



# Time to get serious about Inclusive Growth

A place-based agenda for change

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November 2022

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# About this paper

This paper is being published at a moment when, as Prime Minister Rishi Sunak has said, the UK faces ‘profound economic challenges’. These will be hard times for places throughout the country with renewed pressures on Council budgets, as the demand pressures caused by the cost of living crisis continue to rise. Meanwhile, the viability of many capital projects will be threatened by the rising cost of finance and delivery, at precisely the time when places will sorely need the stimulus these projects could provide. In our view, these compounding factors make it all the more critical for towns and cities not just to focus on confronting their immediate challenges, but to put equal priority on developing a more sustainable and inclusive growth model for their places.

The questions and analysis set out here are drawn from seven years of work in Metro Dynamics and many more before that. As a company we have been and remain at the leading edge of devolution. We provide support to investors and developers in cities. We help the places we work with become more inclusive, more carbon neutral and grow more effectively too. We do research; we develop prospectuses and strategies; we craft narratives and write funding bids; we provide support on diverse projects including on innovation, regeneration, and housing. We support project implementation and undertake evaluation. Our work spans the entire cycle of economic activity in places across the UK in work we do for local and central government, for universities and for business. All of this work informs the content of this paper.

This is the start of a year of work to lead a debate on how the UK can strengthen the role of place in policy setting and delivery. Successive Governments of different political colours have overseen a widening of the spatial inequalities that are such a distinctive and unwanted feature of the UK’s economic geography. Policies have come and gone and the sense of economic, political and environmental permacrisis and flux has deepened. Local leaders and officers have worked tirelessly for their places. As the country faces a period of low growth and inflation, alongside deep concern about the environment, it is more important than ever that we find an approach to inclusive and sustainable growth that actually works for the cities and towns of the UK.

# Summary

Metro Dynamics works up and down the country for councils, combined authorities, investors and developers. All of our work is about helping places to be the best they can be. Devolution has always been core to our work, because of the clear evidence that a centralised approach has overseen a worsening of spatial disparities and inequality across a whole range of economic, social and environmental indicators. Central Government action to “level up” is its necessary corollary, as the new Prime Minister has reconfirmed. The country faces a worsening economic outlook, with low or negative growth and a sustained period of inflation that has hit the worst off the most. Against this background, this paper calls for an approach to growth that is both place focussed and inclusive. Without it the period ahead will further entrench the spatial and social inequalities that are such an unfortunate feature of UK economic geography.

Councils, investors and their partners work flat out to create growth and ensure that people benefit. For those in local government this is getting harder by the year, as their capacity to tackle the challenges their places face diminishes just as the scale and scope of what is needed continues to grow.

Going into the pandemic, one in three households in England had at least one major housing problem relating to overcrowding, affordability or poor-quality housing. These factors increase exposure to poor living conditions, reduce financial resilience, and exacerbated susceptibility to Covid-19 through overcrowding. In 2019/20, the rate of overcrowding in the private and social rented sectors in England was at its highest recorded, with 9% of social renters and 7% of private renters living in overcrowded accommodation. Education and skills, housing, health and wealth are closely interlinked. The estimated impact of social and economic determinants on a person’s health is 50%, whilst poor health outcomes weaken economic growth and prosperity through higher fiscal costs and lost taxes. The size of the prize for health improvement is big – reducing the gap between health outcomes between the North and rest of England alone would generate an extra £13.2bn in GVA (and swell the Government’s tax take by some £5bn).

Central Government policies come and go far too rapidly. Progress is made but not as much as is needed and wanted. At the same time, those representing the interests of places have to work better together, building on the interests that are common to MCAs, Core Cities, Key Cities, districts, towns and counties. Places have to avoid being played off, avoid fighting over the scraps or indulging in arguments about status that masquerade as policy debates.

The constant is the feeling that for all the hard work the people we work with do, they and we are too often forced to be responsive rather than being allowed to take purposeful action to address long term underlying issues. Permacrisis is one of the words of the moment, but the political, policy and funding disruption it describes has been going on for far longer than the last 2 years. What Covid-19 and the likely rapid return to recession has done is show very clearly that, as a nation, the way we approach the creation of inclusive sustainable growth is just not fit for purpose. Most

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of what the country is doing is necessary but it is far from sufficient if we are to fulfil the potential of every town and city in the United Kingdom and the people who live and work in them.

We do not delve here into the commitments of Government or of policy reversals in the autumn of 2022. Our focus is on productivity, growth and inclusion. Average growth of 2.3% in the 40 years to 2004-05 slowed to just 0.7% in the period to 2019-20. Average incomes for the poorest 20% were no higher on the eve of the pandemic than they were back in 2004-05. We need to do much better.

The agenda we propose for place based growth and Levelling Up will need the support of Government and not just Councils, MCAs and businesses. The national building blocks needed have been discussed for a long time and the case for them is as strong as ever; a serious productivity strategy, fair and sufficient funding, and proper devolution. In a period of economic crisis, as we head towards the end of the current Parliament and another General Election, we will explore further how these can enable place-based inclusive growth. But as befits a business that has its head and heart in place, not Whitehall, our primary focus will be on three key issues for towns and cities to which we will return time and again in the months ahead. They are as follows:

### **1. Investment and innovation**

Innovation is one of the UK's competitive advantages, and has played a huge role in the success of some of our high-performing cities and towns. But how, practically, can we foster it? Which investments will help, and which will become white elephants? Which places are well set up for innovative clusters, and how can we ensure the benefits are felt by the people and businesses in those places as well as in surrounding towns?

### **2. Prevention and human capital development**

Particularly in light of Covid-19, many places are now looking at the interface between people-based services and growth. We know that Covid-19 hit some groups harder than others. But what are the practical changes we need to make to deliver improvements in health, housing and skills? How do we establish a clear role for local government in leadership on health improvement, skills and employment? What public service reforms are needed? And how do we work across the system to incentivise prevention and early intervention?

### **3. Adapting to climate change and growing the green economy**

In recent years, many Councils and places have declared climate emergencies, and there is increasing traction on the need for net zero. But funding constraints, lack of new powers to reflect these priorities and a lack of clear follow through from central government has made taking action locally difficult. Too often the displayed preference of Government has been to force local places to treat housing growth, transport infrastructure and business expansion as priorities ahead of climate change and environmental renewal, rather than enabling the incentives and choices locally that would enable all three to drive green growth. How can places achieve their climate ambitions, and develop the skills, businesses and supply chains to grow their green economy? What powers and approaches might enable places to speed up transition to net zero?

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As we have formulated this agenda, the obstacles in addressing it have mounted. The war in Ukraine and its impact on energy prices has compounded the impact of a slowing post-Covid-19 economy. The Government's mini-Budget has served to underline the fragility of the public finances too. In our view, far from being reasons just to focus on short term stability, these challenges make it more important than ever to stand back and understand what needs doing and to assess the best possible ways of getting it done.

# Introduction

“Levelling up” and the search for inclusive, sustainable growth, are the words we use today to describe a longstanding desire for more successful, resilient and cohesive towns and cities in our country. We have made progress in some respects, above all in breathing new life into our great cities. In other respects – the plight of some towns and that of low income groups generally – we have fallen short. And in relation to our natural environment, the more we learn, the more we seem to have failed even to grasp, let alone to rise to, the challenge.

What feels different now is that our society and economy is hitting, at pace, the constraints which have always seemed a safe distance away. The economy is heading into recession, inflation is at a thirty year high, public services and communities are under stress and the cost of living impact is all too real. And all that is before the emergency measures the Government is taking on tax and spending cuts to remedy its mini-Budget. As the new Prime Minister Rishi Sunak says, the UK faces ‘profound’ economic challenges, with an imminent prospect of a return to austerity.

What, as a country, we have done over recent decades has taught us much about how to fix big issues in our places, but we have not made enough progress. As part of our restatement of our mission, this provocation lays the foundation for the important work which lies ahead in the next few years for Metro Dynamics. Its purpose is to set out what we think is important, and to invite others to join us on the journey in discussions over the weeks and months ahead.

## Our system of Governance in Action and Inaction

The Government has already been forced to make two major interventions in the last six months to deal with the terrible effect on households of soaring energy prices.

That they had to act on the scale that they did speaks to the fact that they weren’t dealing with a one-off issue just caused by recent events. They acted because price rises served to highlight the vulnerability of millions of British people. Despite record low unemployment and a rapidly rising minimum wage, confronted with increasing fuel and food prices, millions of Britons faced poverty and some, absolute destitution and will do so again once the temporary relief the Government has announced is withdrawn. Our political economy has failed to sustain a growth model in which work pays for enough people. Too many people live in precarity.

The energy announcements are from a stable of recent policy initiatives each of which demonstrate the breathtaking power of the British state to act in face of pressing need. The vaccines task force ensured we were able to medicate our way out of Covid-19, the furlough programme employed nearly a third of the British population at a few weeks’ notice, and more recently we made available billions of pounds of military hardware to support the government and people of Ukraine. All speak to a

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State that has an ability to act decisively and at speed. The UK and its State can be very good in a crisis. Single-mindedness, identification of a precise problem and a precise solution all play to the strengths of the Whitehall system.

Students of the British state also know that this is its very weakness too. Where problems are multivariate, where the collective action of different parts of Whitehall is needed, where we need to mobilise local and national government with communities and the private sector, the weakness of our governance system is at its most apparent. We have grown up with a generation or more of reports on cross-cutting or joined up government and decentralisation, reviews and white papers, targets and budgets. All have been quietly shelved most without ever having had meaningful effect. Had we been more successful in these endeavours we might have been in a better position to tackle the problems of local and regional inequality. We need to try again. Not least because many of the problems coming down the track are exactly the kind that require a complex and multifaceted response.

As in city regeneration, where our success has been at best partial, different departments of state, under governments of every kind, have found and continue to find meaningful cooperation somewhere between very hard and more-or-less impossible, even as the challenges we face mount. This is the context which creates and sustains the historic and ongoing complexity within which the public sector operates in local places.

## **The challenge and opportunity of inclusive growth**

The fact that some cities and towns are more successful than others isn't just a result of their inherent characteristics as places. The factor endowments and economic histories of places shape them. But in the twenty first century, the potential of places is determined more than anything else by the human capital – the skills and abilities – of the people who live in them.

That is why inclusion matters in our search for making places more successful. The deeper the pool of talent at every level, the more deployable are the skills of the people who live there, the higher the level of labour market attachment, the more likely it is that the place will be able to access higher paid work and the less likely it is that people will be dependent on jobs in the more precarious parts of the labour market. This is the problem for many towns and cities in the UK. There are huge gaps in educational attainment within and between regions. Skills and training opportunities are not helping people move onwards and upwards in the workplace. Apprenticeship starts are declining in our poorest communities. Overall participation rates are too variable and lower than desirable. All of this sustains and is sustained by a preponderance of poor-quality work, housing and ill health. Our growth model is one which is patently not inclusive.



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But more than that, our current growth model isn't as successful as we need in its own terms. One of the reasons is long term lower economic returns from investments in towns. This is the factor which above all hinders investment in them. This is because for many people who live in them, the apartments and houses developers want to build are unaffordable, as are the goods and services provided by the retail and leisure opportunities many towns currently lack. Investing in people and in inclusion makes town and city markets work better by increasing local disposable income. Persistent levels of low pay and precarious employment aren't in the interests of people or business and create negative spirals.

Many of the policy levers for this are and will continue to be exercised at national level – but they aren't working in the ways we need to support our communities. Good education, high quality skills training and support are vital. Otherwise, welfare is a conveyor belt to poor quality work, not an escalator to a higher level of pay, security and well-being.

Local policy has a role to play. One of the most promising areas has been the growth of local employment charters centred on the payment of the Real Living Wage, and the adoption of good practices in employment, spend and supply chains, environment and communities. Amid scepticism from many, these charters have now become commonplace in cities and in companies across the country. They are voluntary and can never therefore cover employers and sectors with the worst employment practices. However, already the Living Wage Foundation estimates that 1 in 13 UK workers now work for a Living Wage Employer. And the pressure from the campaign to link wages to required living standards has driven up statutory minimum wages, pushing more and more people above the Real Living Wage threshold. In 2018, 22.9% of UK jobs were paid below the Real Living Wage. By 2021, this had fallen to 17.1% .

There is and always has been a case for making sure that contracts for publicly funded works have well implemented clauses that specify appropriate use of local labour and local supply chains. The gold plating and mis-application of EU procurement rules by an overzealous procurement culture, encouraged through lobbying by national and international firms, has been a big problem. However, too often these kinds of local contracting approaches have been touted as solutions to our lack of growth rather than contributors alongside a range of other policies. It is time to move beyond this debate and to be clear about ends and means. The end we should focus on is sustainable and inclusive growth and all else are simply possible means of attaining it. Here we need less debate and more purposeful experimentation and evaluation.

We may be at a turning point away from uber-liberalisation. If so, as at any inflexion point, it is important to remember that it is only the downside of the old way of doing things that we need to dispense with, not the stuff that actually works. Better to throw out the bathwater than the baby, and best of all to start with an understanding of which is which.

# Creating sustainable growth

The renewal of our towns and cities requires more than increased social inclusion, vital though that is. It requires the demand side of our local economies to play its role in driving inclusive growth through the creation of new high quality and secure jobs. But on a rough measure of productivity (GDP per head) every region has performed worse relative to London over the past twenty years – creating ever bigger “output gaps” with the capital.

Councils and their partners across the country are doing their level best on growth policy, as they are on social inclusion. There are great examples of city leaders delivering change on a large scale. But Councils are often doing so without control or influence over the necessary budgets, with declining funding where they do have influence, and a set of powers that do not reflect the current challenges of energy, housing, transport and digital connectivity and environmental damage. Declining budgets have also severely reduced the technical and managerial capacity available, at the same time as the complexity of the challenges have increased. There are two quite different areas of policy where a more sustained policy direction by Government has begun to make a difference, and both serve to illustrate the point. Firstly, on research and development spending the commitment to raise overall investment has driven stronger public, private and academic partnerships and investment locally, and not just in city centres. Secondly, in health and care, where increasingly local integration efforts have been tolerated and even encouraged, as the national system has increasingly recognised it simply does not have the funding to drive a top down approach.

This is one of the reasons, though not the only one, why as a country we have found ourselves in a series of sterile debates about the tensions between towns, cities and rural communities which have obscured the real issues. In most of the countries in the world, cities are the engines of wider growth. Here, after generations of failure some of our cities and larger towns are succeeding again. In most, strong local leadership is finally beginning to create economic momentum, which is delivering jobs and increased prosperity for those places and the areas around them. Many towns, once labelled as just places from which people commuted have become highly successful centres of employment, as digital networks and supply chains, working from home and alterations to the commuter based model have changed how many of us work and how many businesses operate.

There are therefore three areas where there are grounds for believing that we can make progress:

- investment and innovation,
- human capital development and prevention policy,
- adaption to climate change and growing the green economy.

# Innovation and investment

Innovation – the application of new ideas to economic life – is as close as we have to a national shared economic idea. We know that innovation drives growth and that the more successful parts of our economy are more innovative. They have more knowledge driven firms, sustained by and sustaining university research. They are talent magnets and fountains, drawing talented people to the place and enriching the area with the skills of those who live and work there. At their heart, innovative places have strong networks and partnerships between the city, universities and businesses, such as the Cambridge Angels and the Newcastle Helix. Creating innovative clusters through innovation districts is a sound policy as we argued in Place Matters. Tackling the environmental challenges we face and continuing to thrive will only be achieved through radical and sustained innovation.

Innovation districts will not work everywhere – particularly in places where the knowledge engine of the innovative private sector and/or a research-intensive university is missing. But for many towns and cities, investment in knowledge assets – above all in the private sector – to drive innovation, is a potentially powerful stimulus to growth. The policy needs to be hard-headed, and it needs to be aligned with the real economy of local places, not just catalysing the commercialisation of cutting edge research through successful spin offs, but also driving innovation in SME supply chains and in the foundation economy. As achieving growth becomes even more difficult in the short term, the incentives to get this policy right are clear.

As a country we know a lot about physical investment in regeneration. We have poured a great deal of concrete into British cities these last decades. If that alone fixed economies, we would be in a better place. But, on its own, it doesn't. That is why the smart money is on looking at how investment in physical investment works with the grain of places. In housing, there is a growing appreciation of how a new housing offer, alongside transport, leisure and cultural investment can help to shape a place, reduce carbon emissions and resource use and bring in people to live in the less developed parts of towns and cities and at the same time broadening the offer to people who already live in them. The challenge is to find approaches that work outside the really big cities. Too few private investors are yet to sign up for this, and too few Councils put the hard yards into thinking through how they might pull this off.

Almost without exception, regeneration is delivered through a public procurement process which squeezes value out of deals in the wrong areas, creating upfront costs for bidders, incentivising cost saving and value engineering over long term value creation. We need to think how we hardwire better social and economic outcomes into investment and regeneration projects both in their design and delivery, linking together physical and human capital development. This has as particular resonance at present as a result of Covid-19, which has changed how we work, seemingly for good, and requires a response from the property and transport sectors as well as businesses themselves .

The most innovative and creative places have learned how to use public funds in a creative way to invest in regeneration. Using public funds judiciously to underwrite risk

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where needed, rather than just through old fashioned gap funding. The problem is the capacity crunch, means that the skillsets Councils need to be smart investors are thinner on the ground. There are some good examples of successful, sustainable and additive local investment activity that are worth reflecting on. Greater Manchester has a dedicated investment team with specialist fund managers procured. The Combined Authority contributes funding to projects only where there is a market gap to fill, and largely as repayable loans, and makes sure that schemes complement public sector programmes. The team is self-funding and generates a surplus to be re-invested. Similar approaches are being developed across the country, with a recent Metro Dynamics report from the Impact Investing Institute and Lloyds Bank setting out a useful framework for such place-based impact investing. Other cities like Birmingham, and the North of Tyne Combined Authority are also developing innovative approaches to inclusive investment and regeneration. And last year the Core and Key Cities published a report on the Future of Urban Centres post pandemic that called for city investment to be shaped by new citizen, investor and civic partnerships with shared inclusive and sustainable development goals.

## Human capital development and prevention policy

There is a paradox at the heart of current UK policy. Unemployment is at the lowest level it has been since 1974. Our flexible labour market has weathered Covid-19 reasonably well. We have had a rapidly rising minimum wage. Auto-enrolment in pensions mean that more employees are starting to save for old age. And yet there is a crisis in our social safety net the effect of which is to trap a large part of the population, excluding them from fulfilling their economic potential.

Education results are still socially polarised with youngsters from poorer areas often failing to achieve high grades. Low achievement in schools is holding people back and where this is so, it is something that has intergenerational characteristics. It is spatially concentrated and getting worse according to recent government data. Attainment in reading fell from 62 per cent to 51 per cent among seven-year-old pupils from a disadvantaged background last academic year, compared with 78 per cent to 72 per cent for more affluent students .

The system that for generations was supposed to train those who don't go into Higher Education isn't working either. The initial expansion of 'modern' apprenticeships has gone from offering cheap labour to becoming captured by the middle classes as quality rose and numbers fell off with apprentices as likely to come from rich as poor areas . As apprenticeships have gone upmarket, the qualifications needed to enter them, good GCSEs in STEM subjects have risen too. This plays into manifest long term educational inequality as the LSE Resolution Foundation Inquiry has found.

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**“In 2012, England had the highest proportion of 16-19-year-olds that attained low scores in literacy in the OECD, and the second highest share (behind the US) that attained low scores in numeracy... the gap in numeracy skills between 16-20-year-olds who do not have a parent that attained an upper-secondary qualification (A-level equivalent) and those that did (approximately -60 points) is the third largest in the OECD, with England performing worse than countries including the US (-40 points) and Australia (-35 points).**

The effect of starkly differentiated educational outcomes is felt for those who end up in the bottom of the labour market and the places they live in. The poor quality work that arises from a lack of educational attainment is closely linked to poor health. Hardly surprising with Statutory Sick Pay at just £99.30 a week, the only support available for around a quarter of the workforce when they fall ill.

Unsurprisingly, many people in this kind of labour market vulnerability live in the poorest housing. The Covid-19 pandemic revealed stark differences in the health of the working age population. Those younger than 65 in the poorest 10% of areas in England were almost four times more likely to die from Covid-19 than those in the wealthiest. Going into the pandemic, one in three households in England had at least one major housing problem relating to overcrowding, affordability or poor-quality housing. These factors increase exposure to poor living conditions, reduce financial resilience, and exacerbated susceptibility to COVID-19 through overcrowding. In 2019/20, the rate of overcrowding in the private and social rented sectors in England was at its highest recorded, with 9% of social renters and 7% of private renters living in overcrowded accommodation. Household size increases the risk of Covid-19 infection and mortality, with one study finding that household size increased the odds of a positive test by 9%. Another study found that households with nine or more residents had more than five times the risk of deaths compared with single-occupant households.

In other words, education and skills, housing, health and wealth are closely interlinked. The estimated impact of social and economic determinants on a person's health is 50%, whilst poor health outcomes weaken economic growth and prosperity through higher fiscal costs and lost taxes. The size of the prize for health improvement is big – reducing the gap between health outcomes between the North and rest of England alone would generate an extra £13.2bn in GVA (and swell the Government's tax take by some £5bn).

Human capital development starts with effective prevention, intervening systematically and early to support vulnerable families and children, improving school readiness, and social and economic outcomes across the life cycle. We know from our work that place-based partnerships are convening at the local level to actively think through how to integrate education, inclusion, health and economic strategy. Some of these interlinked challenges between poor health, labour market participation and wages cannot exclusively be tackled at a place level, but conversely place strategies need to focus on these issues head on. And they need to start with a frank assessment of the picture in each place and what it might take to make material changes in patterns of educational, housing, work and health inequality. To do otherwise means continuing to

accept an economic, social and institutional settlement that is damaging people, places and our country.

# Climate adaptation and growing the green economy

The climate change crisis requires action beyond penny packet schemes nationally and declarations of crises locally. Concerted intergovernmental action, billions of pounds, the detailed application of project management across wide-ranging programmes delivered long term will be needed to protect our coastlines, to make our towns and cities resilient, and to ensure, in a more unstable global world, that we are able to feed ourselves.

The warnings from climate scientists could not be clearer: action is needed now. Already we have warnings from the Environment Agency that some towns in low-lying areas may have to be abandoned as the measures required to prevent flooding are simply impractical. In 2022 drought has had a marked effect on our ability to grow crops such as potatoes and cauliflowers. In urban areas, a toxic combination of air pollution from cars and higher temperatures are causing thousands of excess deaths. As well as all of this being hugely damaging in its own right, it threatens to further increase inequality – with those better off more able to protect themselves from climate change's worst effects.

This requires local authorities to respond where they are – insulating the housing stock, installing electrical vehicle charging points, working with businesses to decarbonise operations, planting trees, and heavily investing to create public transport that works not just as well as, but better than, the car.

In some of these areas more powers and support are needed. The ability to franchise buses to improve public transport is not taken up in most of the UK and is legally very challenging. Markets do not yet adequately support residents to improve insulation on their properties and there is little financial incentive for local authorities to help – sustaining momentum and delivery progress currently requires highly targeted local effort and ringfenced resourcing, for example through the West Midlands net zero neighbourhood schemes.

It also means grasping the opportunity of new green technologies. In Hull, the development of Siemens wind turbine blade plants has created 1,000 jobs – with plans to expand further. In Blyth, BritishVolt's plans for a gigawatt factory have the potential to create new employment opportunities in an area where highly skilled jobs have been in short supply.

But we have further to go. Much of our housing stock is Victorian and some later housing is also badly prepared for the climate challenges ahead. The low hanging fruit of loft insulation needs to be replaced by wholesale programmes of domestic retrofitting with the twin goals of reducing fuel bills and carbon emissions. Well worked up proposals for local retrofit should be part of the next series of devolution

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deals. The three cities retrofit plan in the West Midlands is a prime example, building on and expanding existing local business expertise. Central Government should be prepared to provide the seed funding required, without constraining local delivery or insisting on a nationally replicable approach. Other countries are attacking this issue locally with determination and imagination. The UK needs to pick a number of places to prove the principle of large-scale development and deployment of a viable local model.

## **You can't drain an ocean with a teaspoon – getting serious as a Nation**

The truth is that we could do everything written in this paper and achieve much less than we need to if places try to make the journey to success alone. We will fail if we don't face up to the scale of the challenge nationally. The Levelling Up White Paper was intellectually honest about this. Where it has fallen short, where every previous attempt has also fallen short, is in the ability of our State, its politics, and our business community to will the means to achieve the stated goals.

The forces of change we are up against are very strong indeed. And no, there aren't any easy answers. Post-Covid-19 trade disruptions create stronger headwinds. The Russian War in Ukraine makes the climate even more challenging. And all of this in the context of Brexit, which is having significant near term impacts on trade and labour.

Whilst the state of the economy and public finances may constrain what can be done in the short term, there is nothing to stop us working through how we plan to take the issues discussed in this paper more seriously, to create plans and to start to implement them.

Other jurisdictions, most notably Germany post reunification, have taken the issue of levelling up very seriously indeed. One estimate by the Centre for Cities costed the work needed in the UK to achieve what the Germans have post reunification (in bringing living standards in the East up towards those found in the West) at somewhere in the region of £2 trillion.

If we want our country to succeed, if we want levelling up, inclusion and sustainability, we need not look far. We can build on the purposeful national action we have seen, above all over Covid-19 vaccines and furlough. We can build on the work we've started in our towns and cities, and we can look to one of the biggest experiments in the building of a strong and unified country in one of our nearest neighbours. If we do that, we will finally be getting serious.

The UK is still one of the most centralised countries in the developed world. So the approach we set out here will only deliver its full potential with a substantial shift in policy from Government. The agenda for a place based model of Growth and Levelling

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Up needs national support. Its success will depend on the foundations that can be established through three critical national building blocks:

- Productivity – Long term strategy for productivity, trade and competitiveness;
- Funding – Long term and fair funding for Levelling up;
- Devolution – Consistent and settled framework for devolution.

## Productivity, trade and competitiveness

The UK has a major productivity problem. It is now 14 years since the financial crash, but in that period the trend rate of productivity growth has been stagnant. Even the modest economic growth we have had, has tended to be the result of more hours worked than of increases in GVA per hour. That is why average earnings have failed to rise, and why we now lag so far behind many other European economies when it comes to average and lower quintile earnings. This long term trend has been compounded by the effect of Brexit. Our whole economy has become less trade intensive, with both imports and exports falling, the latter by 19% in goods and 5-10% in services. Business investment has fallen, perhaps by 5% and according to modelling for a major ongoing Commission “labour productivity will be reduced by 1.3 per cent by the end of the decade by the changes in trading rules alone. This will contribute to weaker wage growth, with real pay set to be £470 per worker lower each year, on average, than it would otherwise have been” .

In addition to a stable fiscal framework, we need a long term strategy to raise productivity, and boost competitiveness and trade. It doesn't matter whether this is called an Industrial Strategy, a Global UK Strategy or a Growth strategy, what matters is that it is serious. The new Prime Minister is right to focus on skills, but we have heard this so often before, without seeing the funding and long term commitment that will make a reality of this promise. A major drive to improve skills that matches the priority that the Blair Government attached to getting 50% of school leavers to go to University is what is required. This emphasis on skills and human capital development needs to be linked to an industrial policy that supports innovation and competitiveness in the supply chains of our key growth sectors, and which plans for decarbonisation in a way the UK failed to do a generation ago on deindustrialisation.

We also need a renewed commitment to infrastructure investment that can accelerate agglomeration benefits, particularly between our great northern cities, with full funding for the Northern Powerhouse Rail plan. And all this should to be supported by a serious commitment to boosting export led growth, through a trade strategy that moves on from Brexit, creating better trade cooperation both with our European partners, and with world markets.



# Long term and fair funding for Levelling Up

Two of the major constraints on any programme of concerted action to deal with the issues raised in this paper are funding and the willingness or otherwise of the population to engage with the issues raised. Levelling Up requires both fair and substantial funding. The signs from Government have not been promising, the reappointed Levelling Up Secretary Michael Gove failed to convince the then Chancellor Rishi Sunak to commit substantial new investment to his White Paper plans earlier in 2022. Faced with a severe economic and fiscal crisis now that Sunak is PM there are probably even fewer grounds for optimism on this front. Yet the politics of the Red Wall seats, and public opinion both point to the need for a long term investment strategy for Levelling Up. In the short term, making local government once again bear the brunt of austerity would badly undermine the credibility of Levelling Up. As a recent CPP report shows much of the pain from this would be felt by local authorities in Red Wall Seats (Local authority vulnerability to rising cost of living)

Helpfully, the first ever survey has been undertaken on this issue offering some very important insights. The research finds support for redistribution from better off to worse off areas. Though politically contested, it is a widely held view across the country. The same survey finds that over half the population may think that their area gets less spending and investment than deserved – particularly in the north of England. Whilst the survey shows that people are proud about where they live, most people think that their area provides less opportunities for young people and fewer good jobs than elsewhere. This latter point is acute outside cities and cosmopolitan neighbourhoods in towns and in rural areas.

Perhaps most importantly, the research suggests that views are changing on what is needed for the future. The survey shows that people do not want past industries to return but want something to replace them to give back to their place a sense of purpose. Perhaps surprisingly, crime rates and transport seem to feature most prominently as does housing. People also tend to want decisions on local funding made using a needs based approach with no ministerial discretion. If that reflects a concern with national politics, there is also frustration with local leadership such as councils and Metro Mayors.

That sense that people express in less well to do parts of the country, that other places have got a better deal, is pervasive. Is it based on facts? The outcomes data cited above suggests the outcomes are different. What about inputs in the form of public spending? Helpfully, as we completed this paper the Institute for Fiscal Studies has just issued a major report on exactly this issue . They conclude as follows: “overall, we find that while funding systems for some services are coherent and well designed (such as the main NHS funding allocations) or have improved in recent years (such as schools), others need significant reform (such as for police, local government and public health services). During the 2010s, changes to funding allocations often worked to exacerbate rather than reduce geographic inequalities, with higher-needs, more-deprived areas seeing bigger cuts to funding”.

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When it comes to local government, the findings are quite stark. Everywhere has seen spending fall but: “areas with relatively high per-capita assessed needs received much larger per-capita funding cuts between 2013–14 and 2019–20. On average, the tenth of areas with the highest per-capita population-adjusted assessed spending needs in 2019–20 had faced a 23% real-terms cut in their per-capita funding. The tenth of areas that were ‘least needy’ on the same measure faced much smaller cuts of 7% on average”.

This isn’t just a matter of fairness. They go on: “The continued use of spending needs assessments based on out- of-date data, and the ad hoc way differences in revenue-raising capacity have been taken into account, mean that the funding system has become increasingly unfair and arbitrary over time”.

Putting these two sets of data together one reasonable conclusion is that our system of allocating funding to meet the basic needs of the population, traditionally rooted in an assessment of what is needed has become less robust and less fair and that the people of the country are noticing. If our objective is to get serious about fixing these problems this isn’t just about the amount of money we spend, it is about ensuring it gets to the right places, in the right way, to deliver change on the ground.

## Completing the Devolution framework

Over the last seven years there has been an important shift towards devolution in England, through the establishment of Mayoral Combined Authorities. These now largely cover our large urban conurbations. But there is still much more to do to deliver the full potential of devolution. And not just through a cookie cutter one size fits all approach. Devolution is critical to Levelling Up because it can give places more of the powers they need to shape their own economic and social future and respond to a set of challenges for which current powers have been shown to be inadequate. That means it should also be relevant to neighbourhoods, through community empowerment, and towns and other areas through other forms of greater local control. The Convention of the North has offered to work with Government to deliver Levelling Up, because the scale of ambition implied by this agenda can only be achieved through a partnership between Ministers, Mayors, Business and local Leaders. Convention of the North Levelling Up Offer.

Now that the architect of the Levelling Up White Paper is back as Levelling Up Secretary, the devolution which that paper and the subsequent draft legislation promised, needs to be delivered. That means completing the devolution deals already signed or negotiated including the East Midlands, North Yorkshire and the North East, and then moving on to the County Deals that have been promised for the rest of England. Devolution should be a process that benefits every area of the country. This is critical because in too many areas LEPs have been left in limbo, just when partnership based local economic development and business support will be more needed than

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ever. Moving to a clearer system of partnership based integrated civic and business economic leadership is an urgent priority, as the UK heads back into recession.

Government should see the new devolved structure as a critical system change that requires a new partnership between Whitehall and places on investment, innovation, human capital development and green growth. Cities, MCAs, London Councils and the Key Cities are already working together to drive ambitious investment plans for decarbonisation, through the 3ci initiative. They know very well that a strong country is one in which there is a system of cities working in collaboration to respond to the great challenges and opportunities of our times. Government should support and encourage this partnership, including with investors. By making a clear commitment to this kind of specific place based platform, Government could enable a rapid increase in local effort and show quick progress on the theme in the Prime Minister's COP 27 speech. The Trailblazer Devolution Deals for the West Midlands and Greater Manchester will also have an important role to play here, foreshadowing the next phase of devolution, with more powers and investment levers on skills, infrastructure and regeneration and public service reform. They should then be the catalysts for deeper devolution to enable places to shape their own approaches to inclusive growth with single pot multi-year funding settlements, and the ability to fund investment through the proceeds of future growth, including land value capture.

## Next steps for getting serious

Over the next 12 months, we will understand and get to grips with the issues explored in this paper. We will develop short and concise provocation papers to help stimulate discussion through a series of roundtables with senior place leaders, policy thinkers and decision makers. The papers will draw on our experience as a business working around the UK on how to address these challenges and opportunities at a place-level and will set out practical actions for places to take forward to deliver change and develop more inclusive and sustainable economies.

In a period of economic crisis, as we head towards the end of the current Parliament and another General Election, we will explore further how the national building blocks that we set out, of productivity strategy, fair and sufficient funding, and devolution, can support the three key issues we have highlighted for place based growth and Levelling Up. As befits a business that has its head and heart in place, not Whitehall, our primary focus will be on developing the three place priorities we have set out in this paper:

### **1. Investment and innovation**

Innovation is one of the UK's competitive advantages, and has played a huge role in the success of some of our high-performing cities and towns. But how, practically, can we foster it? Which investments will help, and which will become white elephants? Which places are well set up for innovative clusters, and how can we ensure the benefits are felt by the people in those places as well as in surrounding towns?

### **2. Prevention and human capital development**

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Particularly in light of Covid-19, many places are now looking at the interface between people based services and growth. We know that Covid-19 hit some groups harder than others. But what are the practical changes we need to make to deliver improvements in health, housing and skills? How do we establish a clear role for local government in leadership on health improvement, skills and employment? What public service reforms are needed? And how do we work across the system to incentivise prevention and early intervention?

### **3. Adapting to climate change and growing the green economy**

In recent years, many Councils and places have declared climate emergencies, and there is increasing traction on the need for net zero. But moving from theory to practice is hard. How can places achieve their climate ambitions? Do they have the levers and tools necessary? What powers might enable places to speed up transition to net zero?

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At Metro Dynamics, we **care** about places, our clients, and our colleagues.

We are an **independent** organisation, **curious** about our work, and **collaborative** in our approach. We strive to **make a difference** in all that we do.

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