

Where next for levelling up?

Five challenges for governments looking to address regional inequality

The promise to 'level up' the country was central to the Conservatives' 2019 manifesto, and was the latest in a long line of government commitments to tackle longstanding regional inequalities. A long-awaited white paper was published in February 2022, but since then progress has stalled, not least due to the political instability caused by changes of political leadership.

Both main UK-wide parties remain committed to addressing regional inequalities. But whoever wins the next election will need to learn lessons from the successes and failures of the levelling up agenda, and its predecessors.

Throughout 2023 the Institute for Government and Policy@Manchester, The University of Manchester's policy engagement institute, held a series of six events exploring the progress of levelling up – and the policy and structural changes needed to make genuine and identifiable progress in reducing regional inequalities.

This short paper highlights five key challenges that any government will need to address if it is to succeed.

1. Delivering consistent and coordinated policy for the long term

Both the Institute for Government¹ and Professor Andy Westwood² have highlighted the excessive churn in regional policy. Several panellists across our events emphasised that a meaningful reduction in regional inequalities will only be achieved by pursuing a set of policies consistently to allow them to take full effect. Adam Hawksbee, deputy director at Onward, noted that "one of the biggest problems with policy churn is that the private sector doesn't know where to put its money because it doesn't know something's going to last for one year, five years or ten years". And Professor Bart Van Ark, managing director of The Productivity Institute, emphasised that policy consistency had been a common feature of successful 'turnaround cities'.³ Policy coordination needs to follow policy consistency, for example by ensuring transport and skills policies are determined jointly in places.⁴

To its credit, the *Levelling Up the United Kingdom* white paper recognised this failing and proposed a set of system reforms to 'rewire Whitehall' and improve policy making.⁵ These reforms were welcomed by the Institute for Government but, as Professor Richard Jones highlighted, a huge amount of political churn has undermined attempts to pursue the white paper's proposals.

The agenda has not retained sufficient political support to drive the white paper's vision of changes in policy making in every government department, and without political focus levelling up will continue to stall. Van Ark argued the UK needed to build an institutional framework that promotes "horizontal coordination" between government departments and better "vertical coordination" with local governments, with the Institute for Government also reaching similar conclusions.⁶ Falling back on 'business as usual' is likely to lead to insufficient coordination, and more policy churn.

2. Resolving the tension between focusing on cities and towns

A key tension in government drives to reduce regional inequalities is whether to focus on the performance of regional cities like Birmingham and Manchester or on smaller towns, some of which have very poor productivity. Several panellists highlighted that regional cities are less productive in the UK than in other countries – Van Ark explained that Amsterdam is 25% more productive than Manchester, a city with a similar sized population – and there was broad agreement, echoing past Institute for Government findings, that the high productivity potential of regional cities' performance meant they were the best route to improving economic performance of regions.⁷

However, Hawksbee highlighted that this approach involved political challenges. Towns with "high-density constituencies vote Labour, low-density constituencies vote Tory, and medium-density ones are swing seats", and a narrative that focuses on cities can sound as if it is ignoring towns. This means politicians need to "tell a story about future economic growth that includes both cities and towns", with councillor Abi Brown emphasising the need for the government's approach to "recognise the difference between areas, and also their opportunities".

3. Getting the devolution settlement in England right

The importance of devolution was a theme across all our events, with widespread agreement that further devolution could lead to better policy making, help to coordinate policies and promote policy longevity. Andy Burnham, mayor of Greater Manchester, argued that he was much better placed to "join the dots between different things" than central government while Van Ark echoed previous Institute for Government work in pointing out that England is an international outlier in not having a "proper middle level of government"⁸ to deliver key economic policies.⁹

With both the current government and Labour committed to expanding devolution across England, our events set out lessons for how devolution should be approached over the next few years.

First, there was clear agreement that future governments should persist with, and expand the role of, existing institutions rather than look to introduce new government tiers. Westwood pointed to consensus across parties about the role of devolved institutions, and particularly mayors and combined authorities, as a reason for optimism after years of churn in regional institutions. Professor Francesca Gains highlighted that existing combined authorities and mayors have been a successful "proof of concept" that could now be rolled out more broadly across the country. Panellists were also supportive of new 'trailblazer' devolution deals agreed with Greater Manchester and the West Midlands.

A second theme was the need to develop a more consistent devolution map. Dr Jack Newman argued that ongoing differences in devolved powers across England meant not all areas benefited from coordinated regional policy, with Van Ark arguing that a more systematic approach should replace “a few regional experiments”. Past Institute for Government work has recommended that governments use a devolution framework with the aim of moving towards a much more uniform set of powers over the coming decade.¹⁰

Finally, panellists emphasised the need for more enhanced accountability. Dr Newman suggested that combined authorities currently have relatively good internal accountability mechanisms, but argued that accountability to the public is lacking, in part due to the confusing map of different policy responsibilities held by different governments in different places. Jen Williams, northern editor at the *Financial Times*, warned that “if you want it [devolution] to work, then you have to be honest with yourself about where the strengths and the weaknesses lie as you go along”.

4. Building strong local institutions

One potential barrier to further devolution across England is a lack of capacity in local institutions, with Institute for Government research highlighting that strong institutions are needed to take on additional responsibilities and capitalise on devolution.¹¹ This was the subject of two events at Conservative and Labour party conferences, with three main takeaways.

First, a lack of institutional capacity should not be used as an excuse by central government not to devolve powers. Panellists emphasised that local government has been hollowed out through funding cuts over the last 15 years, and highlighted that combined authorities were first constituted less than a decade ago. With the right support new institutions can continue to mature.

Second, Akash Paun, programme director at the IfG, set out the importance of a local vision for how devolved powers can strengthen the local area. Local buy-in is key, with Institute for Government work showing the importance of making the case for change, especially where new institutions are being set up as collaborations between existing local authorities, before devolution deals are agreed.

Finally, Andy Westwood emphasised the role that other local institutions, such as universities, colleges and business groups, can play to develop strategy, provide analysis and feed into policy. He pointed to the model in Greater Manchester where universities and business groups in particular are closely engaged with policymakers.

5. Fixing the local government funding system

Alongside the need for more devolution, a new approach is needed to funding projects designed to tackle regional inequalities. As Institute for Government work has shown, the current system of local and combined authorities bidding for multiple short-term funding pots, often for small amounts of money, makes it difficult to develop long-term economic plans and coordinate different policy levers.¹² It is also wasteful, with bid-writing taking up valuable time and money.

The Department for Levelling Up, Housing and Communities has laid out some plans to simplify funding for local authorities,¹³ but it is unclear what they mean in practice. Westwood hailed the potential of new 'single settlements' for Greater Manchester and West Midlands combined authorities included in trailblazer deals, which will provide more flexible funding to both, but this model will not be appropriate everywhere. Both parties have said they are committed to simplifying local government funding, so they will need to identify concrete and practical steps that do this across government.

The other aspect of local funding raised across our events series was the prospect of further devolution of tax to combined authorities. Devolving more tax revenues, even if not control over tax rates, would move England more in line with other countries.¹⁴ Anneliese Dodds MP, chair of the Labour Party, warned that further tax devolution could further exacerbate gaps between prosperous and less prosperous areas, with Andy Westwood noting that "if you give places too much fiscal devolution straight away you basically put them at a disadvantage because they don't have the tax income to spend on the services that do exist, let alone the kind of things that you might want to do".

However, he pointed to other countries where tax devolution can co-exist with relatively high regional inequality through fiscal transfers from richer to poorer areas. The Institute for Government has recommended piloting 'tax sharing' arrangements where tax revenues are devolved without changing tax rates, akin to arrangements in Germany, with some combined authorities.¹⁵

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References

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