 'levelling up' agenda to directly target some of these immediate and worrying trends in order to kickstart economies at the national and local level. In her essay on p9, Erica Roscoe from IPPR North outlines the argument for education, to equip people with the skills that will be needed once the economy fires up again. However, the 'levelling up' agenda is not all about closing economic or wealth gaps. Roscoe outlines the additional case to use formal education as a mechanism to instil ambition and raise the aspirations of young people, irrespective of background.

As a committed localist, I also have no doubt that devolution has a substantial role to play. No two localities are the same, and local leaders remain best placed to direct activity to 'level up' their area. On p32, Jonathan Werran, chief executive of think-tank Localis, asks the key question in this area – is 'levelling up' to be taken seriously as something even remotely attainable without some form of increased fiscal decentralisation or devolution? With government having recently announced its decision to scrap the devolution white paper to focus on 'levelling up', this question resonates particularly strongly. Has this decision put the brakes on the ability to 'level up' in any meaningful way before we've even begun?

This edition of *PF Perspectives* attacks the 'levelling up' debate from a multitude of angles. But on one thing we are all agreed – there is a long way to go, with many considerations to be taken into account, before meaningful change is felt on the ground within communities. Time will tell how the government's ambitions play out.

CONTRIBUTORS

ROB
WHITEMAN

CIPFA's chief executive. He previously led the UK Border Agency and the Improvement & Development Agency (IDeA), and was chief executive at Barking & Dagenham Council

LINDSAY
JUDGE

Research director at think-tank the Resolution Foundation

ERICA
ROSCOE

Senior research fellow at think-tank IPPR North

NEIL
McINROY

Chief executive at the Centre for Local Economic Strategies

TIM
WOOD

Interim chief executive at devolved transport body Transport for the North

NICHOLAS
FALK

Founded urban design consultancy URBED in 1976 and now directs the URBED Trust

VANESSA
HOWLISON

Chief finance officer at government transport agency Highways England

ALEX DAVENPORT
AND BEN ZARANKO

Research economists at the Institute for Fiscal Studies

SARAH
VIBERT

Interim chief executive at the National Council for Voluntary Organisations

JONATHAN
WERRAN

Chief executive at think-tank Localis

WEALTH CREATION: BOOSTING LOCAL ECONOMIES

Solving the productivity puzzle

ESSAY

BY LINDSAY JUDGE

Productivity gaps between different regions of the UK are deep-rooted but reversible – with a significant amount of investment from central government

Lindsay Judge is research director at think-tank the Resolution Foundation

REGIONAL INEQUALITIES are a longstanding feature within UK political debate. However, they have gained additional pertinence in the years since the 2008 financial crisis. From the 2016 EU referendum result, through the 'red wall' turning blue in the 2019 general election, to the differential impact of Covid-19 across the UK, place increasingly functions as a fault line within UK politics. It is, then, small surprise that in recent years many a politician has pledged to address place-based differences. First came the 2010-15 coalition's 'rebalancing' agenda, then the 'Northern Powerhouse' initiative and, now, 'levelling up'. But can the latest policy drive truly address regional inequalities that have so stubbornly resisted a multitude of past strategies?

The best place to start is by attempting to understand the issues that we want policy to tackle. It is often stated that the UK is one of the most regionally unequal countries in the OECD. Just how badly it performs cross-nationally depends both on one's indicator of choice and on the geographic unit of analysis used. But there is one measure on which the UK consistently performs poorly compared with other developed economies – productivity. In 2019, gross value added (GVA) per head of population stood at £49,325 for London. In the North East, the figure was £20,118, just 40% of the economic value created in the capital city.

Capital 'outlier'

Arguably, comparing any other part of the UK with London is bound to produce a shocking statistic, given the 'outlier' nature of the capital. But even when we exclude the international superstar city, the gap between the highest and the lowest regional performers remains significant. In 2019, the North East's GVA per head was only 67% of that in the South East, which stood at £29,848. 'Levelling up' the North East and other UK regions such as Yorkshire and the Humber or Wales to even close to the productivity levels of the South East would produce a considerable impact on gross domestic product (GDP) and living standards. So, what sits beneath these stark regional productivity performance gaps, and how could policy attempt to address them?

One possible explanation could lie in the employment rate. If a smaller share of people work in one region compared with another, productivity per capita will naturally be lower. Although the gap between UK regions has closed quite considerably in recent years, the employment rate among 16- to 64-year-olds in February 2020 ranged from 71% in the North East of England to 80% in the South West. To a degree, Covid-19 has had a levelling effect – the latest employment figures show that the gap between regions has shrunk. But at a more granular level, evidence suggests that the pandemic has exaggerated the differences in employment rate between areas. The largest increases in benefit claims in recent months, for example, were observed in local authorities that already had higher pre-Covid-19 unemployment rates.

The employment figures have a number of implications for policy. To begin, it is clear that the national 'back-to-work' strategy being rolled out by the government as Covid-19 restrictions recede needs to be responsive to local conditions. Connected to this, the delivery of programmes such as KickStart and Restart are dependent on bodies like JobcentrePlus and local authorities, which have seen their capacity significantly hollowed out over the past decade. The Department for Work & Pensions has succeeded in recruiting thousands of work coaches in recent months, but building up local capacity remains vital. Moreover, such programmes can only help people back to work if there are jobs in local areas with which they can be matched. Regional unemployment rates are instructive and give a sense of where employment opportunities are thinnest on the ground. In 2019, for example, 6.1% of the North East's working-age population was out of work, around double the rate in the South West (2.8%), Wales (2.9%) and the South East (3.1%).

What is stopping firms from relocating to areas of the UK with lots of spare – and therefore cheaper – labour? One obvious answer is that there are real benefits to being close to lots of other companies. Such agglomeration means that supply chains are shorter and specialisation is easier, meaning profits will be higher as a result. Compared with many other advanced economies, the UK is unusual in having just one city (London) where large agglomeration benefits are observed. This explains, at least in part, the capital's longstanding productive advantage, despite having only a middling employment rate. Critically, other UK cities such as Birmingham and Manchester are not markedly more productive than their hinterlands. This hints at the big challenge facing policymakers who want to drive economic activity to other less productive parts of the UK – any intervention will need to be done at significant scale to have any real impact at all.

Another reason decision-makers in firms cite for not wishing to relocate to areas with lower productivity is the skills pool available in these locations. UK universities may be geographically dispersed, but the graduates they produce frequently do not stay in the places where they studied, instead migrating to areas that are already highly productive. Research suggests that a quarter of graduates work in London six months after leaving study, while large and medium-sized cities see an outflow of this talent. Policy needs to break the circuit that sees highly skilled workers drawn to already highly productive places, resulting in firms clustering still further in those areas.

'Ministers must not only ratchet up spending but also channel the money differently than at present'

Social investment

So how can this be achieved? The government is focused on funding infrastructure investment that allows firms to flourish, transport being the most obvious example. That is important, but so, too, is social investment in schools, housing and other public amenities, which are so critical for attracting and retaining skilled individuals in less productive areas. In truth, the government needs to spend big if it truly wants to make a dent in regional productivity disparities. In February 2020, we estimated that 'levelling up' public investment without reducing real per-head spending in any region would require an additional 0.8% of GDP per year – some £19bn in 2024-25. This is the context for government plans to raise capital spending up to its highest sustained level since ▸

the 1970s. However, ministers must not only ratchet up spending but also channel the money differently than at present.

The UK has one of the most centralised models for funding public investment. Only 36% of total investment funding is managed by local government, compared with 51% among all other advanced economies. This might help explain why public investment spending in London and the South East stands at £1,200 per capita, more than 35% higher than the average of £885 per capita in other regions. In addition, the UK also performs badly compared with other countries when it comes to switching the public investment tap on and off. Investment funding is much more volatile and vulnerable to the economic cycle in the UK than in any G7 economy other than Japan. Sustained capital investment in less productive regions requires not just a significant transfer of funds but delivery by bodies that are more beholden to local people.

Housing costs

All that said, productivity is not the be-all and end-all when it comes to place-based gaps. In fact, when we look at average household incomes across the UK, we observe a much lower degree of variance between regions than we do when we focus on GVA per capita. One reason for this picture of more equal living standards is housing costs. Although average earnings are higher in more productive areas, much of this wage gain is wiped out by the higher rents and property prices charged in such places.

But there are more positive and policy-amenable explanations too. The commitment to increase the minimum wage relative to average earnings over the past 20 years has disproportionately benefited those who are clustered in less productive areas. Likewise, the social security system has the effect of smoothing living standards between regions. As a result, low benefit payment rates are the antithesis of 'levelling up'. This point was brought home during the pandemic, when many poorer areas of the UK saw higher rates of infection, at least in part because their many low-paid workers were reluctant to self-isolate because of the low level of statutory sick pay.

Overall, there are no quick fixes for the UK's longstanding place-based economic disparities. But there are a number of things the government has in its gift in the short term. It should increase benefit generosity and continue the policy of increasing the minimum wage 'bite'. In the long term, it should provide sustained investment in social infrastructure as well as transport projects. The size of the challenge may be daunting, but regional productivity gaps are not inevitable – they fell after 1946 in the UK until the 1990s. Nor are they unresponsive to policy, as the experience of Germany post-unification has so clearly shown. With the right evidence, the right level of funding and the right level of political commitment, 'levelling up' really could be made a reality.

'Sustained capital investment in less productive regions requires not just a significant transfer of funds but delivery by bodies that are more beholden to local people'

Holistic school of thought

ESSAY

BY ERICA ROSCOE

Education and skills can play a fundamental role in reducing inequality – but the benefits of investing in schools and training go far beyond job creation

Erica Roscoe is senior research fellow at think-tank IPPR North

IN JULY 2019, the maiden speech by prime minister Boris Johnson talked of 'levelling up' the country 'with higher wages, a higher living wage and higher productivity'. In one of the most unequal countries in the developed world, this is an ambitious task – and one that other administrations have grappled with before. Previous attempts at 'levelling up' or 'rebalancing' the country have largely been rooted in economic productivity. However, there is a growing school of thought that this approach fails to reflect more tangible changes to people's lives, and that instead we must take a more holistic approach, incorporating health, learning and access to opportunity. This is an argument explored in IPPR North's recent *State of the North* report, which set out the challenges and opportunities faced by the North of England, including in education and skills, to ensure that everyone has the chance of a good life.

At its most basic level, education equips individuals for the world of work, and those with appropriate skills for the jobs they undertake will inevitably be more productive. Recently released data from the Office for National Statistics for 2020 indicates that the proportion of people with no qualifications is 7% on average across the North and Midlands, compared with 5% in London, the South and the East of England. More significantly though, the proportion of people with NVQ Level 4 and above in the North and Midlands is 37%, compared with 47% in London, the South and the East of England. That a majority of people in London (59%) hold qualifications at NVQ Level 4 and above, compared with just over a third in the North East (34%), provides an appropriate illustration of the challenge ahead. While qualifications do not automatically mean success, high earnings and a good life, a lack of qualifications often results in lower earnings, which can mean inadequate housing, higher stress levels and less control over life choices.

Disproportionate effect

It goes without saying that the past 12 months have disproportionately affected areas that were already suffering economic decline and deprivation. This could be a result of existing poor health among their residents, as is associated with deprivation, or of fragile economies reliant on jobs that could not easily be converted to work-from-home roles. Most likely, the cause is a combination of the two, alongside numerous other knock-on factors. Either way, the areas most in need of 'levelling up' are now facing an even bigger challenge than they might have been at the beginning of 2020, with growing unemployment figures and a cohort of young people who have completed their compulsory education only to find that there is no longer a job market for them to enter. This unique situation provides an even stronger argument for skills and education, to better equip people with the skills that will be needed once the pandemic subsides and the economy starts back up again at a local level.

Using skills and education, however, to close the gap is made more difficult by the fragmented nature of policy initiatives in this area – from the range of different types of schools offering compulsory education up to age 16, right through to adult education ▶

and ongoing skills development. That said, a relatively recent step forward in terms of both devolution and, as a potential consequence, of 'levelling up' was the shift in responsibility for the adult education budget (AEB) from the secretary of state for education down to the metro mayors in parts of the country where they exist and the mayor of London. This has been a valuable lever in engaging with employers at a local level to better understand what skills gaps exist, with a view to implementing solutions that directly respond to these issues. The recent white paper on further education (FE) released in January 2021 further bolsters this approach in its promotion of technical skills that directly respond to the needs of employers.

Devolution of the AEB was only introduced in 2019, so it is early days in judging its impact. However, this policy, combined with the intention outlined in the FE white paper to align skills policy much more closely with the requirements of industry, has huge potential to support the 'levelling up' agenda. One of the issues we have seen in previous attempts to 'level up' has been a centralised, top-down approach. Recognising the strengths of different regions and building on them from the bottom up will inevitably have a bigger impact on communities. This approach – identifying what kinds of industries already exist in a place and how they can be strengthened – will be particularly effective in cities and surrounding urban areas where some investment has already taken place and where established industry exists. Linking skills and training to demand among employers at a local level offers a clear pathway for individuals from training to employment, making for a more stable transition into the workforce. It also supports the local economy, bolstering the local job market and in turn offering more stability and certainty for workers.

'Linking skills and training to demand among employers at a local level offers a clear pathway for individuals from training to employment, offering a more stable transition into the workforce'

Future skills

Some areas are still bearing the scars from the economic recessions of the past – the so called 'left-behind' towns that continue to suffer from post-industrial decline. In these places, it might feel like a more long-term vision is required to identify the skills of the future, rather than responding to immediate local demand. The reality is, however, that the need for these 'future skills' – particularly in green technologies and digital innovations – is pressing in the here and now. The current government's preoccupation with large-scale infrastructure initiatives to kickstart the economic recovery requires green building skills and understanding of green technologies to embed into these projects as they unfold, rather than retrofitting at a later date. Our research has highlighted that there are huge skills gaps in this area, which has the potential to act as an economic stimulus. Focus on these skills brings with it enormous potential for investment by employers requiring these skills. It also offers a new lease of life for these areas, which could unlock them from the cycle of deprivation and lift those who live and work there out of the threat of poverty through sustainable employment prospects.

Linking up with industry brings technical skills to the fore and chimes with existing policy seeking to develop a more appropriately skilled workforce. Policy initiatives are already in existence to promote technical qualifications, but a challenge still remains in encouraging people to see them as a viable career option. Part of this challenge inevitably relates to breaking down the snobbery surrounding more academic routes. Decades of successive education policy have fuelled the idea that university attendance is equated to success, including measures such as using the number of students going on to study at Russell Group universities as a way of assessing school performance. At a national level, we must reduce this bias towards university study and ensure that the curriculum is broad and incorporates subject areas that are less traditional or less academic throughout compulsory education. This would have the result of normalising more technical areas of study, and diversification of the curriculum would enable all students to better understand all the potential career paths available to them. However, we must be cautious that, in promoting these technical routes into good employment as a way of 'levelling up', we do not broaden the class divide between technical and more academic options. Young people should be free to make their own choice about which route to take, not be forced one way or the other dependent on their postcode.

'Further consideration is needed to understand the complex reasons why children in the North and Midlands are falling behind their peers in the South so early on in life'

Early education

Upskilling young people who are about to enter the job market and those already of working age creates an opportunity to benefit the economy and feed into the 'levelling up' agenda. It would be a mistake, however, to assume that this is the only role that education has to play in 'levelling up', especially given the evidence of inequality across the country throughout compulsory education. From the early years foundation stage, at age five, we already start to see the divide. The percentage of children achieving a good level of development in 2019 was 68.9% in the North West, compared with 74.6% in the South East. Further consideration is needed to understand the complex reasons why children in the North and the Midlands are falling behind their peers in the South so early on in life. It is feasible that this is merely a symptom of wider issues related to poverty and deprivation rather than something that can be fixed internally within the education system. However, this is not to say that the formal education system should not be examined to identify biases that set these children up to fail before they have even reached adolescence.

There is also a strong case to use formal education to instil ambition and raise aspirations. Formal education settings should offer an environment for children to learn and develop, free from the trappings of economic disadvantage. Within this environment they should be able to learn about their right to a good life and feel empowered to shape their own future. While it is not appropriate to shift the impetus to succeed in a biased system away from the institution of education and onto the individual, it would be beneficial to acknowledge the challenges and explore with children how such barriers can be overcome.

If 'levelling up' is to offer a good life to everyone, skills and education have a much bigger role to play than merely enabling access to better jobs and higher wages. Many people across the UK (albeit, more often than not, people who have been relatively financially secure) have embraced new skills during the pandemic. Anecdotally, this learning has been cited as being hugely useful in helping people to get through difficult times. It has given them something to occupy their time, raising their self-esteem and, on occasion, introducing them to new communities of like-minded people, helping reduce social isolation. Lifelong learning for pleasure can raise aspirations, enable individuals to find their own passions and improve mental health and wellbeing.

Compared with the need to provide essential skills for employment, this argument might, for some, pale into insignificance. But with a backdrop of a global pandemic that has had untold impact on physical and mental health and forced many to rethink what is important to them, we need to be ambitious and not allow ourselves to forget the aspects of existence that make it truly a 'good' life.

Buying into a different model

ESSAY

BY NEIL McINROY

A new approach to local procurement can help retain wealth within communities rather than see it extracted by multinational corporations

Neil McInroy is chief executive of the Centre for Local Economic Strategies think-tank and senior fellow for the global advancement of community wealth-building at the Democracy Collaborative

THE COVID-19 PANDEMIC has laid bare the dysfunctions in our national and local economies, exposing the gulf between the 'haves' and the 'have-nots' and deepening the divergence in economic resilience. Attempts to merely build back what we previously had will, at best, replicate the old fossil fuel economy, maintain the old regional inequalities and the attendant poverty and disadvantage. With the ever-growing climate crisis, a significant reset is required.

This is a serious and critical moment for many economies, communities and livelihoods. We now urgently need a plan to address these enduring regional inequalities. At the vanguard of the UK government's plans is the 'levelling up' agenda. Adopted as an electoral strategy for the so called 'red wall' seats in the North, it centres on a competitive Levelling Up Fund, which will invest £4.8bn in local infrastructure. While this fund is set to deliver welcome local stimulus, we need to question its potential effectiveness in the face of the crises we face. This agenda and the accompanying funding echoes previous regeneration funding and stands at the thin end of a long line of much-trumpeted attempts to address decades of regional economic imbalances.

Systemic change

Given the scale of the economic and climate emergencies, we need to accelerate policy and practice, offering deeper, systemic change. Alongside a fundamental constitutional restructuring, we must forge alternatives and working solutions such as community wealth-building – with a key role for public spending and procurement contained within. We must learn from the past. Efforts to address regional divides have ranged from the Barlow Commission in 1940, through former chancellor George Osborne's Northern Powerhouse, to 'devolution' deals with city regions. However, these efforts and initiatives have failed to close economic divides and address the long-standing economic and social disadvantages and disparities.

The crux of the problem has been the failure to address both the centralisation of power in Whitehall and the issue of wealth. The impact of financialisation is the great 'unleveller', where the pursuit of the greatest investment return sees finance flow to pre-existing winners – London, the South East and the city-centre agglomerations of favoured regional cities – not the areas that need it most. Any attempt at 'levelling up', no matter how noble the intentions, will be hamstrung by the dominance of financial return, coupled with intense centralisation and half-hearted devolution. The winners will always win, and the losers will always lose. History is screaming a lesson at us, and, in the light of the pandemic and the climate crisis, 'more of the same' as regards regeneration funds or devolution tinkering will not work. We need a comprehensive package of reform. Nothing else will do.

First, we need a national constitutional convention, involving devolved nations, local government, metro mayors, parliament, the business community, unions and civil society organisations. This conversation should consider how to develop an enduring package for constitutional reform and the reshaping of local government so that it sits alongside central government as a co-director of the nation. Second, we should also establish a new national redistribution process. We need a clean start in which to create a nationwide system for redistribution to deal with long-standing regional economic imbalances and ensure a more level platform for all areas – in perpetuity. This should include a local needs assessment, with a recognition that poorer areas need more resources. Third, we need to create new fiscal powers for local areas. Once an appropriate national redistribution method is established – and only once that is done – new local tax powers should be agreed. These new powers should be used to create more secure links between people and local government by increasing local tax intake. Business rates reform, a local land value tax and a hotel or a tourist tax should also be considered.

But structural democratic and fiscal reform are only part of the solution. We also need a new era of economic democracy, in which local people and communities are empowered and enabled to extract the maximum value possible from flows of investment, building local wealth and greening the economy. This will ensure that people can shape the places where they live. Community wealth-building has emerged as a powerful tool to reset our economies, with economic democracy at its heart. Fundamentally, community wealth-building rejects the traditional economic development pathway and offers an approach where the economy and wealth are brought closer to our everyday lives, our communities and our neighbourhoods.

Community wealth-building is a response to the partial failure of traditional approaches to economic development – namely, the assumption that as the economy grows, wealth for all will flow. Far too often, this fails to materialise. Instead, traditional approaches have created a system where wealth that is generated through local economic activity is extracted from the locality by large national and multinational companies, which are increasingly based offshore. As a response, community wealth-building is a people-centred approach to local economic development, which aims to reorganise and green our local economies so that a wellbeing economy is built and wealth is redirected back into communities rather than extracted from them.

Anchor institutions

Community wealth-building is also partly focused on the economic power of local public institutions. Commonly referred to as 'anchor' institutions, the way in which these large, locally rooted organisations – such as councils, hospitals, universities, colleges and housing associations – spend their money, employ people and use their land, property and financial assets can make a huge difference to a local area.

The community wealth-building agenda is growing fast. From Preston, Newham, North of Tyne, and a host of others, local bodies are adopting the principles and practices of this approach. The Scottish Government has also committed to community wealth-building. North Ayrshire Council trailblazed the approach and, with the support of the Scottish Government, many other council areas are now adopting it, including Fife, Western Isles, Glasgow City Region, Clackmannanshire and South of Scotland. ▸

‘Community wealth-building is a response to the partial failure of traditional approaches to economic development – namely, the assumption that as the economy grows, wealth for all will flow’

Procurement is one important element of community wealth-building, forming part of five pillars. But with the onset of Covid-19, we have seen rampant 'cronyism', where public contracts have been awarded to favoured suppliers, despite the fact that many have no experience in the field. At the heart of this problem are wider questions on how values around public spending have been eroded – those of decency, public interest, democracy and the common good. The spending of public money has become commercialised, and many of our public services have been outsourced to the private sector.

In broad terms, we need to restore the idea that public values are unique and essential. Specifically, we need a more enlightened approach to commissioning and procurement. The Public Services (Social Value) Act 2012 has served to soften some of the sharpest edges of this erosion of public values. However, by merely requiring public bodies to consider – rather than enforce – social value, there are variations in how it has been implemented. Indeed, for some, it has become a mere tick-box exercise – something that is narrowly applied to tendering, with an unclear process of contractor monitoring and social value enforcement. We need a new approach that considers social value upfront and is more bullish about what should be delivered in-house – as well as where it is appropriate to go out to the market.

'We need a new approach that considers social value right up front and is more bullish about what should be delivered in-house – as well as where it is appropriate to go out to the market'

Social licensing

The government's new public procurement proposals and any future legislation need to be much more strident. This will require primary legislation to guarantee a system of social licensing that will mandate the delivery of positive social, economic and environmental outcomes as part of any contracting arrangement with a public sector body. In lieu of this being introduced, the question of how social, economic and environmental benefits could be maximised should therefore be addressed from the beginning of any commissioning process.

Commissioners should seek to selectively involve organisations and individuals from outside local government, who are passionate about public values and offer some positive contribution to the delivery of public services. The use of cooperatives or community interest companies within social care is a prime example. Considering social value upfront should, by its nature, provoke questions around whether a service should even be outsourced or whether it might best be delivered in-house. More fundamentally though, in these highly challenging times, procurement must be viewed within the context of a wider local public expenditure strategy, which seeks to maximise social, economic and environmental benefits in order to truly 'build back better'.

Procurement needs to be harnessed as a key lever of local economic development. With the climate crisis and economic hardship growing, it is important that local authorities and anchor institutions examine areas and sectors where they can grow zero-carbon supply chains and realise the potential of their spend to catalyse local enterprise growth, enable a just transition and drive innovation. Here, then, the economic power of local public sector expenditure must be targeted towards the development of progressive markets for goods and services, unleashing a new wave of cooperatives, community businesses, social enterprises and municipal forms of ownership. This is where energy and vim should be focused. This is the pathway to resilience and prosperity for all.

In looking towards to the future, there is pressure on public policy, public finances and democracy like never before. With decades of regional imbalances, the pandemic and the climate crisis, we are left with a political choice. Do we continue with the failing patterns of the past and or do we have a fundamentally progressive reset? It may not be in the UK tradition to be so bold; however, there is no alternative to a fundamental democratic and constitutional change and an amplification of new economic development approaches, such as community wealth-building. We must rebuild our economy to truly address the climate emergency and build prosperity for all. ●

BUILDING THE FOUNDATIONS: TRANSPORT AND DEVELOPMENT

Fast track to prosperity

ESSAY

BY TIM WOOD

Bringing the North's rail infrastructure into the 21st century could open up access to job opportunities for workers across the region

THE LEADERS OF THE NORTH have a vision of their region 20 years from now. Places like Bradford and Warrington, Darlington and Hull are bustling with the sights and sounds of a region on the up. Confidence and investment has flowed into the region, underpinned by a world-class transport infrastructure, which has revitalised the northern economy.

It has happened before. The North of England was the birthplace of the railways, and that age of invention accompanied the flowering of the region into the industrial powerhouse of Britain and the world. But, today, that railway network is creaking at the seams. It has suffered from decades of underinvestment compared with the South of England and our industrial competitors around the developed world. Inter-city connections among the urban centres of the North are poor, limiting the jobs and opportunities that the wealth of young people can reach in their travel-to-work area.

Northern Powerhouse Rail looks to change all this by hugely increasing the capacity, frequency and speed of rail services to a range of destinations through a transformed rail network in the North of England. Featuring new and significantly upgraded railway lines, it is set to be the region's single biggest transport investment since the Industrial Revolution. It is more than an infrastructure project. The scheme has the potential to be a social and economic catalyst for the region and the people and businesses of the North. NPR is an investment in infrastructure that will deliver benefits to the economy, quality of life, education and the environment. The aim is to open up opportunities across the North, sparking an upturn in the fortunes of its urban centres and its people. The vision is for a region that is well connected with a state-of-the-art rail network, enabling it to become a bed of fertility for jobs and economic growth.

The success of London and of the South East is undoubted. But that very success brings with it issues of overcrowding, expensive property, a squeeze on resources and living standards. By contrast, the North can offer space, beautiful upland areas of outstanding natural beauty, cheaper housing and rents, a highly educated workforce and specialist manufacturers. It is ripe for expansion and growth.

In March this year, we took a big step towards the realisation of this vision when council and city region leaders in the North unanimously agreed to a preferred network for Northern Powerhouse Rail. It is a mix of new lines and major upgrades, including electrification from Liverpool in the west to Hull on the east coast. It will feature a new line from Manchester to Leeds via the centre of Bradford; significant upgrades and journey time improvements to the Hope Valley route between Manchester and Sheffield; a new connection from Sheffield to HS2 and on to Leeds; significant upgrades and electrification of the rail lines from Leeds and Sheffield to Hull; a new line to be built from Liverpool to Manchester via the centre of Warrington; and significant upgrades to the East Coast Main Line from Leeds to Newcastle (via York and Darlington) and restoration of the Leamside line. It would see journey times between Manchester and Leeds slashed to just 28 minutes, and those between Sheffield and Hull, and Leeds and Hull, cut to under an hour.

+

Tim Wood *is interim chief executive at devolved transport body Transport for the North*

Make no mistake, this rail investment is badly needed over the coming decades. It is a long-term solution to correct what has become a serious national imbalance in our economy, caused by decades of underinvestment in the North. The impact of the programme would be transformational not only for rail connectivity in the region but also for the economy, the environment and for people's quality of life. Committed to in full, we estimate that NPR could deliver up to £14.4bn in total gross value added to the economy by 2060; around 74,000 new jobs in the North by 2060; and an additional 12,250 seats per hour in the morning peak travel time.

The job market for employers and employees would be widened beyond comparison across the region, particularly for those in and around key stations. Take Liverpool for example. NPR would mean two million more people and 56,000 additional businesses will be within 90 minutes of the city region. This transformational impact will be replicated across the North, opening up job opportunities, attracting investment and ultimately stimulating economic growth. In allowing the North to act as a single economy, there could be up to 20,000 additional businesses in the region by 2060.

There would also be benefits for people in areas that are not directly served by an NPR station, such as Blackpool or Blackburn, where connecting onto the high-speed network enables improved access to more than one of the main cities. The North's preferred vision for Northern Powerhouse Rail enables more than 25% of workers in the region to be within 90 minutes of four or more northern cities.

Cleaner infrastructure

NPR promises a greener future, too. The UK is due to host the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow in November. What better way is there to signal our national determination to build a cleaner infrastructure for our country than a scheme that has the potential to take 58,000 cars off our roads every single day?

This summer is enormously important for us all as we chart our path out of the most challenging couple of years many of us will ever have seen. At the time of writing, we are still waiting for the government to publish a landmark report on rail investment, the Integrated Rail Plan. This promises to spell out its vision for how it will level up the country through a thorough refit of the North's rail network. The decisions taken over the next few weeks and months could define the North's prospects for the rest of this century and into the next. That's how important it is. Now is not the time to scale back on ambition. The government should commit to the full, transformational vision for both Northern Powerhouse Rail and the full HS2, including to Sheffield and Leeds.

At Transport for the North, we and our partners have been working at pace to develop this vision. For instance, we are working with Network Rail to undertake ground investigations between Leeds and Hull, as we refine our plans to upgrade the line. Early preparatory work such as this, undertaken in collaboration with local transport authorities and the Department for Transport, will help to keep costs on budget. Additionally, early station work on the Sheffield to Leeds corridor is also progressing ▶

'What better way is there to signal our national determination to build a cleaner infrastructure for our country than a scheme that has the potential to take 58,000 cars off our roads every single day?'

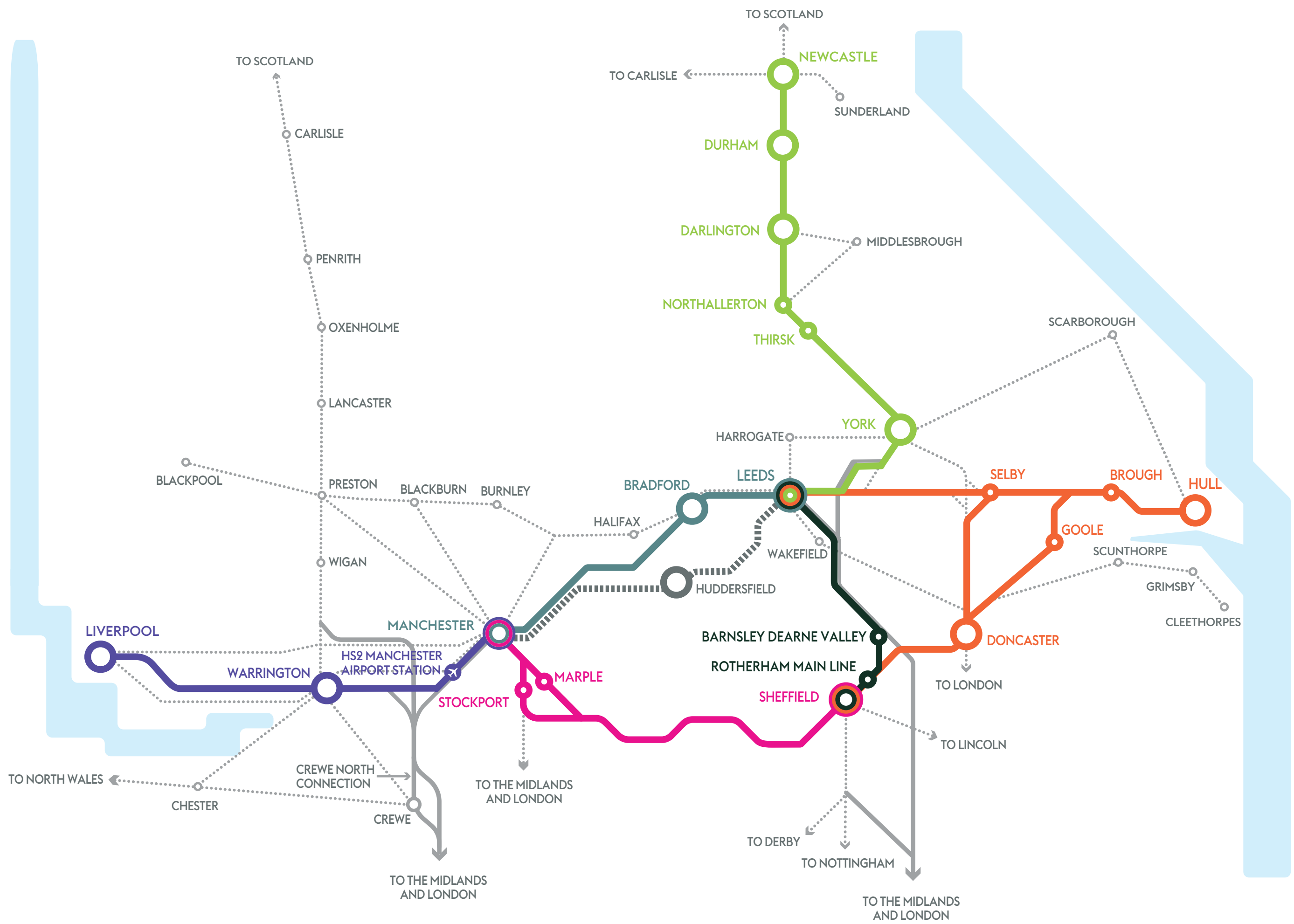
well. Station project boards for Barnsley Dearne Valley and Rotherham Main Line have been formed as development work ramps up.

What both of these examples show is that, working with the government, we are committed to getting things going on the programme. The aim is to give confidence to business and industry that NPR is happening and will be delivered. HS2 Phase 2a received royal assent earlier this year, giving the project the go-ahead as far as Crewe and finally bringing HS2 to the doorstep of the North. Our members continue to make the case for delivery of the northern section of HS2 to Manchester in the west and to Sheffield and Leeds in the east.

We want to see a transformative Northern Powerhouse Rail network that can help us to throw off the straightjacket of poor infrastructure that has held us back for so long. That's why we say to the government – we've done the work together, now let's deliver for the North together. Let's deliver Northern Powerhouse Rail. The time is now.

The North's final preferred NPR network includes:

- A fully new line between Liverpool and Manchester, connecting the two city regions via Warrington Bank Quay station;
- For the Manchester-Leeds corridor, a new line via the centre of Bradford, unlocking the full potential of the city;
- Significant upgrades and journey time improvements to the Hope Valley route between Manchester and Sheffield via Stockport and Marple;
- Leeds-Newcastle: Full reinstatement of the former Leamside route, crucial to provide reliable, fast NPR services and improved local services;
- Significant upgrades and electrification of the rail lines from Leeds and Sheffield to Hull;
- Sheffield-Leeds: Connecting Sheffield to HS2 and on to Leeds.



Building society

ESSAY

BY NICHOLAS FALK

European cities can provide inspiration for authorities seeking to reinvigorate and connect urban centres following the Covid-19 pandemic

Nicholas Falk *founded urban design consultancy URBED in 1976 and now directs the URBED Trust*

THE CHALLENGES FOR BRITAIN today include not just public health and under-resourced social services but also the widening gulfs between rich and poor, between those in 'left-behind' post-industrial towns and rural areas, and between the establishment and those who feel excluded. Communities feel defeated, and local authorities bid for hand-outs rather than taking charge of their own destinies.

In 1942, at the height of the Second World War, Oxford economist William Beveridge reported on what he called the five giants standing in the way of post-war reconstruction: want, disease, ignorance, squalor and idleness. His report helped turn a warfare state into the welfare state we still value. The crisis mobilised the resources to rebuild a shattered Britain. The Covid-19 epidemic is such a crisis and will require exceptional levels of innovation. But, potentially combined with the policy of 'levelling up', it also presents local authorities with enormous opportunities to rebuild communities. By applying what has worked elsewhere in Europe, councils would be in a much stronger position, so the time has come for some practical experiments.

Worn-out infrastructure

The pent-up demand for housing should be used to improve our worn-out infrastructure, cut energy costs and pollution and make it easier to walk, cycle and use public transport. Empty and under-used properties on the edge of town centres or near railway stations could be repurposed to create attractive residential and innovation quarters. New forms of tenure, including co-housing, would enable residents to share services and overcome isolation, making life better for the young and the old alike. Metro schemes, including local rail, buses and tramways – such as the one currently being pioneered in Devon – would divert people from their cars and free space for walking and cycling.

Given the will, the powers for scaling up development could soon be put in place. A reformed planning system, using design codes, should enable local authorities to set the basic rules and focus on strategic issues, such as where growth should and should not be encouraged, rather than simply reacting to proposals from private developers. Sustainable urban neighbourhoods in every conurbation along with garden settlements around new or upgraded stations would not only help restore hope but also provide markets for a more efficient construction and housebuilding sector. Development corporations or some other form of public-private partnership could be set up with local authority support to join up housing with transport and other services. Four development corporations are already proposed for Cambridgeshire, where there is a spatial growth plan. These provide private investors with the confidence they need and can use compulsory purchase powers to assemble viable sites and overcome the problem of 'free riders' or speculators.

This still leaves the critical obstacle of funding local infrastructure, which can cost as much as building new homes. Our research suggests using land value capture tools in areas of high demand. In the 2021 Budget, chancellor Rishi Sunak promised that the new UK Infrastructure Bank will be able to deploy £12bn of equity and debt capital and ▶

issue up to £10bn of guarantees. The policy paper issued in March explains that "working with the private sector and local government, it will lead a shared mission to accelerate investment in the country's infrastructure".

Though the bank's primary focus is clean energy, transport, digital, water and waste, later this may be extended to natural capital, and it may play an important role in developing early stage technologies. Green bonds should appeal to private investors as well as pension funds, and would supply the low-cost, long-term finance needed for infrastructure, provided they are secured against land values. The UK Infrastructure Bank, which will be in Leeds, should therefore help local authorities to make sites ready for private developers and social enterprises. However, to succeed it needs to follow the model of long-established European state investment banks, such as Caisse des Dépôts in France, KfW in Germany and, most interesting of all, BNG Bank in the Netherlands, which was formed by local authorities and utilities. It is vital that local authorities and other public bodies come forward with projects and plans that enable their towns and cities to change tack and boost productivity. This means collaborating with the private sector so there is a pipeline of viable investment opportunities.

'It is vital that local authorities and other public bodies come forward with projects and plans that enable their towns and cities to change tack and boost productivity'

European inspiration

As well as looking at past successes – from the post-war new towns programme to London Docklands and the King's Cross railway lands – local authorities would do well to learn from cities in mainland Europe that have kept housing affordable, especially in the mid-sized towns and cities where most people live. For example, Leipzig in former East Germany lost 90% of its manufacturing employment after reunification, and a fifth of its homes became vacant. Today, it is flourishing again, having attracted young people to take over vacated homes and convert empty mills into studio spaces. The Leipzig Charter has become a model for sustainable development in Europe.

University towns have also grown faster and better by joining up transport with development. Good examples are Grenoble in France, which is twinned with Oxford and was one of the first to use trams to take traffic out of the centre. Similarly, Freiburg in southern Germany became Europe's solar capital, and the extensions of Rieselfeld and Vauban draw visitors from all over the world. Freiburg's compact city model, based on trams and bikes, held car use constant over three decades while greatly expanding its population. Similar principles underpin the success of 'smart' cities that were once part of the British Empire, such as Singapore, Vancouver, where the superb SkyTrain light rapid transit system extends over 50 miles on three lines, and Dublin, where the Luas trams run for 26 miles with 67 stops.

Possibly the best models for the UK are in Denmark. The country's second city of Aarhus, with a population of 280,000, recently opened its first tram line (whereas Leeds, with almost three times the population, is still choked by cars). The tram is being extended to new settlements on land that the municipality has acquired on the edge of the town and to a new hospital. There is a two-level tax on homeowners, with the charge on the land going to the government for redistribution. Similarly, in the 1990s, when Copenhagen came close to bankruptcy after industries closed, the city council set up a company with the government to pool public land. The uplift in values from re-zoning the land provided the basis for building the new town of Ørestad on the city's first metro line, which runs to the airport. Copenhagen is voted one of the world's most liveable cities, thanks to municipal leadership and investment in the public realm.

Local authorities may wonder where to start, given the shortage of experienced staff and resistance to most development proposals. Yet devising spatial growth plans to integrate housing and transport should be made much easier by using new technologies – Google Earth and geographic information systems can help map the best opportunities. Finance departments can use rating records to assess the uplift around town centres and stations.

Agree priorities

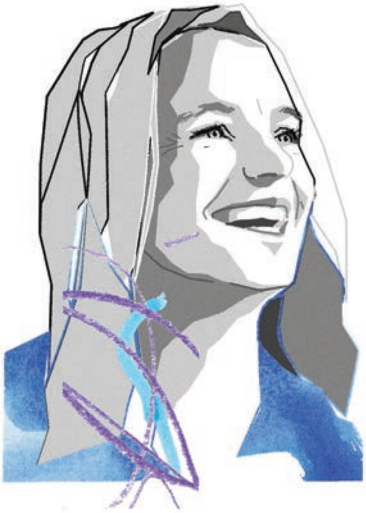
Reinvigorating town centres will avoid building on flood plains and areas of natural beauty or on sites that are totally car-dependent and hard to service. Publicly owned land, including railways, utilities, colleges, hospitals and municipal car parks, could be pooled to give communities a real stake in development and achieve sustainable development goals, such as zero carbon. Working with community groups and employers' organisations to agree the priorities, local politicians could then assess alternative development scenarios for the 30-year period between 2020 and 2050. This is long enough to double the population living around town centres and to change behaviour sufficiently to meet carbon emission targets.

Most radically of all, finance departments should be preparing for changes in the way property is rated, perhaps using neighbourhood plans with town councils and business improvement districts to focus investment where it will add most value. Of course, staff and expertise will be needed, yet unless local authorities use the challenge of recovery to change direction, they are likely to see their powers and resources eroded still further and the crisis go to waste. ●

'Reinvigorating town centres will avoid building on flood plains and areas of natural beauty or on sites that are totally car-dependent and hard to service'

The road to economic success

ESSAY



BY VANESSA HOWLISON

Road schemes are central to economic vitality but need to be carefully planned in consultation with the public and a range of public sector bodies

'LEVELLING UP' is important to the current government, that much is clear. What is less certain is exactly what the phrase means and how it is to be achieved. The concept feels intuitive, but trying to nail down how it can be incorporated into decision-making is surprisingly difficult. Doing so is the issue with which every public body is wrestling. This is not a new problem. Successive governments have sought to balance the economic fortunes of all parts of the nation and tackle the particular problems of deprived areas. Many existing policies and funding allocations already prioritise left-behind individuals and communities. The fact that 'levelling up' is a top priority means that either we have not done enough, or we have not got it right. Rethinking is needed – should we do a lot more of the same, or try something new?

The government's £4.8bn Levelling Up Fund targets investment in "infrastructure that improves everyday life across the UK, including regenerating town centres and high streets, upgrading local transport and investing in cultural and heritage assets". This suggests that the drive is about public expenditure and spending proportionately more on the fabric of left-behind communities. Public spending creates a temporary stimulus, but to have a lasting effect and improve outcomes there needs to be a shift in the underlying conditions for economic success, attracting companies from elsewhere and making local businesses more successful, creating employment and high-quality jobs.

Crucial connectivity

Transport is critical to this. Badly connected areas will struggle to compete and to attract employers and private sector investment. Highways England is responsible for the Strategic Road Network (SRN), and connectivity is central to its mission. With over 4,500 miles of motorways and trunk roads, the SRN is only 2.4% of England's road network, but it carries a third of all traffic and two-thirds of freight – some 97 billion vehicle miles in total each year. As a country, England is already well connected, with 91% of businesses located within 10 miles of the SRN, and 90% of people living within six miles of it. Highways England invests £5bn a year to maintain and further enhance the network. How decisions are taken about which road schemes to fund – and where – could be an important lever for 'levelling up'. Last year's Budget specifically referenced the current £27bn investment portfolio in this way.

So, does spending on the SRN pass the 'levelling up' test? It depends on what assessment criteria you use. The crudest and most easily accessible criteria are spending levels. Data shows that, over recent years, Highways England's investment decisions have not been overly-focused on the South East, relative to its share of the population. But this balanced position might not always be the case, and one or two big projects can skew the picture. For example, the recently completed A14 scheme in the East of England cost £1.4bn and pushed spending in that region to double its 'share' for a few years, compared with its population. Meanwhile, the South West, by this measure, has had consistent underinvestment. Fortunes do change, however, and the £1.7bn proposed A303 Stonehenge tunnel will redress that imbalance for the region over the coming years. So,

+

***Vanessa Howlison** is chief finance officer at government transport agency Highways England*

over short and medium timeframes at least, this measure of spending levels is too crude. And it is arguably the wrong measure.

While Highways England has always kept tabs on the balance of spending, the primary mechanism for appraising and informing investment decisions is value for money, heavily influenced by benefit-cost ratios produced using the Department for Transport's well developed analysis guidance WebTAG. Investment decisions consider various impacts of a proposal: economic (for example, travel time), social (road safety) and environmental (including noise and air quality). These assessments are agnostic about place. Wider economic impacts are assessed where they are additional to transport user benefits. Some result in an adjustment to the benefit-cost ratio – for example, labour supply impacts – when transport is a barrier to employment because of poor connections. Distributional impacts are also considered alongside value for money.

The government's recent review of the Green Book, which sets the overall guidance for economic appraisal, looked to test if the existing approaches to assessing value for money undermine its aims for 'levelling up'. The review found that appraisal guidance did not, by itself, skew outcomes, but it concluded that more needed to be done to develop the strategic context of investment proposals. In the same way, Highways England also recognises an opportunity to strengthen its strategic thinking when deciding on investments. Considerations include better understanding the specific objectives of a scheme; identifying and measuring the contribution to 'levelling up'; and further enhancing analysis of regional, local and environmental impacts.

Highways England also has separate 'designated funds' to prioritise projects that might not improve benefit-cost ratios sufficiently to influence choices, financing schemes that would not necessarily make the cut if that was the only game in town. They currently cover users and communities, innovation, environment and safety and congestion. In future, there might be room for separate, ringfenced 'levelling-up' funding for good regional schemes that do not have a benefit-cost ratio that can compete in the main portfolio of highways. However, developing a methodology for deciding which schemes are most beneficial to the concept of 'levelling up' could be tricky and might need to be political.

Long-distance benefits

Another complexity is that benefit is not always delivered solely in the locality of the scheme itself. For the biggest transformational schemes, benefits can be felt some distance from the site of the construction itself. This means that just measuring spend in an area might not give the whole picture for the benefits of an investment. To complicate matters, the further away, the more diffuse the benefits become, and the harder to disentangle from other factors. More research is needed to understand the benefits of changes to long-distance connectivity and what this means for where businesses wish to invest and create jobs, where people want to make their home, and where developers want to build new houses and workplaces.

'For the biggest transformational schemes, benefits can be felt some distance from the construction site itself'

For this reason, Highways England does not plan on the simple basis of individual roads but looks at route strategies that connect places, making sure the whole end-to-end route runs smoothly. One bottleneck can have a negative impact on downstream businesses and communities. Consequently, unblocking them creates benefits downstream as well. The network has been divided into 17 routes spanning multiple regions and can connect the North to the South. For example, London to Leeds, Birmingham to Exeter, and Scotland to London. Close working with subnational transport bodies also ensures that the needs of the areas they serve are well understood and built into network planning.

National benefit

The Lower Thames Crossing is set to become Highways England's biggest-ever scheme. Long in the planning, it is likely to cost over £6bn, and annual spending could reach £1bn a year before it opens for traffic towards the end of the decade. Being in the South East, some might argue that it runs counter to the 'levelling up' agenda. However, this is not necessarily true. If this was just a tunnel connecting Kent to Essex, its benefit-cost ratio would make it a non-starter. While individuals who will use the road most often are likely to live in the South East, a significant proportion of likely users will not be local, particularly with freight. Connecting places has national value, and the new crossing will ensure that freight can get more quickly from southern ports to distribution centres in the Midlands and elsewhere. It will also support 22,000 jobs during construction.

Apart from the direct economic benefits to road users (reduced journey times, improved reliability, fewer delays) economic benefits from the road asset also accrue to companies during construction and to workers and non-motorists when it comes into use. There are undoubtedly more employment opportunities within a certain radius of a construction site, but the nature of road planning and building is that it draws on resources and relies on companies spread across the country. When the asset is complete, there can also be additional economic activity some distance away, depending on the route.

Of course, local people do not always like local projects. Despite a lot of attention given to developing schemes that minimise negative impacts, some people do not feel there is enough benefit to them individually, and to their communities, to be worth the price of the disruption and the visible impact of the road. There can also be pockets of reduced economic activity locally – where passing trade is transferred a few miles down the line, for example.

There is no disagreement that roads are central to the economic health of an area and to its connectivity and accessibility. But a road is simply a conduit. Building one does not guarantee an economic upturn, but it is often a pre-condition. Where it is a supporting asset, it can unlock the benefits of other public and private investment, such as housing or industrial parks. While it is important to make sure that targeted areas get at least their fair share of the benefit that roads investment brings, it is also crucial that there is effective join-up with other bodies and agencies in order to co-ordinate wider investment in infrastructure, public services and communities and to tackle the 'levelling up' agenda collectively. ●

'A road is simply a conduit. Building one does not guarantee an economic upturn, but it is often a pre-condition'

THE ROLE OF PLACE: COMMUNITY RENEWAL

Geography lesson

ESSAY

BY ALEX DAVENPORT
AND BEN ZARANKO

Understanding inequalities within, not just between, regions of the UK is vital to formulating effective policy to 'level up' the country

Alex Davenport and Ben Zaranko *are research economists at the Institute for Fiscal Studies*

EFFORTS TO REDUCE the UK's spatial disparities date back at least as far as the 1934 Special Areas Act. Yet geographic inequalities in the UK remain substantial, and this generation of politicians and policymakers must grapple with contentious questions over where, how and what to 'level up' – questions that, so far, remain largely unanswered. Should the aim be to narrow gaps in income, productivity or employment outcomes between areas, or should it be to equalise opportunities and enable those living in 'left-behind' areas to move to more prosperous places? Should the government assist broad regions, potentially providing funds to some already prosperous areas, or target support more narrowly at individual neighbourhoods or towns?

A number of factors make these questions particularly tricky. First, despite all the talk of a North-South divide, there is much greater inequality on many important metrics within regions than between them. There are substantial differences in productivity between the larger regions of the UK, and particularly large gaps when comparing London and its surrounding areas with the rest of the country. Yet, focusing just on these differences misses the fact that differences in productivity within regions are often larger and, potentially, just as important.

We look here at a common measure of productivity, gross value added (GVA) per head using the most recently available data from 2015. If we compare broad regions, productivity in the highest performing region, London, is 1.83 times that of the least productive region, Wales. We have excluded Westminster and the City of London from London-wide figures, because low populations and a concentration of economic activity in these places skew the figures. However, if those areas are left in, the ratio rises from 1.83 to 2.42. Similarly, productivity per person in the South East of England is 1.55 times higher than in Wales. These differences are significant and important.

If we look within these broad regions, however, the gaps are even greater. The ratio between the productivity of the most and least productive boroughs of London is 6.65. That figure rises to 13.4 if we include Westminster, or more than 300 if we include the City of London. Within the South East, the ratio between the most and least productive local authority is 3.36, and it is 2.30 and 1.83 within Wales and the North East, respectively

While, on average, there is a difference between London and the North, the variances between more prosperous cities like Leeds or Manchester and isolated, so-called left-behind towns in their hinterland, such as Burnley or Wakefield, can be just as stark. At the same time, despite its high average levels of productivity and income, London contains many pockets of deprivation. For example, the local authority of Camden has the third highest GVA per head of the UK. Yet this hides the fact that more than half of neighbourhoods within the borough are in the most deprived half of the nation, according to the government's index of multiple deprivation. In fact, the three most deprived local authorities by this measure are all within Greater London.

This matters for the design and targeting of 'levelling up' policy. To consider why, we can envisage a spectrum of policies, targeted at different levels of geographies – bearing in mind that the ultimate aim of policy is to help people within places. At one end of the spectrum, support can be directly targeted at disadvantaged individuals through policies such as training, job subsidies or direct cash transfers. Places with more disadvantaged people would indirectly receive more support, but these policies would not be place-based in the way 'levelling up' clearly intends to be.

Moving along the spectrum, support could be targeted at a town or community, rather than at individuals. Some people living in these places will not be disadvantaged, even if many are. Targeting support at places rather than people means focusing support less directly at the disadvantaged. The justification for doing so comes from the existence of economic 'spillovers' within an area. For example, creating jobs within an area might lead to further spending on local businesses. The UK's high housing costs impose barriers to moving. In addition, many people feel a keen sense of attachment to the place in which they live and have little interest in moving even if those barriers were reduced. Helping the place in which those people live, rather than making it easier for them to move to areas with more opportunities, can be an effective way to make them better off.

'Spillover' benefits

Moving further up this spectrum, some policies would seek to leverage 'spillovers' across wider regions – for instance, by linking two towns together with improved rail links. This could potentially benefit everyone living in and around those two towns, not just the disadvantaged. The key trade-off to consider here is that between targeting and 'spillovers'. As you offer support to a larger area, this support is targeted less directly at the most disadvantaged, but potentially takes better advantage of 'spillovers' between places. The extent to which targeting worsens as you aim funding at larger areas depends on the level to which inequalities within regions are larger than those between them at different levels of geographic aggregation.

One complicating factor is that this calculation will vary, depending on exactly what is being measured. When looking at inequalities in productivity and pay, a great deal depends on whether we use measures based on where people live or where people work – particularly when looking at London and the South East. When looking at pay, it also matters whether we look at the median or the mean: the largest differences between areas within a broad region tend to be at the top of the earnings distribution, which affects the mean much more than the median. Within-region inequalities in mean pay, relative to between-region inequalities, are therefore greater than for median pay. Similarly, if, instead of pay, we are interested in incomes, it matters whether we look at incomes before or after housing costs. Median income before housing costs in London is 14% higher than the UK average; if we look at median income after housing costs, it is just 1% higher.

The extent of within-region inequalities can therefore matter more or less, depending on exactly who and what the government is trying to 'level up': something that hasn't yet been made entirely clear. The government certainly needs to account for these ▶

'Despite all the talk of a North-South divide, there is much greater inequality on many important metrics within regions than between them' issues when designing policy. If inequalities within regions are very significant for a measure the government wishes to target, this might point towards the need for a more targeted approach.

However, there is another side of the trade-off that must be considered – the fact that a particular policy may take better advantage of 'spillover' effects when aimed at larger regions, even if it is less well targeted as a result. As explored earlier, some areas can appear relatively prosperous but still contain significant pockets of deprivation, with London a prime example. However, the best way to help disadvantaged people in London might not be to create jobs in their neighbourhood, but instead to equip them with the skills to work in the many good jobs London already creates, and to improve transport links so they can get to these good jobs. This means that while you might target skills training at smaller areas, the 'spillover' benefits from transport links and job creation might make these policies better targeted at a wider area. In some cases, like direct public transport provision, policy may only be practicable when targeted at a larger area.

'Much of the policy focus so far has been on centralised pots of money allocated to areas deemed in need of support'

New industries

Other policies might be better targeted at a broader region, rather than directly at just the most disadvantaged individuals and communities. A large part of the government's 'levelling up' strategy appears to revolve around creating new industries in green technology and research. Yet the tendency of such industries to cluster around a hub means that it is unlikely that every 'left-behind' town in the country can be home to these new jobs and companies. Instead, if the government is to provide subsidies or support in this space, the best strategy might be to focus job creation on a smaller number of larger hubs, while also providing improved education, training and transport to allow those in surrounding disadvantaged towns to benefit from the jobs in these new industries.

An optimal 'levelling up' policy framework would seek to balance these competing factors: the need for greater targeting by focusing on smaller areas, and the benefits of agglomeration and 'spillovers' that might push the dial in the opposite direction. These trade-offs themselves depend on which inequalities the government is trying to reduce, and on which policies they intend to use to achieve this aim, but they certainly exist.

This brings us to the tension at the heart of the government's 'levelling up' strategy. Much of the policy focus so far has been on centralised pots of money allocated to areas deemed in need of support. There are now a large number of such place-based spending schemes, which allocate funding to different bodies and levels of governance. The Levelling Up Fund allocates money to local authorities, for instance; Local Growth Deals allocate funding to local enterprise partnerships; the Transforming Cities Fund provides funding to combined authorities (which are, themselves, groups of local authorities).

To a degree, this makes sense: as we have argued here, the appropriate level of geography is likely to vary from policy to policy and from scheme to scheme. But it is not always obvious what each of these schemes is trying to achieve, and thus whether the chosen level of geography is appropriate. The complex, overlapping patchwork of funding can also cause problems for local governments seeking to make use of them. Some rationalisation of existing schemes could be beneficial. At the very least, a clear and coherent strategy for what each of these schemes is trying to achieve, and how they link together, would help encourage joined-up local development plans. For 'levelling up' to truly succeed, this coordination, alongside careful consideration of the trade-offs between targeting and 'spillover' benefits across places, is vital.

Community connections

ESSAY

BY SARAH VIBERT

The government must ensure it targets funding as much on place and social infrastructure as it does on economic development

'LEVELLING UP' has been at the centre of political discussion for some time, but often without a clear policy prescription to guide those seeking to implement it. In many ways that is not a problem – 'levelling up' is a response to a vast range of problems, so it is unsurprising that there is a vast range of possible solutions. But people want clarity, and it is hard to disagree with the common criticism that the government has yet to really set out its vision of what it means by 'levelling up'. But this confusion over the specifics should not obscure the fact that this policy agenda is necessary and provides a huge opportunity to do something to address the enormous inequalities across the country. Charities and the wider social sector can play a substantial part in meeting that challenge, with research showing that, in the most deprived areas, social disparities are just as glaring as economic ones.

We have seen during the pandemic that charities and voluntary organisations have been flexible, and have met the challenges presented to them, despite often facing concerns over their own financial situation. The pandemic has proved the value of our sector in a crisis, but we are ready and able to tackle more entrenched problems too. Across the country, we were tackling local and national inequalities long before 'levelling up' became a part of the political agenda. Even if it is not clear what 'levelling up' should entail, we should at least be clear on how we will measure whether it has been successful – closing the gap when it comes to various measures of deprivation.

That can mean many things, and, so far, the government's focus appears to be more towards economic development, with the Levelling Up Fund prospectus highlighting expenditure on areas like transport infrastructure and regenerating town centres. Charities can play a role in economic development – not just in creating opportunity but in ensuring that development is inclusive of black and ethnic communities, disabled people and other underrepresented groups. Local authorities would be well advised, for example, to look at the role of community transport schemes, which in some areas might be able to deliver bigger impacts than roads and other infrastructure.

Social infrastructure

'Levelling up' cannot just be about these primarily economic questions, however. Research by Oxford Consultants for Social Inclusion and Local Trust on what they termed 'left-behind communities' shows that a lack of social infrastructure and capital leaves the most deprived communities even worse off. In particular, communities lacking places to meet are not active and engaged as a community, have poor connectivity to the wider economy (whether physical or digital) and have worse outcomes than other deprived areas when it came to measures such as employment, ill health and child poverty. And, worse still, these areas are falling further behind.

While the Levelling Up Fund makes provision for social infrastructure to be part of local authority bids, it doesn't appear to be central to the government's spending priorities. In 2018, the *Civil Society Futures* report by former Joseph Rowntree Foundation chief executive Julia Unwin highlighted the importance of place – not just in defining ▸

+

__Sarah Vibert__ is interim chief executive of the National Council for Voluntary Organisations

individuals' economic opportunity but also in how they felt "unheard, neglected and ignored". Developing community spaces and organisations that support people to come together are exactly the sorts of thing that could be well supported through a targeted plan for social infrastructure but that do not currently appear to be at the forefront of government thinking.

'Levelling up' may be relatively new as a political phrase, but it has been part of English regional policy for much of the past 20 years. One of the aims of New Labour's regional development agencies was to reduce disparities, and they helped to spread investment more evenly across the nation. The European Regional Development Fund was specifically targeted at deprived areas, allowing for investment in many areas that are now considered to be at the heart of the government's 'levelling up' agenda – especially those that form part of the so-called 'red wall'. It is crucial that the UK Shared Prosperity Fund (UKSPF), which will replace this funding, is focused on tackling these disparities as well. If we get it right, the programme could make a real difference to tackling individual and structural inequalities.

We have been working with organisations in both the charity and private sector to set out what we want to see from this funding. It is critical that it is distributed to partnerships that develop community-driven solutions to build social cohesion and opportunities for people on the margins of society. Charities have a vital role to play in these partnerships to rebuild the UK's communities. The UKSPF must also have the values of reducing regional inequality, supporting the growth of small to medium sized enterprises – which includes the majority of charities – and preserving and protecting the environment at its core.

Sustainable funding

Another proposal by Local Trust, a body set up to distribute National Lottery funding, would create a community wealth fund, aimed at ensuring long-term sustainable funding for the communities needing it most. The fund, which could be set up through an endowment from the next major tranche of dormant assets, would specifically target the most deprived areas and fund community-led social infrastructure priorities, helping to close some of the disparities at the heart of the 'levelling up' agenda.

It is great to see innovative responses to the ambitious new policy agenda, alongside significant government investment. But we also have to ask if we are missing something basic. If funding to improve social infrastructure can help close gaps, it seems likely that cuts to local government funding over the past 10 years will have done the opposite. Local authorities have been forced to prioritise meeting immediate needs, particularly in areas such as social care. It is inevitable that when this happens, many local authorities will conclude that it is the long-term social interventions, such as youth centres and libraries, that have to go, but these false economies will make it difficult for communities to reach their potential.

While it is fundamentally clear that there is a funding crisis within local government that needs to be addressed, there are things we could be doing to strengthen

'If funding to improve social infrastructure can help close gaps, it seems likely that cuts to local government funding over the past 10 years will have done the opposite'

partnerships between the voluntary sector and local authorities. Charities already play a major role in public service delivery, and are well placed to improve provision, combining insight into what solutions work, with a deep understanding of the people and communities they work with. But charities could do even more if we changed our approach to commissioning and procurement. Too often, charities have to turn down risky contracts or subsidise them through alternative fundraising. Payment-by-results contracts in particular drive up financial risk for charities, while distorting service delivery by pushing providers to chase what can be measured and specified, rather than focusing on genuine and lasting impact for individuals.

> ‘When we are trying to think of ways to make the places where we live better, people and organisations that know the community will always be best placed to identify needs and propose solutions’

Quality over cost

Anyone involved in commissioning will also have heard stories of lengthy application processes, unnecessarily aggregating contracts, and short timetables that stymie the opportunities for collaboration. Fundamentally, we need a change in culture that values quality over cost if public services are going to deliver their full potential.

The pandemic has meant I have not been able to get out and about to meet charities as much as I would like, but, listening to their stories, I have been inspired by the difference they have been able to make in the most trying of circumstances. Dealing with the pandemic has helped forge new partnerships between local authorities and charities, with 36% of respondents to the latest research by Nottingham Trent University and the National Council for Voluntary Organisations saying they had increased their engagement with local authorities during the past year. New partnerships must now be harnessed to take us through the recovery and help us to address the problems that the 'levelling up' drive is seeking to tackle and to remove the barriers that have stopped charities from delivering their full potential.

Crucially, we know that we, and other national organisations, do not have all the answers, which is why it is so important to involve local people and organisations in decision-making. When we are trying to think of ways to make the places where we live better, people and organisations that know the community will always be best placed to identify needs and propose solutions. The government has a role in setting frameworks for decision-making and processes that ensure a wide range of voices are around the table, but allowing communities freedom to decide what will work for them, rather than shoehorning their bids to meet government priorities, is likely to produce better results.

Covid-19 has not necessarily exposed the inequalities in our society – our sector has been talking about this for years – but it has made them harder for decision-makers to ignore. There is a growing political acknowledgement of the importance of place, something that will not be news for charities and the people they serve. The ‘levelling up’ agenda has the power to make a huge difference to our society. We can drive opportunity and provide physical infrastructure to help areas become more prosperous. But if we fail to address the crisis in social infrastructure and don’t give communities what they need to strengthen connections, this could well end up being another missed opportunity to drive out inequalities across the country. If we do not take this opportunity to do something about disparities, it will be an additional catastrophe for communities badly hit by the pandemic.

Devolution drive

ESSAY

BY JONATHAN WERRAN

Reducing regional inequality cannot be achieved without allowing local areas greater powers to raise and spend their own taxes

Jonathan Werran is chief executive at think-tank Localis

IT COULD HAVE BEEN all so marginally different. In July 2019, having ascended the greasy pole as the Conservative Party's choice to succeed Theresa May as prime minister, Boris Johnson's inner-team were faced with a binary choice of name for the new administration's soon-to-be-launched flagship policy. The choice to describe the political programme to bring a Brexit-scarred country back from the slough of divisive despond into the sunlit uplands of national renewal was between 'levelling up' or 'turbocharge'. Opting for the former has led to the addition of a new phrasal verb – 'level up' – to the political lexicon. The connotations are immediate and aspirational – let's give every place the chance to improve so as to be as good as the best.

'Levelling up' can mean whatever the government speaker or audience wants it to mean – the slogan's ubiquitous, universal promise of improvement lends itself to wide interpretation. But if it is to mean anything substantial, 'levelling up' has to be about addressing the ever-widening wealth and productivity gap that the post-war British state has so singularly failed to address – albeit not through lack of effort and varying degrees of creative thought.

Stubborn gap

In the past six decades, the centre has imposed every type and permutation of regional and subregional structure: the reform attempts initiated by Harold Wilson and binned by Edward Heath; the rationalisation of the structure and function of English local government along the lines of the Redcliffe-Maud commission; the urban development corporations instigated by Lord Heseltine; the regional development agencies spawned under Tony Blair and their replacement with local enterprise partnerships under David Cameron. Much has been attempted – but the productivity gap stubbornly widens as London and the South East pull away.

Throughout this time, the golden thread of the post-war welfare state has been one of increased centralism and command and control from Whitehall at the expense of local self-government. It is a statistic as well rehearsed as the understudy in *The Mousetrap*, but, according to the OECD, the UK has the most centralised tax system among virtually any developed country. It is an outlier, with a tiny 1.6% of taxes set locally – and, even then, with restrictions on what can be done. A centralised tax base is the enemy of determined local growth. The necessity for community involvement in placemaking and 'building back better' our localities is glaringly obvious if we are to ensure that no place is left behind in the drive to recover and 'level up' the UK.

So, the question has to be: is 'levelling up' to be taken seriously as something even remotely attainable without some form of increased fiscal decentralisation or devolution? And is it possible in our domestic political economy? Last year, the Local Government Association asked Localis to explore arrangements among our near continental neighbours in the Netherlands, Germany and Switzerland for actual proof of how financial freedoms, especially around growth powers, can help support a strong, modern social economy that both delivers good long-term growth and releases public value. The

Dutch approach to fiscal autonomy shares a lot of similarities with the current British context. Devolution of fiscal responsibilities is also very limited in the Netherlands. Adjusted for population, Dutch local tax take is about the same as in the UK. In the Netherlands, it is 1.3% of GDP; in the UK, it is 1.6%. While there is a small taxation field, there is quite a lot of freedom in the way taxes are levied and what is chosen to be levied. The broad suite of local taxes that are available to Dutch municipalities, as well as their tendency to cooperate through tax collaborations, shows the extent to which local government has greater placemaking levers, while providing citizens greater transparency on the revenues and finances of their councils.

This does not require a huge leap in the dark. Councils across England already possess many of the qualities required for making a success of fiscal devolution. Chief among these are local trust, collaboration and democratic accountability. Furthermore, our local state cannot do placemaking without the freedom and flexibility to direct resources. A fudged approach to fiscal, as well as economic, devolution will make growth and recovery harder. The difference between localised, smaller-scale funding for placemaking and national-level infrastructure funding is one that is consistently blurred throughout the government's vague but well presented Plan for Growth.

On the one hand, the £4bn (in England) Levelling Up Fund is a kind of diversionary tactic, allowing chancellor Rishi Sunak to signpost to the swollen ranks of 'red wall' Conservative MPs that there is a cashpot they can get involved with. It is to be hoped that, behind the scenes, backroom Tory policy experts such as Neil O'Brien, former special adviser to Teresa May and now MP for Harborough, Oadby and Wigston, can flesh out something more enticing than the current fairground cockshy. Nevertheless, viewed with a focus on national infrastructure and a long-term plan to raise productivity, certain interventions laid out by the plan could be effective. In terms of delivering places people are proud to call home in the short term, however, the sums are chump change relative to the 55% cuts seen in local government expenditure from 2010 to the present day. Were local government adequately funded, the kind of upgrades and improvements to civic amenities we are talking about in the Levelling Up Fund would be covered quite naturally.

In order to successfully recover, all places across the nation will require robust and properly funded local services and infrastructure. Ensuring long-term and continued funding for these services will require a lot more than piecemeal cash pledges from central government. This current moment of national renewal is the perfect opportunity for government to give local authorities greater powers to raise the revenues they need to fund the kind of placemaking interventions that require relatively small amounts of funding and yet make a big difference to local life – from small-scale, hyper-local regeneration projects to renewing social infrastructure and cultural heritage.

The other bugbear is how fiscal devolution could deliver for placemaking, given the fact that statutory social care costs absorb so much of top-tier councils' non-discretionary funding. Do not ask for a prediction as to when the mythical green paper ▶

> 'Councils across England already possess many of the qualities required for making a success of fiscal devolution'

on social care will ride to the rescue. And there is no parallel for funding social care from property taxes anywhere else in the world. Ultimately, this is a choice over time.

To do anything serious, you would have to change the entire tax system and alter the Treasury view – and by more than simply relocating its economic team to Darlington. In Germany, for example, we see genuine fiscal devolution among the federal 'länder' and municipalities. The use of commercial and residential property taxes is the same as with England's council tax and business rates system. The difference with the German case is that local government is allowed a share of value added tax and personal income tax. Allowing each layer of government a share of these taxes means local government could fund its own responsibilities, like social care, without being overly reliant on grants or the creation of new taxes.

This brings us to the nub of the issue – how to fund new infrastructure and resource the local state to deliver reformed public services that contribute to the health, security and prosperity of communities in both our major cities and the broad green swathes of the country as yet unblessed with strategic economic powers? Given the upheaval and huge changes and challenges facing the economy and public finances since the pandemic, there is a favourable wind for changing tack. The chancellor has shown himself open to challenging conventional Treasury economic nostrums on capital investment rules to make other parts of the country equally deserving. It is hoped this will counteract the predominance of the South East of England and also support regional entrepreneurship and capacity building.

Fiscal devolution

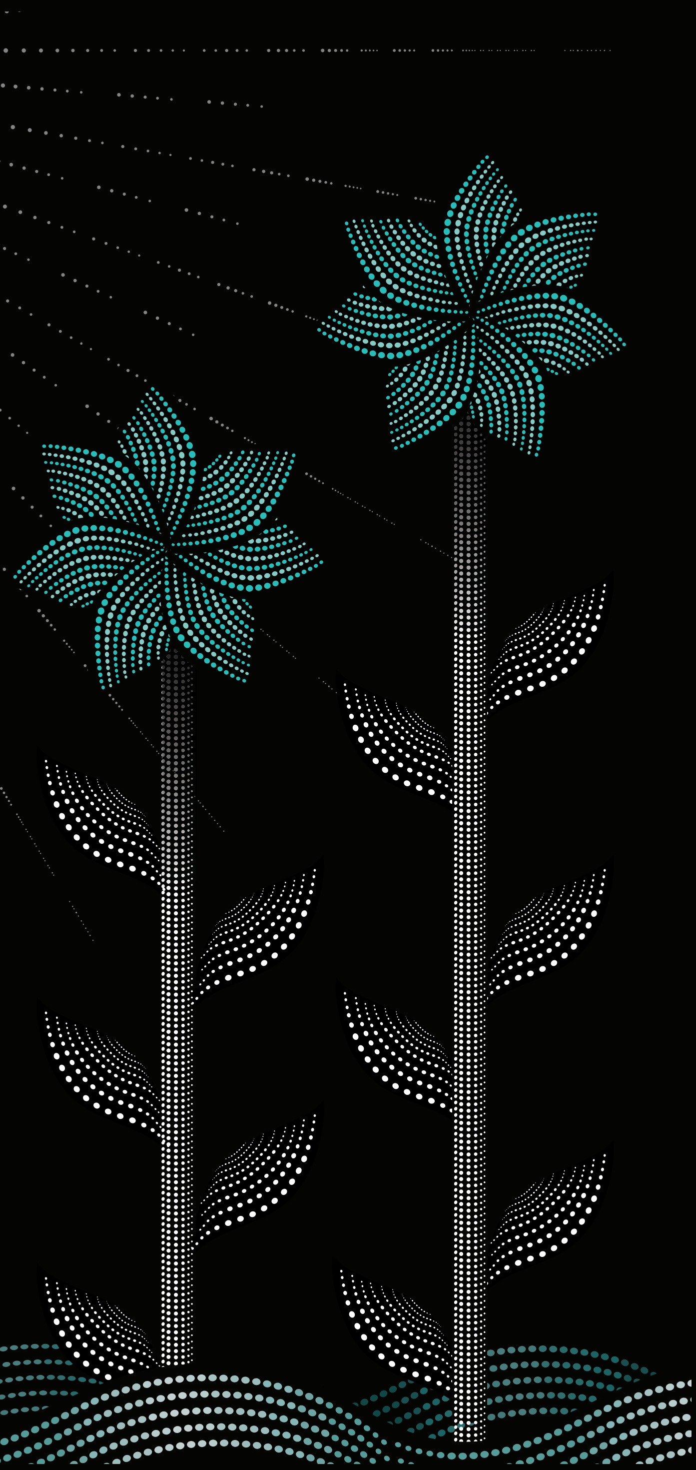
There is a philosophical and political case for the government to heed fiscal devolution as an essential prerequisite for 'levelling up' that aligns with the traditional Conservative value of strong self-government. The 2019 Brexit election was, for political reasons, focused on the needs of small towns. With it has come a focus and a return to founding Conservative principles in the notion – first espoused by philosopher and statesman Edmund Burke – of the role of 'little platoons' as a means to restoring civic fortunes and rebuilding national solidarity. Tapping into place patriotism, local pride identity and belonging certainly has the approval of financial secretary to the Treasury Jesse Norman, a philosopher by training and author of a highly acclaimed biography of Burke.

In a Burkean sense, the newly formed and soon-to-be established mayoral combined authorities could be valued as institutions capable of preserving inherited ties to a proud industrial legacy, for reviving their fortunes in the here and now, and safeguarding their local economy and environment for future generations. But if this is to be achieved then they must be robustly financed. This is just as significant, if not more so, for mayoral combined authorities with the power to work at scale alongside growth bodies such as the Northern Powerhouse and Midlands Engine partnerships. There should, in this sense, be a natural 'one nation' case for greater fiscal devolution alongside capital investment, to achieve these aims of rebalancing at both the macro and micro ends of the economic telescope.

Ultimately, making this work will require a mixed bag of local tax-raising powers and, arguably, a game of tailored trade-offs between mayoral combined authorities and the Treasury – and a more sensible way of managing relationships between the centre and emerging local powerbrokers. The 'as is' situation is more of the same moribund regional growth and endemic low productivity that has bedevilled the post-war British state. As Burke stated: "Those who do not know history are doomed to repeat it." We would only see yet more valuable time and yet more precious political and financial capital squandered in seeking to direct regional economic uplift from the centre – wherever that centre may be located. As night follows day, any chance of meeting the challenges of a fundamental shift in labour markets, of engineering a clean growth revolution and of delivering a socially balanced economic recovery that reaches all four corners of the land would be unviable under a centrally imposed fiscal chokehold.

Burke also warned: "A state without the means of some change is without the means of its own conservation." We can only hope that our Treasury Burkeans can put this political philosophy into action and use fiscal devolution as the lever from which to 'level up' the nation. ●

'There is a philosophical and political case for the government to heed fiscal devolution as an essential prerequisite for "levelling up" that aligns with the traditional Conservative value of strong self-government'



Equal opportunity?

This is the 12th in a series of *PF Perspectives*, produced by CIPFA and *Public Finance* to stimulate discussion on key public finance and policy issues. This collection of essays, by leading public sector practitioners and experts, explores what the UK government's flagship policy of 'levelling up' actually means and how its aims can be achieved

The Chartered Institute of Public Finance and Accountancy is the professional body for people in public finance. Its members work throughout the public services and in audit agencies to make sure public money is managed effectively. It is the world's only professional accountancy body to specialise in public services
cipfa.org

Public Finance provides news, features and expert comment on current public finance and policy issues through its monthly magazine, *Public Finance*, and its websites
publicfinance.co.uk
publicfinancefocus.org