

# **BEIS Committee Inquiry: Post-pandemic Economic Growth**

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**Submission by the Centre for  
Progressive Policy**  
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centre for  
**progressive  
policy**



## Summary

This document forms the Centre for Progressive Policy's submission to the BEIS Committee inquiry into post-pandemic economic growth. The submission calls on government to follow a two-stage approach to the post-pandemic recovery. In the short term, the government must act to shore up local economies and thereby minimise damage, prevent scarring and build resilience. Over the longer term, it is vital that the government returns to a revitalised levelling up agenda to reduce inequalities and drive sustainable, inclusive growth. Creating an economy in which all communities have the opportunity to contribute to and benefit from growth will ensure the future prosperity of this country.

This submission makes the following recommendations:

- The government should adopt inclusive growth as the guiding principle for recovery. Success will depend on addressing entrenched place-based inequalities in skills and good work, health and public and private investment.
- The government should increase investment in social infrastructure and avoid short-term spending cuts. This should be funded through borrowing and will mean breaching its fiscal rules. In due course, the government should develop new fiscal rules that prioritise long-term fiscal sustainability through inclusive growth.
- The government should increase individual economic resilience by improving skills (especially in former Red Wall areas). To achieve this, the government should introduce a 'turbocharged Right to Retrain'. This means building a high-quality online learning system, strengthening existing provision, supporting the living costs of learners and ramping up local strategic input.
- Central government must ensure local government is fully compensated for the Covid-19 crisis before local government can return to helping to support the levelling up agenda. Further reform of regional and local government should seek to ensure streamlined and integrated social and economic policy delivery, accountability and investment. It should enable local inclusive recoveries led at a strategic level by combined authorities and upper tier councils with maximal alignment of other public sector boundaries.
- The government should adopt CPP's five tests for inclusive economic renewal. This means closing gaps

both between and within places in terms of economic inactivity, income, employment, skills, good jobs, health and investment.

- The government should act to improve health, place-based and individual economic resilience. Health resilience can be boosted by introducing CPP's social model of health (including more government spending for public health and increased deprivation targeting). The outbreak of the pandemic has shown the extent to which population health is critical for a functioning economy and cuts across every aspect of government policy, at a national and local level.

## Introduction

The Centre for Progressive Policy (CPP) is an independent economics think tank that seeks to identify practical ways to increase productivity and enhance shared prosperity. We work with local and national partners to devise pragmatic policy solutions to drive inclusive growth. This submission draws on a range of recent CPP research, including:

- Back from the brink: Avoiding a lost generation<sup>1</sup>
- Productivity knocks: Levelling up with social infrastructure investment<sup>2</sup>
- Reskilling for recovery: Equipping the nation for tomorrow's economy<sup>3</sup>
- Inclusive growth: Why it can rekindle progressive politics<sup>4</sup>
- Why the government needs to pay up before levelling up<sup>5</sup>
- Beyond the NHS: Addressing the root causes of poor health<sup>6</sup>
- The Good Life: Measuring inclusive growth across communities<sup>7</sup>

The outbreak of Covid-19 represents a once in a generation shock to the UK economy. As we emerge from this initial phase of the pandemic, attention must turn to economic recovery. CPP believes this should follow a two-stage approach. In the short term, we must shore up local economies, minimising damage, building resilience and preventing permanent scarring. In the longer term, a return to a revitalised levelling up agenda is vital to ensure the future prosperity of this country.

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<sup>1</sup> Alldritt, C. et al. (2020) *Back from the brink: Avoiding a lost generation*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/back-from-the-brink>

<sup>2</sup> Stock Jones, R. (2020) *Productivity knocks: Levelling up with social infrastructure investment*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/productivity-knocks-levelling-up-with-social-infrastructure-investment>

<sup>3</sup> Norman, A. (2020) *Reskilling for recovery: Equipping the nation for tomorrow's economy*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/reskilling-for-recovery>

<sup>4</sup> Alldritt, C. (2018) *Inclusive growth: Why it can rekindle progressive politics*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/inclusive-growth-why-it-can-rekindle-progressive-politics>

<sup>5</sup> 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>

<sup>6</sup> Dudding, J. et al (2019) *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>

<sup>7</sup> Billingham, Z. et al. (2019) *The good life: Measuring inclusive growth across communities*. London: Centre for Progressive Policy. Available at: <https://www.progressive-policy.net/publications/the-good-life-communities>

The early steps taking by the Chancellor – including the introduction of the Job Retention Scheme – have been a qualified success in shoring up the economy in the short term, averting a rise in unemployment of the scale seen in the US. Yet many have fallen through the gaps, and local authorities remain under extreme financial pressure, with CPP analysis from this summer showing eight out of ten may face effective bankruptcy.<sup>8</sup>

Looking to the longer term, with key pillars of labour market support set to be removed by October, it is vital that the government redoubles its efforts to level up the country and in so doing lay the foundations for inclusive growth.<sup>9</sup> Evidence of the virus's uneven impact on the economy is mounting, and it is now clear that the pandemic will exacerbate our economy's existing inequalities. This response outlines how post-pandemic inclusive economic growth can be achieved, driving productivity and spreading prosperity across the country.

### **What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?**

*Recommendation: The government should adopt inclusive growth as the guiding principle for recovery. Success will depend on addressing entrenched place-based inequalities in skills, good work, health and public and private investment.*

CPP contends that levelling up should provide the overarching guiding principle for the post-pandemic economy, laying the foundations for sustainable, inclusive growth over the long term. This means enabling as many people as possible to contribute and benefit from growth.<sup>10</sup> It means growing the economy in an environmentally sustainable way, while tackling underlying structural causes of social and economic inequality – such as place, class, gender, and ethnicity.

Inclusive growth takes the levelling up agenda further. While levelling up seems to be concerned principally with reducing inequalities between places, inclusive growth places equal value on tackling disparities *within* places as well.

Inclusive growth can be measured and should supersede GDP as the metric by which we hold economic policymakers to account. Published in collaboration with the APPG on Inclusive Growth, the CPP Inclusive Growth Index brought together indicators of

consumption, unemployment, health, leisure and inequality in an economic framework for measuring inclusive growth at country and community level.<sup>11</sup> The analysis underlines the importance of better health, skills and good jobs as the core building blocks of inclusive growth.

But inclusive growth is as much about process as headline outcomes and indicators, enabling every town, city and region to shape a new shared vision for broad-based prosperity in their place.<sup>12</sup> Increasingly, and guided by CPP engagement with local partners, we are seeing local areas redefining their economic objectives and developing strategies steered by the principles of inclusive growth. This is an approach that has gained traction internationally in recent years, especially in the face of the current global downturn.<sup>13</sup>

CPP is now looking at how these same principles can be applied to an inclusive recovery from the economic crisis following the outbreak of Covid-19. Central to this will be an understanding of the importance of place. CPP analysis presented in *Back from the Brink* suggests the long-run economic effects of Covid-19 tightly reflect the distribution of the UK's 'left behind' areas, exacerbating existing inequalities.<sup>14</sup> Relative to pre-crisis trends, GVA in the former Red Wall areas will be on average 12% lower after five years, compared to an 8% average decline across the country as a whole.

As such, a two-stage response is necessary: **shore-up then level-up**. Firstly, the government must shore-up the worst affected local economies in the short-run to avoid permanent scarring to some of the country's most vulnerable local economies. Secondly, it must return to a revitalised levelling up agenda, one that is conscious of the changes made by the crisis to the geographic spread of prosperity in the UK. This necessarily requires laying the foundations for inclusive growth in the long run.

To guide the government's response, CPP suggests five progress tests:

- 1 Economic activity, income and unemployment to return to pre-crisis levels by 2021 in hardest hit areas
- 2 Halve the gaps in skill levels and good jobs between vulnerable and resilient areas within a generation
- 3 Halve the gap in health between vulnerable and resilient areas within a generation
- 4 Completely close the investment gap between vulnerable and resilient areas within a generation

<sup>8</sup> Billingham, Z. (2020) *op cit*.

<sup>9</sup> Later in the autumn CPP will be publishing a 'Levelling up Roadmap', mapping out how the UK government can level up the economy.

<sup>10</sup> Inclusive Growth Commission (2017) *Inclusive Growth Commission: Making our Economy Work for Everyone*. London: The RSA. Available at: <https://www.thersa.org/discover/publications-and-articles/reports/final-report-of-the-inclusive-growth-commission>

<sup>11</sup> Billingham, Z. et al. (2019) *op cit*.

<sup>12</sup> Alldritt, C. (2018) *op cit*.

<sup>13</sup> For example, see Daniel Doctoroff's *Coalition for Inclusive Growth*. For more information see Rubinstein, D. (2020) *Business Chiefs Seek N.Y.C. Mayoral Candidate, With \$100 Million as Bait*. New York: New York Times. Available at: <https://www.nytimes.com/2020/08/14/nyregion/mayor-stephen-ross-daniel-doctoroff.html>

<sup>14</sup> Alldritt, C. et al. (2020) *op cit*.

## 5 Reduce by half the inequalities between and within places within a generation

The first test relates to the shore up phase of the economy. Looking to the longer term, achieving the second to fifth progress tests should be part of the wider government mission to level up the country, although recognising that this will be the work of a generation.

### **How can the Government borrow and/or invest to help the UK deliver on these principles?**

*Recommendation: The government should increase investment in social infrastructure and avoid short-term spending cuts. This should be funded through borrowing and will mean breaching its fiscal rules. In due course, the government should develop new fiscal rules that prioritise long-term fiscal sustainability through inclusive growth.*

#### *Why we need more investment supported by pragmatic fiscal rules*

The current iteration of the fiscal rules allows more flexibility than previous versions, with no rules relating to debt or budget in the current year. This meant that the rules were not breached in the Chancellor's initial pandemic response.<sup>15</sup>

However, downward revisions to growth and hence tax take will mean the government will break its current budget rule (to have it balanced in the third forecast year) unless it cuts spending or increases tax. This may put pressure on investment that is not classified as capital, including elements of social infrastructure.

Conversely, the potential net benefit to the Treasury of investing public money has risen during this recession, particularly for interventions aimed at increasing employment. During periods when unemployment is low and job creation is high, interventions to boost employment yield a lower net return because individuals are more likely to find employment independent of the intervention. Conversely, during periods when unemployment is high and job creation is low, unemployment is the more likely outcome for individuals independent of the intervention. To give a concrete example, the net benefit of a traineeship has likely increased during this recession as the likelihood the recipient would otherwise be unemployed has increased. Demand multipliers of public spending start to matter if there is a negative output gap.

This means, in the short-term, current fiscal rules should be breached to allow the government to make pragmatic spending decisions that maximise long term fiscal sustainability. This will mean continuing to borrow to invest and avoiding spending cuts that could result in the further contraction of a fragile economy.

To maintain credibility and to ensure the most effective policies are prioritised, the government needs to do more to demonstrate the positive fiscal impact of its policy decisions by publishing internal assessments. This disclosure may improve analysis which currently undervalues social infrastructure (see below).

In the longer-term, new fiscal rules should be developed that reflect the thinking needed in the short-term: prioritising long-term fiscal sustainability over short-term budget surplus or deficit targets.

#### *Why we should invest in social infrastructure in particular*

Boosting investment in social infrastructure is particularly important. The term social infrastructure refers to the systems required to meet local and strategic needs and contribute towards a good quality of life. They comprise of a combination of facilities, people (workforce) and services, such as adult education and training programmes, children and families centres, and community mental health services. Investment in the quality of hospital and school buildings can be valuable part of enhancing social infrastructure, but the quality and effectiveness of services – delivered by a motivated, well trained workforce – is most crucial.

Investing in services, and the people that run them, could both provide jobs and help prevent Covid-19 from worsening deprivation now. Tackling place-based inequalities through existing social infrastructure is essential for levelling up (and ultimately inclusive growth). For instance, former Red Wall areas lag behind the rest of the country across a range of indicators, including skills, health, early years and social care.<sup>16</sup> The impact of these trends is damaging socially and economically - both for the communities in question and the nation.

CPP has highlighted the extent to which social infrastructure investment can yield large productivity returns. For instance, MHCLG evaluations of the 'Troubled Families' programme found it to deliver £2.28 of economic benefits for every £1 spent.<sup>17</sup> Research by the then Department for Business, Innovation and Skills estimated the net fiscal return to the Exchequer of an

<sup>15</sup> We refer to the fiscal rules proposed in the 2019 Conservative manifesto. Though these were never incorporated into the Charter for Budget Responsibility, the OBR have started to assess their forecasts against them. The legislated rules were breached by the March budget. See: Office for Budget Responsibility (2020) *Economic and fiscal outlook, March 2020*. Available at: [https://cdn.obr.uk/EFO\\_March-2020\\_Accessible.pdf](https://cdn.obr.uk/EFO_March-2020_Accessible.pdf)

<sup>16</sup> Stock Jones, R. (2020) *op cit*.

<sup>17</sup> MHCLG (2019) National evaluation of the Troubled Families Programme 2015 to 2020: findings. Available at: <https://www.gov.uk/government/publications/national-evaluation-of-the-troubled-families-programme-2015-to-2020-findings>

apprenticeship at £31,484 - £47,540 for Level 2 and £55,632 - £80,661 for Level 3.<sup>18</sup>

*How can more investment be channelled into social infrastructure?*

Investment in social infrastructure is frequently overlooked in favour of key physical infrastructure projects. In fact, it is often not considered as capital investment at all as it comes out of current spending budgets. The first step is therefore to acknowledge that spending on human capital and relational or frontline services has long term returns and that our workforce and services are assets.

More specifically, CPP makes four recommendations to promote effective social infrastructure investment to support inclusive growth and boost the levelling up agenda:

- 1 Considering the long-term.** Investment strategies should be set over a 10 to 15-year period rather than the current two to four. The time horizon for government planning is currently too short to account for the benefits of social infrastructure.
- 2 Accounting for assets.** Government should report changes in assets, as measured by the Whole of Government Accounts (WGA), alongside traditional economic measures in the Budget and use the WGA to inform long-run spending decisions. Currently, government expenditure is allocated without recognition of the assets created. Spend is allocated using the resource accounting and budgeting (RAB) accounting system, which does not include the assets created or maintained by social infrastructure investment or the liabilities it may help to avoid.
- 3 Thinking beyond capital.** Investment in the non-capital elements of social infrastructure should be on an equal footing with capital investment. Government could, for example, introduce a new category in government accounting to capture resource spending which is preventative and or has predominantly long-term benefits.
- 4 A level playing field for project appraisal.** Departmental guidance should be updated in line with the 2018 Green Book and should include or reference advice on estimating the productivity impacts of social infrastructure.

An additional, more ambitious recommendation would see the government use the upcoming Comprehensive Spending Review to give additional spending powers to Greater Manchester Combined Authority, the Greater London Authority and the West Midlands Combined Authority. This would include the transfer of place-based capital and resource spending to these regional governments to deliver a set of agreed social and economic outcomes, in line with the broader levelling up agenda. Government could pilot the programme by

limiting it to only a handful of budget lines, while at the same time sending the message that it is willing to take radical steps to address regional inequality.

### **How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?**

*Recommendation: The government should increase individual economic resilience by improving skills (especially in former Red Wall areas). To achieve this, the government should introduce a ‘turbocharged Right to Retrain’. This means building a high-quality online learning system, strengthening existing provision, supporting the living costs of learners and ramping up local strategic input.*

Upskilling and reskilling the population should be a top priority for the government as it looks to respond to the Covid-19 economic crisis, both in the short and the long run. Unfortunately, the skills system faces three key challenges. Firstly, participation and funding have fallen by 37% and 39% respectively in recent years. Secondly, training is skewed positively towards already highly skilled adults and negatively towards those from deprived backgrounds. Thirdly, the skill levels and training provision varies significantly across the country, with London and the South East outperforming the former Red Wall areas on a variety of indicators. The outbreak of Covid-19 exacerbates each of these challenges.

Only a comprehensive package of investment in the skills system will be enough to drive an inclusive economic recovery. CPP proposes a **turbocharged Right to Retrain** that focuses on digital learning rather than the classroom, upskilling rather than standing still and local rather than national in its delivery.

The Right to Retrain includes interventions that will offer rapid help to those facing unemployment by the autumn. To this end, we call for a **high-quality online learning system**. This would ramp up the use of fully online and ‘blended’ learning for those who need quick access to retraining. To promote quality, it would also establish a central infrastructure for online skills training, making it easier for employers to understand and trust these courses.

The government should also act to **strengthen existing provision**, particularly for young learners. Extended periods out of either a job or education at a young age can lead to permanently lower earnings and worse employment prospects further down the line. This requires government to going beyond the current plans

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<sup>18</sup> Department for Business, Innovation and Skills (2011) *Returns to Intermediate and Low Level Vocational Qualifications*. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/32354/11-1282-returns-intermediate-and-low-level-vocational-qualifications.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32354/11-1282-returns-intermediate-and-low-level-vocational-qualifications.pdf)

for a £2,000 incentive for employers to take on young apprentices by subsidising 50% of apprenticeship wages.

The Right to Retrain would also lay the foundations for a return to inclusive growth in the long run, finally recognising the role of the state in supporting people to navigate labour market disruption. This requires the government to **support the living costs for those in need of training**. People who have already lost their jobs should be paid a Learners' Living Allowance (LLA) when undertaking training, equivalent to the maintenance loans available for higher education students. Those still in jobs should be entitled to paid time off to undertake training, with government covering up to half the salary costs during this period.

Central government should also **ramp up local strategic input into local skills systems**. Further education colleges should have a place-based remit, playing a strategic role in the delivery of provision, rather than competing in a marketplace for learners. In addition, the new Skills Advisory Panels should report to MCA mayors on local labour market need. Being democratically accountable, mayors should hold ultimate responsibility for ensuring strategic tailoring of provision.

Individual skill matching models should be scaled up to the level of local economies, with local leaders using training to guide their economies from 'origin sectors' to 'destination sectors'. Local leaders should ensure their inclusive recovery strategies identify destination sectors, supported by a regionally structured UKTI. Building destination sectors could also capitalise on the disruption of global supply chains to 'reshore' production.

### **How should regional and local government in England, be reformed and better equipped to deliver growth locally?**

*Recommendation: The government must ensure local government is fully compensated for the Covid-19 crisis before local government can return to helping to support the levelling up agenda. Further reform of regional and local government should seek to ensure streamlined and integrated social and economic policy delivery, accountability and investment. It should enable local inclusive recoveries led at a strategic level by combined authorities and upper tier councils with maximal alignment of other public sector boundaries.*

Local and regional government should be recognised as central to short- and long-term economic recovery from Covid-19. This should begin with equipping local and regional governments with the financial resources they

need to tackle the immediate costs of the outbreak and lay the foundations for inclusive growth.

CPP research has shown that as of 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. Whilst central government has since provided some additional support, there remains a sizeable funding gap at local level.<sup>19</sup> Putting this right should be an immediate priority to enable the delivery of essential local public services and a return to the levelling up agenda. Central government must ensure local government finances are topped up in the short term to account for the increase in costs due to Covid-19. In the longer term, finances should be bolstered by the UK Shared Prosperity Fund (UKSPF) and the Fair Funding Review and aligned to structural reform. This structural reform would see mayoral combined authorities (MCAs) have control of pooled resources, with pan-regional bodies playing a coordinating role in maximising efficacy across wider interconnected geographic areas.

In addition to being properly resourced, reform of regional and local government is essential for laying the foundations for inclusive growth. At a high level, reform must seek to ensure streamlined and integrated social and economic policy delivery, accountability and investment. It should enable local inclusive recoveries led at a strategic level by combined authorities and upper tier councils with maximal alignment of other public sector boundaries. More specifically, CPP recommends:

- 1 MCAs should be expanded as much as possible across the county along functional economic geographic boundaries, within which wider public sector boundaries would be aligned, including Local Enterprise Partnerships and health bodies. Compulsory unitarisation would streamline local government and save money, whilst still enabling tailored place-based responses to the priorities and preferences of local communities.<sup>20</sup>
- 2 MCAs should take on increased delivery, strategic investment and policy decision making functions - with accountability for tackling inequalities within their geographical footprint.
- 3 Central government should be responsible for distributing resources to support reduction in inter-regional inequalities via, for example, the Green Book and UKSPF rules.
- 4 Wider pan-regional initiatives - for example, the Northern Powerhouse etc - should be non-statutory bodies that help coordinate activity where needed between MCAs and/or wider regional areas.

<sup>19</sup> Billingham, Z (2020) *op cit*.

<sup>20</sup> See PWC (2020) *Evaluating the importance of scale in proposals for local government reorganisation*. Available at: <https://www.countycouncilsnetwork.org.uk/advocacy/publications-and-research/>

Relating to the fourth recommendation, pan-regional initiatives should be aligned with the following:

- Co-terminus UKTI regions
- Combined authority level skills advisory panels (bringing together panel chairs/members across the whole region). Regional research and development committees designed to coordinate place-based investment, relationships and programmes, such as the Royce Institute
- Forums for engagement on integrated regional transport. For example, in the Northern Powerhouse this could include Transport for the North, HS2, Highways England, Network Rail, the National Infrastructure Commission and senior representatives from the Department for Transport

The phased devolution of powers from Whitehall to MCAs and unitary authorities should continue including enhanced local strategic input into further education and skills. FE provision should be commissioned by MCAs based on local labour market need, starting with the AEB as is now the case, and moving further once effectiveness has been established and capacity has been built. In time, other areas – working across their own functional economic geography – should follow the same path, once political legitimacy and accountability has been established.

The ultimate goal of devolution should be full responsibility for agreed social and economic outcomes to drive inclusive growth within places. In this scenario, a place-based Spending Review would allocate total public sector resource to an MCA, with elected mayors held to account for outcomes at the ballot box and by Ministers – for example via a regional Public Accounts Committee. Scrutiny and insight as to ‘what works’ could also be enhanced via an empowered National Audit Office or the new Productivity Institute in Manchester, with local economic policy innovation and performance part of their remit.

### **What opportunities does this [crisis] provide to reset the economy to drive forward progress on broader Government priorities?**

*Recommendation: the government should adopt CPP’s five tests for inclusive economic renewal. This means closing gaps both between and within places in terms of economic inactivity, income, employment, skills, good jobs, health, and investment.*

The outbreak of Covid-19 has shone a light on the significant inequalities that prevail across the country. It provides the driving force for a sharper focus on aligning

social, health and economic policy to redress these inequalities.

So far, it seems Government’s levelling up agenda is concerned predominately with closing the gap between regions, especially London and the South East and the rest of the UK. Here there is an important difference between inclusive growth and levelling up. While levelling up refers to rebalancing between regions, inclusive growth is also concerned with inequality within places. In essence, whilst there are significant gaps between the North and South, place-based inequalities do not fall neatly either side of a dividing line from the Severn to the Wash.

In CPP’s recent report, *Back from the Brink*, we identified 87 local authorities that are vulnerable to long term economic damage due to Covid-19.<sup>21</sup> These places were characterised by suffering a high predicted short-term economic impact, high existing levels of unemployment, low levels of skills and lengthy recoveries from the last UK recession. The analysis found that the current crisis will indeed exacerbate existing regional inequalities. However, it also found there is significant diversity of resilience within regions and many of the most vulnerable communities are also in London and the South East. One in three local authorities in Greater London are predicted to be vulnerable, due to high pre-existing unemployment rates and the extended time period that it took to recover from the 2008 financial crisis.

The geographical distribution of the Covid-19 related public spending is unclear, and the government must be careful to allocate based on need, rather than simply directing it towards the North for the sake of the optics. It may be that former Red Wall towns are most in need of investment, but decisions must be based on data-driven, place-based evidence. Directing investment in both physical and social infrastructure towards vulnerable places is an essential step towards greater equality and the government must not leave Hastings or Gravelines behind, just because they happen to be in the South East.<sup>22</sup>

With this in mind, spending should look to improve performance against CPP’s five tests:

- 1 Economic activity, income and unemployment to return to pre-crisis levels by 2021 in hardest hit areas
- 2 Halve the gap in skills and good jobs between vulnerable and resilient areas within a generation
- 3 Halve the gap in health between vulnerable and resilient areas within a generation
- 4 Completely close the investment gap between vulnerable and resilient areas within a generation

<sup>21</sup> Alldritt, C. et al. (2020) *op cit*.

<sup>22</sup> For CPP methodology on identifying vulnerable places see the appendix to Alldritt, C. et al. (2020) *op cit*.

## 5 Reduce by half the inequalities between and within places within a generation

In early autumn CPP will be setting out a policy road map for levelling up, providing more detail on how the government can level up the country consistent with the principles of inclusive growth.

### *A more vertically integrated and effective system of governance*

The Covid-19 crisis has exposed the paucity of this country's highly centralised institutions and the chasm between different tiers of government. These gaps also stretch to other parts of the system, including funders and regulators. The impact this has had on public health, education and university admissions – to give just a few recent examples – is clear to see.

As such, the current crisis provides an opportunity to build a more vertically integrated and effective system of governance. This would see local, regional and national institutions have clarity of their responsibilities and be sufficiently resourced to deliver against them.

### **What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?**

*Recommendation: the government should act to improve health, place-based and individual economic resilience. Health resilience can be boosted by introducing CPP's social model of health (including more government spending for public health and increased deprivation targeting). The outbreak of the pandemic has shown the extent to which population health is critical for a functioning economy and cuts across every aspect of government policy, at a national and local level.*

### *Support population health resilience by moving beyond the NHS*

The outbreak of Covid-19 has highlighted the importance of reducing deprivation to improve resilience to health shocks. Mortality rates in the most deprived areas of England have been more than double those in the least deprived areas.<sup>23</sup> The CPP Inclusive Growth Community Index also showed that variations in healthy life expectancy are key to understanding how broad-based prosperity differs across local areas in the UK.<sup>24</sup>

Previous CPP analysis has shown the importance of tackling the social determinants of poor health. It found that 80 million life years are lost due to inequalities in education, income, employment, crime and housing in England.<sup>25</sup>

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 the work of the NHS and to consider health in all policies and places.

CPP believes the government should introduce a social model of health, predicated on five overarching themes:

- 1 More government spending for public health and increased deprivation targeting through the public health budget and part of the NHS budget should be ringfenced for addressing the social determinants of poor health.
- 2 Government departments at national and local level putting health first when developing public policy and evaluating impact.
- 3 Champions for the social determinants of health embedded at national (CMO) and local level (public health directors).
- 4 The NHS getting serious about its role as an 'anchor' institution – especially in poorer places.
- 5 Greater powers and resources for local areas to tackle entrenched deprivation in hard-to-reach communities.

### *Support place-based resilience by funding local government*

The Covid-19 economic crisis has also exposed the importance of strong local government finances. CPP analysis of local government unallocated reserves on the eve of the crisis shows that, despite emergency non-ringfenced Covid-19 funding, 131 upper tier councils (of 151 in England) did not have sufficient funds to make up for projected increased costs and reduced income due to Covid-19.<sup>26</sup> This includes 18 (of the 19) upper tier authorities which significantly feature former Red Wall constituencies. The crisis has made clear that councils require unallocated reserves as a buffer against ongoing financial headwinds.

### *Support individual economic resilience by doubling down on skills*

Past recessions have shown skill levels to be a key driver of resilience to economic shocks. CPP analysis found that areas of the country with a high proportion of people with no skills qualifications had larger Gross Value Added (GVA) reductions and higher unemployment increases resulting from the 2008 recession.<sup>27</sup> Separately to this, an

<sup>23</sup> ONS (2020) *Deaths involving COVID-19 by local area and socioeconomic deprivation: deaths occurring between 1 March and 31 May 2020*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand31may2020>

<sup>24</sup> Billingham, Z. et al. (2019) *op cit*.

<sup>25</sup> Dudding, J. et al (2019) *op cit*.

<sup>26</sup> Billingham, Z. (2020) *op cit*.

<sup>27</sup> See the appendix to Alldritt, C. et al. (2020) *op cit*



area having a higher proportion of highly skilled workers tended to lead to a larger initial GVA loss, but then a quicker recovery.

This crisis looks set to confirm the importance of skill levels, with low skill sectors more likely to be shut down. The ability to quickly upskill these kinds of workers is key for resilience to economic shocks. Some high skill sectors have also been heavily affected, such as automotive and aerospace, which are particularly important to the economies of a number of local areas. As Covid-19 presents profound structural economic challenges, reskilling – rather than just upskilling – workers will be essential for UK economic resilience.