The Levelling Up Policy – How Effective is it Likely to Be?

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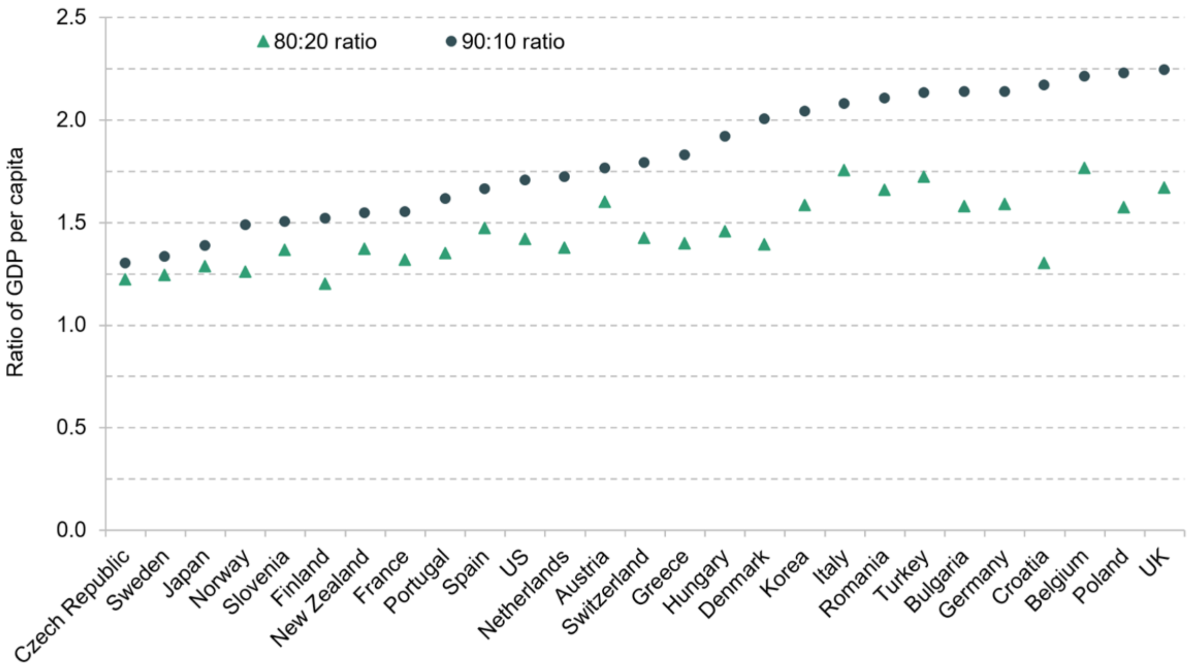
Foreword

The U.K. suffers from one of the highest levels of regional economic disparity in the developed world according to both the OECD and the IFS.

Measures of inequality in regional GDP per capita, by country[1]



Figures denote the ratio between GDP per capita in the 80th percentile ranked region and the 20th percentile ranked region (80:20), and the ratio between GDP per capita in the 90th percentile ranked region and the 10th percentile ranked region (90:10). Region defined as OECD 'small' (TL3) regions.

In order to address the problem, the Government has announced that one of its key policies is to rebalance, or more precisely, to **'level up'** the economy.

This report:

1. examines the Government's current policies aimed at addressing the problem

2. highlights other policies of the current and past governments which may be undermining those very policies

3. makes suggestions about what measure need to be taken to make the policies work

[1] Davenport & Zaranko for IFS "Levelling up where and how" October 2020

Section 1. Current Government Policies

There is to date no coherent Government policy document defining levelling up, setting out a comprehensive policy or indeed specifying the sort of expenditure needed to implement the policy. The nearest attempt at a policy framework is the National Infrastructure Strategy[2] which pays attention to levelling up but is what it 'says on the tin' a *National*, not Regional, Infrastructure Strategy. There is also a list of investment priorities in the Heads of Terms of the Shared Prosperity Fund[3], that focuses on workplace skills and investment in businesses particularly in discreet growth sectors. But this no way constitutes a comprehensive policy statement.

For that reason, the policy has to be inferred from a series of so far dispersed announcements across a breadth of disparate policy announcements, some highly targeted at levelling up, others immersed in general national funding packages.

1.1 Transport Infrastructure

Greatest emphasis to date has been on transport infrastructure announcements. Most of the transport spend is buried in the £100bn National Infrastructure document[4], in which the Prime Minister assured the reader that

"Levelling up is my Government core purpose"

and describes how the Government will

"Boost growth and productivity across the whole of the UK, levelling up and strengthening the Union"

This headline spend also includes education, health and defence capital investment. However, even within the transport allocation and despite the emphasis on 'levelling up', there is also substantial investment in more prosperous areas.

1.1.1 HS2

The main investment is in HS2 aimed at establishing 'essential North-South connectivity', with an 'Integrated Rail Plan to deliver transformational improvements in the Midlands and the North' (National Infrastructure Strategy, p40[4]). This comes with a commitment to build both the western and eastern leg of the line as well as boosting the classic rail network. Nevertheless, there are doubts about the eastern spur. The independent National Infrastructure Commission report suggests that instead of the new high-speed line from Birmingham to Leeds, existing lines would be electrified and the existing East Midlands Parkway station would be used as an interchange station in place of a planned new high-speed hub at Toton[5].

[2] https://www.gov.uk/government/publications/national-infrastructure-strategy 25 nov 2020
[3] https://www.gov.uk/government/publications/spending-review-2020-documents/spending-review-2020#box-31--uk-shared-prosperity-fund--heads-of-terms
[4] https://www.gov.uk/government/publications/national-infrastructure-strategy
[5] Rail Needs Assessment for the Midlands and the North - Dec 2020

1.1.2 Other Rail

There is also support in the Commission report for the proposals for a new route linking the belt of Northern cities across the Pennines - Liverpool, Manchester, and Leeds – though it claims some of this length could be achieved with upgrades rather than new lines if the Government wants to keep costs low. In the case of the HS2 Eastern leg, the Northern Powerhouse and Midlands Engine rail plans it states that though worthy of support, there is insufficient finance allocated.

The Government has also promised to deliver on its manifesto commitment to spend £500 million to restore transport services previously lost in the Beeching cuts of the 1960s, including reopening the Ashington-Blyth line in Northumberland to passenger services, and restoring rail links to Okehampton in Devon, amongst a number of other schemes both in the North and South as well as a New Ideas Fund to pay for feasibility work on proposals for new lines and stations.

Feasibility funding for the first ten schemes has been announced. This will provide a basis for decisions on further development: re-opening Meir Station in Stoke-on-Trent; the Barrow Hill line between Sheffield and Chesterfield; the Ivanhoe line between Leicester and Burton on Trent; branch lines on the Isle of Wight; the Abbey line between St Albans Abbey and Watford Junction.

As can be seen, the project is spread nationally but biased, towards the Levelling Up project.

Finally, we have consideration of a “Fixed Link” (rail tunnel) between Northern Ireland and Great Britain, mooted at a notional cost of £30bn, being seriously undertaken as part of the “Union Connectivity Review”, due to produce its final report in June 2021.

1.1.3 Highways

In terms of highway investment, the Government is promising a national £5 billion, over the parliament, for buses and cycling as well as investment in strategic roads (over £27 billion), including the A66 between Penrith and Scotch Corner, the Lower Thames Crossing, and the A303 Stonehenge. Needless to say, the funding is dispersed between wealthier and ‘left behind’ areas.

1.1.4 Miscellaneous

The Government has also announced in November 2020 a new targeted £4 billion cross-departmental Levelling Up Fund that will invest in local infrastructure in England with a further £800m for Scotland, Wales and Northern Ireland in total. In England it will be broken up into bids for projects of up to £20 million for local infrastructure projects[6]. Councils have been placed in one of three priority categories for bid consideration and it is fair to say that the priority list has proved controversial with deprived areas such as Salford and Sheffield in the medium priority tier but Richmondshire, a relatively wealthy district, in the top priority tier.

1.2. Freeports

Designed to attract major domestic and international investment, the Freeports allow businesses to operate inside a country’s land border but apply different customs arrangements than the rest of the country. They are more likely to be located in the more deprived regions across the UK and to form a key plank of the Levelling up project. Freeports status was subject to a bidding process and the first are intended to open by the end of 2021[7].

[6] Or up to £50 million for transport projects only.
[7] https://www.gov.uk/government/publications/freeports-bidding-prospectus

More specifically the Freeports will benefit from:

- streamlined planning processes to aid brownfield redevelopment
- a package of tax reliefs to help create jobs, growth and innovation
- simplified customs procedures, and duty suspensions on goods

The sites chosen are scattered around England – Liverpool, Humber, East Midlands Airport, Felixtowe/Harwich, Plymouth, Solent, Thames, Teesside.

The aim is to provide sector clusters supported by skills, R & D, and transport infrastructure.

1.3 Training and Skills

The Government's offer is not confined to hard infrastructure. There is an attempt to address some of the training deficit which has arisen historically and particularly over the last ten years.

Adults without an A-Level or equivalent qualification will be offered a free, fully-funded college course. The offer will be available from April in England. Higher education loans will also be made more flexible, allowing people to spread their study across their lifetimes, and to take more vocational courses.

Apprenticeship opportunities will also be increased, with funding for SMEs taking on apprentices, especially in sectors such as construction and creative industries. From next year, boot camps will be extended to sectors like construction and engineering.

The free online Skills Toolkit, helping people train in digital and numeracy skills is being expanded to include 62 additional courses.

Finally, £2.5 billion is also being made available over the life of this parliament through the National Skills Fund[8] to help encourage people into work again after COVID.

These reforms will be backed by £1.5 billion in Further Education (FE) capital funding spread over 5 years.

1.4 Shared Prosperity Fund

The aim of this fund is to compensate for the loss of the EU Structural Funds. The Government's promise is that 'in time, total domestic UK-wide funding will at least match receipts from the Structural Funds', on average reaching around £1.5bn a year. In 2021-22 the Government will provide £220m to support pilot programmes. Of interest is a statement that 'A portion of the UKSPF will target places most in need'. Investment should be aligned with clean growth and net zero objectives[9].

The Fund prioritises investment in:

- skills tailored to local needs,
- communities and place
- local business.

A second portion of the UKSPF will be targeted differently: to people most in need through bespoke employment and skills programmes. It is unclear whether there is any overlap in funding between this funding stream and the Government's announcement on Training and Skills[10]

[8] https://www.gov.uk/guidance/national-skills-fund
[9] https://www.gov.uk/government/publications/spending-review-2020-documents_p37
[10] UKSPF is mainly (90%) revenue focussed

1.5 IT and Broadband

The project consists of a £5 billion fund to support UK-wide gigabit broadband roll-out, a Shared Rural Network extending 4G mobile coverage to 95% of the UK by 2025, and £250 million to ensure resilient and secure digital networks. The Government is also funding 5G Testbeds and Trials Programme with £50 million in 2021-22 to support demonstration projects across rural, urban, and industrial settings.

1.6 Green Growth

The Government has put much emphasis on its green investment strategy and its capacity to support levelling up. It comprises:

- £160m made available to upgrade ports and infrastructure across communities like Teesside and Humber in Northern England, Scotland and Wales to increase offshore wind capacity
- £525m to bring forward large-scale nuclear projects
- £1 billion to support the establishment of carbon capture and storage in four industrial clusters;
- investing in hydrogen technology
- £1.3 billion in electric charging infrastructure
- enabling heat decarbonisation
- £5.2 billion by 2027 to protect 336,000 properties from the increased risk of flooding and coastal erosion.
- in June 2021 the issue of a framework for a sovereign green bond of a minimum £15 billion[11].

1.7 Relocation of Civil Servants

The Government has announced that it will be relocating 22,000 civil servants out of London and the South East by 2030. It is proposing that a Treasury economic campus be located in Darlington. The campus would initially house 750 Treasury civil servants as well as officials working for the MCHLG. Other MCHLG staff would move to a new base in Wolverhampton. Half of the Department for Culture, Media and Sport's 450 staff in London are due to move to Manchester by 2025-26.

The Ministry of Justice, DWP and the MoD are also due to announce plans to move staff out of Whitehall, while the Foreign Office is considering proposals for a Manchester base[12].

1.8 Infrastructure Bank

The Government intends to set up a new UK infrastructure bank to invest jointly with the private sector in infrastructure projects. The bank will operate UK-wide, be based in Leeds, and support policies of levelling up and net zero emissions. The bank will also be able to lend to local and mayoral authorities for key infrastructure projects and provide them with advice on developing and financing infrastructure.

[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf para2.144

[12] Also UK infrastructure bank in Leeds as mentioned in 1.8

1.9 Towns Fund (including Cities)

£3.6bn has been allocated in the form of the Towns Fund[13]. This amounts to roughly £36m per town over the life of the current government. The first seven Town Deals were agreed in October 2020 to the tune of £178m. Only four of the seven were in areas which might be classified as in need of 'levelling up'. 45 further successful Towns were announced in March 2021 Budget, allocating a total of £1 billion[14] Allocations were skewed towards the more deprived locations but included relatively well off ones too.

If the Government wishes to 'revitalise towns' in the National Infrastructure Strategy, the ambition for cities is to 'create regional powerhouses, making cities the engines of growth'

However, there are no new city specific grants. It is implied that they will benefit from a range of other policies including HS2, Freeports, improved rail and road networks, and of course the Shared Prosperity Fund.

1.10 Housing

The Spending Review 2020 announced that, in addition to the Brownfield Housing Fund announced at March Budget 2020 (that Mayoral Combined Authorities to provide up to 26,000 homes) the Government will set aside a further £100 million in 21/22 to support housing delivery aimed partly at brownfield sites. These plans form part of the £7.1 billion National Home Building Fund with a target of up to 860,000 homes across the country.

Of interest too in the levelling up debate is that ,in the Spending Review, the Government has reaffirmed its commitment to the Oxford-Cambridge Arc in the NIC report 'Partnering for Prosperity'[15] including additional funding to develop a Spatial Framework to plan for long-term economic and housing growth.

1.11 Green Book

The Government is changing the way projects are appraised to support levelling up through the Green Book Review. The Green Book is the Treasury guidance on options appraisal and applies to all Government capital proposals. The Review[16] has concluded that current appraisal practice undermines the Levelling Up strategy.

On the whole the Government has accepted the findings. These are that business cases frequently do not sufficiently reflect:

- the Government's strategic goals (such as levelling up or net zero carbon emissions); and
- how the intervention may affect specific places (place-based impacts)
- other strategies, programmes or projects with which the intervention may interact, including in a particular geographical area
- the discount rate for environmental impact.

[13] https://www.gov.uk/government/news/100-places-to-benefit-from-new-towns-fund
[14] https://www.gov.uk/government/publications/towns-fund-recipients-march-2021/towns-fund-recipients-march-2021
[15] https://nic.org.uk/app/uploads/Partnering-for-Prosperty.pdf
[16] https://www.gov.uk/government/publications/final-report-of-the-2020-green-book-review

Section 2 - How Effective is the Policy Likely to be?

'I can think of no time in my experience when the threat is so evident and the response (to regeneration) so inadequate'
Michael Heseltine, Prospect Magazine, 3 July 2020

There is a genuine attempt by the Government to 'level up'. It has announced resources to support some of its aspirations and underpinned the investment by promising to set up a Regional Investment Bank to give reassurance that levelling up is more than a 'one off' initiative. It has provided a further range of initiatives all of which are associated with measures required to support deprived areas. It has understood the distinction between the needs of towns and cities, insufficiently defined in previous programmes. It recognises the importance of skills and the need for more investment in further education, a sector that has been vastly neglected. It has taken an important step in reviewing the Treasury Green Book assumptions ensuring that they account for the consequences for 'levelling up', thereby building the concept into mainstream resource allocation.

Nevertheless, there are some obvious and serious flaws.

2.1 Lack of Policy Integration

There is a clear intention that levelling up be a keystone of Government policy, yet the closest thing to a policy document that brings into one place an overview of what is needed to put this into effect is from the *UK 2070 Commission*[17], an independent commission

Therefore, it is hard to detect how the various initiatives integrate. There is some semblance of integration in the form of green energy linked to skills training linked to coastal towns; or the assertion that 'Beeching cuts' will be restored in order to feed HS2 and to provide links with neighbouring towns. There is some sense of integration within the Freeport concept in that it tries to align investment, with skills, with innovation, with infrastructure. But in the end, there seems to be little appreciation either of the scale or endemic nature of the problem given the absence of attention to mainstream funding deficits and to social infrastructure – health, education. The packages as outlined therefore do seem both to be operating hermetically and to be overlapped onto existing and inadequate policies and, as such, are likely to be all the less effective for it.

2.2 Geographical Polarisation and Fragmentation

Taken as a whole, the funding announcements have little clear geographical focus and as such, there is a risk of diluting the impact. The Government, for example talks about 'Levelling up the whole of the UK', (p26, National Infrastructure Strategy) which seems to be a metaphor for allocating substantial resources to a number of left-behind and growth areas simultaneously. This 'scattering' both reduces resources available for left-behind areas but also risks widening the gap.

In effect, there are two sets of proposals which attract the Levelling Up label - those that have national coverage with some regional bent and those more specifically regional

Risks of widening the gap

In the former case it is unclear what proportion of the allocations will find their way to 'levelling up 'areas. Of the seven Towns fund projects announced to date only four went to 'levelling up 'areas. Road investment, or even cycle and bus lane investment, are further examples of unclear distribution, all the more so when subject to bidding.

[17] https://uk2070.org.uk/wp-content/uploads/2020/09/Go-Big-Go-Local.pdf

The classic problem, however, is new house building where the Government faces an unenviable dilemma of satisfying housing demand in affluent areas and the need for regeneration in the less affluent. Not only would even a simple (i.e. population-based), allocation deprive underdeveloped areas of resources required to catch up but allocations outside the deprived areas that also elevate the more affluent would simply widen the gap.

Homes England are mandated by Government to allocate 80% of the multibillion funding for land and infrastructure spending to areas which have higher property and land values. Most of those are in already prospering areas. There is for example a serious risk that the plan to develop the Oxford-Milton Keynes-Cambridge Arc will not only suck in scarce Government resources but also stimulate growth in an already developed area. The same can be said of the 30-year plan to develop the Thames Estuary. These schemes, particularly the Arc, are likely to either attract private investment that might otherwise have gone elsewhere or might even attract existing investment away from areas in need of the investment that leads to regeneration.

There is a further potential conflict and gap widening between town and city. If resources transferred are relocated mainly to major cities e.g. HS2, R&D, because these are considered the more fertile locations for growth, then effective levelling up will not be achieved. As one Government MP pointed out there is little point in levelling up if all you are going to do is transfer the growth from London to Leeds or Manchester forgetting Rochdale or Wakefield. The Towns Strategy recognises the issue. But the response - the Towns Fund - though worthy, fails to match the depth of the problem. The relocation of government offices to towns is also a gesture in the right direction. But is not a sufficient answer to what is a structural problem which requires cogent local plans.

Thin spread of resources and prioritisation

With limited resources the Government wishes to satisfy the former industrial areas, rural areas, cities and towns. There is already pressure to support the Northern Powerhouse and the Midlands Engine, which gets less headlines. Scotland and Wales present further pressures in the light of independence threats, and finally deprived areas within the South.

Yet all regional development principles will tell us that concentration and focus is required to shift the tectonic plates of underdevelopment. In addition, since Covid, a number of other areas in the South, where unemployment has risen above the national average, might well be added to the list.

To date there is little sign of the concentration necessary. The Towns fund is by no means concentrated in the most deprived areas and is chopped up into £25m bidding packages, or the Levelling Up fund, also dependent on the arbitrary bidding outcomes and chopped into £20m blocks. Indeed, there are surprising anomalies. Richmondshire in the bottom quartile of the index of deprivation appears in category 1 for the levelling up fund, and Barnsley in the top quartile appears in category 2.

Towns Fund 2020-21 - Allocations by Deprivation Decile[18]

Deprivation decile	£ million	%
Most deprived decile	317.30	26.5%
2	295.10	24.6%
3	112.30	9.4%
4	154.10	12.9%
5	125.20	10.4%
6	136.60	11.4%
7	13.90	1.2%
8	44.20	3.7%
9	-	0.0%
Least deprived decile	-	0.0%
Totals	**1,198.70**	**100.0%**

2.3 Policy Gaps

As for scheme prioritisation, HS2 is the most advanced project and the western leg is obviously the first commitment. However, it will absorb an enormous amount of energy and resource. This means that there are already question marks over the eastern leg because, presumably, of cost. In these circumstances its continuation will be competing against not only other transport schemes, but other public spending possibly aimed at left-behind areas. And there is now serious consideration of a multi-billion tunnel/ bridge linking Northern Ireland and the mainland. It is going to be critical to prioritise, particularly at a time when the National Infrastructure Commission is already hinting at the need to pare back plans. But the Government seems to be adding to expectation rather than focusing it.

Not only is there some fragmentation, there are, as inevitable in any policy, gaps. However, these gaps are serious. The most obvious gap relates to education. Justine Greening (Levelling Up starts with Schools, FT 20 Aug 2020) rightly points out that education is the most important factor in regeneration, yet it features little in the thinking. Granted there is a laudable attempt to provide a more skills and sector focussed approach to further education, but it comes in the form of yet another set of schemes and initiatives overlaid onto an existing structure that has both suffered years of neglect and is not fit for purpose. The role of primary and secondary education, key to levelling up, is neglected.

The role of universities also needs definition. Universities provide both economic and cultural stimulus as well as being a source of education opportunity for local students. But they are mainly located in Cities. They also serve as a magnet for attracting academically able students away from underdeveloped areas including towns.

Finally, and importantly, there is an absence of determined business and sectoral policy linked to the geography of levelling up. There is reference to green energy and coastal towns and electric vehicle development and supply chain near existing car factories but not a great deal more. The concept of Freeports obviously encourages some sectoral bias and was no doubt a criterion for winning bids. However, there will be a limited number, scattered nationwide, the results of which on local economies are untested (see below). Business growth and clustering and clustering support is not ‘hardwired’ into the overall Levelling Up strategy. Nor is it clear how they will form part of the Freeport strategy.

[18] From IMD 2019. Areas below district level matched to nearest LSOA or District; TF recipents at https://www.gov.uk/government/publications/towns-fund-recipients-march-2021

2.4 Policy Risks within Strategy

Freeports are a major, if not *the* major plank of the Government's levelling up policy. They are 'new exciting concepts' and therefore will attract a great deal of attention and expectation. However, there is a question mark over the very concept for three main reasons

a) there is a danger that they simply displace investment which would have happened in any case or even attract investment away from neighbouring areas. The specification for retained business rate receipts even builds expected displacement into the model. To quote the prospectus

'Retained receipts should be used to cover borrowing costs (where relevant); re-invest in the Freeport tax site to generate further growth; or offset expected effects of displacement of local economic activity from deprived areas.' (HM Treasury Freeports Prospectus Nov 2020, 3.5.2.2)

b) the incentives they offer tend to attract companies with 'shallow roots' interested in the benefits but not long-term investment

c) there is a potential to increase the risk of tax evasion and smuggling if not properly managed.

Moreover, their location, as we have pointed out, has been decided on the basis of bids and not strategic location, hence the regional spread. Having said that, most do coincide in the strictest sense with the IFS list of deprived areas, in terms of their precise location, though not necessarily in terms of their hinterland.

Finally, given the potentially mixed results a Freeport may deliver, there is undue emphasis on them as a solution to a problem which is likely to prove far more endemic than anything they can ever offer.

HS2 is programmed to start in the South and gradually work its way North. There are six serious risks.

- the growth created by such high levels of infrastructure investment in the South and London will create further imbalance

- there is an increasing risk that the eastern branch will be dropped

- the line intrinsically will benefit London more than it will the North. This does not mean other cities may not receive some economic benefit from HS2, which could stimulate growth and play a role in upgrading the economy. But by definition it would not 'level up' if London benefitted more, as indeed did Paris from the TGV

- the scheme does not include resources to provide the transport infrastructure e.g. feeder rail networks, which will fully exploit any benefit

- it will lead to a reduction in investment in improving other areas of the UK rail network. Many of these problems are highlighted in The House of Lords Report from the Economic Affairs Committee Rethinking High Speed 2 (6th Report, Session 2017-19, HL Paper 359)

- as with the TGV, HS2 may create growth around the station which occurs 'at least partly at the expense of investment displaced from poorer, less attractive parts of the same region'. (Ian Waddell, Has the TGV regenerated France's Provincial Cities? What are the lessons for HS2? Transport Watch, March 2014).

Relocation of Civil Service - there is no doubt that moving the civil service out of London will have a beneficial effect on the immediate recipient areas and it is the right thing to do. And even if many staff do not move, as when the DVLA located to Swansea, then there are still likely to be opportunities for local employment. There are, however, risks. First, that *top* civil servants will not move, and the relocated services will always remain as outposts. Whilst-ever this happens the impact of the policy on 'levelling up' will be limited, but it is the likely outcome. Second, in terms of spend central government workers are less than 10% of the public sector workforce. So, moving say 10% of the service out of London is not going to have a major impact.

2.5 Contradictory policies outside strategy

Local Government and 'Unprotected Budget' Finance

There is a correlation[19] of 0.8 between the loss of local government spending power since 2010 and the poverty of local government areas. Moreover, the spending power in many of these areas has been sustained, not by Government grant, but by increases in Council Tax i.e. locally raised taxes. Of this year's finance settlement, it is assumed 87% comes from Council Tax rises. This is bound to have had a deflationary effect on the local economies and jobs, not to mention the social infrastructure of these authorities.

The failure of the Government to compensate fully for Covid pressures and the attempt to offset the costs of Adult Care once again onto the council taxpayer is likely to deflate demand all the more. Moreover, not only is there a loss to the areas targeted for levelling up, the loss in the better off areas is proportionately less, thus widening the gap. This is not only because they have lost less grant, but also because of the shift to dependency on Council Tax and business rate retention. In deprived areas there is more demand for council services but also a lower Council Tax base and less income from business rates. So, the poor end up paying for other poor. In better off areas the converse is true.

In addition, there is the fact that Treasury projections to 2024/25 indicate that apart from marginal increases in Education, the NHS and Defence budgets, the rest of the public sector is likely to receive real terms cuts per person grossing up-to over £30bn. These 'unprotected budgets' include DWP and council funding and is probably one of the reasons the IFS does not believe the budget is deliverable (Paul Johnson, Opening Remarks, Budget 21, 4 March 2021)

The net effect is that the levelling up policy is undermined, both in terms of timing and volume, by the local government funding system.

Universal Credit

The recent temporary increase in the standard Universal Credit allowance will help spending in many deprived areas. However, the House of Lords Economic Affairs Committee enquiry 'Universal Credit isn't working proposals for reform' (*2nd Report of Session 2019-21, 31 July 2020 - HL Paper 105*) found that Universal Credit often did not provide enough income to live on.
'Universal Credit must provide claimants with an adequate income and act as a safety net for avoiding extreme poverty and hardship.' And that 'the increase shows the original rate was not adequate'.

The Department has, to date, said that this will remain only a temporary measure. Should the Government not commit to making the increase in the standard allowance permanent, which looks to be the case, then the loss in spending power not to mention the social impact, in the short to medium term, let alone the long term, will far outweigh any regeneration benefits currently proposed.

[19] A measure of how changes in two factors are related, where 1.0 is perfect correlation and 0 is no correlation.

City of London

The Government has outlined major proposals to strengthen the international competitiveness of the UK's £9.9tn asset management industry with tax reforms and innovative fund structures, in order to support the sector's future outside the EU. It will all benefit London.

This may or may not happen as there is some scepticism in the City as to the benefits. However, under either of two scenarios, there is further deregulation which increases business turnover and reinforces the attraction of London or there is a decline in turnover and government revenue with which to fund 'levelling up'.

There is a valiant attempt to encourage Fintech start-ups outside London in the form of the Kalifa report[20] which advocates 10 Fintech hubs four of which, including the London Superhub, are in the South, the rest scattered across regional centres. And this could create some rebalance.

However, it could be severely restricted by Brexit and the lack of an equivalence agreement and if successful could actually widen the gap given that the emphasis once again, and unavoidably, is on London. So, what happens to the City of London is critical to levelling up and needs to be factored in. Having said that, there is no easy solution, if any, to this conundrum.

Business Support

Business support is an area of serious weakness in the strategy with little attention either to reforming current arrangements or seriously refocusing funding.

Moreover, although public expenditure to support business is claimed to be fair, currently that 'fairness' is derived from the notion that spend is commensurate with the number of businesses already in an area and not in relation to an area's needs. As a result, given that Greater London (1.1 million businesses) and the South East of England (932,000) had the most private sector businesses, accounting for 35% of the UK business population and the North East of England had 163,000 private sector businesses, the least of any English region, there is a substantial self-reinforcing disparity. (Business Population Estimates for the U.K. and the Regions, DBEIS, 8th October 2020). The recently launched Future Fund, opened in May 2020, is monopolised by London and parts of the South East which benefit from 64% of total funding (Business Leader, 28 January 2020). The recommendations of the Kalifa Fintech review, though rightly recognising the need of the regions, still gravitates heavily and perhaps inevitably to London and the South East to the point of reinforcing London's supremacy.

The Role of Mainstream Education

On 15 October 2016 in evidence to the Commons Business Innovation and Skills Committee Lord Heseltine rightly claimed about industrial regeneration "it's all about education, then it's all about skills". Yet education funding regimes are not rising to the challenge.

The school funding system in England is still progressive and pupils from low income families attract additional funding. But the fact remains that pupils from disadvantaged backgrounds end compulsory education 18 months behind their peers. Moreover, the link between funding and pupil need is being weakened by a recently announced system that directs a proportion of additional funding towards schools with historically lower levels of funding. These schools are very likely be serving more affluent areas. So, we end up with a system which goes under the label of 'levelling up' but which actually redirects funding away from areas which are targetted for 'levelling up (Education Policy Institute 7th August 2020. Analysis: School funding allocations 2021-22).

[20] https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech

Meanwhile the Government has rightly announced increased spending on F E - a sector which plays a particularly important role in 'left behind' areas. Yet this only partially remedies previous cuts. Funding per student aged 16–18 has seen the biggest squeeze of all stages of education in recent years. School sixth forms have faced budget cuts of 23% per student since their peak in 2010–11, while further education and sixth-form college funding per student has fallen by about 12% over the same period. (IFS's Second Annual Report on Education Spending in England, funded by the Nuffield Foundation, November 2020).

2.6 Delivery Structures

'At present, there is a hotchpotch of institutional arrangements across the country with some areas having myriad authorities; from councils and city and regional mayors to local economic and business initiatives, LEPs[21] and powerhouses.' (Levelling up' Inquiry launched by UK Parliament Business Committee, July 2020). With the lack of any clear delivery mechanism, the de facto reliance on Whitehall to fill the gaps and little prospect of a resolution in the much-awaited White Paper on devolution, 'levelling up' is likely to be seriously impeded.

2.7 Funding Access, Levels and Duration

The problems here are numerous. First the number of funds: there are at least seven existing spending programmes relating to 'levelling-up'. Second, many of these are subject to bidding rounds. The combination creates short-termism, confusion and uncertainty.

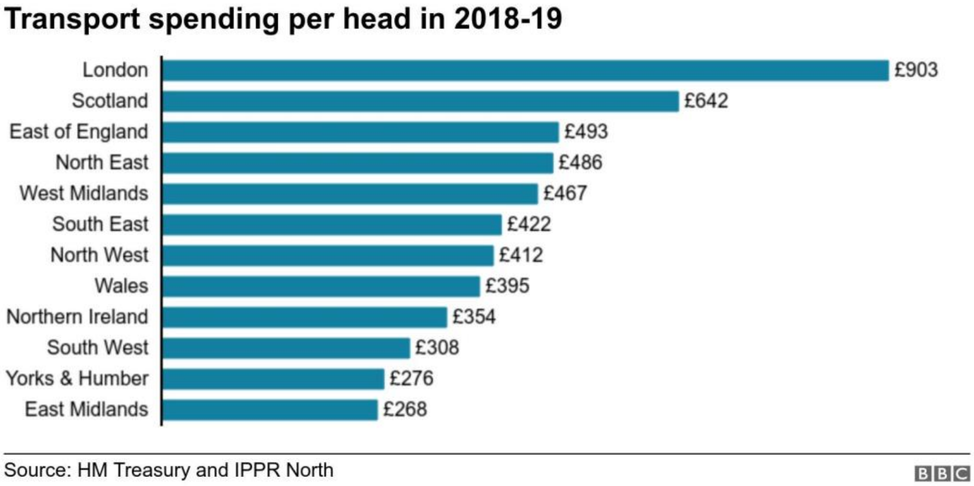
'Processes are wasteful because of time spent bidding, coordinating multiple agencies and duplication. Funds are not spent on what places need: LEPs and local authorities do not bid for what they think is needed but for what they think central government will approve.'
(Achieving Levelling Up: The Structures and Processes Needed. LIPSIT Report 2020).

Finally, there is probably a serious underestimation of the timescale and the quantity of resources which levelling up will require. In terms of timescale the IFS rightly points out:

'The UK's regional inequalities are deep-rooted and complex: even well-designed policies could take years or even decades to have meaningful effects'
(Levelling Up: where and how, IFS Oct 2020).

As for the level of funding? To take transport as an example of one important sector, it has been claimed that it would cost £19bn a year to lift transport spending per head across the U.K. to the level of current spending on London (Levelling up: what might it mean for public spending? Ben Zaranko IFS Observation, 09 Mar 2020) as illustrated by the chart below[22];

[21] Local Enterprise Partnerships, whose place in regional decision making is currently under review.
[22] Source: https://www.bbc.co.uk/news/uk-england-50592261



To expect such a shift of resources would be unreasonable even in the medium term. But even in the short term the regional funds promised fall short of the existing funding streams they are replacing. The Local Growth Fund (£1.5bn a year) ends in March and will be replaced by the £1.3bn annual four-year Levelling Up Fund, with only £600m being spent in 2021. European Funds (mainly ERDF and ESF) to the value of £1.56bn a year will cease and will be replaced by the Shared Prosperity Fund, which, according to the Government will be of equal value. However, it may take a number of years to achieve that level of spend and only £220m has been committed in 2021. ***It does not augur well***.

Section 3 - What are the possible solutions?

Reducing regional disparities poses one of the most intractable problems any government faces and simply recognising the need to address it is a forward step. However, there are serious deficiencies in the approach which commentators, including government supporters, have identified. These are caused by different political priorities pulling in different directions and a basic misunderstanding of the dynamics and of the magnitude of the task.

3.1 Some Principles

3.1.1 You Cannot Level up Everywhere in the UK. You must prioritise.

The first principle is that you cannot *by definition* level up everywhere. There has to be some holding back of the pace of growth in developed areas in order both to redistribute and to prevent an increase in the gap**.** In other words, the government has to acknowledge the centre- periphery pull. If left to the markets alone the centre (London and the South East) will continue to pull unto itself growth which other regions will not be able to match. The classic illustration will be if the Oxford-Milton Keynes-Cambridge Arc takes hold. This will act as a pole of attraction for growth that may not only encourage the South East to pull further away, it may suck out opportunity from the more deprived regions. The Arc and its potential impact should be reviewed. The same can be said in a more time-limited way by the decision to start HS2 in the South, or even by the long-term effect of an HS2 without the feeder routes and a bespoke upgraded Northern Rail Network. Developing satellite connections to regional hubs is as important as the intercity connections themselves. The principle has not been recognised and it will require a good measure of political courage to make future decisions on this basis. This is especially so post-Brexit and post-Covid when the imperative will be to encourage aggregate national growth in order to make up lost ground for total GDP. This, in turn, could well lead to a reversion to the trickle-down approach to wealth transfer that has not worked in the past and is unlikely to work in the future**.**

Finally, the issue of 'Grands Projets'**:** what started as a piece of speculation, the Northern Ireland Fixed Link is now turning into a serious proposition, with a feasibility study recently announced.[23]The cost is mooted at £30bn. It will not be £30bn. It will be hugely more and is already expanding in scale, as such schemes tend to. Moreover, the excitement of such a project will not only take finance from other levelling up schemes when there is insufficient already, it will drain attention and political commitment away from other less glamorous projects and possibly have only marginal benefit. Even if it reaches only proposal stage, the cost of working up the project is likely to be many millions. It should be opposed.

3.1.2 You Can't Help Everywhere

There is a tendency for the government to spread its funding thinly in order to appease as many interests as possible. The Levelling Up Fund split into £20m pots is a classic example and unlikely to have anything but a transient impact.

Moreover, with limited resources, concentration becomes the more important. The IFS Levelling Up Report (p330) highlights an index of 'left behind' areas in Britain most in need. The index tracks four measures - employment, skills, health and pay and is the sort of analysis that could form the basis for concentrated policy.

> ***There should be a particular focus on those areas of concentrated deprivation which also have hinterlands of deprivation***

[23] https://www.bbc.co.uk/news/uk-northern-ireland-56341013

3.1.3 Integrate Initiatives around a Theme and Provide Secure Funding

Physical infrastructure by itself does not create growth. Instead selective and coordinated sector development should be the basis of any regeneration strategy because it provides focus for skills training, transport infrastructure, R & D, finance, land assembly and inward investment activity. It creates clusters and supply chains which all need grooming to provide support. This applies in particular to 'green growth'.

Most areas will have some form of economic development plan, at Local Authority and at LEP level and Combined Authority Level. They are likely to have sectors which they wish to develop. Most will not have the resources to develop those sectors adequately and many will not have integrated them into neighbouring area plans to avoid unnecessary duplication, competition, gaps. Most of these will require some reassessment post-Covid, post-Brexit. Although there is some national direction in support of green energy and particularly wind power, if these strategies are to have any meaning, they need a more stringent national plan which to date has not materialised e.g. AI, battery production, carbon capture, health provision and technology and the Kalifa Fintech Review recommendations for growth centres outside London, laudable as they might be, need to be more than the desk-top exercise that they currently are.

Another danger is that the discordant nature of the approach is likely to be reinforced further by the reliance on bidding as a funding method. Apart from absorbing disproportionate effort, bidding creates arbitrary outcomes. For example, the less well off an area is, because of the pressures on it, the less likely it is to prove competitive in bidding.

The allocation of funding should be based on specific sectors according to a line of best fit between local need, potential, but within a national sector strategy to avoid duplication and gaps and not on the basis of either bids disconnected from a coherent sectoral strategy, or indeed political patronage.

3.1.4 Maintaining and Re-Allocating Mainstream Funding

The value of regeneration initiatives pales into insignificance compared with the value of mainstream funding. Yet the Government is in danger of, with one hand providing relatively limited amounts of regeneration funding, and with the other, taking away mainstream funding.

A ten year trend in which the allocation of local government funding has been based decreasingly on need and increasingly on incentives should be reversed; as should a whole series of other regressive local government financing measures - the Business Rate Retention, New Homes Bonus, Council Tax Support Schemes, all of which have taken £billions of local spending power and economic demand in the most deprived areas.

Cuts 2010-11 to 2021-22[24] by Deprivation Decile

Deprivation Decile	Real Term cut %
Most deprived	-32.2%
2	-30.1%
3	-28.9%
4	-26.5%
5	-23.2%
6	-22.6%
7	-15.0%
8	-16.8%
9	-12.8%
Least deprived	-10.3%

In particular, the New Homes Bonus could be redirected towards areas with low land values and social housing.

The withdrawal of £20 UC uplift disproportionately supporting the least well off areas, would be seriously counterproductive both socially and economically and should not proceed.

The effective real terms cuts in the Government's 'unprotected budgets' of over £30bn should be reviewed as they are both damaging and reliably considered undeliverable.

3.1.5 Education Funding

If there is one single factor that most affects levelling up, it is not Freeports (see later) but education. The Government has given some minor recognition to the problem mainly in the form of laudable but limited, additional expenditure on Further Education. However, there is a total failure to recognise the crucial part mainstream education plays in Levelling Up. It constitutes the major gap in Government thinking, undermining all other policies

The effective redistribution of funding away from disadvantaged zones in current education proposals under the perverse label of 'levelling up' should be phased out.

The Further Education sector requires an overhaul to provide it with resources and status and qualifications on a par with Universities. At present, it is treated as a second-class depository for those who fail to get into university, rather than places where high quality and useful skills are provided in order to support the development of local culture, business and industry. As a result, there is undue emphasis on university as opposed to technical training (which the government understands). This skewed emphasis actually acts to siphon talented young people away from disadvantaged areas.

[24] 2019 upper tier IMD – SIGOMA calculation of cuts from MHCLG CSP tables, counties and district areas combined

If the nation is serious about investment in education there is a case for capitalising the skill element of the expenditure. If machinery and property were the capital of the Victorian era when current accounting conventions were established, then in the 21st century the equivalent is education and skills. Capitalisation would give access to up-front investment with payback in the form of additional productivity. There is no longer any reason to assume that somehow the return from, say transport capital, provides any more of a return than investment in human capital. Indeed, there is precedent for capitalising intangibles with the way R & D investment can be treated (Myths that will Hinder Devolution, Graham Chapman, Municipal Journal,18 June 2015)

3.1.6 Local Spend

Part of the reason for the Government's contradictory funding policy is the failure to appreciate that local economies depend as much on demand as supply, as much on the money circulation in the locality as the production, the benefits of which are often exported out of the area.

There are numerous areas that require attention.

Capital Investment vs Jobs

There is a difficult balance to maintain between productivity and job creation. U.K. productivity is low; employment prior to Covid is high. The danger is that regeneration will in some cases encourage high levels of investment in Artificial Intelligence, infrastructure and robotics that does not spread income laterally into the community. So, ***it is essential that there is not a crude rush for growth on the back of capital investment alone without concern for job creation.***

Local Procurement

There should be strategies to maximise local procurement of mainstream public spending at around the 70% figure, to maximise the economic multiplier within the locality.

Consumer Demand

We have mentioned, in addition to the social damage, the potential damage on demand that the withdrawal of the £20 UC. However, the economic impact of a concentration of low paid workers in left-behind areas may cause further problems coming out of Covid. Low paid workers are more likely to have lost jobs, income and be sick, and we have not yet experienced the fall-out of the furlough scheme*.* ***Unless there are specific measures to maintain consumer demand, not just in the short term but also in the medium term, any benefits of the Government's Shared Prosperity and Levelling Up Funds will be overwhelmed by a slump in demand.***

Pension Funds

The first duty of a pension fund is to provide for the pensions of its members. The income tends to come from three streams - contributions from members, contributions from employers, investment income. There is a case to argue that the capacity of the first two to contribute effectively, to a degree, depends on the health of the local economy and *therefore* ***it is in the interest of pension fund, particularly local government funds, to at least invest a portion of their assets locally***. However, to offset the risk of double jeopardy i.e. the locality is subject to downturn which affects all three streams of contribution, then ***some government guarantee would be required***. To quote one of the few pieces of work in this field, 'In terms of central government, the most urgent priority is the establishment of a genuine, place-based public investment programme by the Treasury, which pension funds can cohere around'. (Localising Pension Fund Investments, Dr. Craig Berry, Sheffield Political Economy Research Institute, June 2018)

Devolved Financing Powers

An increasingly popular proposal by those supporting greater regional development and devolution is to provide local areas with greater tax raising powers, for example total retention of business rates. However, doing so with no ***income 'floors and ceilings' to enable redistribution, would be regressive benefitting those with high tax bases against those who have not***. It is absolutely not a solution to levelling up, quite the opposite.

3.1.7 Long Term Planning

There is a need for a 20-year plan to embed the concept of levelling up into mainstream structures and thinking. Currently the impression is that the Government is responding with a combination of genuine good will and overt political expediency in targeting red wall seats in order to be seen to fulfil promises, and short-termism in order to prepare for the next elections. This means spreading spending thinly in small packages before each set of elections, whilst simultaneously undermining any of the benefits through a withdrawal or stagnation in mainstream funding.

3.2 Some Specifics

3.2.1 HS2

There are serious doubts about the phasing of the eastern leg of HS2. To provide certainty upon which investment can be based, the plans for Northern Powerhouse Rail and for Midlands Connect should be integrated with the plans for HS2, and funding for the projects ring-fenced and programmed. This will allow rail investment in the North and Midlands to be prioritised where it is most needed. There is however, in both cases, much emphasis on intercity connections and insufficient emphasis on feeder lines from towns. When these lines are mooted there is the distinct impression that they are chosen on the basis of political preference rather than on the basis of objective criteria. ***This needs to be addressed***.

3.2.2 Freeports are not 'get-out-of-jail' cards

There is an inevitable scramble for Freeports from airport and port authorities. Their value is unclear. If they are to avoid the problems of predecessors, ***there need to be measures to***

- ***Prevent displacement***
- ***Illustrate clear regeneration benefits***
- ***Minimise fraud and money laundering***
- ***Have a clear sector specific focus which relates to a national strategy***

There needs also to be a recognition that even their success will not provide a panacea and they should not displace attention from less conspicuous but possibly more effective proposals.

3.2.3 Towns and Cities

The most intractable problem for regeneration strategy is how to avoid the imbalance between regions simply being transferred to an imbalance between rural and city, town and city within the region.

There are no easy solutions to this problem. Indeed, The National Infrastructure Strategy, which simply reverts to the Towns Fund and spin-off from Freeports as remedies, perhaps illustrating the paucity of options the government has put on the table.

However, there are packages of measures which can establish some balance

- ***the location of University faculties in towns***
- ***upgrading existing FE facilities and creating new ones where none exist***
- ***ensuring good feeder services into regional transport hubs***
- ***the provision of effective IT***

A post Covid trend of working from home may also help. Spending by former commuters that might have been previously directed to cities, may well be transferred more locally to where they live rather than where they work. In addition, many small towns will have a substantial proportion of European workers, many of whom are returning home. ***The impact of this migration coupled with the post Covid demographic travel-to-work impact requires close monitoring to measure the impact on growth.***

In short, there needs to be a far more thoughtful and intricate approach towards regenerating towns as the current approach is simply not fit for purpose.

3.2.4 Housing

Allocation Bias in Favour of Higher Growth Areas

The Government has the unenviable task of having to resolve two competing pressures, on the one hand providing for housing demand in growth areas and responding to housing investment need in 'left behind' areas. However, given that investment in affordable housing under existing programmes is disproportionately allocated to higher growth areas and that funding for housing infrastructure is also concentrated in growth areas, there has to be a reassessment of the balance of distribution. And this reassessment should also recognise that there are areas around the country where the need is not for new housing but maintenance of existing stock which may be depressing the area.

The Government should therefore abandon the 80:20 rule for Housing Infrastructure Funding and for affordability which in effect directs social housing spending to high growth areas. Instead it should implement criteria which take into account the economic and social multiplier benefits in the locality. There is some movement on this front and we look forward to the result

If the New Homes Bonus is to be preserved, then it should be redirected to areas of low land values and social housing.

Housing Accounting Changes

There are at least three accounting changes which would stimulate housing investment, and particularly social housing provision:

- ***exempting social housing investment from the PSNCR (see below 3.2.6)***
- ***recognition within Green Book assessments of the multiplier effect on aggregate demand in an area i.e. a place-based assessment***
- ***redirection of Housing Allowance into new build (3.2.6 below)***

3.2.5 Accounting and Tax Bias

There are specific and there are general tax and accounting issues necessary to support regeneration.

'There is a large, unjustified and problematic bias against employment and labour incomes and in favour of business ownership and capital incomes' (Taxing Work and Investment across Legal Forms: Pathways to Well-designed Taxes, Stuart Adam and Helen Miller, IFS, Jan 2021).

Examples of this bias include low corporation tax which incentivises dividend distribution as against capital allowance which incentivises investment, and tax relief on borrowing versus penalties for equity investment. There is also the issue of Council Tax and business rates both of which are regressive and create disproportionate and increasing burdens on 'left behind' communities which all negatively affect any 'levelling up' policy**. *Both require either serious reform or abolition to give any chance of success.***

The discount rates applied, the pay-back periods, the failure to account some intangible benefits in the Green Book has been reassessed by the Treasury with positive conclusions. And the Government should be credited for a long overdue review*. **It is now, therefore, important to evaluate application of Green Book reform to see if there is a shift of emphasis towards 'left behind' areas.***

A conclusion in the Centre for Cities Report, Rewriting the Green Book for Levelling Up, (Anthony Breach and Simon Jeffrey, September 2020) is that 'In most local areas, the first priority for investment should not be transport, but skills, housing, or city centre commercial space'. Yet both housing and skills are held back by accounting conventions. We have already proposed capitalising the skills element of education spend.

We have already alluded to the ***strong case for taking public sector housing investment away from PSNCR controls. Instead HM Treasury should move to the internationally accepted general government system of classifying public sector finance, the General Government Financial Deficit (GGFD)***. This would remove local authority housing investment from the national debt, significantly increasing their freedom to borrow against their housing assets to increase supply. Communities and Local Government Committee Written Submission from the Building & Social Housing Foundation Oct 2010.

To maximise the financial benefits it would have to be integrated with the freedom for local authorities to access funding from the Housing Allowance.

3.2.6 Governance

The Government White Paper was due to provide a framework to support levelling up. It now appears that the rolling out of parts of the Levelling Up approach will be decoupled from Governance, which probably means that there will be substantial central control of the process in the interim. However, when proposals are forthcoming, four principles need to be established:

- ***there should be maximum devolution of decision making***
- ***it should be democratically accountable***
- ***devolution of local taxation should not create a regressive system of self-reliance. There must be a substantial redistributive element alongside any incentive mechanisms***
- ***there should be a central framework within which devolution can occur in order to coordinate Whitehall departments and their impact on localities***

3.2.7 Quantum, Duration and Focus

There is a question mark over whether the sums being mooted for levelling up are adequate to the task. The Centre for Cities believes the policy is £100bn short over 10 years simply for the additional investment required by cities outside London (Re-writing the Green Book for Levelling Up, September 2020). It has also already been pointed out that some of the new funding streams announced fall short of current schemes which are being lost (2.2.7).

Moreover, it is worth re-emphasising *that* ***the Levelling Up support currently available and planned is likely to be spread too thinly, too short term, and too exposed to the uncertainty of competition*** whilst Treasury projections imply substantial reductions in some important ‘unprotected departments’, e.g. DWP and MHCLG, whose spending seriously affects left-behind areas.

Summary of Recommendations

1 Principles

There has to be some holding back of the pace of growth in developed areas in order both to redistribute and to prevent an increase in the regional gap. In particular the Oxford-Milton Keynes-Cambridge Arc requires a review in that it poses a pole of attraction which could both displace growth and investment from the Midlands and North and simultaneously pre-empt public funding for those very same areas.

There is a tendency for the government to spread its funding thinly in order to appease as many interests as possible. But with limited resources, concentration becomes the more important. The IFS Levelling Up Report (p330) highlights an index of 'left behind' areas in Britain most in need. There should be a particular focus on those areas of concentrated deprivation and particularly those which also have hinterlands of deprivation.

Selective and coordinated sector development should be the basis of any regeneration strategy because it provides focus for skills training, transport infrastructure, R & D, finance, land assembly and inward investment activity. This should be part of a national sectoral strategy not a series of independent initiatives as is currently the case.

There is a need for a 20-year plan to embed the concept of levelling up into mainstream structures and thinking in order to support a national strategy.

Devolving tax rating powers without imposing income 'floors and ceilings' to enable redistribution, would be regressive benefitting those areas with high tax bases and prejudicing those which have not.

It is essential that there is not a crude rush for growth on the back of capital investment alone without concern for job creation

2 Funding

The allocation of funding should be based on specific sectors according to a line of best fit between local need, potential, but within a national sector strategy to avoid duplication and gaps and not on the basis of either bids disconnected from a coherent sectoral strategy or indeed political patronage

A ten year trend in which the allocation of local government funding has been based less on need and more on incentivisations should be reversed as should a whole series of other regressive local government financing measures - the Business Rates Retention, New Homes Bonus, Council Tax Support Schemes all which have taken £millions out of local spending power and economic demand in the most deprived areas.

The withdrawal of £20 UC uplift disproportionately supporting the least well off areas, would be seriously counterproductive both socially and economically and should not proceed.

The effective redistribution of funding away from disadvantaged zones in current education proposals should be phased out.

Council Tax and business rates both of which are regressive and create disproportionate and increasing burdens on 'left behind' communities require either serious reform or abolition to give any chance of success.

The discount rates applied, the pay back periods, the failure to account some intangible benefits in the Green Book have been reassessed by the Treasury with positive conclusions. It is now important to evaluate its application to see if there is a shift of emphasis towards 'left behind' areas.

The proposed fixed link between GB and Northern Ireland will drain attention, finance and political commitment away from other less glamorous projects and possibly have only marginal benefit. Even if it reaches only proposal stage, the cost of working up the project is likely to be many millions. It should be opposed.

The effective real terms cuts in the Government's 'unprotected budgets' of over £30bn should be reviewed as they are both damaging and reliably considered undeliverable

(See also point 4 Housing, and point 5 Education)

3 Local Economies

Unless there are specific measures to maintain consumer demand not just in the short term but in the medium term any benefits of the Government's Levelling Up policies will be overwhelmed by a slump in demand in those regions.

There should be strategies to maximise local procurement of mainstream public spending at around the 70% figure, to maximise the economic multiplier within the locality.

It is in the interest of pension funds, particularly local government funds, to at least invest a portion of their assets locally; but some government guarantee would be required.

There needs to be a far more thoughtful and intricate approach to regenerating towns as the current approach is simply not fit for purpose.

The impact of Brexit on small towns of loss of European immigrant workers along with the post-Covid demographic impact requires close monitoring to measure the impact on growth. Migration back to Europe could have either a beneficial or negative effect. These effects may be reinforced or countered by changes in work patterns.

There is much emphasis in the National infrastructure Plan on intercity connections and insufficient emphasis on feeder lines from towns. This needs to be addressed.

There are packages of measures which can establish some balance

- **the location of University faculties in towns**
- **upgrading existing FE facilities and creating new ones where none exist**
- **ensuring good feeder services into regional transport hubs**
- **the provision of effective IT**

4 Housing

The Government should abandon the 80:20 rule for Housing Infrastructure Funding and for affordability, which directs social housing spending to high growth areas. Instead it should implement criteria which take into account the multiplier benefits on the locality.

If the New Homes Bonus is to be preserved, then it should be redirected to areas of low land values and social housing.

There are three accounting changes which would stimulate housing investment, and particularly social housing provision:

- **exempting social housing investment from the PSNCR**
- **recognition within Green Book assessments of the multiplier effect on aggregate demand in an area i.e. A place-based assessment**
- **redirection of Housing Allowance into new build**

5 Education

If there is one single factor that has most effect on levelling up, it is mainstream education. If the nation is serious about investment in education there is a case for capitalising the skill element of the expenditure.

The effective redistribution of funding away from disadvantaged zones in current education proposals under the perverse label of 'levelling up' should be phased out.

The Further Education sector requires an overhaul to provide it with resources and status and qualifications on a par with Universities.

6 Freeports

The operation of Freeports should be based on specific sectors according to a line of best fit between local need and potential, but *within a national sector strategy* to avoid duplication and gaps.

Freeports are not 'get-out-of-jail' cards. There needs to be measures to:

- **prevent displacement**
- **illustrate clear regeneration benefits**
- **minimise fraud and money laundering**
- **have clear sector specific focus**

7 Governance

- There should be maximum devolution of decision making
- It should be democratically accountable
- Devolution of local taxation should not create a regressive system of self-reliance. There must be a substantial redistributive element alongside any incentive mechanisms
- There should be a central framework within which devolution can occur in order to coordinate Whitehall departments