



HARVARD Kennedy School

**MOSSAVAR-RAHMANI CENTER**  
for Business and Government

## **A Growth Policy to Close Britain's Regional Divides: What Needs to be Done**

**Nyasha Weinberg**  
Harvard Kennedy School

**Dan Turner**  
Harvard Kennedy School

**Esme Elsdon**  
University College London

**Ed Balls**  
King's College London  
Harvard Kennedy School

**Anna Stansbury**  
Massachusetts Institute of Technology

February 2024

### **M-RCBG Associate Working Paper Series | No. 225**

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**Nyasha Weinberg, Harvard Kennedy School**

**Dan Turner, Harvard Kennedy School**

**Esme Elsdon, University College London**

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**Anna Stansbury, Massachusetts Institute of Technology**

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The views expressed in this paper are those of the authors alone and should not be attributed to the organisations (and/or their respective executive directors) with which they are affiliated. All errors are our own.

This paper was produced with the support of the Harvard Kennedy School's Mossavar-Rahmani Center for Business and Government, and King's College London's Department of Political Economy and the Policy Institute. With thanks to HM Treasury, and in particular Mario Pisani, who provided access to archives to supplement our research. We are for financial support from the Gatsby Foundation.

For any questions or comments please contact the corresponding author: [turnerdt@hotmail.co.uk](mailto:turnerdt@hotmail.co.uk)

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## Executive Summary: A Growth Policy to Close Britain's Regional Divides.

Britain has huge geographic inequalities in economic outcomes, health, education and social mobility. While these have always existed, they have widened in recent years. These divides, both between and within regions, not only waste talent and potential but also fuel a politically destabilising “*geography of discontent*”. The fact that UK’s national productivity growth has stagnated over the past eighteen years is a further impetus to action – tackling regional divides is vital to tackling this national malaise.

We believe policy can and should do much more to respond to these deep and widening regional divides and raise UK-wide productivity growth. The UK has had regional policy for many years, and the prominence of ‘Levelling Up’, its latest incarnation, shows the political impetus to act on rising inequalities. But policy efforts are not working. Regional disparities have persisted and even worsened in recent years, despite the rhetoric.

Tackling stagnant growth and low regional productivity is now a cross-party imperative.

The Conservatives cannot hold together their 2019 electoral coalition without realising the promise of growth in the regions after leaving the European Union.

Labour cannot achieve its growth mission of driving growth to the highest rates in the G7 without tackling regional underperformance.

Moreover, this imperative is underpinned by an emerging cross-party consensus on what needs to be done. In this year of a General Election, we will see whether either or both parties can bring the leadership and mandate needed to reverse generational challenges facing the UK’s regions and nations.

Our two previous papers in this series give us reason to believe that there are policies that could better support all regions of the UK to prosper. And the prize is significant: 78% of the UK’s GDP is generated outside London. If our non-London cities had the same skills profile as the national average, and saw the agglomeration benefits typical of West European cities of similar size, UK GDP could rise by £55bn, bringing in around £13bn of additional tax revenue every year.<sup>1</sup>

Our first paper: ‘*Tackling the UK’s Regional Economic Inequality: Binding Constraints and Avenues for Policy Intervention*’ ([Stansbury, Turner, Balls 2023](#)) looks at the economic barriers to the UK’s regions and nations prospering and the policy levers which could help turn things around. We found:

- **A difficult inheritance:** the wave of deindustrialisation that hit the UK from the late 1970s went further and faster than elsewhere in Western Europe and is comparable to the post-communist transition of the 1990s. Undermined regional economic bases have in turn made it harder for new economy clusters to develop and grow.
- **Our (non-Southern) urban communities stand out as under-performers:** The UK’s largest city-regions, other than London, are particularly poor economic performers in

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<sup>1</sup> Based on analysis from the OECD, [Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth](#), 2 March 2020, and the OBR’s ready reckoner.

comparison to similarly sized European or American cities. On the other hand, they have the most obvious headroom to grow.

- **Skills policy has been a (qualified) success story for the UK:** Over the past generation the UK has rapidly transformed its graduate skills base. More workers than ever have degrees and there has also been a big drop in the share without any qualifications. As a result, skills in general are less of a bottleneck than they were in the 1980s or 1990s, but specific gaps (such as Science, Technology, Engineering and Management (“STEM”) skills) and shortage occupations remain.
- **But we have underinvested in infrastructure, holding back cities in particular:** There has been too little transport investment in low productivity regions and spending has gone disproportionately to London and the South East.
- **Innovation remains central to growth, but policy exacerbates rather than corrects regional inequalities in innovation:** Public funding is more skewed than private investment in research and development, amplifying rather than correcting inequalities.
- **Higher potential firms outside of the South East could benefit from more equity support early on:** Outside London there are opportunities for boosting equity finance opportunities for high-growth-potential SMEs that are not currently being met by regional investors.
- **Housing costs hold back welfare in the South for all but the highest earners and slow regional convergence:** High housing costs in London prevent convergence through migration; while eroding the benefits of high productivity for most residents in the UK’s economic hot spots.

Our second paper ‘*Why hasn’t UK regional policy worked: the views of leading UK practitioners*’, ([Turner, Weinberg, Elsdon, Balls 2023](#)) was based on ninety-five interviews with the senior decision-makers in regional policy. From Prime Ministers and Mayors to Whitehall growth specialists, our interviewees told us what we learn from regional growth policy in the years from 1979-2015. We identified a broad consensus among decision-makers that:

- **Politics in the 1980s and 1990s drove centralisation and helped maintain it afterwards:** The UK’s – and especially England’s - current centralised model was not an accident, but a deliberate result of political decisions made in the 1980s and 1990s. Subsequent governments have largely relied on centralised approaches to driving up productivity and delivering more balanced regional growth in England. The UK centralised while peer nations such as France, Spain and Italy decentralised.
- **Those responsible for regional policy regret not being bolder when in power:** Most practitioners are optimistic that more could have been done to make a meaningful difference in closing regional divides; but they regret not being more ambitious in retrospect.
- **Centralisation drove short-term decision making and too much “chop and change”:** Policy instability between and even within governments has damaged policy outcomes, but it is underpinned by a lack of effective checks and balances (especially by political leaders in the English regions).

- **The Mayoral Combined Authorities in England – alongside First Ministers in Scotland and Wales – are popular and are reducing policy churn, but more needs to be done:** Mayors in England have proven to be relatively effective and legitimate, providing credible sub-regional government alongside devolved administrations in the other nations. But many areas are still excluded and the combination of “left out” areas and inconsistent powers create a sense of unfairness, and prevent a new constitutional arrangement emerging.
- **Change is possible – but given our starting point of centralisation, it needs to be driven by the centre:** Sustained, top-level political will and leadership is necessary to overcome Whitehall’s centralising tendencies and empower local government.

It is one thing to say that it looks like there is emerging consensus; it is much more difficult to translate that consensus into lasting change and build durable institutions to stop the “chop and change” of UK regional policy between governments. Above all, we must get beyond the absurd idea that each new government rips up what their predecessors did. Instead, we need to build a lasting, cross-party consensus about the broad institutional landscape.

The big issue is whether a consensus for action on can be built around the outstanding contested issues we identify in our second paper, equipping those in power to move fast and decisively. In response to the issues posed above, we propose radical, but we believe deliverable, answers and routes to obtaining the consensus that has evaded policy makers since the 1970s. The only option which cannot be on the table for those serious about acting, is to make no choice at all.

Choices need to be made to answer the questions:

1. What are the most important **POLICY LEVERS** for growth in the regions and nations, and what is the right level for decision making?
2. Where decentralisation is part of the answer, what **MODEL** should we adopt?
3. How much should Whitehall drive **INSTITUTIONAL REFORM** to make any map of government comprehensive?
4. How do we **FUND** a more decentralised government – balancing equity with incentives?
5. In conclusion, what do we need to do to create a **POLITICAL CONSENSUS** behind regional growth policy?

This paper sets out our view, in light of our research, on how the next government should answer these questions. We propose a timetable for the next government on page 53.

### **1. What are the most important POLICY LEVERS for growth in the regions and nations, and what is the right level for decision making?**

Future projections for the UK’s growth are at historic lows. The country desperately needs growth at a national level and poor performance in many of the UK’s regions holds the country back.

Some argue for decentralisation as a panacea for UK growth, unleashing local initiatives. Others are sceptical, arguing that rising global uncertainty and current variation in governance and economic quality means central action is a surer bet.

We disagree with both views.

Our economic analysis and the views from our interviews say we need a positive-sum vision to build strong economies and institutions across the UK, a partnership between the centre and localities. This must be owned by the most powerful player at the moment – central government. Therefore, we propose:

**RECOMMENDATION ONE: The UK should develop a national Growth and Productivity Strategy and stick to it.** The Strategy should be: driven by the centre of government; regularly reported against in the Budget process; led by the Prime Minister and the Chancellor; and delivered locally where possible. It should put raising national and regional growth and convergence front and centre.

Growth across the UK must be a central mission for the next government. The Growth and Productivity Strategy should set out a national vision, priorities and missions; and should commission co-owned and co-designed Economic Plans for each combined authority and Devolved Administration in partnership with local authorities. We have had many growth strategies in the last 20 years, but none as part of a durable process which is built to last.

**RECOMMENDATION TWO: The national Growth and Productivity Strategy should focus on the drivers of productivity growth:**

- a. **Investment in transport infrastructure and public transport services to raise effective density for city regions;** The UK has spent less on transport than G7 peers and needs increased transport capital for local rail/tram networks and undergrounds; better bus services; and denser housing near transport hubs.
- b. **More investment and geographic spread in the UK's innovation infrastructure** with a greater focus on innovation hotspots across the whole country. Capitalise on the broad regional spread of university and private sector science and innovation through improvements to university-industry collaboration, with more funding to the Catapult Network to support spin-outs; and a network of Regional Equity Investment Funds endowed by Government through the British Business Bank targeting scale-up firms. These Funds should have an explicit, high risk appetite.
- c. **Sub-regional skills planning, backed by Whitehall funding, to deliver high wages and faster growth for the UK's firms.** Recent years have seen post-16 education funding cut by 16% from 2013/14 to 2019/20. Devolved policymakers should engage employers to address local labour shortages and to support growth of high-productivity, high-pay work; identifying sectoral shortages; and investing in human capital (particularly to improve STEM skills and address shortage occupations).
- d. **Sub-regional bodies (Combined Authorities) should be required to adopt a statutory spatial economic development strategy, which local spatial development plans should conform to.** These strategies should be agreed by a qualified majority vote of local authorities, and should include plans for infrastructure including transport, energy and water, and an overall housing target. If they can't agree, mayors should have the power to impose a plan. Mayors should be able to "call in" decisions from local authorities if they do not confirm to the spatial development strategy.

No one size will fit all. The right blend of interventions will vary across communities, and there is no “silver bullet” solution. Nor do we believe that there is always an optimal division of powers across local, sub-regional, and national authorities that will hold in every part of the UK.

As part of designing Economic Plans, local, sub-regional and national authorities should be clear which tier is responsible for which action – and make sure powers and funding are moved to the right level to deliver. From our interviews, we believe there is a particular strong case for skills policy devolution in England and localised planning reform in particular.

But we must go further. Local leaders are united in telling us that sub-regional growth strategies won’t work – and won’t command local and national political support – unless the UK government delivers critical social infrastructure. We propose:

**RECOMMENDATION THREE:** Local authorities should drive comprehensive investment in social infrastructure for all places and communities – delivering social as well as economic renewal – through a local plan for public services.

High quality social infrastructure is acutely needed as a driver of both growth and wellbeing for all communities. This spans local public services such as social care, to high street regeneration, to convening the wider public sector in a place (such as Job Centres, mental health or primary care services). Housing plans identified in recommendation two above should cover leisure services, and high streets.

We believe local authorities are best placed to serve as ‘place leaders’ in identifying need and improving public services at a local level and should be afforded funding and status accordingly. Ensuring that the funding formula for local government is fully updated and fit for purpose will help to support that the effective distribution of funding through growth pots, and the ability to recruit the high-quality staff necessary to strengthen capacity.

More generally, functioning public services are crucial for population wellbeing, improvements in living standards, and providing crucial foundations for productivity growth across the economy. Functioning public services are a prerequisite for productive private enterprise. Take the court system, or A&E waiting times, policing, or planning system decision making: key examples of where persistent public sector underfunding can hit private sector productivity. They are also, of course, crucial in delivering improved outcomes for systemically disadvantaged communities.

## **2. Where decentralisation is part of the answer, what MODEL should we adopt?**

Those we spoke to in our research generally bemoan patchy devolution across the UK, a lack of commitment to decentralisation from Whitehall, and difficulties coordinating action or overcoming parochial interests at the local level. Some argue that this was inevitable, given varying sense of regional identity in England relative to the other nations; others that it was desirable, as we ought to be focusing on a small number of ‘growth engines’.

We saw an emerging, broad-based consensus that it works to have an intermediate tier of government – between local authorities and Whitehall, but smaller than the historic English ‘regions’ - with empowered city-regional or county-regional leadership. Our conclusion is that this middle tier of government needs to be small enough to respond to local opportunities, but large enough scale to drive change, overcome local political barriers, and communicate with Whitehall. Such a middle tier is not an alternative to central government but can complement it:



freeing up national capacity to act strategically or respond to new challenges, while decentralising activity best delivered out of Whitehall.

**RECOMMENDATION FOUR:** All parts of England should be covered by a tier of government between local and national government, creating a devolved tier across the UK. English devolution should be negotiated flexibly around a set of core principles:

- **Comprehensive:** All parts of England should be part of a mid-tier structure (institution tier between local and national government).
- **At Scale:** The intermediate tier of government must be at a level larger than an upper tier (metropolitan or county) authority. If it does not consist of multiple upper tier authorities, it won't deliver the coordination and scale benefits that make combined authorities a success.
- **Single Point of Contact:** The resulting political structure should have a single point of contact for the UK Government and local partners to engage with, such as a mayor or first minister.
- **Collaborative:** Collaboration is essential to deliver the decisions at the scale described above. Aside from joining the mid-tier, government should encourage cross-authority thematic regional bodies (e.g. the existing Transport for the North) to coordinate policy efforts where appropriate – for example in health, skills, and infrastructure.
- **Accountable:** Local and sub-regional oversight and accountability should be strong enough to command credibility in the UK parliament, giving ministers and MPs the assurance needed to “let go”. We support reintroducing a reformed Audit Commission; encouraging parliamentary scrutiny of combined authorities; and more support for sub-regional press and civil society.
- **Simple:** Minimise the number of separate overlapping institutional structures, avoiding the frictions that would be introduced by having three local tiers and deliver local government unitarisation where possible. Meanwhile Whitehall should align other structures (such as NHS bodies and police forces) with the new tier wherever possible.

Reflecting on the past decade some interviewees viewed mayors as the pivotal innovation, while others stressed the collaborative nature of combined authorities. Leadership is no doubt fundamental in building MCAs as a political counterweight to Whitehall. But we believe that it is not enough simply to insert an effective leader: scale and collaboration must be built into the model for this middle tier of government. This may mean checking, and perhaps reversing, the recent move to single county “county deals” as in Norfolk or Suffolk. While having separate mayors for Norfolk and Suffolk might deliver on the single point of contact, the deals fail our test of ‘scale’.

Given the varying needs, identities and politics of the nations and regions, we do not think a single constitutional model will work everywhere for this middle tier of governance. In implementing the principles above, the government should be open to **experimentation**. The current combined authority model and ‘deal making’ process has worked in some areas, but it won't necessarily be the right approach everywhere.

Where there is local and sub-regional appetite, the UK Government should allow moves to other proven models, provided they do not dilute effective sub-regional leadership. These could include: non-Mayoral Combined Authorities with an appointed leader with a personal mandate; a London-style directly elected scrutiny chamber; replacing MCA Boards with sub-regional assemblies of Councillors; or allowing directly elected legislative assemblies, as in the devolved nations.

What matters is that every part of the country is included and that no areas are left behind; and that empowered sub-regional leaders can take on hard choices across their area.

### **3. How much should Whitehall drive INSTITUTIONAL REFORM to make any map of government comprehensive?**

Some argue that the move towards new mid-tier institutions should be voluntary. Others argue that it should be imposed from above, with the centre being the only body capable of achieving change. Our second paper found that the UK government in Whitehall has relied too heavily on centralised approaches to driving up productivity and delivering more balanced regional growth.

We believe patchy devolution in England, and the powerful tendency towards centralisation in Whitehall, holds back the potential of all regions and nations. Delivering devolution in all places will end the current inequity of some communities missing out on resources due to local political rivalries; and will make it easier to reform Whitehall (if it faces a simplified, more intelligible country).

Such a change will not be easy. The “blank spaces on the map” are there precisely because local political leaders have not been able to voluntarily agree to reform. But that is not a good enough reason to stand still in the face of a national and local growth imperative. We therefore recommend that:

**RECOMMENDATION FIVE:** Government should invite all parts of England to develop a proposal for their future governance, with powers and resources delegated to all combined authorities able to demonstrate strong leadership, in line with our principles in Recommendation Four. Plans should be finalised within a year of the next General Election; and implemented by the end of the Parliament. No part of England should be allowed to be “left out”.

Ministers should be active players in brokering local and sub-regional agreements, although we believe local leaders should be expected to lead negotiations as much as possible (as in the current model). However, if local leaders can’t come to an ambitious solution in line with the principles, ministers should make clear that they will mandate a solution. Ministers should be encouraged to transfer staff to combined authorities or local authorities, and support capacity building through providing administrative resources to MCAs.

In our second paper interviewees told us that the political and bureaucratic operation of Whitehall prevents effective regional governance. To support devolution and empower regions, reform of Whitehall is necessary. There are options for how to do this. Our view is that any approach needs to build on existing institutions, ensure external challenge and dovetail with the budget processes. We propose:

**RECOMMENDATION SIX:** A Prime Minister-chaired Regional Growth Delivery Unit should be established, managed jointly by the Cabinet office and HM Treasury. The Unit will be responsible for holding Whitehall to account over delivery of the National Growth and Productivity Strategy, issuing statutory progress reports at each fiscal event.

Number 10 and HM Treasury should lead this Unit, jointly serviced by the Cabinet Office and the Treasury, with its work linked to the Budget process to ensure maximum attention and scrutiny. There should be regular reporting - internal and public - against objectives, including “sub-regional impact assessments” in each Budget, setting out the changes per head by region.

It is not just about building regional institutions, but also about changing the culture of Whitehall.

**RECOMMENDATION SEVEN:** Bring sub-regional and national leaders (Mayors, First Ministers) into the House of Lords *ex officio* for their time in office, as is already the case with civic leaders.

To increase the regional voice in national decision-making, leaders at the sub-regional level should be brought into the centre and given a voice in Parliament. This would give them the ability to sponsor and contribute to UK-level legislation (including private bills) and increase the responsiveness of Whitehall to requests.<sup>2</sup>

#### **4. How do we FUND a more decentralised government – balancing equity with incentives?**

Our proposals focus on the need for investment across the UK to enable regional convergence. We also stress the importance of accountable and empowered local and sub-regional government. This begs the question of how financing ought to be arranged to best support these goals.

Some of those we spoke to, and a rising number of thinktanks, advocate for more radical fiscal devolution along the lines designed for Scotland after the 2014 referendum. They argued that centralised finance makes it easier to move money away from lagging regions, should a UK government deprioritise regional growth. Others resist this, including the large majority of those we interviewed for our second paper, arguing that our highly unequal starting point means we shouldn’t prioritise weakening the role of the UK state in redistributing across regions and nations; that localising income tax, national insurance or VAT would entrench existing inequalities; and that long-term fiscal reform will be more palatable in a more equal UK.

We support the second camp, placing a great priority on mobilising funding to drive growth projects and rebalance the economy before pursuing fiscal devolution that could make this more difficult.

Without fundamentally reshaping the tax system – for which we found almost no support in our second paper – there are ways we can reform public spending to support regional rebalancing:

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<sup>2</sup> It could also enable implementation of the Brown Commission’s proposed Council of the Regions and Nations.

**RECOMMENDATION EIGHT:** Give English sub-regional leaders an expanded ‘single pot’ financial settlement for devolved matters, in line with the other nations’ financial settlements. This single pot could still include safeguards in the short-term, with nominal allocations by policy area determined as part of the Growth and Productivity Plan.

Many of our interviewees said that the single pot was one of the most important innovations of the Regional Development Agencies, improving decision-making and deepening dialogue both within regions and with Whitehall. Recent reforms have reintroduced the principle of a single pot in Greater Manchester and the West Midlands.

We believe the single pot should be rolled out as widely as possible, as quickly as possible, within England. It should be expanded to include levers essential to local growth, such as R&D funding, apprenticeship spending, employment support, retrofit and further education capital spending. Local leaders should be able to reallocate some share of spending (say +/- 10% of a nominal allocation) into other policy areas if there is local demand. This has the advantage of driving more mature local politics by emphasising a trade-off across policy areas; and creates an incentive for Whitehall officials to lobby regions and nations for “their” policy goal, reversing the current role of sub-regional leaders coming to Whitehall as supplicants for small competitive pots of cash.

**RECOMMENDATION NINE:** Offer unitary local government in England a multi-year settlement – ideally for a full five years – to support long-term reform programmes in support of universal basic public services; and encourage the Devolved Administrations to do the same.

Strengthening our public services will require some up-front investment (for instance, investing in public health or “care in the community” social care reforms to ease pressures on the NHS). Longer-term funding certainty, and flexibility to bring forward spending from future years, allows such investment to take place while still meeting fiscal rules requiring falling debt levels in the medium-term. Additional and more flexible funding should be offered in return for reform, with more available for those places which simplify local government structure through unitarisation. And we should reform wider public sector boundaries for the police and the NHS, bringing them into line with sub-regional authorities to drive public sector productivity gains through the removal of unnecessary frictions.

Local authorities, especially in metro areas or near growth clusters, will be essential in raising UK growth given their role in delivering local services and infrastructure. Straightened local finances, and the legacy of a decade of cuts to capacity, means local authorities are less able to deliver economic growth today than they were in the 2000s. The next Government will need to consider immediate recapitalisation of some growth-oriented local authority services, such as planning departments.

**RECOMMENDATION TEN:** Reallocate capital spending to prioritise compensatory investment for historic underspending in some UK regions and nations. Embed this reform by changing HM Treasury’s Green Book, removing implicit biases that systematically favour the South East.

The next Government should be explicit that, for decades, per capita spending on the drivers of growth (especially infrastructure and innovation) has not been equal across the regions and nations – and should commit to ending that through formula-based spending in both the “single pots” and in Whitehall. The Treasury Green Book should be reformed to assess the benefit-cost ratio of all interventions in a place, rather than assessing each project case-by-case. That will allow for different parts of Whitehall to coordinate their investments in a place, supporting cross-cutting departmental regional growth interventions.

We do not propose any radical steps towards fiscal devolution until transfer-driven policy has helped drive a more equitable distribution of economic activity across the UK; though smaller scale reforms (to business rates or ‘tourism taxes’; or in enabling more land value capture) could be taken forward.

To those who would argue that fiscal reform and upfront investment isn’t possible given the public finances, we say: unless we address bottlenecks to growth, the UK will not tackle its current low growth performance and will not release the resources we need to fund new priorities.

## **5. What do we need to do to create a POLITICAL CONSENSUS behind regional growth policy?**

The recommendations that we suggest above will only transform the UK if we don’t repeat the mistakes of the past.

We have heard from three Prime Ministers, and many Chancellors, that they wished that they had done more immediately when they entered office, and that any government who does not act quickly on this issue will lose the opportunity.

The reforms we advocate above will be contentious. But the alternative – continued policy drift – risks locking in the current under-performance and inequality. Changing the status quo, then, will bring both political cost and opportunity. How both the Government and Opposition respond to this political change will be crucial in determining its success and longevity.

Those we spoke to highlighted that the importance of cross-party support (or, at least, no active opposition from one of the major parties) in helping policies and institutions to bed in. For instance, even the advocates of “muscular Unionism”, where the UK Government takes a more active role in Scotland or Wales, would no longer advocate the abolition of devolution altogether.

Until recently, England especially has enjoyed no such cross-party agreement over policies or institutions, driving damaging instability and flux. It may be that the emergence of mayoralities will change that, but we may be about to find out if the settlement devolved under the Conservatives over the past decade is put to the test of a Labour-led government.

From our conversations with practitioners, we believe the pivotal factor behind the long-term success of policy will be whether party leaders can agree to the outline of a broad settlement, and implicitly agree to give it proper time to evolve and develop.

It will take an act of statesmanship from the Prime Minister and Chancellor Leader of the Opposition to deliver a consensus, and every past one we spoke to wished they had.

We've got to get beyond political leaders expressing regret after their time in office that they haven't done more.

It will now fall to the next Government to draw up and agree a plan for comprehensive reform, building on existing devolution deals with wide consultation and input from civil society. There are lots of tools for entrenching consensus which could include, illustratively, a Citizens' Assembly (given international successes in building political space for constitutional change) or a jointly chaired cross-party commission.

But the first and most important test will be the commitments made by the main parties in their respective manifestos. Because what matters most is having the mandate and the leadership to get this done.

We hope they don't duck the challenge.

## Recommendations: at a glance.

**RECOMMENDATION ONE: The UK should develop a national Growth and Productivity Strategy and stick to it.** The Strategy should be: driven by the centre of government; regularly reported against in the Budget process; led by the Prime Minister and the Chancellor; and delivered locally where possible. It should put raising national and regional growth and convergence front and centre.

**RECOMMENDATION TWO: The national Growth and Productivity Strategy should focus on the drivers of productivity growth:**

- a. **Investment in transport infrastructure and public transport services to raise effective density for city regions;** The UK has spent less on transport than G7 peers and needs increased transport capital for local rail/tram networks and undergrounds; better bus services; and denser housing near transport hubs.
- b. **More investment and geographic spread in the UK's innovation infrastructure** with a greater focus on innovation hotspots across the whole country. Capitalise on the broad regional spread of university and private sector science and innovation through improvements to university-industry collaboration, with more funding to the Catapult Network to support spin-outs; and a network of Regional Equity Investment Funds endowed by Government through the British Business Bank targeting scale-up firms. These Funds should have an explicit, high risk appetite.
- c. **Sub-regional skills planning, backed by Whitehall funding, to deliver high wages and faster growth for the UK's firms.** Recent years have seen post-16 education funding cut by 16% from 2013/14 to 2019/20. Devolved policymakers should engage employers to address local labour shortages and to support growth of high-productivity, high-pay work; identifying sectoral shortages; and investing in human capital (particularly to improve STEM skills and address shortage occupations).
- a. **Sub-regional bodies (Combined Authorities) should be required to adopt a statutory spatial economic development strategy, which local spatial development plans should conform to.** These strategies should be agreed by a qualified majority vote of local authorities, and should include plans for infrastructure including transport, energy and water, and an overall housing target. If they can't agree, mayors should have the power to impose a plan. Mayors should be able to "call in" decisions from local authorities if they do not confirm to the spatial development strategy.

**RECOMMENDATION THREE:** Local authorities should drive comprehensive investment in social infrastructure for all places and communities – delivering social as well as economic renewal – through a local plan for public services.

**RECOMMENDATION FOUR:** All parts of England should be covered by a tier of government between local and national government, creating a devolved tier across the UK. English devolution should be negotiated flexibly around a set of core principles:

- **Comprehensive:** All parts of England should be part of a mid-tier structure (institution tier between local and national government).

- **At Scale:** The intermediate tier of government must be at a level larger than an upper tier (metropolitan or county) authority. If it does not consist of multiple upper tier authorities, it won't deliver the coordination and scale benefits that make combined authorities a success.
- **Single Point of Contact:** The resulting political structure should have a single point of contact for the UK Government and local partners to engage with, such as a mayor or first minister.
- **Collaborative:** Collaboration is essential to deliver the decisions at the scale described above. Aside from joining the mid-tier, government should encourage cross-authority thematic regional bodies (e.g. the existing Transport for the North) to coordinate policy efforts where appropriate – for example in health, skills, and infrastructure.
- **Accountable:** Local and sub-regional oversight and accountability should be strong enough to command credibility in the UK parliament, giving ministers and MPs the assurance needed to “let go”. We support reintroducing a reformed Audit Commission; encouraging parliamentary scrutiny of combined authorities; and more support for sub-regional press and civil society.
- **Simple:** Minimise the number of separate overlapping institutional structures, avoiding the frictions that would be introduced by having three local tiers and deliver local government unitarisation where possible. Meanwhile Whitehall should align other structures (such as NHS bodies and police forces) with the new tier wherever possible.

**RECOMMENDATION FIVE:** Government should invite all parts of England to develop a proposal for their future governance, with powers and resources delegated to all combined authorities able to demonstrate strong leadership, in line with our principles in Recommendation Four. Plans should be finalised within a year of the next General Election; and implemented by the end of the Parliament. No part of England should be allowed to be “left out”.

**RECOMMENDATION SIX:** A Prime Minister-chaired Regional Growth Delivery Unit should be established, managed jointly by the Cabinet office and HM Treasury. The Unit will be responsible for holding Whitehall to account over delivery of the National Growth and Productivity Strategy, issuing statutory progress reports at each fiscal event.

**RECOMMENDATION SEVEN:** Bring sub-regional and national leaders (Mayors, First Ministers) into the House of Lords *ex officio* for their time in office, as is already the case with civic leaders.

**RECOMMENDATION EIGHT:** Give English sub-regional leaders an expanded ‘single pot’ financial settlement for devolved matters, in line with the other nations’ financial settlements. This single pot could still include safeguards in the short-term, with nominal allocations by policy area determined as part of the Growth and Productivity Plan.

**RECOMMENDATION NINE:** Offer unitary local government in England a multi-year settlement – ideally for a full five years – to support long-term reform programmes in support of universal basic public services; and encourage the Devolved Administrations to do the same.

**RECOMMENDATION TEN:** Reallocate capital spending to prioritise compensatory investment for historic underspending in some UK regions and nations. Embed this reform by changing HM Treasury’s Green Book, removing implicit biases that systematically favour the South East.



## Introduction and approach

Britain has huge geographic inequalities in economic outcomes, health, education and social mobility. While these have existed for centuries, they have widened in recent years. These divides, both between and within regions, not only waste talent and potential but also fuel a politically destabilising “*geography of discontent*”<sup>3</sup>. The fact that UK’s national productivity growth has stagnated over the past eighteen years is a further impetus to action – tackling regional divides is vital to tackling this national malaise.

We believe policy can and should do much more to respond to these deep and widening regional divides and raise UK-wide productivity growth. The UK has had regional policy for many years, and the prominence of ‘Levelling Up’, its latest incarnation, shows the political impetus to act on rising inequalities. But policy efforts are not working. Regional disparities have persisted and even worsened in recent years, despite the rhetoric.

Tackling stagnant growth and low regional productivity is now a cross-party imperative.

The Conservatives cannot hold together their 2019 electoral coalition without realising the promise of growth in the regions after leaving the European Union.

Labour cannot achieve its growth mission of driving growth to the highest rates in the G7 without tackling regional underperformance.

And the prize is significant: 78% of the UK’s GDP is generated outside London. If our non-London cities had the same skills profile as the national average, and saw the agglomeration benefits typical of West European cities of similar size, UK GDP could rise by £55bn, bringing in around £13bn of additional tax revenue every year.<sup>4</sup>

In this year of a General Election, we will see whether either or both parties can bring the leadership and mandate needed to reverse generational challenges facing the UK’s regions and nations.

Our two previous papers in this series give us reason to believe that there are policies that could better support all regions of the UK to prosper: our first paper identified reforms that could help unlock the growth potential of all the UK’s regions; our second identified the political and administrative barriers that were preventing us from realising that opportunity.

### Methodology

This paper synthesises the findings of our previous econometric analysis and qualitative summary of almost one hundred practitioner interviews.

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<sup>3</sup> McCann, P (2020). Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK’. *Regional Studies*, 54, 256-67.

<sup>4</sup> Based on analysis from the OECD, [Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth](#).

Unlike our previous analysis – which was deliberately drafted in positive terms and sought to avoid normative analysis of possible reform – in this paper we have given ourselves the freedom to draw normative policy conclusions.

Further details of the methodology of our first papers are contained with the papers themselves. In this paper we describe how our findings have driven our policy proposals, and where in those papers further background support for our proposals may be found.

In addition to our own research, we draw on the insights and wisdom of those we interviewed for specific ideas; and the wealth of research that has been released in recent years by other academics and researchers looking at the UK's regional divides. We have tried to be as transparent in attributing ideas to others as possible through this paper.

### **Terminology**

The nomenclature of 'regions' evolves over time and is contested. In this paper we use the term 'regional' as a generic term, except where we are referencing tiers of government. There, we follow the practice of referring to 'regional' (or 'devolved national') as tiers of government that align with the Office for National Statistics' regional classification (e.g. South East, North West, Scotland); 'sub-regional' government as the tier of government below regional level but above local authority level (such as Greater Manchester or South Yorkshire); and 'city-region' as the sub-set of metropolitan sub-regions.

## The Context: Widening Regional Divides

The collapse of old industrial clusters in the 1970s and 1980s left local economies weak across the UK as demonstrated by our, and others' research. Only some places – London being the prime example – were able to enjoy the proceeds from the take-off of the growth in knowledge intensive business services from the 1990s. The collapse of old clusters hit the UK's cities particularly hard. The UK has been left with exceptionally poorly performing non-capital cities. The UK's towns and rural economies, by contrast are more internationally typical. Scotland is a partial exception to this general trend: it performed strongly relative to the national picture; Scotland's success, however, has been largely confined to the emerging financial sector in Edinburgh and areas where demand for skilled labour from the oil industry helped prop up the economy.

Policy decisions exacerbated the crisis of Northern cities and take-off of London. This was not necessarily intentional, nor obvious at the time. Public infrastructure and research and development (R&D) spending was disproportionately concentrated on London and the South East; and successful national efforts to improve skills – without an equal success in raising labour demand across the country – enabled 'brain drain' dynamics in many local labour markets, with talent flowing to London and the South East. Fiscal and monetary policy hasn't corrected for divides. The polarisation of the national economy means that monetary policy does not have the same impact everywhere. The apocryphal Eddie George quote makes this point most emphatically – historically unemployment in the north was considered “*a price worth paying*” for reducing inflation. However, UK-wide redistribution has been important, especially in reducing poverty and raising wealth among the elderly.

Governments did recognise and try to correct the UK's regional imbalances. The 1990s and 2000s were characterised by the UK's regions trying to overcome the legacy of structural change through funded policy programmes aimed at building a new business base and skills base. Regeneration projects were introduced to physically address the legacy of the industrial city. Reform efforts have been a qualified success. Post-1992 high education reforms created a network of universities that have played a pivotal role in economic development across the country. Public service reform led to national improvements in the provision of some core services. Some (place-based) programmes, such as the London Challenge, stand out for addressing poverty and social immobility.

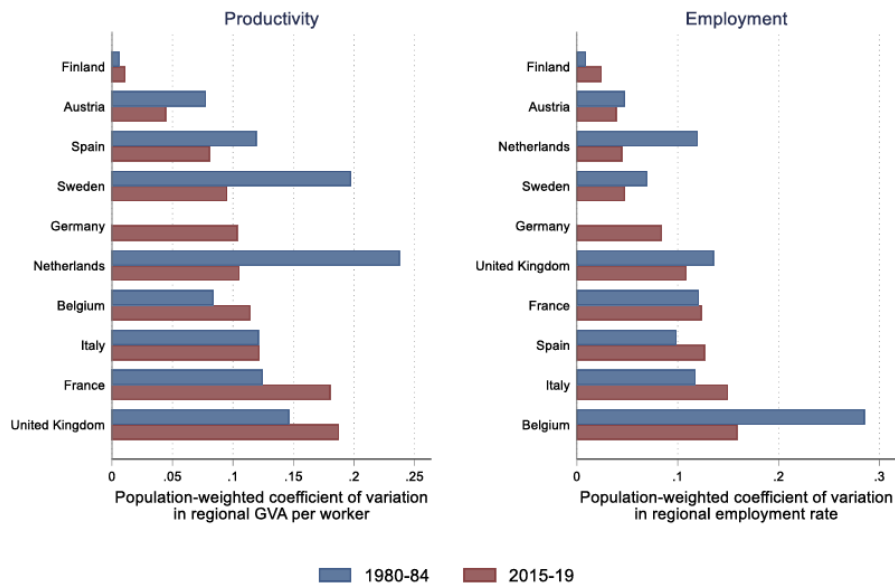
Yet, the UK's regions remain divided. Today many councils are struggling financially. Devolution deals are piecemeal and mayoral powers are limited. Central government concerns about low local or regional capacity and accountability prevent (parliamentary-accountable) ministers and senior civil servants from devolving power or responsibility. This in turn precludes local capacity building. The Mayoral Combined Authority (MCA) model has disrupted this cycle by means of incremental reform, aided by a confidence-building first generation of mayors. However, much of England remains outside of a reformed sub-regional tier of government. The work of the [Brown Commission](#) and the Conservative Government's [Levelling Up the United Kingdom](#) White Paper show that both main political parties share a diagnosis that the failure to deliver growth across the UK's regions has led to Britain's economic struggles.

The UK's largest cities have productivity levels that lag the UK average, which leaves the country poorer as a whole. This sits counter to the general global trend for bigger urban areas to be more productive. As the UK faces a cost-of-living crisis, tackling the deep roots of the underperformance of the UK's cities is essential to boosting aggregate growth and closing

regional gaps. Figure 1 shows the UK's regional inequality in productivity in international perspective, and the magnitude of the problem to solve.

Reform is necessary, and that reform must be achieved by the end of the parliament if the UK's political parties are serious about acting to tackle persistent underperformance now. Delaying further would continue the cycle of patchy incrementalism, inadequate attention, and policy flip-flop.

**Figure 1. Regional inequality in productivity and employment, Western Europe**



Source: ARDECO. Note: Regions defined at NUTS 1 level. We do not include Germany data pre-reunification.

## The Findings of our Project

### Tackling the UK's Regional Economic Inequality: Binding Constraints and Avenues for Policy Intervention.

Our first paper uses a binding constraints framework to identify the key missing policy inputs holding back the growth of the UK's lagging regions. To answer this question Stansbury, Turner and Balls (2023) looked at the role of the inputs for neoclassical growth (education, infrastructure, access to finance); the role of boosting government's role in endogenous growth (proxied by R&D); and the convergence mechanisms we might expect to see in a functioning national economy (proxied by internal migration). Taking all factors together, we analysed their relative and combined effects on regional growth. Our paper found:

1. **The UK's structural challenge may be stronger than most: The UK was more exposed than peer countries to the global forces widening regional inequalities.** London, with its existing specialisation in knowledge-intensive business services, benefitted significantly from the global rise of these industries, while the Midlands, North of England, Wales, and Northern Ireland were among the most exposed regions in Europe to deindustrialisation.
2. **It is very difficult for people to move to opportunity:** High housing costs in London and the South East make it prohibitively expensive for many people to move from low-income to high income places – and erode much of the gains in income for those who do move, except at the very top end.
3. **The education story has become one of 'too few scientists'. The wage premium, the percentage by which the earnings of graduates or those with further education exceed those of non-graduates, has fallen dramatically over the past twenty years, except for in STEM subjects.** Mass expansion of university education appears to have helped address a broader graduate skills shortage. A binding constraint to growth in many regions outside of London now appears to be a lack of STEM skills.
4. **There has been too little transport investment in lower productivity regions:** UK transport investment has been low in international context, and heavily skewed towards London. The UK's cities outside London have more congested roads than comparable US cities and more limited public transport accessibility than in comparable Western European cities. Together, this means effective labour markets for the UK's city centres are smaller than in peer countries, limiting potential productivity benefits from agglomeration. Countries either build lots of roads or have good public transport and denser cities: the UK does neither.
5. **Public support for innovation currently amplifies rather than corrects for regional inequalities.** Public money for innovation has been heavily channelled towards areas that already have thriving innovation economies – London, Scotland and the Bristol / Oxford / Cambridge arc – and is even more skewed towards these areas than private sector R&D spend. More could be done to route state funding to supercharge private spending on innovation in regions with demonstrated research excellence and where the private sector is able to absorb the benefits of innovation.

From our first paper, we conclude that:

- There is a viable path to growth in many of the UK's non-London regions;
- The barrier to that path is not a lack of skills in general, but a lack of high productivity firms in the right sectors, alongside specialised STEM skills, in non-London South East regions;
- Correcting this means mobilising capital specifically for high growth potential firms at the same time as addressing specific local skills gaps; and
- At the same time, broader productivity gains could come from housing and transport reform to “thicken” sub-regional labour markets. That will probably mean focusing on city-regions (city centres and their surrounding towns) as the locus of growth; and given the size of the UK compared to other “road rich” countries probably means investing more heavily in public transport alongside planning reforms to encourage increased housing density in cities.

Our findings from the first paper are reflected in this paper in the recommendation that any national Growth and Productivity Strategy should focus on the drivers of productivity growth.

## **Institutional factors and historical learnings about regional growth and development**

In our historical paper, '[Why hasn't UK regional policy worked: the views of leading UK practitioners](#)', we interviewed most of the key decision-makers from 1979 to 2015. We spoke to former Prime Ministers, Chancellors, and Ministers. At a local and sub-regional level, we interviewed Mayors, Local Authority Chief Executives and Council Leaders. We spoke to academic experts. We focused on three main policy eras (under the Conservatives from 1979 to 1997; New Labour from 1997 to 2010; and the Coalition from 2010-15), with each regime presenting different responses to recurrent challenges.

Taken as a whole, our second paper gives a history of the struggles and success, failures, and ambitions of those who were there, making the policy. We have published all our interviews in full [here](#). Where we make reference to any of the interviews conducted in that paper, we provide a hyperlink to the underlying interview in this paper.

Key areas of agreement from that paper about the lessons from regional policy are as follows:

- **Politics in the 1980s and 1990s drove centralisation and helped maintain it afterwards:** The UK's current centralised model was not an accident, but a deliberate result of political decisions made in the 1980s and 1990s. Subsequent governments have preferred to rely on centralised approaches to driving up productivity and delivering more balanced regional growth in England.
- **Those responsible for regional policy regret not being bolder when in power:** Most practitioners are optimistic that more could have been done to make a meaningful difference in closing regional divisions; but they regret not being more ambitious in retrospect.

- **Centralisation drove short-term decision making and too much “chop and change”:** Policy instability between and even within governments has damaged policy outcomes, but it is underpinned by a lack of effective checks and balances by political leaders in the English regions especially.
- **The Mayoral Combined Authorities in England are popular and are proving effective in breaking the cycle of churn, but more needs to be done:** Mayors in England have proven to be relatively effective and legitimate, providing credible sub-regional government alongside devolved administrations in the other nations. But many areas are still excluded and the combination of “left out” areas and inconsistent powers create a sense of unfairness, and prevent a new constitutional arrangement emerging.
- **Change is possible – but given our starting point of centralisation, it needs to be driven by the centre:** Sustained, top-level political will and leadership is necessary to overcome Whitehall’s centralising tendencies and empower local government.

However, we also identified four areas where practitioners disagree about the way forward. These are:

1. What are the most important **POLICY LEVERS** for growth in the English regions, and what is the right level for decision-making?
2. Where decentralisation is part of the answer, what **MODEL** should we adopt?
3. How much should Whitehall drive **INSTITUTIONAL REFORM** in England to make any map of government comprehensive?
4. How do we **FUND** a more decentralised government – balancing equity with incentives?

We conclude our second paper by noting that our most senior interviewees believe brokering a lasting, cross-party consensus is essential to finally breaking the cycle of rising regional inequalities. But doing so will require an act of statesmanship from our political leaders.<sup>5</sup>

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<sup>5</sup> There is a wealth of other relevant research on the best route forward for regional growth and development. We cite the following papers below, and would recommend them to those interested in this topic:

- DLUHC, The [Levelling Up White Paper](#), and in particular the technical annex presents helpful relevant data for measuring regional growth and development, 2 February 2022
- [Resolution Foundation / CEP / Nuffield’s Economy 2030 plan](#) , 4 December 2023
- The [Centre for Cities](#) research into productivity, housing, public transport and decentralisation, 6 February 2024
- The work of [UK 2070](#), the [Brown Commission](#), the [Marmot Review: Fair Society Healthy Lives](#) on Health Equity, the [Institute for Government’s Devolution](#) work
- Mudie, Alldritt & Franklin, Funding Fair Growth: can fiscal devolution help?, 2 August 2023 <https://www.progressive-policy.net/publications/funding-fair-growth-can-fiscal-devolution-help>
- Pope, Dalton & Coggins, How can devolution deliver regional growth England?, 12 May 2023, <https://www.instituteforgovernment.org.uk/publication/devolution-deliver-regional-growth>
- Kaye & Powell, Devolve by default: decentralisation and redefine Whitehall, 3 January 2024, <https://reform.uk/publications/devolve-by-default/>

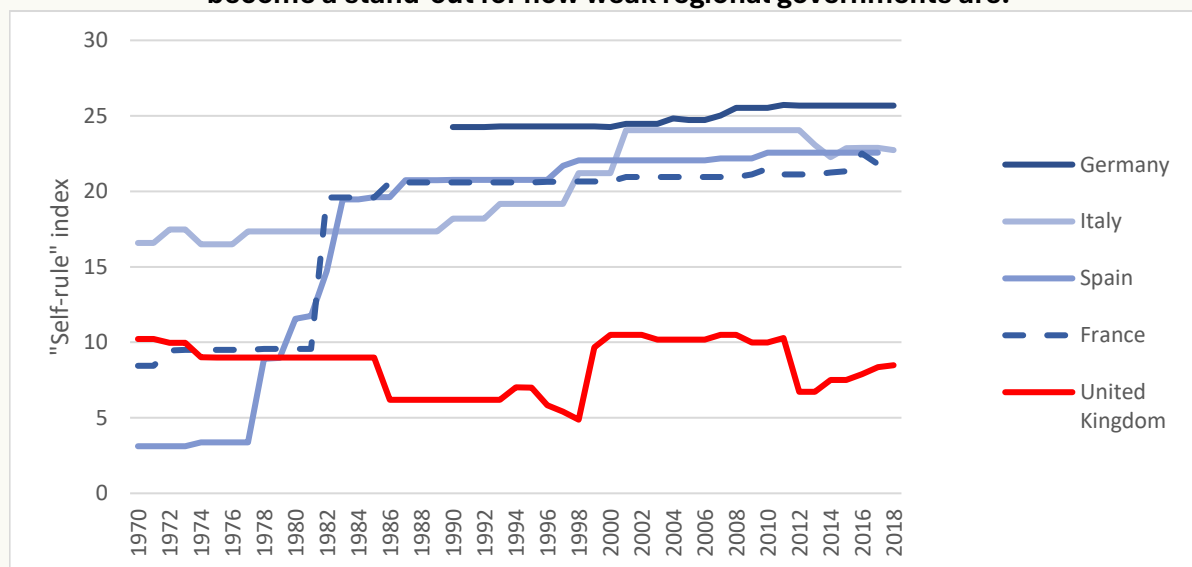
## Other countries have built up regional tiers of government since the 1980s, with the UK as a laggard.

The United Kingdom's governance structure has undergone a process of centralisation since the 1980s, more so than any other European country. The result is that the UK has, as [Mark Gibson](#) describes, “one of the most centralised economies in the world. There was never any really major transfer of power or resources to the regions.” This creates a bind, or as [David Blunkett](#) put it, “a two-way street: central government is too centralised and local government is too enfeebled to actually grasp the opportunity”.

We can see the same result in academic attempts to compare governance across countries and over time. There have been two major research efforts over the past decade to variation in sub-national governance across countries ([Hooghe, Marks and Schakel 2008](#); [Hooghe et al 2016](#)) and within Europe ([Ladner et al 2015](#)). Both find a general trend towards decentralisation.

Taking Hooghe et al’s data for “self-rule” (a measure of the strength of regional institutions) we can see how the UK has seen little change since the 1970s, around a low starting point. By contrast, France and Spain – while remaining unitary countries – saw substantial shifts in the power and authority of regions in the 1980s.

**Figure 2: France has built strong regional government since the 1980s; while the UK has become a stand-out for how weak regional governments are.**



These international studies also look to measure how the national government responds to stronger regional and local governments – for instance, whether local and regional government leaders and officials are brought into national budgeting and decision-making processes (joint ministerial meetings, budget vetoes, etc); or whether they have formal representation in the legislature (as in the French Senate or German Bundesrat). Here too the UK is a laggard.



## What are the most important POLICY LEVERS for growth in the English regions, and what is the right level for decision making?

The UK seriously lags Western European and G7 counterparts in delivering growth across the country. The next Government must pull all possible levers to solve this low-growth crisis. Our first paper shows that we can consider several of the UK's regions as being away from the "productivity frontier" – they are held back by poor performance on skills, transport, planning and investment. Both parties want the UK to have the highest possible growth rate, but they have their work cut out.

What can Ministers do to fire up the UK's regions? We found that deliberate investment in the areas identified by our first paper should enable the UK's lagging regions to catch-up with the best performers, leading to a boost in growth.

**RECOMMENDATION ONE: The UK should develop a Growth and Productivity Strategy and stick to it.** The Strategy should be: driven by the centre of government; regularly reported against in the Budget process; led by the Prime Minister and the Chancellor; and delivered locally where possible. It should put raising national and regional growth and convergence front and centre.

Over the past decade, the cumulative impact of Brexit, the Trump Presidency, rising geo-political tensions have all reshaped the role of central government in managing a modern economy. Since the pandemic many countries have returned to the explicit use of industrial strategy, and broad public investment agenda, to promote growth. Despite the benefits of significant investment to transform infrastructure and training, rethink production models and support businesses, the emphasis on driving such strategies from the centre sits uneasily with decentralising ambitions. We take the view that it is possible to set out a vision for national growth which balances central government taking responsibility for regionally distributed growth with and an enhanced role for sub-regional and local government.

The UK government needs a national, coherent and cohesive plan for growth in all regions and nations. That plan should be supported by a refreshed Whitehall, led by the Chancellor and Prime Minister. Long-term strategic thinking, embedded into the UK government's spending cycles, is necessary to respond to major challenges such as inflation, sectoral change, supply-chain instability, the net zero transition and geopolitical competition. In our history paper interviewees were clear that strategic thinking is essential to drive to economy and create jobs across the UK.

A national strategy would ensure that significant investments in the UK's regions would be considered as part of an annual-strategic framework rather than on a project-by-project basis. The benefit of investments should be considered holistically, considering the regional dimension of spend and potential complementarities between projects. As Government develops its strategy, we believe it should put at its heart driving growth in R&D intensive, export-orientated manufacturing, scientific and knowledge-intensive activity in all regions and nations.

The new Growth and Productivity Strategy should be integrated across tiers of authority (local, at the combined authorities' level, across the UK's nations and the UK as a whole), shaping and responding to Economic Plans and local authority strategies in turn. It should be linked with efforts to facilitate the green energy transition, and should focus on sectors critical to funding science and R&D.

## Insights from our interviews: Growth and Productivity Strategies

Growth, productivity, or industrial policies are gaining momentum in many countries. The UK does not have a consistent approach to strategic growth and industrial policymaking. With changes to the occupation of Number 10 we have moved rapidly from the 2017 Industrial Strategy to the 2021 Plan for Growth to the 2023 Plan for Growth and Prosperity. A lack of central coordination, and responsibility sitting with multiple uncoordinated public bodies, stands in contrast with other countries. [Tony Danker and Matthew Fell](#) cite Germany as having had “*consistent industrial policy for decades, since the war, [which] is the cornerstone of their success*”.

Our first paper found that the “*large-scale, systemic and consistent policy action necessary for [innovation-led growth] has not taken place in the UK in recent decades.*” The paper emphasised the need for policymakers to alleviate the constraints to productivity, particularly by: increasing attainment in STEM skills; dealing with congested urban areas with the potential to benefit from agglomeration economies; and increasing government R&D expenditure outside London and the South East. We also found that decentralisation in industrial strategy development may improve government efficiency in responding to local needs. Decentralisation may allow government to “*utilise local, sometimes tacit knowledge, and realise coordination externalities through the delivery of simultaneous interventions in infrastructure, skills and other policy domains.*”

A further advantage, identified by our interviewees, is that devolved policymaking allows for experimentation and learning. Winners can then be identified by following success, and learning from other areas, rather than through desk-based exercises.

Our interviews set out the backdrop to industrial policymaking in the UK: the abiding symptoms and social costs of deindustrialisation, meaning the clusters that drive growth in metro areas elsewhere may be absent in the UK. Manufacturing’s share of employment fell from a third in the late 1970s to slightly above 10 percent by the mid-2010s, with widespread regional unemployment during the transition; and a move towards lower value-added work for much of the workforce as manufacturing has become more productive.

Interviewees stressed the importance of central government’s role as a coordinator – bringing heft, authority, and spending power – yet stressed that we have relied too heavily on central government for delivery. Ensuring that the magnitude of spending was sufficient is integral to the success of policies. As [Mike Emmerich](#) explained, one of the reason you can’t get regeneration projects to work in many “*mill and mining towns, or market towns, is because there’s just not enough income flowing around them for people to be able to shop in the new shops or buy the apartments.*”

For industrial policy to reach communities, and to translate into regional growth, it should consider putting mechanisms in place to ensure growth spreads outside city centres (rather than relying on a logic of automatic “trickle down”).

Our interviewees described how strategy needs to adapt to the green economy. For example, [Kate Kennally](#) described that, in Cornwall, the challenge is that green resources are available but the grid infrastructure reflects carbon-driven generation.

Finally, any strategy must be comprehensive and coordinated. [Michael Gove](#) focuses on the need for coordination as *“there is no simple, direct, easy, ‘one, two, three’ set of policies which, if the political will were there, could be implemented and could deliver. It’s a much more complex picture than that.”*

For regional or national industrial strategies to function effectively, they need to influence decisions (local and national) across planning, transport and education. But historically those levers have sat in other departments or authorities, meaning the individual relationships across the Cabinet table or across tiers of authority have determined the success of policy, leaving it vulnerable.

**RECOMMENDATION TWO: The national Growth and Productivity Strategy should focus on the drivers of productivity growth in each region and nation.**

- a. **Investment in transport infrastructure and public transport services to raise effective density for city regions.**
- b. **More investment and geographic spread in the UK’s innovation infrastructure.**
- c. **Sub-regional skills planning, backed by Whitehall funding, to deliver high wages and faster growth for the UK’s firms.**
- d. **Sub-regional bodies should be required to adopt statutory economy infrastructure strategy (including transport, energy, water and an overall housing target), which local spatial development plans should conform to.**

All places in the UK are fundamental to the UK’s economic success and future. How the regions work together, and the contribution that they make requires explicit strategic thinking. In practice, however, the strategy cannot be driven exclusively from Whitehall. Nor can devolved governments or MCAs capture the level of complexity and local nuance necessary. Local authorities and mid-tier structures have the best knowledge of local conditions and needs to promote growth at the local level. [Peter Mandelson](#) characterised this problem: *“you can’t regenerate regions or places or towns simply by a top-down manoeuvre or deployment of money. There has to be local institution building, local decision making.”*

Devolved government should be mandated to drive economic development and central government to empower this through capacity building and support where necessary. Devolved Government structures should be fully resourced to leverage local comparative advantage to

build competitive areas, this should be achieved through incentivising and equipping mid-tier structures to invest in the drivers of productivity growth. Local authorities should work with combined authorities, and our proposed Regional Growth Unit to advance their interests.

## Insights from our interviews: Regional growth as an explicit objective

In the early 2000s, the Government had an “*explicit objective about ensuring that the rate of growth between the fastest growing regions and the rest was narrowed*” as described by [Nick MacPherson](#). He explained that government sought to narrowing the gap in growth rates, following extensive work by HM Treasury’s Growth Unit. He lamented the difficulty of measuring growth across the country due to the paucity of decent statistics and made the case for investing in measurement.

[Dave Ramsden](#) also described the difficulty of measuring potential growth regionally. He recounted how EU funding policy was based on administrative regions rather than ‘economic space’. While spatial interests did play a role in the five tests for the Euro decision (the City test), generally most macroeconomic thinking of growth was not spatial, particularly in the aftermath of the global financial crisis.

[John Armitt](#) described that the ultimate objective of any growth policy ought to be jobs, creating new employment opportunities. He explained that one of the weaknesses of the various objectives for regional growth is that it led to parochial thinking and areas squabbling among themselves.

[Richard Caborn](#), in his interview, noted that the Regional Development White Paper had a clear goal of “*increasing the international competitiveness of the Regions*”, but that this was insufficient as a goal. He noted that despite Cabinet sign-off, Departments didn’t devolve functions that he argued would have been best delivered at the regional level (such as skills).

Finally, there is a case for simplicity of goals. The late [Alistair Darling](#) described how having too many objectives can be a barrier to investment.

### **A. Investment in transport infrastructure and public transport services to raise effective density for city regions.**

UK cities outside London are particularly poorly served by both public transport and road infrastructure.

More should be done to improve intra-city public transport. From resolving Birmingham’s pedestrian-unfriendly ring roads to promoting zero-emissions buses in Manchester, identified as the “*worst city in Europe for clean and green transport*”<sup>6</sup> the UK’s cities need sustainable

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<sup>6</sup> Clean Cities, *City Ranking: 2023 Focused Edition – the State of Shared and Zero-Emission Mobility in European Cities*, June 2023

transport systems. These are crucial to weld a city together and enable it to unlock agglomeration benefits. Policy emphasis should be on public transport investments that offer good value for money, reduce congestion and take steps to achieving zero-emission mobility. This includes intra-region public transport, and inter-city public transport links which can expand the size of effective regional agglomerations for non-London cities.

Examples of inspirational transport networks cited by interviewees include the Rhine-Ruhr region in Germany. As [Philip McCann](#) outlined in his interview *“In the Low Countries and North Rhine-Westphalia, they plan things properly, in the medium- and the long-term. Why is that important? Because then the private sector knows what the rules of the game are and what’s going to be happening in the next 10, 20 and 30 years. The private sector can also plan and invest. We have almost none of those features. [...] You’ve got specialist cities like Dusseldorf, Cologne and so on. That’s what we want to look like. Towns are prosperous in all those places because the cities are prosperous. They’ve turned their cities around; they’ve got fantastic infrastructure. Their connectivity levels are amazing, the way the systems work.”*

## Insights from our interviews: Transport Policy.

Our research finds, in common with others, that the UK’s national economy is held back by the uncharacteristically weak performance of its city-regions (compared to other OECD countries). Part of the explanation for this weak performance is the “effective size” of cities: limited and congested infrastructure and public transport means that fewer residents can access employment or agglomeration hot spots. UK urban areas have access to less area by road than US cities; and less area by public transport than West European cities. We have spent less on road and rail than OECD counterparts for decades, and the money we have spent has been skewed towards London and the South East (per head).

This has a differential effect across the country. In some places, a growing economy is held back by overly congested infrastructure (as in Cambridge, Bristol, Edinburgh or London); in other places, the lack of connectivity may be one factor among many generating a low productivity ‘trap’ that prevents a city-regional economy properly catching fire. In those places (including all English Northern cities), the past few decades have emphasised increasing housing density in city centres as an easier intervention than building new transport infrastructure, but – as the Centre for Cities [has found](#) – this still leaves low density, low connectivity suburbs around most of our cities.

Our interviewees shared much of this analysis. The prioritisation of bus networks by metro mayors suggests their importance to non-London cities. We hear separately from [Richard Leese](#), [Howard Bernstein](#), [George Osborne](#) and [Andy Burnham](#) about how pivotal bus reform has been in Greater Manchester’s devolution process: they were [Richard Leese’s](#) price for accepting a Mayoral Combined Authority model for the region.

[Kate Barker](#) suggested that we underestimate the role of “*the boring things*” like buses in supporting both the economy and inclusion, as a cheaper alternative to major infrastructure projects. [Liam Byrne](#) put it more generally: there is a political bias towards physically impressive, engineer-led projects, rather than smaller scale alternatives that may offer better value for money or meet other goals (such as reducing congestion).

[Liam Byrne's](#) view echoes the finding of the [2006 Eddington Transport Study](#), which was frequently cited by our interviewees and advocated doing more, marginal projects targeting congestion rather than 'grands projects'. [Ruth Kelly](#), reflecting on her time as Transport Secretary from 2007-08, immediately before HS2 was developed as a policy, argued that *"there wasn't much appetite at the time for high speed rail, which Rod Eddington specifically said he was very sceptical of. [...] if you build a road or a transport link to a left behind town, they're more likely to leave [the town], than for economic prosperity to be gained by that town."*

Most of our interviewees did not explicitly mention HS2, but amongst those who did there was a split between those who argue HS2 is so large that it brings an opportunity cost (including one of investing more in intra-region public transport or inter-city connections across the Pennines); and those who believe that view is unfair and downplays HS2's significant benefits. The former camp includes former ministers [Yvette Cooper](#), [Alistair Darling](#), [Peter Mandelson](#) and [Jim O'Neill](#); the latter [Douglas Alexander](#), [George Osborne](#), [Neale Coleman](#) and [Andrew Adonis](#).

The pro-HS2 group welcomed a return to more ambitious infrastructure investment after a decadelong focus on incremental projects, while also welcoming the clout central government sponsorship brings in crowding-in private funding. The benefits to Birmingham and the region explain why [Andy Street](#) considers himself an "ardent supporter" of the programme. By contrast, [Jim O'Neill](#) argued that *"it wasn't entirely clear to me that HS2 was necessary for delivering growth in the north of England"*.

## **B. More investment and geographic spread in the UK's innovation infrastructure with a greater focus on innovation hotspots across the whole country.**

The UK must invest in science and innovation in regions with lower productivity, and supportive high potential firms to grow quickly. While the UK has internationally-excellent research hubs at universities throughout the country, public money for R&D disproportionately goes to those areas that already have thriving innovation economies: London, Scotland, and the arc spanning Bristol through Oxford to Cambridge.

Perhaps surprisingly, the UK private sector is more likely to spend on R&D outside the South East than the Government. In Germany, our first paper shows, the opposite happens: state funding is used to supercharge private spending on innovation in poorer regions. It is no coincidence that Germany is one of the only major countries to have narrowed the gap between its poorest and wealthiest regions over the past few decades.

Our first paper also found some evidence of a significant equity finance gap for many of the UK's innovative and dynamic firms are based outside London and the South East. In addition, more can be done to facilitate technology transfer from the UK's universities, to facilitate scientific findings, knowledge, and intellectual property to flow from researchers to the public and private users.

On the basis of these conclusions, we make three recommendations:

- 1. The UK should increase overall government R&D expenditure.** Funds should not be removed from areas with thriving innovation economies, but the additional increment should be targeted at advanced research conducted outside London and the South East in areas which are or have the potential to become clusters of excellence in particular fields. The cluster approach to industrial spending is based on the idea that industries exhibit scale economies, and some inputs require geographic proximity.<sup>7</sup> Research shows that public programmes to subsidise investment in lagging regions have strong positive effects of employment creation.<sup>8</sup> These growth areas are likely to be found primarily in urban areas, however, others may be located far from city centres – for example the nuclear sector, or renewables.
- 2. The government should support collaboration and technology transfer between research institutes and the private sector via a substantial scale-up of Catapult networks.**
- 3. The UK should invest in science and innovation through Regional Equity Investment Funds.** Sub-regional equity investment would be orientated towards opportunities outside London and would be clearly coordinated with the National Growth and Productivity Strategy. Existing funding bodies - the British Business Bank, the UK Infrastructure Bank – should have their mandates reformed to encourage greater risk-taking, including a greater willingness than typical in the public sector to tolerate losses (until the private sector in each region is strong enough to sustain an equity ecosystem).

## Insights from our interviews: Lessons for innovation-led growth policy

The findings of our first paper suggests that, in many regions, a low skills base *per se* is not holding back growth (though shortages of STEM skills may be). Many UK city-regions also see an outflow of graduates. Where that is the case, we can claim that the problem is a lack of regional business *demand* for graduate-level skills, rather than *supply*. That raises the question: what can policy do to help increase the number of high productivity, high pay, high skills firms beyond the South, to reduce the incentive for a ‘brain drain’?

Most public funding for R&D is “place-blind”, taking the form of a subsidy to private R&D activity through tax relief. That means most funding simply amplifies existing regional inequalities in private R&D activity. However, a significant amount of R&D funding is conducted either by Government itself or by Higher Education and translational research assets such as the Catapult network.

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<sup>7</sup> Rodrik, Industrial Policy for the Twenty-First Century, <https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/industrial-policy-twenty-first-century.pdf>, September 2004

<sup>8</sup> Criscuolo et al, ‘Some Causal Effects of an Industrial Policy’, *American Economic Review*, <https://www.aeaweb.org/articles?id=10.1257/aer.20160034>, January 2019.

We find that some regions – the English East, Midlands, and North West, as well as Northern Ireland – receive less of this discretionary public R&D spending than we would expect given their private R&D levels, suggesting untapped absorptive capacity for additional regional innovation. We also find that, by contrast, Germany follows the opposite pattern, with more public R&D taking place in regions with lower productivity, to drive convergence.

Similarly, when we look at financial constraints across the country, we find little evidence that firms outside of London are less likely to be rejected for a bank loan than those inside. There is a pattern of firms outside of London receiving lower levels of equity investment than those inside London (a financing approach more common amongst higher risk, earlier stage, innovation-orientated firms). For the most part this reflects London have far more high growth, knowledge-intensive SMEs than other regions; but we also find that an observably like-for-like firm in some regions (especially the Midlands and Yorkshire) is less likely to receive equity investment, and where it does to receive lower size deals.

In our qualitative research, many stressed the importance of universities in driving regional growth: providing the skills base, physical regeneration, and incubation of high growth potential SMEs needed to drive up business demand for skills in the regions. What's more, strong universities are well distributed across the UK's regions and nations. As [Jim O'Neill](#) puts it: *"We're four per cent of global GDP but we're 16 to 18 per cent of the best universities. Eight of those are in the north of England; all in low productivity areas. Why not try to create value added businesses in the vicinity of those universities?"*

Several former politicians and national officials we spoke to expressed regret for not doing more to encourage universities to serve as anchors for local economies while they were in office. [Tony Blair](#) told us, *"We didn't really, until the end, start to understand the absolutely crucial relationship that was starting to develop between universities and economic development, which I think today is absolutely central."*

[Paul Tucker](#) argues – based on his experience of university towns in the US – that *"a regional policy that somehow tries to make more of the advantages of strong universities in the North would be tremendous. If I had one policy that policymakers, politicians could stick at over 50 years, it would be to invest in the development of world-class university in the North."*

### **C. Sub-regional skills planning, backed by Whitehall funding, to deliver high wages and faster growth for the UK's firms.**

To meet their productivity growth goals, regions rely on retaining skilled labour and matching it with productive jobs. Skills are a driver of trend growth alongside innovation and infrastructure and must be aligned to both present and future economic needs. If skill demand supply is not kept in balance, as [Andy Burnham](#) told us, we risk creating place-specific bottlenecks to growth.

In addition to the expansion of STEM training, the time is ripe for decentralisation of the skills agenda. Bodies at the mid-tier level are best equipped to match skills supply to sub-regional labour market needs and offer local training by working with Further and Higher Education bodies. It is essential for immigration policy that workforce needs are understood at the national level. Understanding labour market dynamics at a sub-national level is critical for responding to localised, acute workforce shortages (e.g. health and social care, IT and construction).



Universities are a success story in many of the UK's sub-regional economies, providing a world-class asset in a local economy that may still be struggling, as [Charles Clarke](#) put it: “*the core issue about skills is the commitment of employers, both public and private sector, to skill development in their economic sector*”. The role of universities as anchor institutions and drivers of growth has become more pronounced over time. On the principle of building out from the sturdiest foundations, we should think about how we could make better use of universities and surrounding further education colleges to (for example):

1. Train the local population, including through non-degree level partial credit programmes;
2. Work with local businesses to provide ‘real-world’ experience to supplement academic work; and
3. Identify how existing medium-sized enterprises in the region can be better tied to frontier research long term. This should not just be rapid scale-up at the cutting edge; there should be programmes to connect low R&D-intensive major employers into the system too.

### **Insights from our interviews: Lessons for skills policy.**

Our first paper shows that while there is no longer a shortage of graduates outside the South-East, businesses across the UK are being held back by a lack of scientific and engineering skills. Our first paper found that STEM wage premium is now higher than the wage premium for formerly highly rewarded degrees in law, finance, and management in most regions. We found that in contrast to in the 1990s where low graduate shares appeared to be a binding constraint on growth, today, the best route to boosting productivity is the expansion of university-level STEM skills to alleviate labour supply shortages. We need to expand STEM learning in schools, apprenticeships, further education and our universities; and to ensure that the needs of businesses are being met at the local level.

We also found a decline in the advanced further education wage premium across regions, suggesting a decrease in private sector demand for these qualifications. This suggests that a shortage of the skills conferred by advanced further education *as they are currently taught* is not a constraint to growth. The paper cautions that the high graduate outmigration even from regions with the lowest shares of students going to university means that there is a risk of any returns from an expansion of tertiary education accruing to London, suggesting that a lack of highly productive jobs that require graduate skills is a significant constraint on regional productivity. This accords with what we were told by regional policymakers who described the problem of regeneration leading to those who had benefited leaving the area, as [Michael Gove](#) put it: “*London is simply more of a talent magnet than almost any other national capital in the developed world*”.

A further issue was the need to incentivise businesses to provide skill development in their economic sector. Skills councils were cited as a mechanism to bring together businesses, private investment and public institutions to help develop frameworks for people to be able to pass through the skills needed. The move of the skills agenda repeatedly between the Education and Business departments was described as one of the reasons that the policy area has historically struggled for traction.

In our second paper, our interviewees identified the challenge of developing and funding skills policy, and then ensuring that the governance and accountability (learning from failures of the Individual Learning Accounts as described by [Patricia Hewitt](#)) is in place for it to work spatially. Interviewees emphasised the need to deliver the skills that employers want. During our interviews we were told that the skills agenda needed to have more interest, initiative and vitality from policymakers, that skills powers should be devolved and that skills had to be brought into the *'real world'*. Examples include getting metro-mayor engagement with employers on the skills agenda for post-16 and the role it plays in growth, productivity and rebalancing.

Interviewees suggested that a crucial policy area to devolve was matching skills supply to regional labour markets, and while there may be advantages to having certain aspects of skills policy centralised (e.g. syllabi or the accreditation process) that administration at the local level was crucial to ensuring the tie-in of policy between businesses and FE. Skills agendas can be shaped with providers and businesses once powers are devolved locally. The successes of RDAs in identifying structural questions in the region (see [Peter Mandelson's](#) description of how it operated in Cambridge, for example) and the dependence of skills to make investment by business in a particular region attractive, were further points raised.

The role of universities as a potential coordinator and locus for action of skills was emphasised by many we interviewed. The university could be used to identify training needs at a high level, to pull in private sector investment. Focusing on universities at the expense of investment in FE, however, was identified as a historic issue, with [Sajid Javid](#) describing how they suffered from a lack of focus, and capital expenditure.

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**D. Sub-regional bodies should be required to adopt statutory spatial economy development strategies (including transport, energy, water and an overall housing target), which local spatial development plans should conform to.**

Our first paper found that government should focus its investment on transport and housing infrastructure on improving firms' access to larger labour markets and workers' access to high productivity jobs. This is because at present the UK's large non-London cities' 'effective size' is substantially limited by poor transport infrastructure and low-density housing. Efforts should be made to deliver affordable areas in the UK's cities, integrating housing with wider infrastructure investments.

Under-investment in housing in the South East makes it prohibitively expensive for anyone but highly paid, skilled workers to move to get better paid jobs which reinforces regional divides in both economic opportunity and economic outcomes, and erodes the economic benefits for most residents of living in the region. Planning constraints should be eased in Greater London

and high-productivity towns in the South East. This would lower the cost of housing, and improve wellbeing in the South East.

Housing policy should be planned in conjunction with improvements to transport infrastructure and services, with a particular focus on increasing housing supply and housing density around transport network hubs, and consider the impact on utilities networks. This should be achieved through reform to the planning system, including considerations of decisions that should be made at the combined authority level. Other options include reform of the business rates system, experimentation in land value taxation and a further systematisation of the rules from HM Treasury to help value-captured based financing.

As we were told in our second paper, place leadership requires planning; and effective planning requires leadership to overcome vested interests. A clear, integrated, vision for a place must emanate from the national Growth and Productivity Strategy, into Economic Plans, and in turn the planning system.

In our interviews, [David Sainsbury](#) argued that spatial and transport planning must “obviously” be done in the same place given the important interactions between housing and transport, although our current system leaves most spatial planning at the local level and most transport planning at the sub-regional, pan-regional (such as the Oxford-Cambridge Arc) or national level.

We agree that strategic infrastructure planning must be shared between multiple local authorities, and that therefore sub-regional leaders, such as mayors, should have a stronger role in setting and delivering a spatial strategy than is currently the case.

In some instances, strong sub-regional leadership can be held back if there is a unanimity requirement on all decisions, such as on spending. To address this, the introduction of majority or qualified majority voting should be considered in order that progress can be made.

Sub-regional bodies should be required to adopt a statutory spatial economic development strategy, which local spatial development plans ought to conform to. While unanimous agreement for these strategies would be preferable, the importance of a city-region having a clear plan for economic development means that majority or qualified majority should be sufficient for it to be adopted for the entirety of the region.

We believe these sub-regional strategies should focus on delivering additional housing around new transport nodes, and could include an overall housing target aligned with national goals. The strategies should also consider (sub-)regional, transport, energy and water infrastructure systems, given the scale of change required to meet our decarbonisation and growth goals over the coming decades.

As the accountable leader for the region, all mayors (or equivalents) should also be granted London-style ‘call-in’ powers for major projects set out in the statutory strategy. The Government should consider enabling mayors to create permitted development rights through development orders. Devolution of funding and powers could further support house building, such as by giving combined authorities greater control over the tenure mix for new affordable housing in their region; powers to regulate and license landlords in the private rented sector; and greater flexibility over existing council tax supplements on empty homes.

As identified in [UK2070’s Action 5: Rethinking the Housing Crisis](#) we must recognise housing as part of national infrastructure and ensure that supply of new housing meets the needs of the economy. A coherent set of housing plans would also allow for the integration of climate and

environmental impacts and enable the government to target areas with the greatest housing shortages, facilitating the transition to net zero, and ensuring that the UK gets the greatest growth boost from agglomeration effects.

**RECOMMENDATION THREE: Local authorities should drive comprehensive investment in social infrastructure for all places and communities - delivering social as well as economic renewal – through a local plan for public services.**

High quality social infrastructure is acutely needed as a driver of both growth and wellbeing for all communities. This spans local public services such as social care, to high street regeneration, to convening the wider public sector in a place (such as Job Centres, mental health or primary care services). Housing plans identified in recommendation two above should cover leisure services, and high streets.

We believe local authorities are best placed to serve as ‘place leaders’ in identifying need and improving public services at a local level and should be afforded funding and status accordingly. Ensuring that the funding formula for local government is fully updated and fit for purpose will help to support that the effective distribution of funding through growth pots, and the ability to recruit the high-quality staff necessary to strengthen capacity.

More generally, functioning public services are crucial for population wellbeing, improvements in living standards, and providing crucial foundations for productivity growth across the economy. Take the court system, or A&E waiting times, or planning system decision making - key examples of where persistent public sector underfunding can hit private sector productivity. They are also, of course, crucial in delivering improved outcomes for systemically disadvantaged communities.

Long-term regional inequalities have created significant social divisions with many in the UK feeling like they have been ‘left behind’. As our first paper noted, a focus on productivity should not come at the expense of other policy objectives including increasing real incomes, reducing poverty, reducing the cost of living, improving health outcomes and other measures of wellbeing. In this, we note recent work on the case for and provision of a Universal Basic Infrastructure, such as [the plan proposed](#) by the Bennett Institute for Public Policy.

Today, in more deprived areas life expectancy is shorter, mortality rates are increasing, and child poverty, housing issues and homelessness are all on the rise.<sup>9</sup> This is particularly important for some parts of the UK whose underlying economic fundamentals make boosting productivity difficult, including some rural areas or towns which are far from high-productivity-potential urban agglomerations.

Our first paper shows that improving productivity can, but does not automatically improve wellbeing, as the share of households in poverty in London is higher than in other UK regions. Therefore, to fully realise the potential of the Growth and Productivity Strategy identified above, our interviewees identified that more needs to be done to provide minimum standards in public

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<sup>9</sup> Marmot, M. <<https://www.instituteofhealthequity.org/resources-reports/marmot-review-10-years-on>>, February 2020

services across the board. These are the pieces of the jigsaw puzzle, a healthy population, a population who is happy to live in its prospering cities, that make up a high-functioning economy.

If the government is serious about delivering a social safety net, it must have the courage to provide the means to achieve this. Local authorities have been under extreme pressures in recent years and are struggling to provide. Government therefore needs to commit the resources necessary to enable local authorities to provide health, housing, libraries, good spaces for families, and social care. Local authorities should be supported in the delivery of services that support economic growth more widely through a plan for care (for the young through expanded childcare provision, and the old through reformed social care); through programmes to support nature recovery; and public health reforms.

### Insights from our interviews: Social infrastructure

In our second paper, we identified a divide in emphasis between those politicians and officials based nationally and working out of Whitehall – who stressed an economic toolkit based on improving skills, infrastructure, and the levels of innovation; and local politicians and officials, as well as academics- who draw on a wider range of inputs to growth.

The latter group advocate a greater emphasis on ‘social infrastructure’ and quality public services as a regeneration tool. [Andy Haldane](#) described how social infrastructure was now seen as a core ingredient of for “*having places people might want to live: green spaces, decent high streets, parks, museums, community centres, youth clubs, football clubs, etc*” (a view shared by [Diane Coyle](#) in her interview). These are complements, not alternatives, to physical infrastructure. [Chris Naylor](#), former Chief Executive of Barking and Dagenham told us about their efforts to act as an investor in affordable housing: “*whether or not that made a material impact on the well-being of the community as a whole is difficult to say. But you could see over a period of time [maintaining affordable housing] was definitely going to help.*”

[Deborah Cadman](#), Birmingham City Council CEO and former RDA Chief Exec, explained: “*you can't simply invest in the hard infrastructure stuff without also investing in communities and in people as well*”. [Sir Richard Leese](#), former Leader of Manchester City Council – who wins much praise for his previous focus on attracting inward investment - tell us that “*quality of life is probably now top of the hierarchy*”.

As well as encouraging inward migration from the high skilled, improving social capital is thought to transform opportunities for those in struggling economies. [David Blunkett](#) explained the importance of making sure investments helped to transform people’s views of their opportunities, in part through leadership: “*Whilst regional policy did transform some of the worst blights of the 1980s, particularly in the mining communities, it actually didn't transform people's view of themselves.*” [Diane Coyle](#) explained in her interview the importance of coordination of multiple different fronts “*because if you don't fix health, then you're not going to be able to upskill people to get into the jobs, and then you're not going to fix the labour demand if the labour supplies isn't there.*”

Practically speaking, increasing funding and prioritisation of public health and early years support was the most cited alternative regeneration tool by our interviewees. In his interview, [Prof Sir Michael Marmot](#) stresses the role of early childhood in improving healthy life expectancy; and this was echoed by [Tony Reeves](#) (then-CEO of Liverpool City Council), who spoke about the link between “*tackling health inequality and improving education as key elements of building a productive economy*” for Liverpool. [Kitty Ussher](#), formerly a Special Adviser at the Department for Trade and Industry and HM Treasury Minister, argued that “*the [regional policy] failure is affordable childcare and the ability to be able to commute to where the jobs are, to get part-time promotion [...] all supply side stuff seems to always talk about trains.*” [Kitty Ussher](#) suggested that the failure of mainstream growth policy to recognise these factors may reflect the predominance of older men in shaping policy (a view echoed by [Hazel Blears](#)) – which is reflected in the demographic balance of those we interviewed.

## Where decentralisation is part of the answer, what MODEL should we adopt?

It is no good identifying the policy levers we need to pull, if we don't have the right machinery of government in place in the first place. This chapter considers the institutional reform needed to deliver growth. It is based on the findings of our second paper.

We identify principles to inform short- and medium-term reform, although the specifics of the future constitutional shape of the UK will be decided through a negotiated, cross-party process.

There's a consensus that we should build on reforms that have been successful. Our interviewees were in general agreement that the Greater Manchester-originated Mayoral Combined Authority helped build political coalitions in urban areas where this had been difficult previously. We think that where a model is in place, and working, that it should be kept.

In practice, though, the models of devolution in the UK are more flexible than the recent emphasis on MCAs suggest. MCAs sit alongside the London Mayoralty and devolved Governments, as well as non-mayoral combined authorities; county combined authorities; or strong unitary councils like Cornwall. We think there is nothing wrong with a diversity of approach to reflect local circumstances.

**RECOMMENDATION FOUR: All parts of England should be covered by a tier of government between local and national government, creating a devolved tier across the UK. English devolution should be negotiated flexibly around a set of core principles.**

Our view is that it is important not to be too prescriptive about the way to achieve a mid-tier level of governance, but that reform in this area should be governed by the principles set out below.

**Comprehensive:** All parts of England should be part of a mid-tier structure (institution tier between local and national government).

Current efforts to devolve power, especially in England, have created a patchwork with little consistency – notably leaving significant areas of the country outside all efforts at devolution. This creates huge difficulties for delivering devolved policy.

The next government should prioritise reaching a comprehensive map of mid-tier governance (extended from the current combined authority map) to cover all of England. All local authorities should become members of a tier of intermediate government, between local and central. Insofar as is possible, the structure of these authorities should reflect natural agglomeration economies, and economic groupings.

**At scale:** The intermediate tier of government must be at a level larger than an upper tier (metropolitan or county) authority.

Mid-tier authorities should operate at scale, to ensure investment decisions reflect economic realities. Certain spending decisions should be made at the mid-tier, or at an even higher level, to ensure scale and impact. If the mid-tier does not consist of multiple upper tier local authorities, it won't deliver the coordination and scale benefits that make combined authorities a success.

Moving towards scale is particularly important for transportation or housing decisions that impact upon multiple local authorities. In such areas strategic oversight is necessary to avoid duplication of effort and ensure that investment decisions had significant impact. Further, pooling resources where possible, and operating at scale would enable efficient resource and back-office function-sharing.

**Single Point of Contact:** The resulting political structure should have a single point of contact for the UK Government and local partners to engage with, such as a mayor or first minister.

Having a visible single point of contact leading a mid-tier authority is, in our view, preferable to having a cabinet or committee system lead mid-tier governance. We think that having a single individual, typically a mayor, works best in providing region-wide leadership and in allowing outside or national talent to take on leadership.

However, there may be a case for alternative models (such as an indirectly elected leader) if local conditions require it. Whichever solution is chosen, it must allow for a visible leader or figurehead, that enables citizens to identify who is in control; and it must not be used to dilute the ability of the mid-tier leader to adopt a view that goes beyond the boundaries of a given constituent authority.

Further advantages brought by a single point of contact include: an increase in accountability, where individuals are easier to hold to their promises; a clear representative for a regions' interests in national level debate; and an individual who can nourish (sub-)regional identity.

**Collaborative:** Collaboration is essential to deliver the decisions at the scale described above.

In addition to creating a middle tier of authority, the UK Government should encourage cross-authority regional bodies (e.g. the existing Transport for the North) to coordinate policy efforts where appropriate - for example in health, skills, and infrastructure.

Each structure should have at least two upper tier authorities (unitary or county councils), reversing the current move towards 'County Deals' which create a de facto 'third tier' of already Byzantine local government arrangements. This should mean checking – and even reversing – the recent move to single county "county deals", as in Norfolk or Suffolk. While having separate mayors for Norfolk and Suffolk might deliver on the single point of contact, the deals fail our test of 'scale'.

There are times when multiple mid-tier or Mayoral Combined Authorities will need to work together on big funding decisions, as some investments will be needed at a level above the mid-tier. To achieve this, the authorities should be encouraged to form cross-authority thematic



regional bodies (e.g. the existing Transport for the North) to coordinate policy efforts where appropriate - for example in health, skills, and infrastructure.

**Accountable:** Local and sub-regional oversight and accountability should be strong enough to command credibility in the UK parliament, giving ministers and MPs the assurance needed to “let go”.

To ensure that the model of devolution serves the citizens, it is essential that mid-tier authorities are accountable in respect of their governance, powers and how they choose to allocate funding.

Some of our interviewees noted the failure to fully scrutinise the work of past regional bodies, including both the Regional Development Agencies and Local Enterprise Partnerships, led to a loss in political legitimacy, and created perceptions of patchy quality.

A programme is needed at the national level to improve local and sub-regional scrutiny, ensure greater consistency in the quality of sub-regional government, and to use a variety of methods to build up sub-regional accountability.

We support reintroducing a reformed Audit Commission to provide independent assurance of combined authorities outside of national government control (unlike the new Office for Local Government, or Oflog); encouraging increased parliamentary scrutiny of combined authorities, aided by our further recommendation to bring mayors into parliament; and more support for sub-regional press and civil society, including through seed-funding sub-regional organisations to form a new “fourth estate”.

**Simple:** Minimise the number of separate overlapping institutional structures, avoiding the frictions that would be introduced by having three local tiers and deliver local government unitarisation where possible. Meanwhile, Whitehall should align other structures (such as NHS bodies and police forces) with the new tier wherever possible.

Some of our interviewees noted the success of unitarisation, and that successful unitarisation had promoted support for sub-regional government in general. Where councils are keen to pursue this option, the government should offer additional powers and funding to assist the transition. This would follow the “carrot” approach to devolution deals over the past decade, based on incentives to local politicians in return for reform. The current fragmented system also creates inefficiency in service delivery or some policies, most notably planning in district councils.

Central government will have to ensure, once local areas have made their decisions, that there are no gaps and as far as possible iron out inconsistencies with other intermediate structures (e.g. NHS trusts and police forces), by the end of Parliament. This could be achieved through a boundary commission established to oversee the political and administrative boundaries.

**Allow EXPERIMENTATION where possible in implementing the above principles.**

In implementing the principles above, the most important thing to consider is making devolution work across the country. This will require the government to be open to experimentation and work flexibly.

The current combined authority model and ‘deal making’ process has worked in some areas, but it won’t necessarily be the right approach everywhere. Where there is local and sub-regional appetite, the UK Government should allow moves to other proven models – non-Mayoral Combined Authorities with an appointed leader with a personal mandate; a London-style directly elected scrutiny chamber; replacing MCA Boards with sub-regional assemblies of Councillors; or allowing directly elected legislative assemblies, as in the devolved nations.

What matters is that every part of the country is included and that no areas are left behind; and that empowered sub-regional leaders can take on hard choices across their area, without being beholden to a particular parochial interest.

## Insights from our interviews: views on decentralisation

One of the characteristics frequently cited by many of those we interviewed in our second paper was the ‘patchy’ and ‘piecemeal’ nature of the devolution in the UK to date. Currently, there are city regions, with some towns close to the UK’s cities linked into the MCAs. However, not all towns are included within the MCAs, and, as described by [Dave Ramsden](#), many “*ports and seaside towns*” as a result of the UK’s economic geography are not part of any MCAs. In contrast, The RDAs were comprehensive and covered every part of the country, and didn’t suffer from the problem created by the MCA defined by [Patricia Hewitt](#): as where you start “*from the city and a bit of hinterland, what about all the bits in between*”.

The argument made in the UK2070 report, and repeated by the late [Bob Kerlake](#) in his interview, was that the framework for any successful rebalancing regional policy agenda was that it needed to be “*comprehensive, large scale and long term*”. However, while fairness demands that any further settlement be comprehensive, it can be hard to get people to work together, and to find a settlement that can accommodate the quirks of history and geography or local identity.

[Bev Hughes](#) suggested that relevant questions to consider when trying to reach a solution to the question how to determine the optimal footprint for structures are: “*What are the relationships between different bodies in a geographical area? And are those relationships mature enough to go forward to the next stage of development and work together on a regional, strategic economic basis?*” She went on to explain that a top-down solution is unlikely to work due to the importance of historic relationships. [Justine Greening](#) gave the examples of Devon and Cornwall and emphasised that they “*deserve [a] plan that’s going to work. So, the next question on devolution and regeneration is what works in those social mobility cold spot systems that just aren’t urban enough and connected enough to allow a single figurehead to pull it together and drive it.*”

[Tony Blair](#) explained that to make mayoral systems work, and achieve this comprehensively, it would be helpful to have a figurehead, a mayor, capable of defining “*a mission.*” [Andy Burnham](#) described the importance in creating an “*entity that people relate to*” and identified the difficulties faced by Redcliffe-Maud in 1972 with the abolition of rural and urban district councils. [Tom Riordan](#) emphasised that comprehensive devolution must be built on a bedrock of “*accountability and mandate at national level as well.*”

Practically, a key question if you accept the premise that it would be best to have a comprehensive system, is whether to, as characterised by [David Blunkett](#), “*impose from the centre to have coherence*” or “*have a messy system that allows people to join and you go about systemically persuading them as to why that’s a good idea.*” Overall there was a strong message from interviewees that any moves towards a comprehensive system would be a disaster if it followed a “*centralised diktat of drawing boundaries on maps from Whitehall.*”

## How much should Whitehall drive INSTITUTIONAL REFORM to make any map of government comprehensive?

Our history paper found that the UK government in Whitehall has relied too heavily on centralised approaches to driving up productivity and delivering more balanced regional growth. We also found that there is currently significant cross-party support for the combined authority model.

Our findings suggest that moving from the current configuration of government is inefficient. The over-centralisation of government in Whitehall, and an under-resourced local and intermediate tier of administration, means the right investments are not identified; projects take longer to deliver and cost more than they ought to; and chances to improve outcomes fall through national bureaucratic silos between Cabinet portfolios. This status quo has proven difficult to reform, due to political distrust of local partners; a desire to avoid a ‘postcode lottery’; and centralising accountability mechanisms to parliament.

Political leaders today widely recognise this set of challenges; and identify effective political leadership – such as from former Deputy Prime Ministers [Michael Heseltine](#) and John Prescott – as integral in explaining exceptions to the rule. A durable and comprehensive regional policy will need to go further than Heseltine, Prescott or others achieved: bringing in a wider set of Whitehall players; and building a cross-party consensus to make any institutions resilient to changes in party control at a UK-level. This is not implausible. For one thing, there has never been a sustained Prime Ministerial commitment to drive reforms. A united Number 10 and HM Treasury prioritising reform could drive change in the rest of central government, as [Richard Leese](#) put it – “*You need a Prime Minister who supports, and a Chancellor who drives*”. For another, the emerging structures of devolved parliaments in the nations outside of England, coupled with the move towards mayoral structures in England, commands widespread support (see for example the interview with [Tony Blair](#) and [Sajid Javid](#)).

To consolidate and built upon existing successes, and to deliver the model of devolution described above, we recommend:

**RECOMMENDATION FIVE: Government should invite all parts of England to develop a proposal for their future governance, with powers and resources delegated to all combined authorities able to demonstrate strong leadership, in line with our principles in Recommendation Four. Plans should be finalised within a year of the next General Election; and implemented by the end of the Parliament. No part of England should be allowed to be “left out”.**

Government should invite all parts of England to develop a proposal for their future governance, with powers and resources delegated to all combined authorities able to demonstrate strong leadership, in line with our principles in Recommendation Four. Plans should be finalised within a year of the next General Election; and implemented by the end of the Parliament. No part of England should be allowed to be “left out”.

Past changes in party control have led to the wholesale reinvention of policy: from the abolition of regional policies in 1979 and metropolitan counties in 1985; to regionalism under Regional Development Agencies (RDAs) and regional assemblies after 1997; to the abolition of RDAs and move to ‘localism’ in 2010.

Repeating this cycle in the next parliament is a recipe for further instability. The time and effort spent building new institutions is time that cannot be spent reforming public services or investing in growth opportunities. Instead, government should build on the existing structures and extend this to the whole of the UK.

Early in the next parliament, government should invite local authorities to join a combined authority grouping (mayoral or otherwise). If local authorities are not able to decide upon a sufficiently ambitious plan within a year, central government should commit to mandating a solution (legislating if necessary to achieve it).

Reform should be supported by a national programme of capacity funding and capability building for combined authorities. This should include, for instance, Whitehall-backed funds to support administrative capacity in combined authorities; a programme of secondments from Whitehall into the regions and local authorities; and perhaps a requirement that in order to progress into the Senior Civil Service an official must demonstrate experience of working in local or sub-regional government.

**RECOMMENDATION SIX: A Prime Minister-chaired Regional Growth Delivery Unit should be established, managed jointly by the Cabinet office and HM Treasury. The Unit will be responsible for holding Whitehall to account over delivery of the National Growth and Productivity Strategy, issuing statutory progress reports at each fiscal event.**

As we set out in Recommendation One, we agree with other commentators that a stronger apparatus is needed inside central government to deliver regional growth. Clearer goals, scrutiny, and political incentives to break through Whitehall silos can drive delivery in a way that has been lacking in recent years.

In our interviews, [Sharon White](#) called for “*an institution like the Office for Budget Responsibility, which is independent and looking not just at the overall fiscal policy efficacy, but also ensuring that we’ve got the data and the evidence of how particularly the major policies impact on different regions*”; while others (like [John Kingman](#)) decried the 2010 abolition of the Audit Commission, arguing that it reduced Whitehall’s confidence in devolving without improving central delivery.

Other commentators (such as the Productivity Institute’s [Bart van Ark and Anna Valero](#)) have called for the creation of a dedicated, statutory, independent productivity body such as Australia’s Productivity Commission.

Our view is that, while there is a case for improving external data gathering, reporting and scrutiny, the fundamental challenge facing the UK Government is the lack of political will to take on departmental silos. That can only change where the most powerful members of the Cabinet – the Prime Minister and the Chancellor – make clear that performance in delivering regional growth will be a factor in budget allocations and promotion prospects. Without such a political

mechanism, commissions can be ignored or sidelined (as we have seen with the recent Industrial Strategy Council).

We therefore propose a Prime Minister-chaired Regional Growth Delivery Unit, which periodically reviews (with relevant Cabinet ministers) progress against the goals set out in the Growth and Productivity Strategy. To provide the incentive to maintain this central bureaucracy, we propose a biannual report – tied to fiscal events – in which the Chancellor publicly updates on progress against goals, revising plans where necessary to meet regional objectives.

(The next parliament may also want to investigate supporting these departmental structures with external scrutiny by an independent body, based on the National Infrastructure Commission, Climate Change Commission, Industrial Strategy Council or a Productivity Commission-type organisation, to enhance credibility and provide constructive challenge to ministers; or to extend the mandate of the OBR to include regional analyses.)

We believe that the Unit should be responsible for working with HM Treasury to produce sub-regional impact assessments for each fiscal event – based on the precedent of publishing an assessment of the net effect of tax and benefit changes for individuals by decile. Each Spending Review and Budget should clearly specify the net spending per head of the UK Government in each region and nation; and how much of that spending is devolved in a single pot or Barnett settlement.

**RECOMMENDATION SEVEN: Bring regional and national leaders (Mayors, First Ministers) into the House of Lords *ex officio* for their time in office, as is already the case with civic leaders.**

Our interviewees were clear that better sub-regional representation in national decision making would ensure that the regional dimension of national decision-making was better represented in the policy debate. The appointment of mayors and first ministers *ex officio* to the second chamber of the UK Parliament should help to ensure that English (sub-)regional interests and those of Scotland, Wales and Northern Ireland are properly represented in the legislature.

(Appointing 150 local government leaders to the second chamber would be unwieldy and unnecessary). We also note the precedent of Bishops taking their seat in the Lords during their time in post only, rather than for their lives.

Our interviewees noted the need for a better executive leaders' forum for discussing issues that required regional-cooperation. As per the recommendation of the Brown Commission, a new UK Council would help to put regional thinking at the heart of decision making, facilitate joint working across tiers, and promote cooperation between different regions in the UK.

The appointment of Senior Civil Service members to SCS roles which are relevant to issues around regional prosperity should be influenced by whether they have had any experience in roles outside of Whitehall. To help enable this, we recommend that Whitehall staff are encouraged to take up senior postings within local authorities and mid-tier Authorities to expand their understanding of the local dimensions of good policy, and to improve skills and experience in local administrations.

## How do we FUND a more decentralised government – balancing equity with incentives?

Our proposals focus on the need for investment across the UK to enable regional convergence. We also stress the importance of accountable and empowered local and sub-regional government. This begs the question of how financing ought to be arranged to best support these goals.

Some of those we spoke to, and a rising number of think tanks, advocate for more radical fiscal devolution. Mayor [Andy Street](#), for instance, described fiscal devolution as “mission critical” for his ambitions in the West Midlands; while recently the [Centre for Progressive Policy](#), [Institute for Government](#), and [Centre for Cities](#) have all advocated for fiscal devolution in some form (such as devolving local property taxes; increasing the share of business rates retained locally; or allowing some share of income tax to be retained locally, along the lines of Scottish devolution following the 2014 referendum).

But most of our interviewees resist this move towards fiscal devolution, arguing that our highly unequal starting point means we shouldn’t prioritise weakening the capacity of the UK state to redistribute across regions and nations; and that fiscal reform will be more palatable in a more equal UK. The outgoing First Minister of Wales [Mark Drakeford](#) told us, for instance, that he had moved away from supporting fiscal devolution after seeing the risk it posed to the case for fiscal redistribution within the UK; while [Andrew Adonis](#) makes the point that our starting point matters: it would be politically easier and economically more effective to adopt fiscal devolution after rather than before the UK has achieved greater regional equality. Better to use centralised spending to rebalance the economy, then devolve. As [Michael Heseltine](#) put it, “*the moment you get into this tax issue, you have a quagmire of options and debates. [...] It’s much better to go for what you can get rather than bog the whole thing down in something that will become hopelessly party partisan.*”

**We support the second camp**, putting priority on mobilising funding to drive growth projects and rebalance the economy before pursuing fiscal devolution that could make this more difficult. But without changing the tax system, there are significant reforms to public spending that could support regional rebalancing.

**RECOMMENDATION EIGHT: Give English sub-regional leaders an expanded ‘single pot’ financial settlement for devolved matters, in line with the other nations financial statements.**

This single pot could still include safeguards in the short-term, with nominal allocations by policy area set by Whitehall. Local leaders should be able to reallocate some share of spending (say +/- 10% of a nominal allocation) into other policy areas if there is local demand.

As well as ensuring public services more appropriately map on to local conditions, this flexible pot approach has an additional benefit: it drives a more mature politics, looking and nationally. It does so locally, by forcing local leaders to recognise and embrace trade-offs across policy areas. At the moment, the relative share of spending on adult education relative to transport, for instance, is effectively determined by national parameters.

At the same time, a flexible single pot creates an incentive for Whitehall officials to lobby regions and nations for “their” policy goal, reversing the current role of sub-regional leaders coming to Whitehall as supplicants for small competitive pots of cash. To maximise the amount of money going into, for instance, transport, it will fall to Department for Transport civil servants and ministers to make the case for their portfolios to local leaders.

This recommendation builds on the UK Government’s existing approach. Within England, the ‘trailblazer’ deals<sup>10</sup> set for Greater Manchester and the West Midlands are already set to deliver a (lightly ringfenced) single pot; and the devolved administrations all have a defined spend line in each UK Budget tied to their competencies and governed through the Barnett formula.

We believe there is a case for going further than the existing trailblazer settlement, with Whitehall devolving more in England, including: innovation spending currently held by Innovate UK, of which half could be allocated to the regions; apprenticeship spending, including apprentice levy underspends, and further education capital spending; employment support programmes; and retrofit programmes that have only been devolved on a trial basis.

An incoming government will have to make difficult decisions concerning who is accountable in Whitehall for the delivery the single pot. Accountability could flow directly to HM Treasury, or with Department for Levelling Up, Housing and Communities (DLUHC), alongside the cross-departmental body charged with the delivery of growth across the UK.

As those analogous cases imply, delivering a standardised ‘single pot’ will require a clearer specification of the competences of sub-regional government in order to allocate budgets against them. Unlike in Scotland, Wales, Northern Ireland or London (where competences are set out in legislation), within England competences are defined by the cumulative effects of “deals” over the past decade. Government is moving towards clearer definitions of sub-regional governments’ competences through the devolution framework announced alongside the 2023 Autumn Statement, but may need to go further (bringing this into statute) if it is to drive the Budget process.

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<sup>10</sup> See the House of Commons Library, [Trailblazer devolution deals](#), 24 November 2023



## Insights from our interviews: fiscal devolution

While recognising that the UK was highly centralised financially as well as politically and administratively, our interviewees were split over how high a priority fiscal reform ought to be.

At one end of the spectrum, [Andy Street](#) told that fiscal devolution should be the “*next big step on [devolution’s] journey*”. As he puts it, “*fiscal issues are mission critical to the next stage of devolution. Find me an effective government anywhere in the world, at any level, that doesn’t really have control over its income line*”. [Mike Emmerich](#) jests that “Combined Authorit[ies] are desperately, dangerously close to representation without taxation”, with the serious effect of weakening accountability for spending decisions in a region; and [John Cridland](#) told us “*there is no point devolving a degree of decision-making power, if it isn’t accompanied by a degree of fiscal responsibility.*”

Most of our interviewees rejected the view that fiscal devolution is necessary in the short-term. Some argue that it may in fact be inefficient in the UK, given the small geographies involved and hence high economic ‘leakage’ of activity across regions. The underlying anxiety expressed by most interviewees was that we would struggle, as [Vince Cable](#) put it, to combine “*meaningful revenue raising – and therefore sense of responsibility at a local level – [...] with a redistributive mechanism to ensure that that just doesn’t become virtuous and vicious circles?*”.

Most instead advocate central government prioritising a review of fiscal transfers, especially within England. To move from reliance on grants supporting poorer regions forever, [Joanne Roney](#) describes the need for the UK Government to provide “*a baseline fair funding on investment and infrastructure work that gets us up to an economically competitive baseline [...]. And then you give us the powers and the flexibilities to drive our own destinies through the combined authority model.*” [Andrew Adonis](#), sharing his regret at not doing more to advocate for council tax reform during the New Labour years to support fiscal redistribution, states:

*“you can’t get redistribution without a strong central authority. If you’re not careful, too much devolution just reinforces postcode lotteries and regional disparities. The richest regions by far are London and the South East, and that second concern is still a problem because glibly saying ‘more devolution to the regions’ and ‘we want more fiscal autonomy’ doesn’t really work unless you’re going to have significant redistribution on top of it. There’s no region outside London which could begin to afford its current levels of public services without massive redistribution from London. Getting that balance right is a key issue.”*

Welsh First Minister [Mark Drakeford](#) told us that he has moved away from supporting the “*devolution of the tax and benefits system*”, in order to preserve the UK-wide system of redistribution and transfers, as a result of his experience of governing. [Lord Adonis](#) makes the point that our starting point matters: it would be politically easier and economically more effective to adopt fiscal devolution after rather than before the UK has achieved greater regional equality. Better to use centralised spending to rebalance the economy, then devolve.

[Michael Heseltine](#) told us:

*"The moment you get into this tax issue, you have a quagmire of options and debates. There were many problems: there are too many authorities, they are too close together, there is too much equalisation carried out by the central government in order to deal with disparities. I believed, and still do, that it's much better to go for what you can get rather than bog the whole thing down in something that will become hopelessly party partisan."*

Even where tax and spend powers have been devolved – as in the notable case of Scotland – there has been no automatic agreement about using those powers. [John Swinney](#) argued that initial tax devolution to the Scottish parliament was “symbolic”, but that post-2014 tax devolution has allowed for more meaningful divergence (with Scotland now having higher tax revenue than they otherwise would have had). This reflects the general high political cost of tax system change. [Nick Macpherson](#) argued “the revealed preference of successive governments is to avoid having to take any tough decisions about local taxation. [...] Even in the high watermark of Gordon Brown’s Treasury, we marched up several hills only to march back down again”.

**RECOMMENDATION NINE: Offer unitary local government in England a multi-year settlement – ideally for a full five years – to support long-term reform programmes in support of universal basic public services; and encourage the Devolved Administrations to do the same.**

Strengthening our public services will require some up-front investment – such as in public health or social care reforms that will ease pressures on the NHS. Local governments in England face significant financial stress, as witnessed by the rising number of Section 114 notices issued in recent years (effective bankruptcies). The Local Government Select Committee recently published [its report](#) into the financial challenges facing local government, arguing both for a “fundamental review” of how local government is financed; and for a review of funding for social care delivery in particular.

Set against the pressures facing local government are the central role it must play in improving public services and supporting economic regeneration. Yet local authority capacity to identify and develop projects for [economic development](#) have seen the largest cuts of any area since 2010 (with economic development funding 62%); [82% of local authorities](#) are struggling to recruit planners due to national skill shortages; and the projects needed to support a shift towards community-based preventative healthcare cannot be funded in year-to-year budgets, which provide no certainty for long-term investments.

Local government is in financial crisis and struggling to deliver on core functions. Those that are not in section 114 territory, are forced to make difficult decisions on delivery of the social infrastructure acknowledged as fundamental across the aisle. Local authorities are cash-strapped that they are failing to deliver on their statutory obligations causing greater expense in

the long run – in 2021 – 22 local authorities lost 96% of Special Educational Needs Tribunal hearings at a cost of nearly £60 million to the public purse.

To combat these pressures, at a minimum the HM Treasury should offer longer-term funding certainty for local authorities to allow multi-year budgeting. Whitehall should then fund additional programmes, on top of local government grants, to provide extra capacity in those sectors facing the most pressures (planning, public health). Additional and more flexible funding should be offered in return for reform, with more available for those places which simplify local government structure through unitarisation and reform of wider public sector boundaries (such as in the police or NHS) to align with sub-regions. Local authorities should take the lead in coordinating these reforms, as per Recommendation Three.

**RECOMMENDATION TEN: Reallocate capital spending to prioritise compensatory investment for historic underspending in some UK regions and nations. Embed this reform by changing HM Treasury’s Green Book, removing implicit biases that systematically favour the South East.**

Our interviewees agreed that the UK hadn’t gone far enough in funding regional growth efforts. In the long run, to succeed, regional growth efforts need investment at a sustained level not seen to date.

The next Government should be explicit that, for decades, per capita spending on the drivers of growth (especially infrastructure and innovation) has not been equal across the regions. It should therefore commit to explicitly increasing public capital spending outside of the South of England, even if this means cutting public support for some projects (in an inversion of the current Government’s approach of continuing to fund HS2 south of Birmingham while cancelling it to the north).

In parallel and to incentivise growth, HM Treasury should consider fiscal reforms that could be piloted with local and sub-regional governments in the south, such as exploring land value capture to fund capital projects. The Treasury Green Book should be reformed to assess the benefit-cost ratio of all interventions in a place, rather than assessing each project case-by-case. Government will consider the total cost and benefits of all projects in a ‘portfolio’ for each place; such that an arts project in a struggling city may be more likely to meet value-for-money thresholds if it complements a housing or transport project rather than being standalone. This place portfolio approach will allow for different parts of Whitehall to coordinate their investments in a place, supporting cross-cutting departmental regional growth interventions.

Any reallocation of spending will pose political challenges for any government, as a redistribution of spending priorities across regions will mean some currently planned projects in leading regions may not go ahead. To mitigate this risk, the government should pursue efforts to deliver better value infrastructure, through a blended approach of:

1. Reforms to lower the cost of infrastructure delivery: [recent research](#) from *Britain Remade* and others finds that per-unit costs of transport delivery are between two to six times as expensive in the UK as for continental peers. Costs could be brought down by pursuing smaller scale, less complicated projects; streamlining the planning system; and increasing investment in public and private development capacity and capabilities.

2. Tailoring transport to local needs: The optimal balance of spending (on rail and road, ‘transformative’ or ‘incremental’ projects, or capital and current spending) will vary place by place. For instance, where road congestion is more of a constraint than rail, and where congestion is severe, there may be case for investing more heavily in bus subsidies to get cars off the road with the existing infrastructure. A more granular understanding of how challenges vary across the country, through partnership with devolved institutions, could therefore unlock value.
3. Linking transport infrastructure into a spatial strategy for regions or the country: the limited effective city size of UK cities is only partly a result of the limited scope of transport networks - it is also partly driven by low housing density relative to peer European cities. This suggests that improvements to transport infrastructure may need to come alongside increased housing density to fully reap the benefits of agglomeration.

Without bravery on resources, reform efforts will fail. Some might say, “*we do not have the money*”, but the entire purpose of this agenda is to generate a virtuous cycle and drive growth. Without real, sizeable investment, it will never be possible to turn around the UK’s current sluggish growth trajectory, nor ease fiscal constraints long-term. We do not propose any radical steps towards fiscal devolution until transfer-driven policy has helped drive a more equitable distribution of economic activity across the UK; though smaller scale reforms (to business rates or ‘tourism taxes’) could be taken forward. We do however think that being bold about putting the resources behind the institutions is the only route to growth.

## Conclusion: Delivering a new POLITICAL CONSENSUS.

The recommendations that we suggest above will only transform the UK if we don't repeat the mistakes of the past.

We have heard from three Prime Ministers, and many Chancellors, that they wished that they had done more immediately when they entered office, and that any government who does not act quickly on this issue will lose the opportunity.

The reforms we advocate above will be contentious. But the alternative – continued policy drift – risks locking in the current under-performance and inequality. Changing the status quo, then, will bring both political cost and opportunity. How both the Government and Opposition respond to this political change will be crucial in determining its success and longevity.

Those we spoke to highlighted the importance of cross-party support (or, at least, no active opposition from one of the major parties) in helping policies and institutions to bed in. For instance, even the advocates of “muscular Unionism”, where the UK Government takes a more active role in Scotland or Wales, would no longer advocate the abolition of devolution altogether.

Until recently, England especially has enjoyed no such cross-party agreement over policies or institutions, driving damaging instability and flux. It may be that the emergence of mayoralties will change that, but we may be about to find out if the settlement devolved under the Conservatives over the past decade is put to the test of a Labour-led government.

From our conversations with practitioners, we believe the pivotal factor behind the long-term success of policy will be whether party leaders can agree to the outline of a broad settlement, and implicitly agree to give it proper time to evolve and develop.

The ultimate conclusion of our second paper – which we heard from the Prime Ministers and Chancellors we interviewed – is that the ultimate determinant of success will be political will.

The detail of how we design our institutions, or which precise levers will pull, are subordinate to having a clear, agreed plan across the Cabinet and driving through reform early in a parliament; and to building a durable, cross-party consensus so any reform has time to bed in.

We conclude this paper, then, by setting out what a plan for change, and a plan for consensus building, could look like.

### Timetable for a Parliament

[John Major](#), [Tony Blair](#) and [Gordon Brown](#) all acknowledge that the record on regional policy has been poor and has left “*unforgiveable regional inequalities*”. They say that they didn't work fast enough, early enough in their premierships, to increase growth by focusing on structural productivity issues. [John Major](#) felt he ‘*undervalued*’ local government and [Tony Blair](#) said he was right to be ‘*sceptical*’ of local government and that to devolve you need to have “*confidence in local leadership*”. [Tony Blair](#) said that to make it work “*you need a coherent policy pursued over probably a 15- to 20-year period*”.

The former Prime Ministers agree. The next government must act fast, and decisively. Below we present an example for how the next government could put regional policy first, fast.

	<b>2024</b>	Commitment in party manifestos.
	<b>WINTER 2024</b>	General Election
<b>YEAR 1</b>	<b>DECEMBER 2024</b>	Announce National Growth and Productivity Strategy Process.  Invite mayors, and significant players to participate in the first National Growth and Productivity Strategy.  All parts of England invited to form a mid-tier authority.
	<b>JANUARY / FEB 2025</b>	Consult the regions and nations on national vision, priorities and mission for the Growth and Productivity Strategy.
	<b>MARCH 2025</b>	First Budget.  Announce national goals for the Growth and Productivity Strategy.
	<b>JUNE 2025</b>	Spending Review.  Budget announcements relevant to the national Growth and Productivity Strategy, including regional allocations.
<b>YEAR 2</b>	<b>SEPTEMBER / NOVEMBER 2025</b>	Launch Economic Plans with each combined authority and Devolved Administration, setting out region-by-region projects and division of responsibility.
	<b>DECEMBER 2025</b>	Announce final “map of England”, with Ministers mandating decisions if local consents are not forthcoming.
	<b>FEBRUARY 2026</b>	First report on the Growth and Productivity Strategy developed, to coincide with the 2026 Budget.
<b>YEAR 3</b>	<b>SUMMER 2026</b>	Ongoing delivery and reporting against Economic Plans, building on projects already in train for 2025/26.
<b>YEAR 4</b>	<b>FEBRUARY 2028</b>	Elections in final set of ‘new’ sub-regional governments, creating an elected tier of government across all of England’s regions and the three non-English regions.

## Cross-party support

In our interviews with ninety-three of the top level political and official policymakers summarising six-decades of experience in regional growth policymaking, we heard a consensus, as we have set out above, about what should have happened. Alongside those ideas for what should come next were clear lessons about the past. Lessons about what went wrong. The things that policymakers think should have happened but didn’t. Areas where there is consensus about

what went wrong, and where, if the next government is to avoid repeating the mistakes of the last 40 years, it should tread carefully:

- **First, there was never sufficient push from the top to ensure success. For anything to happen both the Chancellor and the Prime Minister needed to give their support to coordinate the push from the centre.** Since the 1970s there has never been sustained leadership on regional growth by the Prime Minister. Only ambitious and visionary political leadership can break that cycle.
- **Second, there has been a repeated failure to obtain an ambitious, comprehensive, long-term and cross-party response.** Government chopping and changing, personal ego, emphasis on party divides and rebranding prevented the
- **Third, it is a problem if the move towards devolving powers leaves places outside the map.** Leaving places behind or leaving places, out of structures that help them to grow and develop inevitably causes them to lag those places (such as London or Manchester) which have structures of governance that work.
- **Fourth, that there are many local-level peculiarities, relationships between different local authorities which are complex and cause difficulties for reform.** Where possible working with areas to resolve these issues is desirable. However, such barriers should not become an excuse for inaction.
- **Fifth, there has not been enough trust in local areas.** Tackling local market failures and generating new ideas requires specific geographical knowledge and leadership entrusted and empowered to make changes.
- **Sixth, When government departments pull in different directions the result is policy confusion.**
- **Seventh, there has been a failure to see the wider picture in identifying the factors that underpin success.** Whether it is affordable childcare, the creation of good places to live, or healthy populations, regional growth is increasingly understood to be interlinked with wider population and civic health.

Avoiding the failures listed above is hard, because of resources, because of finding the policy that works. However, our interviews present clarity on what errors shouldn't be repeated.

It follows from the above that it will take political courage to fix the long-standing regional divides of the UK. It will require collaboration across parties, and commitment in the face of opposition from Whitehall and local communities. The UK Government will need to create serious alternative centres of power to itself in the process. That is necessary challenging, but without reallocating power any changes will be merely cosmetic.

The positions we advocate above will be contentious. Changing the status quo, then, will bring both political cost and opportunity. How both the Government and Opposition respond to this political change will be crucial in determining its success and longevity.

Those we spoke to highlighted that the importance of cross-party support (or, at least, no active opposition from one of the major parties) in helping policies and institutions to bed in. For instance, even the advocates of "muscular Unionism", where the UK Government takes a more active role in Scotland or Wales, would no longer advocate the abolition of devolution altogether.

Until recently, England has enjoyed no such cross-party agreement over policies or institutions, driving flux. It may be that the emergence of mayoralities will change that, but we are about to find out as the settlement devolved under the Conservatives over the past decade is potentially put to the test of a Labour-led government.

Possible options to support that process could include a citizens' assembly, a joint chaired cross-party commission, or an expert-chaired commission. Whatever option for reaching a consensus is chosen, the Government will need to draw up and agree a plan for comprehensive reform, building on existing devolution deals with wide consultation and input from civil society.

From our conversations with past practitioners, we believe a pivotal factor will be whether party leaders can agree to the outline of a broad settlement, and implicitly agree to give it time to develop before advocating its wholesale removal.

We do not take a precise view on how that consensus ought to be built; the important thing is that one should exist.

It will take an act of statesmanship from the Prime Minister and Leader of the Opposition to deliver one.

We've got to get beyond political leaders expressing regret after their time in office that they haven't done more.

It will now fall to the next Government to draw up and agree a plan for comprehensive reform, building on existing devolution deals with wide consultation and input from civil society. There are lots of tools for entrenching consensus which could include, illustratively, a Citizens' Assembly (given international successes in building political space for constitutional change) or a jointly chaired cross-party commission.

But the first and most important test will be the commitments made by the main parties in their respective manifestos. Because what matters most is having the mandate and the leadership to get this done.

We hope they don't duck the challenge.



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