

Beyond hard hats

What it will take to level up the UK
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Why level up now?

The levelling up agenda began as a political project as Boris Johnson took office in 2019. By increasing “economic opportunity across all nations and regions of the country”, the government aimed to preserve the Union, deliver many of the expectations of Brexit and secure for the Conservative Party the former Red Wall areas in the North of England and Midlands that brought it an 80-seat majority. The coronavirus pandemic has since rocked the foundations of the entire UK economy. As the UK faces the deepest recession in 100 years, the levelling up challenge has become one of urgent, inclusive economic recovery for sectors and communities from Hastings to the Highlands.

The difference in response of the UK government and devolved administrations alongside localised lockdowns has heightened the sense and importance of place

During the peak of lockdown, the crisis heightened our sense of solidarity both nationally and within our immediate communities. As the crisis continues, the difference in response of the UK government and devolved administrations alongside localised lockdowns has heightened the sense and importance of place. In so doing, the pandemic has also exposed – once again – the extent to which the UK economy is characterised by significant differences in productivity and social and economic outcomes between places. It has also exposed the limits of Whitehall and Westminster in designing and delivering local economic policy from the centre. Evidence is mounting that the UK’s overt centralisation has long undermined productivity,¹ creating swathes of places ‘left-behind’. With the poorest areas expected to be hardest hit by the economic and health impact of Covid-19, the pandemic makes the case for levelling up simultaneously more urgent and more difficult.

Successive governments have talked about addressing regional inequalities and economic imbalances. Often the economic clout of Greater London and its gravitational effect on the wider South East has defined the problem as one of ‘London vs The Rest’. The reality is a more complex picture where differences within regions, in both economic and social outcomes, can be even more damaging and pervasive than those between regions.² Lack of labour mobility in the UK also limits the extent to which people can improve their life chances by moving between places.³ This means levelling up must not only be about economic growth and productivity improvements, but also tackling the entrenched economic and social inequalities that hold back people and places in communities across the country. Levelling up must be a driver of broad-based, inclusive economic growth - promoting better opportunities and outcomes. In turn it will generate long-term fiscal sustainability. Covid-19 has catalysed consensus across the political spectrum about the need for change in our economy. The question that follows is what this should mean in practice and where to focus efforts under the current fiscal stretch and uncertainty.

Such uncertainty has already pushed back one of the major spending events in the fiscal calendar; the Autumn Budget has been postponed whilst the government focuses on responding to the second wave of the virus. Instead the Chancellor announced his Winter Economy Plan, concentrating largely on the next iteration of the Job Retention Scheme. The Comprehensive Spending Review (CSR) is still due to go ahead in order to set spending limits for government departments, each of which have been asked by HM Treasury to set out their levelling up policy priorities. Pressure has been mounting on No.10 to define and lead a clear vision for levelling up with Conservative backbenchers – including those in former Red Wall constituencies and the new Levelling Up Taskforce – questioning what it will mean in practice.

This paper sets out a blueprint for what levelling up should mean and how the UK government can deliver it, both through centrally-led interventions and by working with and through devolved tiers of

¹ OECD (2020) *Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth*. Available at: <https://www.oecd.org/unitedkingdom/enhancing-productivity-in-uk-core-cities-9ef55ff7-en.htm>

² For example, the end of the government’s furlough scheme will exacerbate within area income inequality, as those furloughed are more likely to be low earners and can also be found in better off places. See CPP Outlook 10/20. <https://www.progressive-policy.net/publications/the-levelling-up-outlook>

³ Clarke, S. (2017) *Get A Move On? The decline in regional job-to-job moves and its impact on productivity and pay*. London: Resolution Foundation. Available at: <https://www.resolutionfoundation.org/app/uploads/2017/08/Get-a-move-on.pdf>

government. It sets out the nature of the place-based productivity challenge⁴ and the key policies needed to redress these imbalances, within and between regions. Finally, it offers a series of recommendations focused on skills, education, health and devolution.

The opportunity of the levelling up agenda is huge. As the global pandemic continues to play out it is also increasingly needed. Done well, it will safeguard the most disadvantaged communities from the impact of Covid-19 and spur the recovery of the whole nation. It could also redress years of spatial and social inequalities between and within our regions and nations. What began as a thinly veiled political project has the potential to redraw the map of opportunity, productivity and prosperity in the UK for generations.

What does the government mean by levelling up?

“We will spread hope and opportunity to every part of the UK”

Prime Minister Boris Johnson, address to the nation⁵

When Boris Johnson first became Prime Minister, he set out a vision for post-Brexit Britain and Northern Ireland in which all cities, towns, coastal communities and rural areas should thrive. He spoke of tackling crime, investing in the NHS and improving our physical infrastructure, the role of culture and heritage and enhancing local decision-making powers and accountability.⁶ It was a vision designed to ‘unite and level up’ after the deep divisions of the Brexit process.

Subsequent speeches have reaffirmed these commitments. But what started as an ambitious, far-reaching vision for levelling up has so far been focused on tackling between region inequalities (by narrowing the gap between London and the South East with the rest of the UK) and centrally

directed physical infrastructure investment. Despite references to ‘build up people’ and acknowledgement of long-term policy failures in areas such as social care and Further Education, most reform and resource to date has been directed to narrow and relatively small-scale capital investment.⁷

It is not yet clear how the government intends to deliver on its ambition to spread hope and opportunity to every part of the UK

In the small print of the guidance ahead of the CSR the government has attempted to articulate how the success of levelling up might be measured. In the CSR the government stated that levelling up would be achieved “by investing in infrastructure, innovation and people” and would result in “closing the gap with our competitors by spreading opportunity, maximising productivity and improving the value added of each hour worked.”⁸ This definition implies two important points: 1) levelling up is a means to improve UK competitiveness, growth and prosperity and 2) ‘spreading opportunity’ will require as much (if not more) investment in social infrastructure than physical infrastructure, which provides comparable economic returns.⁹

It is not yet clear how the government intends to deliver on its ambition to spread hope and opportunity to every part of the UK. The long-anticipated Devolution and Local Recovery White Paper has now been shifted into the new year, suggesting No.10 is not yet sure of the relative emphasis it wants to put on the role of local government and leadership in delivering an

⁴ By local authority, combined authority and region.

⁵ From Prime Minister Johnson’s Brexit address. Available at: <https://uk.reuters.com/article/uk-britain-eu-johnson-address/prime-minister-johnsons-brexit-address-idUSKBN1ZU31M> (31st January 2020).

⁶ The Prime Minister defined four ingredients of success: liveability (safe streets, good jobs); connectivity (transport, broadband, innovation clusters and networks); culture; and, power and accountability (through mayoral ties following the lead of Greater Manchester and Greater London).

⁷ Compare, for example, the £5bn ‘New Deal’ capital injection for schools, hospitals and colleges announced in June 2020, to the £120bn earmarked for HS2.

⁸ HM Treasury (2020) *Comprehensive Spending Review 2020 representations: guidance*. Available at: <https://www.gov.uk/government/publications/comprehensive-spending-review-2020-representations-guidance>

⁹ <https://www.progressive-policy.net/publications/productivity-knocks-levelling-up-with-social-infrastructure-investment>

inclusive recovery. Ongoing sensitivity about the Union has also added to tensions about the level to which repatriated EU structural funding in the form of the UK Shared Prosperity Fund will be devolved to nations and regions, if at all.

The policy levers of levelling up are as much institutional as they are economic. Covid-19 has exposed the weaknesses of our overly centralised policymaking processes; national policies are simply too blunt an instrument to tackle complex economic, social or indeed delivery challenges alone, especially where each is narrowly defined and sits within a siloed departments and funding streams. Relocating civil servants outside Whitehall and creating an alternative Treasury outpost in, and for, the North of England might have been a powerfully symbolic gesture. It might have even helped to establish new, effective institutions for place-based economic policy making, at a national, regional and local level. But as the pandemic continues and profound questions emerge about the future of cities and the nature of where we live and work, the question of how we level up will need to evolve with the pace of change. There is a fast-growing consensus that greater place-based leadership would allow for a more tailored, holistic and effective response.

Levelling up the UK by place

Covid-19 has made the difficult task of levelling up more challenging. It is therefore important to identify where and what is needed by place. In a previous report, *Back from the Brink*, CPP found that places already falling behind before the crisis are likely to fall further still without government intervention.¹⁰ Over three quarters (76%) of places across the country were likely to take at least five years to recover. The challenge now is to both rebuild and level up, or, as both sides of the political spectrum have paraphrased, ‘build back better’.

Average estimated GVA loss vs trend 5 years post outbreak of Covid-19 by region and for local authorities in the former Red Wall and covered by the Towns Fund



Source: *Back from the brink, 2020*

New CPP analysis of the scale of the challenge faced by the levelling up agenda shows that in terms of productivity per hour worked, **levelling up the bottom half of the local authorities in Great Britain to that of the top half would add an additional £242bn in output each year.**¹¹ This is equivalent to an additional 41% of output in those areas and 13% of output for Great Britain as a whole. Levelling up the former Red Wall local authorities to the average productivity of all other local authorities in Great Britain would increase output by £39bn – equivalent to a 19% increase in their local output and a 2% boost to national output. Combined authorities also lag behind the rest of the country in terms of productivity. Levelling up the productivity of combined authorities to the average for the rest of the country would add £57bn of output each year, an increase of 15% in output in these areas and a 3% increase in output for Great Britain as a whole.

Ultimately productivity matters because it is the driver of improvements in real wages, which are needed more than ever after over 10 years of stagnation and a protracted squeeze on living standards.¹² The prize is clear, but the question remains how we achieve this.

¹⁰ Alldritt, C. et al (2020) *Back from the brink: Avoiding a lost generation*. London: Centre for Progressive Policy. Available at: www.progressive-policy.net/publications/back-from-the-brink

¹¹ The figures relating to the uplift in output are presented here for three groups: the least productive half of local authorities, former Red Wall local authorities, and combined authorities. For each group of local authorities, the uplift in output is calculated by increasing its average output per hour worked to the average for the rest of the country and multiplying by the number of hours worked in that area. The difference between this figure and the area's current output is the uplift. These are CPP calculations based on ONS data for 2018 GVA and productivity by local authority district. A former Red Wall local authority is defined as one which contains the majority (by population) of at least one parliamentary constituency in the North of England or Midlands that switched from Labour to Conservative in 2019 election. Combined authorities currently include West of England, Cambridgeshire and Peterborough, Liverpool City Region, West Midlands, Tees Valley, Greater Manchester, North East, North of Tyne, West Yorkshire and Sheffield City Region. Note the figures do not include local authorities in Northern Ireland due to data availability

¹² Median weekly earnings in real terms are still 2.9% lower (or £18) than the peak in 2008 in 2019 prices. See <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019>

£242bn

Additional output per year, if the productivity per hour worked of the bottom half of Great Britain's local authorities were levelled up to that of the top half

This government has recognised that peoples' economic opportunities can vary greatly, even within the same city,¹³ and that these inequalities have been exposed further during the current crisis. We also know that people are becoming less geographically mobile. As a result, different places across the UK will need different types of support and intervention to drive productivity and aid their recovery.

To inform this, CPP has produced a productivity breakdown by nation, region, combined authority, local authority – including former Red Wall authorities. This approach is designed to facilitate a targeted approach to levelling up, and as a minimum, to inform what types of intervention will impact which places.¹⁴ Our analysis is also able to indicate which characteristics in each place have the greatest impact on local productivity.

The relationship between productivity and place – productivity bonus or productivity gap?

Building on existing evidence¹⁵, this new CPP analysis considers the primary factors that are correlated with differences in productivity per hour between places in the UK. Looking at productivity by place, our analysis suggests:

- **Sector make up:** Places with more high productivity sectors are more productive overall, and are also more productive for a given sector. The most notable example of this is London, which is home both to high productivity sectors – such as professional and financial services – and within these sectors has higher than average levels of productivity

compared to other places. Elsewhere, Cheshire East's economy, for example, is dominated by particular high value manufacturing sectors, which explains most of its above average productivity.

- **Age structure of the workforce:** Areas with the highest proportions of 35-49 year olds within their populations are the most productive. They are 22% more productive than places with the highest proportions of 50-64 year olds, and 11% more so than areas with most 20-34 year olds. Age accounts for over half of London's productivity advantage over the rest of the country.
- **Health:** Healthier places are more productive.¹⁶ The 20 healthiest areas by life expectancy in the country are a third more productive per hour than the twenty least healthy.
- **Geography:** Proximity of people to jobs is a recognised driver of productivity. We find more urban areas are likely to be more productive than rural ones, but the specific geography of individual places also matters.¹⁷

In addition, we considered the role of skills and education in the level of place-based productivity per hour:

- **Skills:** There is a positive correlation between places with high levels of skills and the presence of high productivity sectors in an area. This suggests that high levels of skills (NVQ4 plus) are needed to support the growth of high productivity sectors.
- **Education:** Attainment at 16 years old is strongly correlated with high levels of skills and good health.¹⁸ School quality (defined by the proportion of local schools assessed as Good or Outstanding by Ofsted) also has a positive correlation with skills and health.

If we look at a number of different geographies within the UK, several patterns emerge as to the nature of the productivity challenge by place:

¹³ See the example of Manchester used in the Prime Minister's levelling up speech. Available at: <https://www.gov.uk/government/speeches/pm-speech-at-manchester-science-and-industry-museum>

¹⁴ See the accompanying online datafile for a full list of local authorities and their results.

¹⁵ See Forth T and Jones, R. A. L. (2020) *The Missing £4 Billion: Making R&D work for the whole UK*. London: Nesta. Available at: https://media.nesta.org.uk/documents/The_Missing_4_Billion_Making_RD_work_for_the_whole_UK_v4.pdf

¹⁶ Age-standardised.

¹⁷ There are also more subtle geographic factors, including around connectivity.

¹⁸ We measure attainment using DfE's Attainment 8 measure which is a weighted average of GCSE grades or equivalent qualifications.

- **Regions:** The most productive regions, the South East and especially London, have healthy populations and workforces concentrated in the most productive 35-49 years age bracket. On top of this, they have a geography that allows ready access to a large number of jobs, focused on high-productivity sectors and supported by high skill levels. In contrast, the South West and Wales are likely held back by their ageing workforces, with the North of England¹⁹ particularly affected by poor health, and Northern Ireland by its sector make up.
- **Within regions:** Regional trends hide large differences within regions. For example, Bristol, unlike the South West in general, has a very young population with almost half its workforce under 35. This young population will slightly reduce average productivity now but is an opportunity for growth if the cohort is retained into its peak productive years. Elsewhere, in rural Yorkshire we find an ageing workforce, whilst its cities are young but in poor health.

Differences in productivity between places within each sector are much greater than those explained by the different balance of sectors

- **Combined authorities:** Nearly all of England's combined authorities suffer from a productivity gap with the rest of the UK. This is partly explained by their poor health – only the two most productive, West of England and Cambridgeshire and Peterborough, have above average life expectancy. However, combined authorities do benefit from being urban centres, and this should give them a productive edge (Cambridgeshire and Peterborough is the exception here, but it benefits from proximity to Cambridge's high-tech, high value-added

clusters). Tees Valley, Liverpool City Region and the North East have notably hollowed out populations, with young and old workers, but relatively few in the 35-49 age range which is most productive. Sector explains some of the differences between combined authorities. For example, the West of England, including Bristol's professional services centre, is skewed towards higher-productivity sectors compared to Sheffield City Region or the West Midlands. But differences in productivity between places within each sector are much greater than those explained by the different balance of sectors.

- **Former Red Wall local authorities:** These authorities are most notable for having low productivity sectors (lower than any English region), poor health and a large number of young workers, which reduces current average productivity but provides an opportunity for growth if the cohort stays in the area. Towns Fund places also show a similar pattern.

This analysis overall tells us that areas need to be able to respond to their place-based productivity drivers, and as a minimum, the government needs to recognise this divergence in any nationwide policy setting. It also tells us that the differences within regions are as wide as the differences between them when it comes to factors influencing productivity, which means government needs to make clear who is accountable for gaps at each level and what is to be done about them.

Ultimately, place matters when it comes to the level and distribution of economic prosperity in the UK.

Beyond hard hats – policy recommendations to level up

The opportunity of levelling up is too great to miss. As the previous analysis sets out, economic and social challenges vary substantially by place and this variation must be addressed if we are to level up the UK. The government now has the opportunity, and economic and fiscal necessity, to invest in the future of this country. As CPP and others, such as the Greater Manchester Prosperity Review Panel, have argued, levelling up policy

¹⁹ The North East, North West and Yorkshire & the Humber.

must not be limited to increased investment in physical infrastructure and R&D incentives – however welcome these might be.²⁰

To level up, the government must address the variations in social infrastructure and human capital that impact productivity by place.²¹ This will require bold thinking, and ultimately impact life chances, living standards and life expectancy. Since announcing its levelling up agenda, the government has made clear that it sees the problem as one of opportunity. As such, we outline here four main ideas to address the variety of problems places face, comprising a renewed focus on education, skills, preventative health measures and a new role for local institutions and leadership.

The opportunity of education

We know that educational attainment is strongly correlated to improvements in productivity, but that outcomes vary greatly across the county. We also know that educational inequalities will have widened during lockdown, and according to the IFS, the one-off extra £80 per pupil aged 5–16 and a national tutoring programme will not be sufficiently large to undo the damage of the crisis.²² The effects are expected to be long lasting.²³ The latest data tells us that the South East still pulls ahead in terms of attainment at GCSE and the proportion of schools rated Good or Outstanding by Ofsted.²⁴ We consider this to be an essential but yet currently overlooked part of the levelling up agenda.

As a result, **we call on the government to expand the roll out of Opportunity Areas from 12 to over 100 local authorities, and broadened to include catch up teaching following the impact of the current crisis.**²⁵ Areas that are deemed Opportunity Areas receive investments in

interventions across literacy, maths, attendance, teacher training and recruitment, post-16 options and careers advice. The government has invested £72m since its launch in 2017. The programme has been operating in 12 Opportunity Areas across the country – Blackpool, Derby, Norwich, Oldham, North Yorkshire Coast, West Somerset, Bradford, Doncaster, Fenland and East Cambridgeshire, Hastings, Ipswich and Stoke-on-Trent. Early indications suggest the approach is working²⁶, and could be one route to fast track additional per pupil funding for the most disadvantaged communities. With England’s Pupil Premium potentially being brought into the National Funding Formula for schools,²⁷ an additional boost to mitigate the documented impact of deprivation on attainment – connected to a wider programme of local support and intervention – could be a powerful leveller.

The upcoming Comprehensive Spending Review would be an excellent moment to demonstrate the government’s willingness to invest in the future of the UK through education and level up one of the most fundamental inequalities in this country.

The opportunity of skills

Like education, there is a strong correlation between places with high levels of skills (NVQ4 plus) and the presence of high productivity sectors in an area.

In the immediate term, skills policy must be a central pillar of government’s economic response to Covid-19, providing a bridge for people newly unemployed to acquire new or higher levels of skills and return as swiftly as possible back into the labour market.

As CPP sets out in the recent report *Reskilling for recovery* we call for a *Right to Retrain* that at its

²⁰ For example, see Greater Manchester Independent Prosperity Review (2020) *One year on*. Available at: https://www.greatermanchester-ca.gov.uk/media/3408/gmipr_one-year-on.pdf

²¹ For the full list of UK local authorities by productivity factors see the accompanying online datafile.

²² Sibieta, L. (2020) *2020 annual report on education spending in England: schools*. London: Institute for Fiscal Studies. Available at: <https://www.ifs.org.uk/publications/15026>

²³ Eyles, A. et al. (2020) *Covid-19 school shutdowns: What will they do to our children’s education?* London: Centre for Economic Performance. Available at: <https://cep.lse.ac.uk/pubs/download/cepcovid-19-001.pdf>

²⁴ 47.9% and 90% respectively. Department for Education statistics available via PHE Fingertips:

<https://fingertips.phe.org.uk/search/attainment%208#page/9/gid/1/pat/6/par/E12000004/ati/201/are/E07000032/cid/4/page-options/ovw-do-0>

²⁵ This would include all category 5 and 6 areas from an updated Achieving Excellence Areas methodology. We propose maintaining the method of the 2016 assessment but using the most recent data, including reflecting recently merged local authorities. This would identify c.100 areas at the district level. See: DfE (2016) *Defining ‘achieving excellence areas’: methodology*. Available at: <https://www.gov.uk/government/publications/defining-achieving-excellence-areas-methodology>

²⁶ Department for Education (2018) *Implementation of Opportunity Areas: An independent evaluation: Final Research report*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/747975/2018-09-04_OA-process-eval_FINAL.pdf

²⁷ Theschoolrun.com: *The National Funding Formula for schools explained*. Available at: <https://www.theschoolrun.com/national-funding-formula-for-schools-explained>

core should ensure people can afford to learn and are able to do so flexibly.²⁸ The recent announcement on a government funded A-level or other Level 3 qualification for those without is welcome,²⁹ but living costs also need to be supported to help learners take it up in practice. **We call for a Learners' Living Allowance (LLA) to support those undertaking part- or full-time training, as an equivalent to maintenance loans available for higher education students,** to be paid back under the same conditions upon employment. Financial support for learners' living costs remains a key missing piece of the government's recent policy announcements on adult skills.

We also recommend that those in work should be entitled to five days paid time off each year to undertake training.³⁰ With additional financial support likely to be given to businesses as the second wave of the Covid-19 pandemic emerges, the government should use this as a hook to make additional training for those still in employment a condition of further financial assistance. This would help future proof investment the government is making in businesses, by ensuring staff are being supported to upskill whilst still in work.

The opportunity of good health

The symbiotic relationship between the economy and good health has been magnified by the current crisis. As our analysis demonstrates, health is strongly correlated with productivity by place. We also know the pandemic has affected some groups harder, particularly those from Black, Asian and Minority Ethnic backgrounds, those in lower-paid or more public-facing work, and people with pre-existing health and economic difficulties.³¹ This means the crisis has reinforced existing structural inequalities, which must be tackled at their root.

At this critical moment, it is important to think again about health policy – to shift away from the narrow definition of health simply relating to curing disease and treating illness to consider health in all policies and places.³² To shift to prevention and away from sticking plasters. **As the health crisis abates, we recommend that the NHS urgently pivots towards prevention, embedding social determinants within the inequality adjustment framework for local areas, accelerating the role of NHS trusts to become anchor institutions and strengthening education and training on the social determinants for clinicians.**

CPP has previously highlighted the potential for the NHS to be a leading employer, levelling wages and working conditions for hundreds of thousands of key workers across the country, and inspiring other major employers to do similarly.³³

Stepping back, local and national government must take a health in all policies approach, ensuring that population health is a central consideration when designing and implementing economic, social and environmental policy. This will help to future proof the health of our nation and facilitate good economic health.

The opportunity of local institutions and leadership

"...the new normal of living with Covid-19 will only be sustainable – or even endurable – if we challenge our addiction to centralisation and go back to an age-old principle: only do centrally what must be done centrally."

Archbishop of Canterbury, Justin Welby³⁴

²⁸ Norman, A. (2020) *Reskilling for recovery: Equipping the nation for tomorrow's economy*. London: Centre for Progressive Policy. <https://www.progressive-policy.net/publications/reskilling-for-recovery>

²⁹ Prime Minister's Office (2020) *Major expansion of post-18 education and training to level up and prepare workers for post-COVID economy*. Available at: <https://www.gov.uk/government/news/major-expansion-of-post-18-education-and-training-to-level-up-and-prepare-workers-for-post-covid-economy>

³⁰ Employees in Germany typically have a legal entitlement to five days of paid educational leave each year, depending on the state in which they work. For example, see European Centre for the Development of Vocational Training: *Bildungsurlaub Bremen*. Available at: <https://www.cedefop.europa.eu/en/printpdf/publications-and-resources/tools/financing-adult-learning-db/search/educational-leave-bremen>

³¹ See Greater Manchester Independent Prosperity Review (2020) *op cit*.

³² Sibietta, L. (2020) *op cit*.

³³ Dudding, J. et al. (2020) *Beyond the NHS: Addressing the root causes of poor health*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/beyond-the-nhs-addressing-the-root-causes-of-poor-health>

³⁴ Dudding, J. and Franklin, B. (2020) *Simple the best? Making the NHS a leader in good employment*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/simply-the-best>

³⁵ Welby, J. and Mullally, S. (2020) *The Government must decentralise to survive Covid*. London: The Telegraph. Available at: <https://www.telegraph.co.uk/news/2020/09/15/government-must-decentralise-survive-covid/>

Local government finances

Across the political spectrum and amongst wider civil society, the case is being made for decentralisation to be a key part of how we rebuild Britain and recover from Covid-19.³⁵ This process must begin by giving local and sub-regional, specifically combined authority, tiers of government the financial resources they need to tackle the immediate costs of the pandemic and lay the foundations for inclusive growth.

Previous CPP research showed that by June 2020 more than eight out of ten (131 out of 151) upper tier councils in England did not have sufficient funds to make up for projected increased costs and reduced income due to Covid-19.³⁶ Whilst central government has provided some emergency support, there remains a sizeable and continuing funding gap at local level. **We recommend that central government continues to assess and make good the financial pressure on local government for increased costs and lost revenue due to Covid-19 acknowledging this will continue into 2021 and beyond**, with an estimated £3.4bn in lost tax revenue forecast for next year alone.³⁷

Putting this right should be an ongoing priority for the Chancellor, ensuring local government is able to put in place the measures it needs to continue to deal with the Covid-19 on top of its other essential public services.

Level up powers and pool public sector resources

In the longer term, local government finances should be bolstered by the UK Shared Prosperity Fund (UKSPF) and the Fair Funding Review, aligned to structural reform.

Structural reform would see **mayoral combined authorities (MCAs) have control of pooled and unringfenced public sector resources – building on Greater Manchester’s model for health and**

social care, and expanding out to include Further Education and skills, employment support, early years, housing and transport.

This approach is predicated on aligning public sector boundaries (including LEPs and NHS bodies) as well as compulsory unitarisation to reduce the number, cost and complexity of local authority tiers.³⁸ The Comprehensive Spending Review would be an opportunity to trial such integrated, place-based budgeting and investment with existing MCAs.

Currently 37% of England’s population resides within a mayoral combined authority.³⁹ **We recommend that the mayoral combined authority model should be extended across England.**⁴⁰ **In addition, the most demonstrably established MCA institutions should be awarded ‘full’ devolution with responsibility for achieving a set of agreed economic and social outcomes with central government** (combined with pooled, unringfenced budgets – as above). This means local authorities will work together in shaping and delivering a shared strategic vision for their wider economic geography (defined by travel to work area), whilst allowing them to respond – individually and collectively – to their challenges and opportunities on the ground. Mayors would be accountable both to their local electorate and a Regional Public Accounts Committee(s).

Clear accountability for levelling up

In practice, a place-based approach to levelling up will hinge upon more nuanced, integrated governance between tiers of local, regional and national institutions. Whilst central government appears to remain focused on between region inequalities, **space must be created for MCAs to tackle within area inequalities with clear accountability for agreed outcomes** and a stronger voice in wider policy making processes (e.g. national infrastructure, welfare).

³⁵ See above and Bounds, A. (2020) *UK ‘levelling up’ agenda requires more devolution, ex-minister says*. London: Financial Times. Available at: <https://www.ft.com/content/f7efe855-8afb-4654-bb6d-aeff15a1da0a>

³⁶ Billingham, Z. (2020) *Why the government needs to pay up before levelling up*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/why-the-government-needs-to-pay-up-before-levelling-up>

³⁷ See Local Government Association: *LG Futures – assessing the financial impact of COVID-19 on tax collection*. Available at: <https://www.local.gov.uk/lg-futures-assessing-financial-impact-covid-19-tax-collection>

³⁸ See County Councils Network (2020) *New analysis reveals that single unitary councils could deliver £3bn saving over five years and ‘maximise’ the benefits of economic growth and housing policy*. Available at: <https://www.countycouncilsnetwork.org.uk/new-analysis-reveals-that-single-unitary-councils-could-deliver-3bn-saving-over-five-years-and-maximise-the-benefits-of-economic-growth-and-housing-policy/>

³⁹ Including Greater London Authority. Institute for Government (2020) *English devolution: combined authorities and metro mayors*. Available at: <https://www.instituteforgovernment.org.uk/explainers/english-devolution-combined-authorities-and-metro-mayors>

⁴⁰ It is reported that there are pending application from Cumbria and Greater Lincolnshire and Somerset to create combined authorities with mayors.

The value of a place-based approach is the ability to bring together policy, programmes and investment to boost economic and social outcomes, increase productivity and drive inclusive growth – but this must not be done in isolation. Places should be considered as part of deeply connected socio-economic networks with (normally) fluid labour markets.⁴¹ To understand how to address productivity in one locality, its issues need to be seen in a wider regional and national context.

Previously CPP has called for a **National Mayoral Council to be a critical feature of Whitehall decision making on strategic economic and social policy issues**.⁴² Whilst city-regional mayors have been involved in several recent reviews, notably High Speed 2, regional representation should be a matter of course for long-term, national level strategic planning processes.

At a sub-national level, non-statutory bodies such as the Northern Powerhouse, Midlands Engine and Western Gateway should help coordinate activity where needed between MCAs and the wider region. They would also facilitate more formal cooperation between and give voice to:

- Co-terminus UK Trade and Investment (UKTI) regions;
- Regional combined authority level skills advisory panels (i.e. bringing together individual MCA-level panel chairs);
- Regional Research and Development initiatives and funding streams (e.g. Strength in Places Fund);
- Integrated regional transport authorities and relevant stakeholders; and,
- Insight as to ‘what works’, linking to existing national What Works Centres and other institutes across the regions (e.g. the new Productivity Institute in Manchester).

Prioritising government spending

We call for central government to prioritise the distribution of resources to reduce inequalities between regions in economic policy making.

The government’s commitment to doubling public R&D investment presents another opportunity to

channel additional resource outside of the ‘Golden Triangle’ to other world leading institutions across the regions and nations of the UK. This would be a real example of levelling up – maintaining current levels of funding for our institutions in London, Oxford and Cambridge whilst increasing funding elsewhere, leveraging extra private sector investment and supporting the whole UK innovation ecosystem.

Further innovation and growth could be fostered by Lord Jim O’Neill and Sir Howard Bernstein’s proposal for a new business re-capitalisation fund - national in scale yet administered regionally - to encourage enterprise.⁴³ This could form the basis of a novel and more sophisticated approach to the lumbering industrial strategies of old, identifying and enabling investment in zero-carbon technologies and other growing post-Covid-19 sectors whilst being tailored to suit regional needs and opportunities.

Others have called for a review of the tax code to incentivise business investment in tangible as much as intangible capital,⁴⁴ and the HM Treasury Green Book review provides another opportunity to identify place-based biases.

Finally, allocation of UK Shared Prosperity Funding and the rumoured Levelling Up Fund provide the government with an opportunity to target resources at levelling up, both between and within regions, including by devolving much of these sources of funds to MCA.

Conclusion

The Prime Minister put the levelling up agenda front and centre in his original domestic policy agenda. Now, with the challenge intensifying, government – central and local – needs to put its full weight behind an inclusive recovery and in so doing lay the foundations for inclusive, sustainable growth in the long term. Levelling up must be integral to how we drive productivity, inspire innovation and generate good jobs and broad-based prosperity.

The impact of Covid-19 will be huge, both economically and fiscally. As voices across the policy spectrum have argued, now is the time to invest in shoring up and levelling up people and

⁴¹ Whilst additional investment in ‘left-behind’ places is welcome, past evidence shows results are hard to come by when based on isolated regeneration projects or narrow sector-based initiatives. See, for example, Communities and Local Government (2010) *The New Deal for Communities Experience: A final assessment*. Available at: <https://extra.shu.ac.uk/ndc/downloads/general/A%20final%20assessment.pdf>

⁴² Alldritt, C. et al. (2020) *op cit*.

⁴³ O’Neill, J and Bernstein, H. (2020) *How to save British business*. Available at: <https://www.thearticle.com/how-to-save-british-business>

⁴⁴ For example, see: <https://revivingeconomicthinking.com/>

communities across the UK. We have already had to borrow at unprecedented historic levels to fund the government's initial response, and the costs incurred will – on latest projections – take decades to pay down.⁴⁵ With the debt of Covid-19 impacting down the generations, so too must there be generational returns to investment on social and economic infrastructure now.

This paper calls on the government to tackle the social infrastructure⁴⁶ drivers of local productivity whilst scaling up the local institutions that can deliver rapid, systemic and sustainable change. At a national level, we must channel investment urgently into skills, education and population health. Otherwise – rather than building back better – we risk falling back further.

⁴⁵ OBR (2020) *Fiscal sustainability report – July 2020*. Available at: <https://obr.uk/fsr/fiscal-sustainability-report-july-2020/> although note that under the current debt to GDP ratio, the OBR warn that the debt might never be paid off, making the case for rapid, inclusive growth all the more important.

⁴⁶ Inclusive of human capital.

Appendix: Productivity characteristics of UK areas

The tables below show the productivity of local areas in the different regions and combined authorities in the UK, as well as the impact of different characteristics we associate with those productivity levels. The figures are the averages across the local authority areas that comprise the

region or combined authority. The equivalent data for individual local authorities can be viewed in the accompanying datafile [[download](#)]. However, caution should be used when interpreting results for individual local areas as local geographic factors such as commuting flows, access to transport networks, or disaggregate sectoral composition are not included.⁴⁷

Regions

| (£/hour) | Actual productivity | Modelled contribution of characteristics to productivity (v average area) | | | | | |
|--------------------------|---------------------|---|---------------|-------------------|-----------------|--------|-------------|
| | | Sectoral composition | Urban / rural | Younger workforce | Older workforce | Health | Unexplained |
| London | 41.3 | 1.9 | 0.9 | -3.0 | 7.5 | 0.8 | 0.4 |
| South East | 37.2 | 1.4 | 0.1 | 0.9 | -0.2 | 0.7 | 1.4 |
| East of England | 33.3 | -0.4 | -0.2 | 0.4 | 0.1 | 0.4 | -0.1 |
| Scotland | 32.8 | -1.3 | -0.2 | 0.5 | -2.0 | -1.1 | 3.9 |
| North West | 31.5 | -0.5 | 0.3 | -0.2 | -0.5 | -0.7 | 0.3 |
| South West | 30.8 | 0.6 | -0.5 | 0.8 | -2.3 | 0.4 | -1.2 |
| West Midlands | 30.5 | -0.7 | 0.1 | -0.2 | -0.1 | -0.1 | -1.4 |
| North East | 30.3 | -0.2 | 0.4 | -0.9 | -0.2 | -1.0 | -0.6 |
| East Midlands | 29.9 | -0.6 | -0.3 | 0.4 | -1.0 | 0.0 | -1.5 |
| Northern Ireland | 29.5 | -1.6 | -0.4 | -0.4 | 1.2 | -0.4 | -1.9 |
| Yorkshire and The Humber | 28.8 | -0.4 | -0.2 | -0.1 | -1.0 | -0.2 | -2.3 |
| Wales | 28.5 | -0.9 | -0.2 | -0.2 | -1.4 | -0.6 | -1.1 |

Figures are mean averages across local authority areas in the region. Cornwall, Isles of Scilly and City of London are excluded due to data availability. "Unexplained" is the difference between actual and modelled productivity.

Combined authorities

| (£/hour) | Actual productivity | Modelled contribution of characteristics to productivity (v average area) | | | | | |
|---------------------------------|---------------------|---|---------------|-------------------|-----------------|--------|-------------|
| | | Sectoral composition | Urban / rural | Younger workforce | Older workforce | Health | Unexplained |
| West of England | 35.1 | 1.7 | 0.4 | -4.8 | 5.3 | 0.4 | -0.9 |
| Cambridgeshire and Peterborough | 32.8 | -0.8 | -0.6 | -0.6 | 1.8 | 0.5 | -0.5 |
| Liverpool City Region | 32.3 | -0.6 | 0.8 | -1.0 | 0.0 | -1.2 | 1.3 |
| West Midlands | 31.8 | -2.0 | 0.8 | -2.6 | 3.8 | -0.7 | -0.5 |
| Tees Valley | 31.1 | -0.4 | 0.6 | -0.7 | -0.5 | -1.2 | 0.2 |
| Greater Manchester | 30.1 | -1.0 | 0.8 | -1.7 | 2.8 | -0.9 | -2.8 |
| North East | 29.9 | -0.5 | 0.4 | -0.7 | -0.7 | -1.1 | -0.4 |
| North of Tyne | 29.6 | 0.5 | 0.2 | -1.7 | 0.7 | -0.6 | -2.4 |
| West Yorkshire | 29.1 | 0.2 | 0.4 | -1.2 | 2.1 | -0.7 | -4.7 |
| Sheffield City Region | 28.1 | -2.4 | 0.6 | -1.6 | 1.2 | -0.7 | -1.9 |

Figures are mean averages across local authority areas in the combined authority. "Unexplained" is the difference between actual and modelled productivity.

⁴⁷ The sectoral composition of local areas is only available at a disaggregation into sixteen sectors. This is particularly problematic for areas where the combined sector 'Agriculture, mining, electricity, gas, water and waste' dominates. As this includes both agriculture which has very low productivity, and mining, energy and water supply which have very high productivities, the combined statistic we use may be giving an inaccurate picture of the impact of sector composition on productivity.

Data sources and method

The analysis used to inform the tables above attempted to identify the characteristics of productive areas in the UK, and then view the extent to which particular areas hold those characteristics, to help inform how they might become more productive.

The work is descriptive; it does not estimate the extent to which the characteristics cause productivity. The relationship of each of the characteristics to productivity is likely to be two way. For example, we identify that areas with more 35-49 year olds are more productive. This is plausibly both because that age group are most productive and enable the productivity of others and because this age group migrate to more productive areas. This helps us understand the impact other factors are having, and can also be used to suggest that areas with an ageing workforce are at risk of a productivity decline whilst those with a young workforce have an opportunity if that can be retained.

To identify the characteristics of productive areas we used a simple cross-sectional linear regression model, across 379 local authority areas of the UK.⁴⁸ 2018 productivity (output per hour worked) was the dependent variable. A range of plausible characteristics were tested initially, before those with insignificant relationships were excluded. The final independent variables used are described in the table below.

To construct the contributions of each characteristic to a local area's productivity we multiplied the modelled coefficient by the characteristic value for the area. For example,

Stoke-on-Trent has a life expectancy three years less than the average local authority area, and our model associates one year of life expectancy with £0.60 per hour of productivity, so we estimate

Stoke's health is associated with £1.80 per hour lower productivity.

A former Red Wall local authority is defined as one which contains the majority (by population) of at least one parliamentary constituency in the North of England or Midlands that switched from Labour to Conservative in 2019 election.⁴⁹

⁴⁸ Cornwall, the City of London and the Isles of Scilly were excluded due to data availability for one or more variables.

⁴⁹ Based on CPP cross-matching of wards and their 2018 populations to constituencies and local authorities. Ward lookups from ONS and available at: <http://geoportal.statistics.gov.uk/datasets/ward-to-westminster-parliamentary-constituency-to-local-authority-district-to-upper-tier-local-authority-december-2019-lookup-in-the-united-kingdom>. Ward populations also from ONS available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/wardlevelmidyearpopulationestimatesexperimental> 11 CPP analysis based on data from: House of Commons Library (2019) Constituency data: election results. Available at: <https://commonslibrary.parliament.uk/parliament-and-elections/elections-elections/constituency-data-election-results/>

| Variable name | Description | Interpretation |
|--|---|--|
| Sectoral Composition | <p>This is a CPP estimate of the productivity to be expected of an area based solely on the sectoral composition of the economy in that area.</p> <p>This is based on ONS data⁵⁰ for the sector split of GVA in each area, and ONS data⁵¹ for the national productivity in each sector. Data is for 2018, current prices in both cases.</p> | <p>The modelled regression coefficient was slightly above one, meaning areas with an expected productivity (based on their sectors) £1 per hour higher tended to have actual productivity £1.10 higher. This supports the unsurprising conclusion that areas with high productivity sectors are more productive.</p> <p>However, the model also shows that sector explains only a minority of productivity differences between areas.</p> <p>It also does not answer the question of what causes high productivity sectors to locate in certain areas. We found that high expected productivity was most associated with the skill level of the area, as well as health and age.</p> |
| Younger workforce / older workforce | <p>Using ONS data⁵² for mid-2019 we split the 20 to 64 year old population into three groups: 20-34, 35-49 and 50-64.</p> <p>The variable used was the population of the area in each group as a proportion of the population in the three groups.</p> <p>The 35-49 group was excluded from the model, meaning results should be viewed as relative to this group.</p> | <p>The model suggests that swapping 1% of the working age population from the 20-34 group to the 35-49 group would increase productivity by £0.50 per hour. Swapping from the 50-64 group to 35-49 would increase productivity by £0.80 per hour.</p> <p>These are large effects and this shows demographics are closely intertwined with productivity, but we do not identify here the extent to which each causes the other.</p> <p>Research on individual productivity does suggest it initially increases with age with suggestions, but not consensus, and that it then declines after 50. At an area level there may be additional effects where people of certain ages enable the productivity of others.</p> |
| Urban / rural | <p>This is the percentage of the population who live in a rural or rural related area as classified by the rural urban classification for England, or similar data on population living in built up areas of at least 10,000 population for devolved nations (these do not account for hub towns).⁵³</p> | <p>The model shows a significantly positive value, indicating that more urban areas are more productive.</p> <p>This is likely to be a simplification of the real geographical relationship. For example, other research finds the size of settlement is important, as well as proximity to other productive areas.</p> |
| Health | <p>This is the average of male and female life expectancy for 2016-2018 as reported by the ONS.⁵⁴</p> | <p>The model suggests areas with one year higher life expectancy have £0.60 per hour greater productivity.</p> <p>Deprivation, more likely in areas of low productivity, is known to be associated with poor health whilst individual health has been shown to lead to greater productivity.</p> |

⁵⁰ GVA composition by local area ref ONS (2019) *Regional gross value added (balanced) by industry: local authorities by NUTS1 region*. Available at:

<https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedbalancedlocalauthoritiesbynuts1region>

⁵¹ UK productivity by sector ref. *Labour productivity by industry division (July 2020 release)*. Available at:

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/labourproductivitybyindustrydivision>

⁵² ONS (2020) *Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland*. Available at:

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimateforukenglandandwalesscotlandandnorthernireland>

⁵³ Data for different nations is for different years and may be compiled using different methods. England: ONS (2019) *Rural Urban Classification (2011) of Local Authority Districts in England*. Available at:

<https://geoportal.statistics.gov.uk/datasets/0560301db0de440aa03a53487879c3f5> Scotland: Scottish Government (2018) *Scottish Government Urban Rural Classification 2016*. Available at: <https://www.gov.scot/publications/scottish-government-urban-rural-classification-2016/pages/5/>; Northern Ireland – CPP calculations based on: NISRA (2016) *Settlement 2015 documentation*. Available at: <https://www.nisra.gov.uk/publications/settlement-2015-documentation>. Wales: Statistics for Wales (2008) *A statistical focus on rural Wales*.

⁵⁴ ONS (2019) *Life expectancy at birth and at age 65 years by local areas, UK (dataset)*.

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About the Centre for Progressive Policy

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