# rebalancing the economy: prospects for the North

## report of the 'fair deal for the North' inquiry undertaken by the Smith Institute

By Michael Ward

THE SMITH INSTITUTE

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*We both want to build a new economy from the rubble of the old. We will support sustainable growth and enterprise, balanced across all regions and all industries.*

David Cameron and Nick Clegg, in the Coalition agreement, May 2010

**Disclaimer**
This report has been prepared by Michael Ward for the Smith Institute. The Smith Institute is an independent think tank, which provides a high-level forum for thought leadership and debate on public policy and politics.

The report is based on research and discussions at a series of round tables in Northern cities in the winter of 2010/11. The round tables brought together business, civic leaders academics and other stakeholders from the Northern regions.

The project was sponsored by PwC, and advised and supported by Professor John Tomaney of the Centre for Urban & Regional Development Studies at Newcastle University.

The report is published by the Smith Institute as a contribution to public debate. It does not necessarily represent the collective view of the Institute, PwC or Newcastle University.

**Biographical note**
Michael Ward is a Smith Institute research fellow.

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Since leaving the LDA in 2004, he has worked for a number of regeneration organisations, and now operates as an independent consultant. Since 2009 he has chaired the board of CLES.

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## Foreword

This report represents the outcome of the "Fair Deal for the North" inquiry, which was established by the Smith Institute in the autumn of 2010 in the wake of the new government's spending review and the Coalition agreement to "rebalance the UK economy". Our aim was threefold: to evaluate success and failure of previous policy interventions to promote jobs and growth in the three Northern regions of England; to better understand the impacts (intended and unintended) of the government's policies on the North; and, most importantly, to look ahead at what policy options are realistically on offer to the North.

The inquiry and report takes forward the Smith Institute's longstanding work on regional policy. It also complements other projects the Institute is currently undertaking, such as our work on local financing and tackling poverty and inequality.

As a London-based think tank, we knew that we must look beyond the Westminster bubble and capture the mood and ideas of key players in the North. As such, the inquiry was informed by six high-level round-table meetings: in Liverpool, Hull, Manchester, Sheffield, Leeds (where we ran two discussions) and Newcastle. These events provided both helpful evidence and first-rate suggestions.

In total more than 150 people from across the public, private and third sectors participated in the round-table discussions, including chief executives, university vice-chancellors, council leaders, policy makers, journalists, trade union officers, and representatives of voluntary and community organisations. In addition, many organisations took the trouble to send us background policy papers and information on the work of their organisations and the problems of their areas.

The inquiry was led by Michael Ward, a research fellow of the Smith Institute and a distinguished expert and practitioner on economic development. Michael has written an excellent report, which is balanced, insightful and challenging. We are very grateful for his efforts.

We are also grateful to Professor John Tomaney and his colleagues at Newcastle University's Centre for Urban & Regional Development Studies, who supported the project and provided helpful advice.

The institute was fortunate in securing sponsorship for this inquiry from PwC, a major employer in the North and a supporter of forward-looking independent projects of this kind. Particular thanks go to Roger Marsh and Stuart Howie from PwC's Leeds office. Their combined input and enthusiasm has been invaluable.

We would also like to place on record our thanks to everyone who has contributed to this inquiry, and to assure them and our readers that they are not responsible for any errors of fact in the report, nor any misinterpretations or misunderstandings of their position, nor above all for any recommendations with which they may disagree.

*Paul Hackett*
*Somerset House*
*March 2011*

# Executive summary

## Executive summary

- The Smith Institute, in association with PwC and Newcastle University, undertook the "Fair Deal for the North" Inquiry in the autumn of 2010 and early 2011. The Inquiry included six high-level round tables involving 150 key stakeholders in the North, which has helped shape our report and recommendations.

- The Inquiry and this report examined past and present actions to reduce the (longstanding) inequalities between the three Northern regions and the South of England. In particular, the work focused on the Coalition's pledge to rebalance the economy and what more could be done to improve performance in the North.

- The Coalition states that the North/South divide is an oversimplification. It is true that there are inequalities within as well as between regions. Not all affluent places are in the South, nor all poor places in the North. But the evidence in this report shows that there remains a deep, long-term, continuing divergence between the North (the three Northern English regions – the North East, the North West, and Yorkshire & Humber) and the Greater South East (the East of England, London, and the South East).

- Indeed, in the current economic climate the gap between and within regions is likely to widen, with serious economic and social consequences. In particular, analysis by PwC of the Spending Review indicates that the North will be disproportionately hit by spending cuts and job losses. The Coalition's hope that private-sector growth will fully compensate looks unlikely.

- This report evaluates the successes and failures of regional policies since the 1930s. It shows that while previous regional polices for the North had mixed results in terms of narrowing the regional divide, the evidence taken from the Inquiry suggests that government doing less will likely make the position worse.

- Those attending our Inquiry argued that the Coalition is not supporting its declared aim of rebalancing with adequate institutional arrangements or money. Rebalancing without adequate resources in support is, in the views of those consulted, a recipe for failure.

- Ministers dispute the need for a proactive regional policy or strong government intervention. They rely on a new orthodoxy, working on a purely local level through local partnerships with limited resources.

- The policy approach thus far appears to our Inquiry to have been spatially blind , with priority given to abolishing existing delivery structures (such as regional development agencies, RDAs) and budget cuts to local government.

- The government has begun to close down the RDAs (and the regional government office network) well before the network of local enterprise partnerships (LEPs) are up and running. This hiatus is likely to undermine existing regeneration activity and create greater uncertainty.

- The Coalition is believed by our Inquiry to have overstated the case against the RDAs, and failed to build on their successes. The North is likely to suffer disproportionately from the closure of its three RDAs. The new Regional Growth Fund is limited and (together with the LEPs) will not offset the loss of funds and support from the RDAs.

- Our Inquiry suggests that many of the Coalition's policies, including the New Homes Bonus and impending reforms to the business rate, are likely to favour the South over the North. Recent spending decisions in key areas, like science and technology, appear to show a strong Southern bias.

- This report recognises the success of the North's key city regions as motors for economic development and local growth, and argues that there is room for strong city regions in strong regions. However, city regions by themselves do not address the deep-rooted problems of isolated industrial communities.

- The report calls for greater support for declining industrial areas, including: new Grants for Business Investment schemes; a new job creation programme aimed at Incapacity Benefit claimants; and more relocation of public-sector jobs to the North (for instance, the head offices of the new Big Society Bank and Green Infrastructure Bank should be located in the North).

- The report recommends that the three Northern regions should take the initiative with business, universities, and the community and voluntary sector in establishing a new, strategic advocacy body for the North – 'a Council of the North' – to argue the North's case in Westminster and Brussels. The new "voice for the North" could also provide independent research and develop a clear Northern brand.

- Local planning authorities in the three Northern regions should work together, initially on a non statutory basis, to develop a strategic plan for the North, covering key housing and employment developments, infrastructure and skills (similar to the London Plan).

- Business and local government should actively support the emergence of a range of different financial sources for infrastructure development, including consideration of a Northern infrastructure fund.

- The report calls for a Northern perspective on the High Speed 2 rail project and raises the question of whether links across and within the North would offer better (and quicker) value. There is a need for an integrated transport plan for the North, which includes the "Northern Hub".

- The report calls on government to: properly fund the LEPs; ensure the LEP network effectively covers the whole of the North; enable the LEPs to benefit from new funding tools, such as tax increment financing (TIF) schemes; and give the LEPs a defined role in skills support.

- The report presents the case for a reassessment of the Barnett formula, which governs allocation of finances within the UK, so as to ensure a fair deal for the North. Every area should receive an allocation based on need.

- The report points out that there has not been a major review of governance in England since before devolution was introduced for Scotland, Wales and Northern Ireland. It is time to answer the "English Question".

- All governments talk about growth. They also talk about sustainability, but rarely in the same breath. New arrangements for economic recovery in the North will need to ensure that local growth and local sustainability are properly reconciled.

- The report calls for a new political consensus on supporting the North. Rebalancing demands resources, policies and partnerships for the long term. Successful interventions demand greater synchronisation between the political/ policy cycles and the business/development cycles.

- Without a fairer allocation of resources, stronger delivery structures, and a lasting commitment to tackling interregional disparities, the prospects for the North look worryingly bleak.

# 1. Introduction

# 1. Introduction

There can be no doubt about the Coalition government's commitment to rebalancing the economy. The Coalition agreement states:

*We want to create a fairer and more balanced economy, where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries.*

In Coalition documents, the word "balance" is used in three senses – to mean balance as between sectors; balance as between regions or places; and (less frequently) balance as between export-oriented activity and other types of business.

This report is concerned with the second of these three senses: spatial rebalancing. In particular, will Coalition policies redress the balance of economic activity in favour of the three Northern English regions?

This Coalition aspiration was restated by Nick Clegg in a speech in Rotherham in February 2011:

*But we also need to ensure that economic growth is not lopsided in terms of geography. The regional inequalities running like scars across our country are not only socially damaging, they are economically destabilising. The old economy was regionally unbalanced: in the decade up to 2008, for every private sector job created in the Midlands and the North, ten were created in London and the South. So:*

*We have created a £1.4 billion Regional Growth Fund, specifically tasked with stimulating sustainable private sector growth, particularly in those regions most dependent on the public sector;*

*We are working with the Devolved Administrations to promote growth across the UK and, where appropriate, transfer power of economic issues, such as within the Scotland Bill;*

*We are establishing local enterprise partnerships that will bring together local business and civic leaders to take forward economic policy in their area; and*

*We are giving localities and communities greater freedoms to deliver what they want and conducting a Local Government Resource Review to examine how we can incentivise local growth.*[1]

The objective of rebalancing is not a new one: a later chapter traces its origins to the beginnings of regional policy in the 1930s; and to a greater or lesser extent most governments since 1945 have been committed to it.

And yet the objective of rebalancing has never been achieved: the map of regions whose development is lagging remains substantially unchanged. Coalition ministers point out, reasonably, that rebalancing was not achieved under New Labour; neither, however, was it achieved under their predecessors.

**Table 1.1: Key facts on the Northern regions**

| | North East | North West | Yorkshire and the Humber |
|---|---|---|---|
| Population (millions) | 2.6 | 6.9 | 5.2 |
| Five A*-C GCSEs including English and mathematics (UK average 47.7%) | 44.9% | 47.4% | 44.4% |
| Unemployment rate (UK average 7.8%) | 9.3% | 8.5% | 7.8% |
| GVA per head | £15,900 | £17,555 | £17,100 |
| GVA (UK average = 100) | 77.6 | 85.7 | 83.5 |
| Percentage of UK GVA | 3% | 10% | 7% |
| Productivity (GVA per hour worked) (UK=100) | 90 | 88 | 89 |

Notes: Population at mid-2008; GCSE grades from 2007/08; unemployment at fourth quarter of 2009; GVA figures from 2008.

Source: Office for National Statistics

In the post-war period powerful economic trends have served to reinforce the concentration and centralisation of economic power and activity in London and the Greater South East.

These include:

- the continuing decline of the older manufacturing industries;
- the growth of the service sector; and
- the deregulation of the City of London after 1986, along with London's consolidation as a world financial centre.

Whatever (and despite) the overt spatial or regional policy of national governments, there has been a steady flow of people, and particularly of skilled people, into London and its surrounding area.

Nevertheless, governments have persisted in the search for the elusive grail of economic rebalancing. No government could simply write off large parts of its territory, explicitly consigning those areas to long-term decline. And although it is always hard to prove a negative, it seems reasonable to conclude that economic and social conditions in the North would be worse if governments had not made continual efforts to redress the economic balance.

1 Cabinet Office website, 4 February 2011

But if the objective of bringing about a new balance has been more or less constant, the intensity with which the aim was pursued has certainly varied. The focus of policy has changed over time, from redistributing existing economic activity to promoting indigenous growth.

The latest phase of regional policy is now ending, with the institutional and budget changes introduced by the Coalition in its early months. This provides an opportunity to re-examine policy, raising questions about policy choices for the future:

- What do local government and business need to do now to advance the interests of the North?

- Can the new policies and structures deliver for the North?

- What should a new regional policy look like?

- How should we deal with the difficult issues: resources and taxation, governance and structures, and sustainability?

This report addresses these questions in its concluding chapters.

If the Coalition is serious about rebalancing, then past experience of spatial economic policies suggests that some of the changes introduced will be directly counterproductive:

- abolition of strategic planning – except in London;
- abolition of the regional development agencies, with the consequent loss of their expertise and knowledge base;
- creation of weak local enterprise partnerships, with few resources and little executive capacity; and
- drastic cutting of budgets for regional investment.

In particular, trying to run a rebalancing policy with only a small and reducing budget is at best counterintuitive, if not simply self-contradictory. Cutting funds and projects designed to promote growth and skills in lagging regions is unlikely to promote a new balance. Indeed, against the backdrop of fiscal austerity and slow growth, there is a case for greater intervention and more, rather than less, resources for the most vulnerable areas in the North. Without robust and sustainable action to support growth in the three Northern regions, there is a real risk that the economic divide will widen both between North and South and within the Northern regions.

In the Coalition agreement, there are three guiding principles: deficit reduction, localism and rebalancing. Too often, rebalancing loses out.

In the Coalition fairytale, rebalancing is the third sister, who doesn't get to go to the ball.

The Coalition government's commitment to rebalancing might be seen as a nostalgic throwback to an earlier age, incompatible with a worldview in which strong places take all, and weaker communities go to the wall. After all, does it really matter if the North declines? Does it matter if more and more people flock to the Greater South East?

It matters – for long-term environmental reasons, and short-term political ones.

Researchers for the government's Foresight programme have looked at long-term land use issues in the context of global warming and environmental change. Their report raises serious questions about the sustainability of existing patterns of land use in the South East, particularly in relation to water supply and floodplain development.

And Coalition housing policies are likely to lead to reduced house-building in the South East. By dismantling regional spatial strategies with their housing targets, and decentralising planning to a very local level, the Coalition is making it harder for developers to build in the South East.

# 2. Why the North still matters

## 2. Why the North still matters

This report is concerned with the three Northern English regions. It is sometimes suggested that disparities within regions are at least as important as disparities between them.

Tony Blair said in 1999 that the North/South divide was "an oversimplistic explanation of the problems that regional economies face".[2]

The Department for Business, Innovation & Skills' economics paper issued in support of the local growth white paper states:

*... there are significant and growing differences in economic performance which are much more complex than the traditional generalisation of a north-south divide. Although the South East and in particular London have consistently grown at faster rates than the rest of the country in recent years, performance over local areas varies considerably.*[3]

It is certainly the case that there are wide variations in performance within regions. But there is an underlying, long-term gap between the performance of the regional economies in the three Northern English regions and the Greater South East. There is a particular concentration of prosperous areas from central London outwards to the west in a broad crescent .

Alongside the variations in economic performance, there are variations in unemployment and employment. These are not now as stark as the variations in performance – in part because of issues about the way unemployment and employment are defined and measured, in part because of the complex and sometimes paradoxical qualities of London's labour market.

The measure used to illustrate subnational economic performance in the working paper is gross value added (GVA) per head. GVA measures the contribution to the economy of each individual producer, industry or sector in the UK.

Table 2.1 compares per capita GVA in the North and the South over a 20-year period.

The table shows that, over the 20 years 1989-2009, relative per capita GVA has:

- risen steadily in London;
- remained more or less static in the East and South East of England; and
- fallen slightly in each of the three Northern regions.

At the regional level, therefore, clear differences in economic performance have persisted over the past 20 years and the gap has widened.

It is, however, argued by the critics of the regional approach that variations at subregional level are important. The Office for National Statistics, following European practice, collects and publishes statistics at two subregional levels:

- NUTS 2 – more or less equivalent to counties; and
- NUTS 3 – city/district level.

**Table 2.1: GVA per head indices by region, 1989-2009**

| UK = 100 | 1989 | 1999 | 2000 | 2005 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **UK** | 100 | 100 | 100 | 100 | 100 | 100 |
| **Northern regions** | | | | | | |
| **North East** | 83.4 | 78.1 | 77.8 | 78.4 | 77.6 | 78.2 |
| **North West** | 91.3 | 88.2 | 88.0 | 86.1 | 85.7 | 86.4 |
| **Yorks & Humber** | 89.5 | 87.3 | 87.1 | 85.0 | 83.5 | 82.9 |
| **Greater South East** | | | | | | |
| **East of England** | 95.3 | 94.0 | 93.7 | 95.4 | 94.3 | 93.1 |
| **London** | 156.9 | 160.7 | 160.3 | 164.2 | 170.9 | 171.2 |
| **South East** | 100.2 | 106.8 | 107.7 | 107.7 | 105.6 | 104.7 |

Source: Office for National Statistics

The most recent year for which NUTS 2 level data is available is 2008.

Table 2.2 shows performance for NUTS 2 areas for the three Northern regions and the Greater South East. The table demonstrates that, in the period 1989-2008, only one subregion in the North exceeded the UK average, and that was Cheshire, in the North West. The index for Cheshire stood at 112.8 in 1989, falling to 107.6 in 2008.

In the Greater South East, four subregions were above the national average throughout the period:

- Bedfordshire and Hertfordshire;
- Inner London;
- Berkshire, Buckinghamshire and Oxfordshire; and
- Surrey and Sussex.

A fifth subregion in the Greater South East – Hampshire and the Isle of Wight – reached the national average in 2008.

At the next NUTS level, level 3, among the 30 geographical areas in the three Northern regions, five were above the average throughout the period. They were:

- Halton and Warrington (North West);
- Cheshire (North West);
- Greater Manchester South (North West);
- York (Yorks & Humber);
- Leeds (Yorks & Humber).

2 BBC News, 6 December 1999
3 BIS Economics *Understanding Local Growth*, working paper no 7 (2010)

**Table 2.2: Per capita GVA by region, 1995-2008**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| UK | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| England | 101.8 | 102.0 | 102.2 | 102.4 | 102.6 | 102.6 | 102.3 | 102.2 | 102.0 | 101.9 | 101.9 | 101.9 | 101.8 | 102.0 |
| **Northern regions** | | | | | | | | | | | | | | |
| **North East** | 82.9 | 81.6 | 80.3 | 79.1 | 78.1 | 77.8 | 77.9 | 77.7 | 77.9 | 78.1 | 78.4 | 78.3 | 77.8 | 77.6 |
| Tees Valley & Durham | 82.8 | 80.7 | 78.7 | 76.4 | 74.6 | 73.3 | 72.2 | 70.8 | 70.5 | 70.5 | 70.7 | 70.5 | 70.0 | 70.0 |
| Northumberland & Tyne | 83.0 | 82.2 | 81.7 | 81.3 | 80.9 | 81.5 | 82.6 | 83.3 | 83.9 | 84.2 | 84.7 | 84.7 | 84.2 | 83.9 |
| **North West** | 90.2 | 89.3 | 88.7 | 88.3 | 88.2 | 88.0 | 88.0 | 87.5 | 86.9 | 86.4 | 86.1 | 85.6 | 85.5 | 85.7 |
| Cumbria | 91.6 | 89.8 | 85.4 | 81.9 | 76.6 | 75.7 | 74.2 | 73.4 | 73.3 | 73.6 | 73.9 | 75.2 | 76.3 | 77.3 |
| Cheshire | 112.8 | 112.0 | 112.2 | 111.7 | 111.6 | 111.0 | 110.7 | 109.6 | 108.4 | 107.7 | 107.3 | 107.3 | 107.6 | 107.8 |
| Greater Manchester | 92.7 | 92.4 | 92.5 | 92.9 | 93.4 | 93.4 | 93.3 | 92.7 | 92.3 | 92.0 | 91.7 | 90.7 | 90.2 | 90.1 |
| Lancashire | 88.7 | 86.8 | 84.5 | 83.0 | 82.6 | 82.6 | 82.7 | 82.0 | 81.0 | 80.3 | 79.8 | 79.1 | 78.8 | 78.7 |
| Merseyside | 71.0 | 70.7 | 70.7 | 70.9 | 71.1 | 71.4 | 72.1 | 72.7 | 72.5 | 71.6 | 71.3 | 70.8 | 70.9 | 71.6 |
| **Yorks & Humber** | 89.0 | 89.1 | 88.9 | 88.2 | 87.3 | 87.1 | 87.1 | 86.9 | 86.5 | 85.9 | 85.0 | 84.2 | 83.9 | 83.5 |
| East Yorks/North Lincs | 92.7 | 91.9 | 89.6 | 86.0 | 82.4 | 81.5 | 81.3 | 81.2 | 80.6 | 80.2 | 79.1 | 78.2 | 77.9 | 77.1 |
| North Yorkshire | 93.8 | 93.6 | 92.6 | 91.3 | 90.3 | 90.2 | 90.5 | 91.0 | 90.8 | 90.4 | 88.5 | 88.1 | 88.7 | 88.8 |
| South Yorkshire | 74.6 | 74.8 | 75.0 | 75.2 | 74.4 | 74.5 | 74.9 | 75.4 | 75.9 | 76.2 | 76.5 | 76.3 | 76.1 | 75.9 |
| West Yorkshire | 94.7 | 95.1 | 95.8 | 96.1 | 96.3 | 96.1 | 95.7 | 94.7 | 93.9 | 92.5 | 91.3 | 90.1 | 89.4 | 88.7 |
| **Greater South East** | | | | | | | | | | | | | | |
| **East of England** | 95.5 | 95.2 | 94.7 | 94.5 | 94.0 | 93.7 | 93.8 | 93.7 | 94.2 | 95.1 | 95.4 | 95.7 | 95.5 | 94.3 |
| East Anglia | 96.1 | 94.9 | 92.7 | 90.8 | 89.5 | 88.9 | 89.4 | 89.7 | 90.3 | 91.6 | 92.2 | 93.3 | 93.4 | 92.7 |
| Beds & Herts | 106.4 | 107.2 | 108.6 | 111.1 | 111.8 | 112.6 | 112.1 | 110.7 | 110.4 | 111.0 | 110.9 | 110.2 | 109.5 | 107.8 |
| Essex | 83.8 | 83.5 | 83.6 | 83.1 | 82.2 | 81.6 | 81.7 | 82.4 | 83.4 | 84.2 | 84.5 | 84.7 | 84.5 | 83.3 |
| **London** | 152.7 | 154.4 | 156.5 | 158.6 | 160.7 | 160.3 | 159.2 | 160.7 | 162.0 | 163.1 | 164.2 | 166.1 | 168.4 | 170.9 |
| Inner London | 247.7 | 252.4 | 256.6 | 259.3 | 263.3 | 261.0 | 261.6 | 268.2 | 272.4 | 274.1 | 276.4 | 282.0 | 288.2 | 295.4 |
| Outer London | 94.5 | 94.1 | 94.8 | 96.4 | 96.6 | 96.6 | 93.5 | 91.5 | 90.7 | 91.3 | 91.3 | 90.6 | 91.1 | 89.5 |
| **South East** | 102.4 | 102.9 | 103.8 | 105.6 | 108.8 | 107.7 | 108.5 | 108.3 | 108.2 | 108.0 | 107.7 | 107.2 | 106.3 | 105.8 |
| Berks, Bucks, Oxon | 123.1 | 123.8 | 126.3 | 131.9 | 135.4 | 137.4 | 138.1 | 137.8 | 138.2 | 138.4 | 137.5 | 136.0 | 134.2 | 132.9 |
| Surrey & Sussex | 103.0 | 104.0 | 104.7 | 105.5 | 106.4 | 107.9 | 109.1 | 108.8 | 107.4 | 106.2 | 105.1 | 104.5 | 103.7 | 103.0 |
| Hants & Isle of Wight | 94.8 | 95.4 | 95.9 | 96.6 | 96.3 | 96.3 | 96.9 | 97.2 | 97.5 | 98.0 | 98.7 | 99.7 | 99.7 | 99.4 |
| Kent | 82.8 | 82.0 | 81.1 | 80.8 | 80.9 | 80.8 | 81.2 | 81.2 | 81.6 | 82.2 | 82.4 | 81.8 | 80.9 | 80.1 |

Estimates of workplace-based GVA allocate income to the region in which the economic activity takes place.

Source: Office for National Statistics

None of these five relatively prosperous areas is in the North East.

Of 29 areas in the South East, 17 consistently had per capita GVA levels above the national average.

These statistics make it clear that there exists a concentration of relative economic underperformance across the three Northern regions, and a concentration of prosperity in parts of the Greater South East.

Like all generalisations, this does not mean that everywhere is the same. The Isle of Wight, in the South East, is as poor as South Yorkshire or Merseyside. Kent and Essex do not perform as strongly as their counterparts to the West of London. Several Northern cities – above all, Manchester, Leeds and York – have performed strongly.

Variations in regional employment and unemployment rates are less sharp than the variations in productivity and performance. Table 2.3 gives regional unemployment rates for the end of 2010:

**Table 2.3: Unemployment by region in late 2010**
*International Labour Organization figures for Sep-Nov 2010*

| | Total unemployed | Rate (%) |
|---|---|---|
| **Northern regions** | | |
| North East | 120,000 | 9.6 |
| North West | 260,000 | 7.6 |
| Yorkshire & Humber | 241,000 | 9.2 |
| **Greater South East** | | |
| East | 199,000 | 6.6 |
| London | 382,000 | 9.2 |
| South East | 273,000 | 6.1 |
| **England** | 2,084,000 | 7.8 |

Source: Labour Force Survey; Office for National Statistics

While the rates of unemployment in the East of England and the South East are significantly lower than in the Northern regions, London's rate is not. London is a strange, complicated, contradictory place, with a uniquely strong, world-facing economy (GVA per capita for Inner London West in 2008 was 488.4, and for Inner London East, 151.0), alongside great poverty and unemployment. It is as if a large, poor town cohabited uneasily with a large, rich town.

The Greater South East also has relatively high skill levels, as shown in table 2.4.

The strongest economic performance in the country is concentrated around the City, the West End, the Heathrow Corridor, the Thames Valley, the academic Golden Triangle of Oxford, Cambridge and London, and the affluent dormitory towns that lie in a crescent around the west side of London.

This concentration is illustrated by looking at the urban travel-to-work areas (TTWAs) with the highest proportion of employment

**Table 2.4: Regional skills partnerships core indicators**

| | North East | North West | Yorks & Humber | East | London | South East | England |
|---|---|---|---|---|---|---|---|
| **Skill outcome indicator (%)** | | | | | | | |
| Pupils getting 5+ A*-C GCSEs (2007/08) | 44.9 | 47.4 | 44.4 | 50.3 | 50.6 | 51.7 | 47.6 |
| Age 19 to pension age with no qualifications (2007) | 13.4 | 14.5 | 14.0 | 11.9 | 12.4 | 9.2 | 12.5 |
| Age 19 to pension age with level 4 (degree) or higher (2007) | 25.9 | 27.1 | 25.4 | 27.7 | 39.4 | 32.9 | 30.2 |

Source: Office for National Statistics

in key industries. Table 2.5 looks at employment in three such sectors:

- creative industries;
- high-tech industries; and
- knowledge-intensive industries.

As the table shows, all the top travel-to-work areas for creative industries except Bristol were in the Greater South East. For high-tech industries, seven of the 10 were in the Greater South East; the only one in the North is Preston. (It is interesting to note that Preston owes its high-tech strengths to early government regional policy – in the late 1930s and 1940s, governments were concerned to establish aircraft manufacturing in areas beyond the range of enemy bombers). And while Manchester figures in the list of TTWAs with the greatest strength in knowledge-intensive business services, eight of the other nine are in the Greater South East.

There is a similar pattern in the concentration of jobs in banking and business services. Table 2.6 shows the 24 travel-to-work areas with above-average concentrations in banking and business services.

The table shows the strong performance of Manchester and Leeds in attracting and consolidating financial services jobs, with Warrington coming in right on the national average. But the list is again dominated by the Greater South East and the M4 Corridor.

A great divide remains between the economic performance of the three regions clustered around London, and the three Northern regions. The difference is clear at the level of the regions and very clear when the arc of prosperity to the west of London is compared with the North. The great Northern cities have done well: in attracting investment, in renewing their central areas, and in turning round decline. The three Northern regional development agencies supported and funded some of that transformation. But the divide remains a reality.

**Table 2.5: Top 10 travel-to-work areas (TTWAs) for jobs in key sectors, 2008**
*As percentage of total employees*

| Creative industries | | High-tech industries | | Knowledge-intensive business services | |
|---|---|---|---|---|---|
| TTWA | Rate (%) | TTWA | Rate (%) | TTWA | Rate (%) |
| Reading & Bracknell | 15.7 | Preston | 11.8 | Reading & Bracknell | 24.5 |
| Guildford & Aldershot | 14.0 | Cambridge | 10.5 | Guildford & Aldershot | 21.8 |
| Milton Keynes & Aylesbury | 10.1 | Derby | 8.5 | Cambridge | 17.5 |
| London | 10.1 | Guildford & Aldershot | 6.1 | Milton Keynes & Aylesbury | 16.1 |
| Oxford | 9.0 | Reading & Bracknell | 5.8 | London | 14.7 |
| Cambridge | 8.9 | Oxford | 5.4 | Oxford | 14.1 |
| Worthing | 7.8 | Portsmouth | 5.0 | Luton & Watford | 12.5 |
| Southamp-ton | 7.2 | Crawley | 4.6 | Manchester | 11.7 |
| Bristol | 6.9 | Worthing | 4.5 | Bristol | 11.1 |
| Brighton | 6.9 | Swindon | 4.5 | Worthing | 10.8 |
| England | 4.3 | England | 1.9 | England | 7.1 |

Source: Department for Communities & Local Governent *Updating the Evidence Base on English Cities: Final Report* (2011)

**Table 2.6: Jobs concentration in banking and business services, 2008**
*By travel-to-work area (TTWA) and location quotient (LQ)*

| TTWA | LQ | TTWA | LQ |
|---|---|---|---|
| Reading & Bracknell | 1.79 | Portsmouth | 1.18 |
| London | 1.69 | Peterborough | 1.18 |
| Guildford & Aldershot | 1.58 | Southampton | 1.17 |
| Bristol | 1.38 | Oxford | 1.16 |
| Leeds | 1.38 | Norwich | 1.13 |
| Luton & Watford | 1.37 | Southend & Brentwood | 1.13 |
| Milton Keynes & Aylesbury | 1.36 | Swindon | 1.13 |
| Manchester | 1.33 | Bournemouth | 1.13 |
| Crawley | 1.26 | Nottingham | 1.11 |
| Northampton & Wellingborough | 1.25 | Worthing | 1.10 |
| Cambridge | 1.22 | Ipswich | 1.02 |
| Brighton | 1.21 | Warrington & Wigan | 1.00 |

Location quotient = the concentration of employment in the sector compared with the English average. Numbers above 1 denote a higher concentration than average.

Source: Department for Communities & Local Governent *Updating the Evidence Base on English Cities: Final Report* (2011)

# 3. Previous policies for the North: 1930-1997

## 3. Previous policies for the North: 1930-1997

### 3.1 The objective of balance

The Coalition government, having committed itself to rebalancing the economy in the May 2010 Coalition agreement, restated the objective in the October 2010 local growth white paper:

*We must rebalance our economy, ensuring that growth is spread and prosperity shared.*[4]

As noted earlier, the word "rebalancing" in these texts is used in two senses: as between economic sectors, and as between places. Sometimes the reference to sectors is more pointed:

*Governments of the past have contented themselves with growth concentrated heavily in some areas of the country but not others, and within a limited number of sectors – notably, financial services.*[5]

Occasionally, a third sense is used – the need to rebalance economic activity in favour of export-oriented activity.

This report is concerned with spatial rebalancing, and, in particular, the prospects for the three Northern English regions: the North East, the North West, and Yorkshire & the Humber.

Spatial rebalancing of the economy is not a new aspiration for government. The origins of British regional policy lie in the experience of mass unemployment in the traditional industrial regions between the First and Second World Wars. Rising public concern with the problems of the "distressed areas" led in 1939 to the appointment of the Barlow Commission on the Distribution of the Industrial Population.

The resulting Barlow report[6] highlighted the concentration of economic growth in the South East: between 1932 and 1937 …

*… the one unmistakeable modern trend which has emerged is the great drift of population from the North and West towards the South-East.*

*Of the net increase of 644 during the years in question in the number of factories in Great Britain employing 25 or more persons, no less than 532, or five-sixths, were located in Greater London. In addition, nearly one-third of the extensions to existing factories were in Greater London.*[7]

Barlow recommended the establishment of a central authority concerned with industrial location, whose terms of reference would include:

*… encouragement of a reasonable balance of industrial development, so far as possible, throughout the various divisions or regions of Great Britain …*[8]

As Beveridge pointed out, unemployment "melted away" in wartime conditions. Action on Barlow's recommendations had to wait for plans for post-war reconstruction. In its 1944 employment white paper,[9] the wartime Coalition accepted as one of its primary aims and responsibilities "the maintenance of a high and stable level of employment after the war".

The white paper stated:

*It will be an object of Government policy to secure a balanced industrial development in areas which have in the past been unduly dependent on industries specially vulnerable to unemployment.*

The commitment to balance was accepted by subsequent governments. The Labour government of 1945 to 1951 established statutory industrial location policies; balance remained the policy of Conservative governments between 1951 and 1964. Home secretary Henry Brooke addressed the following comment to Harold Macmillan in 1962:

*If we do not regard it as a major Government responsibility to take this situation in hand and prevent Two Nations developing geographically, a poor North and a rich and overcrowded South, I am sure our successors will reproach us as we reproach the Victorians for complacency about slums and ugliness.*[10]

After the election of the Wilson government in 1964, the junior minister for regional policy at the Department of Economic Affairs, Bill Rodgers, told a Town & Country Planning Association conference:

*Policies to secure a better balance between different regions are at the heart of the whole process of economic growth.*[11]

In 1972, a Department of Trade & Industry official reviewed the experience of location of industry policy since 1945, and concluded:

*The main objective of the distribution of industry policy which has been followed by successive administrations may therefore be said to be the promotion of a more balanced distribution of economic activity throughout the country.*[12]

Even the Thatcher government, in one of its rare policy statements on regional issues, talked of balance, while stressing social rather than economic factors:

*Although an economic case for regional industrial development may still be made … the case for continuing the policy now is primarily a social one, with the aim of reducing, on a stable, long-term basis, regional imbalances in employment opportunities.*[13]

4 Nick Clegg, in: DBIS *Local Growth: Realising Every Place's Potential*, Cm 7961 (2010)
5 Clegg, in op cit
6 HM Government *Report of the Royal Commission on the Distribution of the Industrial Population*, Cmd 6153 (1940)
7 Op cit, para 344
8 Op cit, para 428
9 Ministry of Reconstruction *Employment Policy*, Cm 6527 (1944)
10 Henry Brooke to Harold Macmillan, 22 October 1962, in PREM 11 4519
11 National Archives "Speech to the Town & Country Planning Association", 2 December 1964: EW/7/35
12 National Archives "Distribution of Industry Policy" in BT 177/2349
13 *Regional Industrial Development*, Cmnd 9111 (1983)

**3.2 The means to the end**
While the objective of rebalancing remained constant, the policy instruments evolved over the years. The 1944 employment white paper proposed to "attack the problems of local unemployment" in three ways:

> *(a) By so influencing the location of new enterprises as to diversify the industrial composition of areas which are particularly vulnerable to unemployment.*
> *(b) By removing obstacles to the transfer of workers from one area to another, and from one occupation to another.*
> *(c) By providing training facilities to fit workers from declining industries for jobs in expanding industries.*[14]

In practice, from the start, the focus was on the first of these three means. Neither labour mobility nor retraining received as much support.

Policy was always focused on defined geographical areas:

| | |
|---|---|
| 1930s | *Special areas*<br>West Cumberland; Durham and North East coast |
| 1945-70 | *Development areas*<br>Initially larger areas of Cumberland and the North East; gradually extended to cover more of the North East and North West, with some coverage in South West |
| 1973- | *Assisted areas*<br>Much of the the North East, North West, Yorkshire & the Humber; some coverage in the South West and Midlands |

The main powers the government took after 1945 were to control new industrial building by means of a system of industrial development certificates, and to build new advance factories and trading estates. Firms were strongly discouraged from building new factories in or around London, and steered towards the declining regions.

Later legislation provided for loans and grants to firms building new premises in the designated areas, as well as tax allowances, and rent-free periods for firms occupying government-provided factories.

The policy was to take work to people: as a draft civil service paper in 1965 stated:

*The main objective of present policy is to take work to the workers by encouraging industrial expansion in places where unemployment is heaviest. A second aim is to restrain expansion in places where this would lead to excessive pressure on labour and other resources.*[15]

The policy was top down, and it did not change the regional balance of economic activity. But it was not without positive benefit. An internal account of the policy, prepared by the Department of Trade & Industry in 1970, concluded:

*The industrial structure of the assisted areas has been substantially diversified. New plants opened in the development areas between 1945-1965 by firms based elsewhere had provided nearly half a million jobs in 1966, and Government built factories now provide some 60 million square feet of floor space and jobs for 275,000 workers.*[16]

**3.3 The elusive goal**
Despite the long-term political consensus on rebalancing, the goal appeared to be beyond the reach of successive governments. Speaking to the Town & Country Planning Association in 1964, regions minister Bill Rodgers said:

*We are still coming to terms with the same problems that faced us when Barlow wrote his report 25 years ago.*[17]

And in 1969 an academic commentator wrote:

*Regional policy has now been in operation for over thirty years; yet regional differences still remain and the problem regions are approximately the same as in 1934.*[18]

While successive governments have been committed to the concept of "balance", they have had neither the capacity nor the desire to limit the growth of the Greater South East. Population and jobs in the outer South East have grown steadily since 1945. London's population declined, from a 1938 peak of 8.6 million, to a low point of 6.8 million in 1983. But from the mid 1980s it has grown steadily, and is forecast to exceed the pre-war level in the next decade.

For the first 30 years after the war, national policies of redressing regional imbalances were complemented by measures to restrain London's growth. Patrick Abercrombie's 1943 County of London Plan assumed dispersal of people and jobs from London. The London ring of new towns, built in the late 1940s and 1950s, was built for this purpose. And in 1964 the incoming Labour government legislated to ban office development in London (and Birmingham).

From the 1970s, these policies were gradually dismantled. The 1977 inner cities white paper[19] drew attention to economic decline, physical decay and social disadvantage in the inner cities. Arguing that the aim of reducing overcrowding had largely been achieved, the white paper suggested that it was time to …

*… change the thrust of the policies which have existed large scale decentralisation and in course of time to stem the decline, achieve a more balanced structure of jobs and population within our cities, and create healthier economies.*[20]

14 Cmnd 6527 (1944)
15 National Archives, BT177/2207
16 National Archives, BT177/2349
17 Speech to the Town & Country Planning Association, 2 December 1964
18 McCrone, G *Regional Policy in Britain* (1969)
19 Department for the Environment *Policy for the Inner Cities*, Cmnd 6845 (1977)
20 Ibid

Of course, these changes did not apply just to London. But it was in London that their effects were felt most quickly.

The Abercrombie Plan gave way to the Greater London Development Plan, which in turn withered with the abolition of the Greater London Council in 1986. But in 2000, with the establishment of the new London mayoralty, London gained a new strategic planning framework, in the form of the Spatial Development Strategy, subsequently known as the London Plan. This was to be a 15- to 20-year framework for London's economic, social and environmental development.

Research undertaken as the first London Plan was being drafted confirmed the dramatic increases in population and employment in London. In an explicit rejection of past dispersal policies, the plan proposed an approach based on accepting the fact of London's growth, and investing in housing and infrastructure to cope with that growth. Successive mayors and government of different parties have accepted this approach. The decisions on London's growth are effectively delegated to London, but with government funding the infrastructure.

# 4. The North under New Labour

## 4. The North under New Labour

### 4.1 The coming of the regional development agencies

When New Labour came to power in May 1997, it was committed to the establishment of regional development agencies (RDAs) – to delivering interventionist economic programmes at a regional level. The commitment had two origins: a belief that, if political devolution in Scotland and Wales was going to be introduced, then something should be done for the English regions, and for the North in particular; and strong support for investment to compensate for the economic decline of the North and its traditional industries. Regional policy should be delivered in and by the regions, not from Whitehall.

While Labour was in opposition, the case for regions was championed by the deputy leader of the party, John Prescott (who was also spokesperson on regional issues from 1983), and by Richard Caborn, who chaired the select committee on trade and industry. An independent commission, chaired by former European commissioner Bruce Millan – who had earlier, as Scottish secretary, established the Scottish Development Agency – drew up a detailed blueprint for the RDAs, contained in the Regional Policy Commission Report in 1996. After the election, the Treasury also took a keen interest in the establishment and work of the RDAs, seeing them as the means to deliver on national objectives on the ground.

After the 1997 election, the new government moved rapidly to implement the Millan proposals, legislating in 1998 for the first eight RDAs (London's RDA was established later, along with the London mayoralty). An early decision was taken to stick with the existing government regional office boundaries. The eight RDAs – including those for the three Northern regions – became operational in April 1999.

The new approach was seen as a break with past regional policies: no longer confined to top-down attempts to redistribute existing economic activity or "pick winners", but instead focused on indigenous growth:

*... a new approach to regional policy – an approach where central government backs regional and local enterprise and initiative by exploiting the indigenous strengths in each region and city. But the new regional policy must be bottom-up not top-down, with national government enabling powerful regional and local initiatives by providing the necessary flexibility.*[21]

The first and primary task of each RDA was to grow its own regional economy. They were set up with five clear statutory purposes for their areas:

- *economic development and regeneration;*
- *promoting business efficiency, investment and competitiveness;*
- *promoting employment;*
- *enhancing skills relevant to employment; and*
- *contributing to sustainable development where it is relevant to its area to do so.*[22]

At first, the RDAs were sponsored by the Department for the Environment, Transport and the Regions (DETR), and they inherited spending programmes and commitments from the DETR – in particular, the Single Regeneration Budget and the capital programme of English Partnerships. Although after 2001, sponsorship transferred to the Department of Trade & Industry, much of the money continued to come from the DETR – and was therefore tied to physical regeneration outputs.

The RDAs found their first two years frustrating: not only were they committed to the objectives and budgets of inherited programmes; their delegated authority to enter into new commitments was also very restricted. In a sense, the RDAs recognised early the dangers of top-down control, and worked successfully to increase their own freedom of action. Thus, in 2001, the RDAs successfully argued that, in place of funding allocations tied to individual government departments, they should have a "Single Pot", with freedom to move resources from one budget line to another. When the RDAs started, they only had authority to spend up to £5 million on an individual project without Treasury approval. This was increased to £10 million, subject to rigorous appraisal criteria.

But these new freedoms came at a price – a detailed framework of targets, negotiated and agreed between government and the agencies.

Reviewing the first three years' work by the RDAs for the Smith Institute, the verdict of Ed Balls and John Healey was:

*Much done, much more to do, time to deliver.*[23]

The following year, the National Audit Office concluded that the RDAs had achieved most of their reported targets:

**Table 4.1: Regional development agency results for 2002/03**

| | Target | Achieved |
|---|---|---|
| Employment opportunities | 75,176 | 73,875 |
| New busineses | 3,865 | 4,203 |
| Hectares remediated land | 1,256 | 1,448 |
| Learning opportunities | 93,450 | 152,192 |

Source: National Audit Office *Success in the Regions* (2003)

The National Audit Office also pointed out a series of tensions in the work of the RDAs that had already arisen at this early stage. These are summarised below:

21 Ed Balls, in Balls, E and Healey, J (eds) *Towards a New Regional Policy* (Smith Institute, 2000)

22 Regional Development Agencies Act 1998

23 Engel, N (ed) *Age of Regions* (Smith Institute, 2002)

**Tensions in RDA work**

| | |
|---|---|
| Economic | Social |
| Focus | Breadth |
| Strategy | Delivery |
| Regional | National |
| Action | Reaction |
| Long term | Short term |

These tensions persisted in the RDAs, and contributed to the criticisms made of them in 2009/10.

The high point of the RDAs' work came after the agreement of the Single Pot, with the 2004 spending review covering the three financial years 2005/06, 2006/07 and 2007/08. Their budgets peaked in 2006/07, and resources for future years were reduced in the 2007 spending review.

Table 4.2 shows the position:

**Table 4.2: Northern RDAs' out-turn expenditure 2005/06 to 2010/11 (£m)**

| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|---|
| NWDA | 383 | 402 | 390 | 383 | 393 | 234 |
| ONE | 245 | 273 | 276 | 240 | 247 | 186 |
| Yorks F | 294 | 313 | 300 | 292 | 320 | 174 |
| North 3 | 922 | 988 | 966 | 915 | 960 | 574 |
| RDA 9 | 2,216 | 2,328 | 2,265 | 2,177 | 2,249 | 1,415 |

Source: Department for Business, Innovation & Skills website

After the 2007 spending review, the RDAs were no longer new. With resources no longer growing, they could not support all the projects that turned to them for funding, and had to ration their funds.

Another change took place at the same time. The RDAs outside London had been established as non-departmental public bodies, answerable to central government. From the start, this was seen as unsatisfactory, and it was proposed to create elected regional assemblies, to which the RDAs would become accountable. It was planned to reorganise local government at the same time, creating unitary authorities. The first referendum to create an elected regional tier took place in the North East in November 2004; the proposal was defeated, with 77.9% of the votes against. This ultimately unsuccessful attempt to address the perceived lack of local accountability of the RDAs weakened their authority.

Subsequently legislation was passed to transfer responsibility for the strategic planning framework, the regional spatial strategy (RSS) to the RDAs, with oversight from a network of leaders' boards, representing local government. While this had the merit of streamlining the planning system, transferring a planning function to the unelected RDAs reinforced criticism of their lack of democratic accountability.

**4.2 Cities and city regions**

While the incoming Labour government had a clear set of ideas for regional development, it did not have an urban policy ready for implementation.

During the 1990s, England's major cities had begun to revive. The population of many central city areas had been in long-term decline. Now the rate of decline began to slow down, and in some cases reversed. Jobs in the cities grew between 1995 and 2001. Cities grew their share of regional jobs. City councils developed a new confidence in renewing the fabric of their city centres, backed by a range of initiatives from the Conservative government in its later years – urban development corporations, City Challenge, City Pride and the Single Regeneration Budget. Manchester bid, first unsuccessfully for the Olympics, then successfully for the Commonwealth Games – and was able to turn the IRA bombing of the city centre in 1996 into an opportunity to rebuild its shopping centre. In the 1990s, a network of leading English cities began to work closely together under the title of the Core Cities Group.

At the same time as the RDAs were being launched, the government established an Urban Task Force, chaired by Richard Rogers. In its 1999 report the task force argued in favour of high-density, high-quality urban development, with a particular emphasis on good design and public transport.

The RDAs were encouraged to take up the urban renaissance agenda; the three Northern RDAs have all invested substantial sums in urban renewal projects in their major urban centres. In Greater Manchester, the North West Development Agency has been a key partner in the Central Salford Urban Regeneration Company, which is developing the Salford Quays Media City. In Yorkshire, the RDA is involved in the development of a new arena. In Newcastle upon Tyne, One North East has led the development of Newcastle Science City, a city-centre-based growth hub for innovation (although future funding is now uncertain).

Most of the cities are constrained by restrictive local government boundaries, which do not match economic or travel-to-work areas. This has led them to form wider city-region partnerships across their subregions. Increasingly, RDAs sought to decentralise funding to subregions, including the emerging city regions.

The Labour government encouraged the development of new collaborative structures, primarily for economic development, linking neighbouring authorities in multi-area agreements. This process is furthest advanced in Greater Manchester, where the 10 district councils are forming an integrated authority for transport and economic development.

Since 2004, the Northern RDAs have jointly supported the Northern Way, which champions the contribution of the North's city regions (Central Lancashire, Hull and the Humber Ports, Leeds, Liverpool, Manchester, Tees Valley and Tyne & Wear) to the economy:

*The eight northern city regions contain 90% of the North's population and more than 90% of its wealth creation. By working across administrative boundaries, they therefore provide a clear basis for delivering better economic policy outcomes in areas such as transport, housing, skills, employment and regeneration.*

*City regions can create and sustain economic growth, provide a critical mass of public and private knowledge institutions, and a vibrant environment for knowledge creation and transfer. They can provide key transport links and connectivity to attract higher value business, a skilled workforce, and the strategic business services and investment needed to support growth.*[24]

The regional cities of the North of England in the first decade of the century have been a success story, with rising employment, and investment in the public realm, supported by confident and resurgent civic authorities, backed by government funding supplied via the RDAs. Local authorities in urban areas have also benefited from a period of consistently rising land values, using section 106 agreements to provide new social housing and upgrade local infrastructure. The fall in values since the 2008 financial crisis has of course severely curtailed such activity, particularly for retail- and housing-led developments.

City centres have, nevertheless, again become places where people shop and make their homes (though not all the new residential development met the exacting aesthetic standards of the Urban Task Force). The Northern city regions host major universities, and are centres for applied research. They have attracted "knowledge economy" employers.

The experience of the last 10 years has led the core cities to develop their analysis of the contribution city regions can make to the national economy. The Manchester city region commissioned the Manchester Independent Economic Review (MIER) to provide an assessment of the "current state and future prospects" of Manchester's economy. MIER drew attention to the importance of agglomeration economies for the city region:

*At their broadest level, agglomeration economies occur when individuals and firms benefit from being near to others.*[25]

Drawing on the economic literature, MIER identifies three sources for agglomeration economies: linkages between intermediate and final goods suppliers; labour market interactions; and knowledge spillovers. The Core Cities Group has argued:

*Regional and national economic performance relies heavily on the productivity of Core Cities because of their concentrations of infrastructure, assets, high-value business and jobs.*[26]

The achievements of the last 10 years, therefore, have led the emergent city-region movement to seek a leading role in the organisation of economic development, with extensive delegation of powers and resources. They have argued that they are the drivers of regional growth.

**4.3 Towards a balance sheet for the RDA era**

The Northern RDAs started work in April 1999; their closure is scheduled for March 2012, although some projects will run beyond that date. It is too soon to attempt a definitive evaluation of the contribution they are still making. They began with broad objectives, and added to these as time passed: in 2003, the National Audit Office correctly identified a tension for the RDAs between breadth and focus.

There are some things the agencies might have done but did not: they did not have a leading role in welfare to work, they were not the main engine of job creation, and they only had a supporting role in skills policy. They expressed views on, but had no responsibility for, infrastructure provision.

Although the promotion of employment was one of the original statutory purposes of the agencies, they were never closely involved in the New Deal for unemployed people, the government's flagship welfare-to-work programme. This was administered through Jobcentre Plus, which maintained its own local and regional delivery structure. Although the RDAs were encouraged to target areas of disadvantage, they did not deliver jobs programmes for the unemployed. The tension between social and economic objectives was never wholly resolved.

The RDAs can claim the credit for significant numbers of jobs created and safeguarded in the Northern regions. But the real engine of job growth in the North in the New Labour years, it has been argued, was straightforward government spending on public services – mostly health and education. The RDAs accounted for only about 1% of total public spending in their regions.

One academic study uses the concept of "state and para-state" (SPS) in the analysis of employment trends – in other words, looking at public-sector jobs, together with jobs outsourced to the private sector in circumstances where the employer is dependent on public-sector contracts.

Table 4.3 shows the different regional patterns of job creation using this classification.

**Table 4.3: Share of new job creation by region, 1998-2003**
*State and para-state sectors*

| | Private sector | State & para state |
|---|---|---|
| London | 62% | 38% |
| North | 36% | 64% |

Source: Buchanan et al, *Undisclosed & Unsustainable: Problems of the UK National Business Model*, CRESC working paper no 75 (CRESC, 2009)

The authors of the study comment:

*By implication, in a decade long boom after 1998, there was, at best modest autonomous private sector job creation, and at*

24 Northern Way website
25 Manchester Independent Economic Review *The Case for Agglomeration Economies* (2009)
26 Core Cities *A New Partnership with Government* (2010)

*worst no autonomous private sector job creation outside London and the South…*[27]

Although RDAs invested in skills, and performance in this area was one of their headline targets, the government never gave them the lead role in skills policy. Whitehall was in fact very resistant to regionalising skills training even prior to the abolition of the training and enterprise councils in 2001.

Many regions identified a need for significant infrastructure investment. But the RDA role in relation to major infrastructure was always limited. Railway investment remained the responsibility of Network Rail; road building the function of the Highways Agency. The RDAs did useful work on a statement of national priorities for new infrastructure, but at best could only influence decisions taken elsewhere in government.

The RDAs were conceived as strategic agencies, responsible for the region as a whole: for the rural as well as the urban, the isolated former industrial communities as well as the core cities. They were selective in their interventions; as time went on, they had to become more selective. As well as their key role in the major urban centres, the Northern RDAs worked with market towns. They worked to strengthen the science base, with the Newcastle Science City project, and the Daresbury campus in the North West. They worked closely with the North's 25 universities.

The RDAs had a statutory duty to contribute to sustainable development. Environmentalist Jonathan Porritt has written:

*Performance in delivering on that sustainable development duty was, of course, patchy, but they achieved far more in this area than they ever would have done without having such a duty imposed on them.*[28]

One North East, for example, worked with the regional Climate Change Adaptation Project to support businesses likely to be particularly affected by climate change. NWDA in 2005 put £5 million (of a total budget of £10 million) into the Joule Centre, a partnership between the agency, Universities North West, and the private sector to exploit opportunities in the energy sector and related technologies. The centre aims:

*… [t]o create a world-leading centre for energy research, development and exploitation of research in England's North West which will significantly increase the region's research capabilities in sustainable energy technologies and energy systems.*[29]

The most recent major evaluation of the work of the RDAs, commissioned by the Department for Business, Innovation &Skills and undertaken by PwC, reported in 2009. This found that, between 2002/03 and 2006/07, the RDAs spent £11 billion. Some 32% of this was on regeneration through physical infrastructure, 17% on business development and competitiveness, and 8% on activities related to people and skills. A further 17% was on inherited Single Regeneration Budget commitments, and £1.3 billion was on other national programmes delivered by the RDAs on behalf of central government departments.

Table 4.4 compares the performance of the RDAs with their targets:

**Table 4.4: Comparison of RDA performance against targets, 2002/03 to 2006/07**

| | Jobs created/ safeguard-ed | Businesses created | Brownfield land (ha) | People helped in skills | Funding levered (£m) |
|---|---|---|---|---|---|
| Target set By DTI/ BERR | 381,041 | 39,852 | 4781 | 757,584 | 3970 |
| RDA gross outputs | 502,174 | 56,785 | 5657 | 1,270,406 | 5711 |
| No of times target met | 42 of 45 | 42 of 45 | 43 of 45 | 44 of 45 | 34 of 36 |

Source: Department for Business, Enterprise & Regulatory Reform and PricewaterhouseCoopers

The RDAs, therefore, performed against the targets they were set. They contributed to the renaissance of the Northern cities, and made significant long-term investments in universities and science. They contributed to developing effective policies on climate change. RDA budgets were skewed and distorted in the early years by the need to manage the programmes inherited from their sponsor departments, and in later years by the tendency of government departments to add to their functions. The tensions identified by the National Audit Office in 2003 persisted. Reviewing the experience of the RDAs after their abolition had been announced, the CBI, in evidence to the DBIS select committee, said:

*Arguably, what we got wrong with the RDAs is that, when they began to succeed, as so often happens, we became excited and we said, 'If they can do that, why do they not do x and y and z as well? We gave too many things to RDAs, so they almost became the only game in town' …*[30]

The RDAs were established with great hopes and potential. Not all of that potential was fulfilled, particularly in respect of skills and infrastructure for which they were never granted lead responsibility. The next Chapter examines the way in which criticisms of the RDAs and their work have contributed to the case now made by the Coaliton for a different approach.

27 Buchanan et al *Undisclosed & Unsustainable: Problems of the UK National Business Model*, CRESC working paper no 75 (CRESC, 2009)
28 Jonathan Porritt, Forum for the Future website
29 Joule Centre, "Vision Statement"

30 DBIS Select Committee *Report on the New Local Enterprise Partnerships*, first report of session 2010/11

# 5. The new orthodoxy: the Coalition approach and the ideas behind it

# 5. The new orthodoxy: the Coalition approach and the ideas behind it

## 5.1 Introduction

The Coalition's local growth white paper[31] sets out, in its foreword, an ambitious economic prospectus:

*Governments of the past have contented themselves with growth concentrated heavily in some areas of the country but not others, and within a limited number of sectors – notably, financial services. Yet the banking crisis and ensuing recession have proved that model is unsustainable. Crucially, it is also deeply unfair.*

The white paper and its accompanying theoretical paper[32] set out the government's plans for the abolition of the RDAs, the creation of the LEPs, and the introduction of the Regional Growth Fund. They also set out to make the case for these changes. They base that case on two elements:

- a critique of the practice of regional development policy in the period 1997-2010;
- new ideas on the sources and origins of local growth.

Before the 2010 election, the Conservative Party had charged that:

*Under Labour, a distant and remote tier of regional government has been given increasing control over people's lives.*[33]

The Coalition government, in its assault on regional policy, makes two main charges:

- regional policy was unsuccessful – indeed, perhaps could never have succeeded;
- the means by which regional policy was attempted were inappropriate.

It has therefore put in hand the abandonment of past policy, which was based, as the government sees it, on seeking to eliminate regional imbalances, and bring about convergence (in growth rates and prosperity) between different regions.

Instead, it proposes a new policy, which it argues:

- is tailored to local economic conditions;
- is accountable to local business and local government; and
- respects real economic geographies.

In developing this new approach, it draws upon some academic economic work of recent years, advancing a new orthodoxy in place of the previous approach.

At the same time as proposing these policy changes, the Coalition government is also cutting drastically the resources available for local growth policies.

31 DBIS *Local Growth: Realising Every Place's Potential*, Cm 7961 (2010)
32 BIS Economics *Understanding Local Growth*, working paper no 7 (2010)
33 Conservative Party *Control Shift*, policy green paper no 9 (2009)

## 5.2 The Coalition critique of regional policy

### Was regional policy unsuccessful?

The previous chapter reviewed the record of the RDAs. In a speech in October 2010, however, Mark Prisk, a business, innovation and skills minister in the new Coalition government, said:

*… the economic divide between the Greater South East and the rest of England is as wide today as when the RDAs began their work. That by any measure is a failed policy.* [34]

But the RDAs were not established with the simple objective of reducing the economic divide. The previous section outlined the five statutory purposes of the agencies:

- economic development and regeneration;
- business efficiency and investment;
- employment;
- skills; and
- sustainable development.

The RDAs did deliver against those purposes. The previous chapter includes figures from the PwC evaluation of the agencies on RDA performance on targets. The evaluation report, published in 2009, concludes that:

*… there is credible evidence that all RDAs have generated regional economic benefits which exceed their costs.*[35]

This is not, however, the whole story: in addition to their statutory objectives, the RDAs, from 2001, were tasked with making a major contribution to "reducing the persistent gap between regions".[36]

The then government argued that:

*… any regional policy must be focussed on raising the performance of the weakest regions, rather than the simple redistribution of existing economic activity. Real economic gain for the country as a whole will only come from a process of levelling up.*[37]

For the nine RDAs, the two objectives (of growing the economy of their own region, and of reducing the North/South divide) sat, sometimes uneasily, side by side.

RDA resources were always limited; as PwC points out in its evaluation report, RDAs' total spending for the period 2002/03 to 2006/07 accounted for less than 1% of total identified public expenditure in England by central and local government.

By investing, for their statutory purposes, in projects in their regions, the RDAs contributed to the growth and prosperity of their regions. Without their investment the performance of

34 DBIS press release, 12 October 2010
35 PwC evaluation report, 2009
36 HM Treasury/DTI, *Productivity in the UK, 3 – The Regional Dimension* (2001)
37 Ibid

the lagging regions would have been weaker. But their limited resources, and the powerful growth of London and the South East, meant that their potential to narrow the differential was always small. The pressure on the RDAs was to promise more than they could deliver.

Could any regional policy have succeeded? Governments can no longer simply move companies around the country: the days of national companies, their horizons bounded by a national market, working within a single jurisdiction, are long gone. Governments can, and all governments in the advanced industrial countries still do, try to encourage sustainable and long-term investment and jobs, particularly in declining areas. This was the core purpose of the RDAs, as defined in the act. The extent to which such investment will lead to long-term convergence is problematic and uncertain. But it remains important, for a broad range of economic and social reasons, for government to try. The central ambition of the local growth white paper, after all, is to:

*… rebalance our economy, ensuring that growth is spread and prosperity shared.*[38]

**What was wrong with the instruments of regional policy?**

The critics of regional policy in the Blair/Brown years make a number of detailed charges:

*… top down initiatives that ignore the varying needs of different areas.*[39]

*… regions, an artificial representation of functional economies.*

*… ignored the knowledge and expertise of the private sector, local authorities and their local communities.*

*… lack of local accountability for economic development functions …*

*… the belief that planning could both determine where growth should happen and stimulate that growth.*[40]

So: the case against the RDAs is that, as well as failing to redress the North/South divide, they were top-down, covered artificial areas, ignored local resources, were not locally accountable, and had a naive faith in the power of planning.

As the previous chapter concluded, there are important lessons to be learned from the experience of the RDAs. Unlike Mary Poppins, they were not "practically perfect in every way", despite some of the claims made by them and on their behalf.

The criticisms made by the incoming government are not without substance. But they all flow from one central characteristic of the RDAs: they were a policy driven by the central state, funded from the national budget. They were an act of Big Government. They had serious, if limited, resources. The deal was that they answered to ministers, who appointed their boards and set their targets. They had to comply with national audit requirements. They had no local tax base – and anyhow, the Northern RDAs were intrinsically redistributive, in intent and in practice: the income from national taxation which fuelled their investment programmes was mostly raised in other, richer, regions.

The RDAs evolved over time, both as a result of their own experience, and as government priorities changed.

The architects of the RDAs had themselves been concerned to break with the top-down policies of the past:

*… prescriptive, top-down strategies, with Whitehall 'picking winners', [do] little to combat regional imbalances.*[41]

The suggestion that RDAs were top-down initiatives derives partly from the detailed framework of targets within which they had to operate. Many RDA staff and board members also found the targets irritating. But the agencies had no independent source of revenue, no tax-raising powers. Their substantial budgets came entirely from the government. They sought, and won, unprecedented flexibility in how they deployed those budgets. It is unlikely that any government would make funds available on that scale without seeking something in return. The targets framework was the explicit price of the scale of resources and the degree of financial autonomy.

Work commissioned by the Local Government Association developed and applied the notion of functional economic areas to the English regions. Research by PACEC for the LGA, looking at labour market, travel to work, and other data, suggested that shire counties, or groupings of unitary or district authorities, made greater sense as economic units. The Core Cities Group, working with the major English cities, argued that city regions were an important driver of economic growth.

All the RDAs, from the start, were committed to working with subregional partnerships. All increasingly delegated substantial parts of their budgets to such partnerships.

The local growth white paper asserts that RDAs ignored local knowledge and expertise, and were not locally accountable. The RDA Act stipulated that RDA boards should be composed of people with relevant experience and capacity. The minister was required to consult representatives of business, employees, local authorities, and rural areas in making board appointments. In practice, all the RDA boards did include members drawn from these groups, usually with people from further and higher education, the voluntary sector, and social enterprise as well.

Board members, however, were appointed through the public appointments procedure. They applied for their positions, and were then vetted and assessed by civil servants from the DBIS. These procedures exist for sound and important reasons;

38 DBIS *Local Growth: Realising Every Place's Potential*, Cm 7961 (2010), foreword
39 Ibid, foreword
40 Ibid, chapter 1

41 Richard Caborn, in Balls, E and Healey, J (eds) *Towards a New Regional Policy* (Smith Institute, 2000)

but they did not always produce boards that were perceived as representative of the region.

And the boards were not locally accountable, in the sense of members answering to councils or businesses in the region. They could not be: their chief executive was an accounting officer, answerable to parliament for the expenditure of taxpayers' money. Only in London, where the agency reported to the directly elected executive mayor, were different arrangements in place.

Finally, it is suggested that previous regional policy was shaped by the belief that planning could both determine where growth should happen and stimulate that growth. In practice, however, the regional economic strategies were not prescriptive, and left great scope for local discretion and flexibility; with the level of resources the RDAs had, they could hardly have been otherwise.

**5.3 The emergence of a new orthodoxy**

If 1997 represented a high-water mark for regions as a unifying idea for spatial policy, the focus of debate has since swung back to the importance of cities. There are many practical and immediate reasons for this, including:

- the continued growth and success of London;
- the impetus provided by the Urban Task Force; and
- the success of the core cities.

But the debate has also been influenced by research by geographers and economists looking at the question of where growth actually occurs. These bodies of thought include agglomeration theory and the new economic geography, which stresses place and opportunity rather than need and disadvantage.

Cities are seen as the places that give the greatest opportunity for innovation and growth.

These research interests have developed over many years. In the 1980s, Jane Jacobs wrote about cities as the focus for import substitution:

*... city import replacing of any significance occurs explosively and unleashes five great economic forces of expansion: city markets for new and different imports; abruptly increased city jobs; technology for increasing rural production and productivity; transplanted city work; city generated capital.*[42]

Others, including Michael Best, drew attention to the experience of linked clusters of firms in industrial districts in what was termed the "Third Italy" in generating growth, jobs and innovation.[43]

Section 4.2 above looks at the way Manchester (in the independent economic review) and the other core cities have used agglomeration theory as a way of analysing and explaining their economic strengths. The Barlow Royal Commission, reporting in 1940, saw the same thing when looking at London, though it called it aggregation rather than agglomeration:

42 Jacobs, J *Cities & the Wealth of Nations* (Random House, 1984)
43 Best, M *The New Competition* (Polity Press, 1990)

*... the call of the city, and of the big city, to all classes of the community the world over is loud and compelling; it represents a tide of forces social as well as industrial in character, stimulated by men's need not merely for a livelihood but for the best possible opportunities ...*[44]

The BIS Economics paper published alongside the local growth white paper argues that agglomeration can take the form of cities, city regions and clusters. Drawing on the same research literature as the Manchester independent review (para 4.2 above), the BIS Economics team list three broad economic benefits of agglomeration:

- a supply of labour on which firms are able to draw;
- easier access to inputs and suppliers; and
- the creation of knowledge spillovers.

Places, it is argued, are different:

*Previous Government policy didn't fully take into account this diversity and policy focussed primarily on correcting market failures in order to even out economic performance across the country. However as is highlighted by New Economic Geography places may differ due to powerful market forces. Attempting to act against these forces is unrealistic and unsustainable.*[45]

The Coalition, then, turns to agglomeration theory in support of its institutional reforms to local development. There is a case for working with the places where the potential for growth is greatest. There is nothing sacred or immutable about the scale or the boundaries of the old "government office" regions. There remains a need, however, to maintain a clear policy for isolated and remote declining industrial centres. One size does not fit both Manchester and Barrow-in-Furness.

**5.4 The forward march of regionalism halted?**

The Coalition government's policy for local growth and local development has been described as "an uneasy concoction of national aspirations, centralised powers and fragmented localism".[46]

The policy, as outlined in the local growth white paper, has four elements:

- changing the spatial level at which activity takes place, from the region to the functional economic market area (FEMA);
- withdrawing most of the money;
- institutional change – abolishing the RDAs and setting up the LEPs; and
- stopping doing some things and centralising others.

There is nevertheless some underlying continuity in the overall objective of rebalancing.

44 *Report of the Royal Commission on the Distribution of the Industrial Population*, Barlow report, Cmd 6153 (1940)
45 BIS Economics *Understanding Local Growth*, working paper no 7 (2010)
46 Pike, A and Tomaney, J "The State and Uneven Development: The Governance of Economic Development in England in the Post-devolution UK" in *Cambridge Journal of Regions, Economy & Society* 2 (1) (2009), pp13-34

For most of the past 70 years, policies to address uneven levels of economic activity in Britain have been described as regional policies: spatial policy and regional policy were virtually synonymous. Regional policy has also been the main instrument of EU convergence and cohesion policies.

The words "region" and "regional" have been used over the years in three different senses:

- the spatial level of policy delivery;
- the institutional arrangements and structures;
- the objective of convergence.

In 1963, Edward Heath was the first Cabinet minister to have responsibility for regional policy in his job title; that year, Whitehall's permanent secretaries devoted their annual awayday at the Civil Service College to a discussion of regional development.

The 1965 National Plan stressed "speeding up economic growth in those regions where it has tended to be relatively slow".[47]

The Wilson government set up a network of regional economic planning councils to support regional growth, and the Royal Commission on Local Government in England, chaired by Redcliffe-Maud, proposed that its work should be subsumed in indirectly elected provincial councils. Although the Thatcher government abolished the planning councils, it was a Conservative government in the 1990s that subsequently established government offices for the regions. The Heath government, in the early 1970s, had itself considered the establishment of RDAs. Labour in opposition established the Regional Policy Commission to draw up a blueprint for a new regional policy, and then after 1997 legislated for the creation of the RDAs.

Chapter 4 described how the wave of regionalism first faltered and then came to a halt after 2004, as the funding of the RDAs passed its peak, and the referendum to create an elected assembly in the North East was defeated. Alternative organising principles for local spatial development were put forward. Commentators drew attention to the success of the major Northern cities in renewing their city centres and their physical fabric (mostly with the support of their RDAs). A number of cities began to work with government to take forward the concept of the city region. Government also encouraged some pan-regional developments, including the Thames Gateway and the "growth areas" in the South, and the Northern Way.

What began to change after 2004 was the broad consensus around the view that the appropriate spatial level at which to deliver economic interventions was the regional. In advocating a new policy focus at a more local level, the Coalition government refers to:

*… empowering and incentivising local government, firms and people across economic centres and natural economic geographies to promote growth and correct the market and government failures which are acting as barriers to economic development.*[48]

Development, it is argued, is "spiky"; places are different.

Places that have appeared to be in long-term decline have bounced back.

*… places may differ due to powerful market forces. Attempting to act against these forces is unrealistic and unsustainable.*[49]

Arguments about the right spatial level at which to deliver policy, however, are not the same as arguments about resources and capacity. The boundaries of the nine English regions were not handed down like the Ten Commandments. It is right that there should be debate about the right size for economic development units. The new orthodoxy about size and scale is, however, being introduced at the same time as the capacity, and resources to intervene are being reduced. Regional development agencies are being closed; their staff are being made redundant and their knowledge base is being scattered. Funds for local development are being cut by 75%.

Some RDA activities – for example, the RDA role in skills policy – will simply cease. Others – business advice, support for innovation, sectoral policy, and the promotion of foreign direct investment – will revert to Whitehall.

Local partners may find themselves empowered to deliver local solutions, but lacking the capacity and the resources to do so. As a private-sector representative in a Northern city told the inquiry:

*If there's no money, it's not localism, it's centralism.*

And yet the metaphor of balance and convergence has remained constant. Edward Heath said in 1963:

*An expanding economy requires a more even distribution of economic activity throughout the country.*[50]

In 1965, the National Plan stated:

*Short-term policy must be related to the longer term problem of securing a balanced regional development of industry, transport and housing …*[51]

While Gordon Brown and Patricia Hewitt said in 2001:

*The Government believes that regionally balanced growth, led by the regions themselves, is not only desirable in its own right but also essential to deliver economic prosperity and employment for all.*[52]

47 Department of Economic Affairs *The National Plan*, Cmnd 2764 (1965)

48 BIS Economics *Understanding Local Growth*, working paper no 7 (2010)
49 Op cit
50 House of Commons, 141163 quoted in Capbell, J *Edward Heath A Biography*, London, 1994 ISBN 0-7126-5898x
51 Department of Economic Affairs *The National Plan*, Cmnd 2764 (1965)
52 HM Treasury/DTI, *Productivity in the UK, 3 – The Regional Dimension* (2001)

And Nick Clegg said in Rotherham on 4 February 2011:

*We also need to ensure that economic growth is not lopsided in terms of geography. The regional inequalities running like scars across our country are not only socially damaging, they are economically destabilising.*[53]

53 Cabinet Office press release, 4 February 2011

# 6. Rebalancing the North in an age of austerity

# 6. Rebalancing the North in an age of austerity

## 6.1 Economic change

If the objective of rebalancing has remained relatively constant since 1945, the context in which it is to be attempted has changed radically. Sometimes there seems to be a nostalgia for the world of the 1940s, 1950s and even 1960s, when governments could move companies around the map like pawns on a chessboard: ICI to Teesside, Ford to Halewood, or General Motors to Ellesmere Port.

That was a world in which national companies (or national subsidiaries) produced mostly for a national market, employed a national workforce, and owed allegiance to a national jurisdiction.

That world has changed out of all recognition, with technological change, the rise of information and communications technologies, outsourcing of components to newly industrialised economies, and lengthening global supply chains. The emergence of regional trading blocs – such as the EU and the North American Free Trade Area – has shifted much economic regulation beyond the level of the nation state.

The American economist Robert Reich wrote in 1991:

*As almost every factor of production – money, technology, factories, and equipment – moves effortlessly across borders, the very idea of a national economy is becoming meaningless, as are notions of a national corporation, national capital, national products and national technology.*[54]

These changes meant that the old, redistributive regional policies – the policies of taking the jobs to where the people lived – became less and less operable. This was recognised when the RDAs were set up, with their stress on developing the indigenous strengths of every region. As the 2001 Treasury paper on regions and productivity said:

*... any regional economic policy must be focussed on raising the performance of the weakest regions rather than simply redistribution. Real economic gain for the country as a whole will only come from a process of 'levelling up.'*[55]

Other economic changes within the UK are also important – the long-term decline of manufacturing, the rise of service-sector jobs, and above all the rise of the business and financial services sector, with activity, and senior jobs, concentrated in London and the South East. The deregulation of the City of London following the "Big Bang" of 1986 enabled London to renew itself as one of the three world financial centres, much more open to international banks than previously.

In the 1930s, the case for regional policy was that most of the new industrial investment was taking place in and around London. In particular, the new consumer goods industries – such as electric goods and food processing – were locating their new plants in the South. With the subsequent decline of manufacturing across the country (and especially in London and the South East) regional disparities are now perpetuated and accentuated because of the concentration of the highly productive, highly internationalised finance sector in London. The local growth white paper[56] draws attention to the importance of agglomeration in supporting growth in London, enabling it to play an increasingly prominent role on the world stage.

For the London of 2011 is no more that of the Barlow report than it is that of William Cobbett, who saw London as a great wen, or tumour, sucking in the wealth of the country. *The Economist* described the "challenge of one-city dominance" thus:

*National politicians oscillate between a zeal to prop up Britain's regions and a resigned acceptance that scarce investment must go to its behemoth of a capital.*[57]

These changes give rise to policy choices and dilemmas: if it is no longer possible to redistribute economic activity around the country, how is the shared objective of rebalancing to be achieved? With the dominant finance and business services sector spatially concentrated in one corner of the country, how can prosperity be spread without jeopardising overall national economic performance?

## 6.2 Austerity and resource allocation: the national picture

### Spending review 2010

In the wake of the recession, and the subsequent increase in the public-sector deficit, the incoming Coalition government put reducing the deficit at the heart of its political programme, speeding up the plans inherited from the outgoing administration. It set itself the aim of eliminating the structural current budget deficit over a five-year period.

The deficit reduction programme was announced in two stages: an emergency Budget in June 2010, concerned mostly with in-year, 2010/11 spending, followed by a full spending review in October 2010 for the years 2011/12 to 2014/15.

In the spending review, the government protected health and international development spending, while cutting other departmental budgets by an average of 19%. It also prioritised "capital investments that support long term economic growth" – many of them (including Crossrail and improvements to the London Underground) in London and the Greater South East – but some in the North, including the Mersey Gateway Bridge and improvements to the East and West Coast Main Lines. Provision was also made for initial work on the projected High Speed 2 rail line, initially to Birmingham, ultimately to Leeds and Manchester.

54 Reich, R *The Work of Nations* (Knopf Publishing, 1991)
55 HM Treasury/DTI, *Productivity in the UK, 3 – The Regional Dimension* (2001)
56 DBIS *Local Growth: Realising Every Place's Potential*, Cm 7961 (2010)
57 *The Economist*, 5 February 2011

The science budget was to be maintained, in cash terms, with spending of £4.6 billion a year over the spending review period. And an extra £250 million a year, by the end of the period, was allocated to new adult apprenticeships.

All this meant, however, that the basic budgets of the two departments primarily concerned with local economic development were cut back very drastically. The Department for Communities & Local Government budget suffered major reductions in spending on housing and local government, with a 26% cut in central government revenue funding to councils. DBIS spending on higher education was cut by 40%, and in other areas by 16%.

These cuts in public spending will lead to reductions in jobs: in state and para-state jobs that depend directly on the public sector, and in the private sector, due to reduced public-sector demand. The independent Office for Budget Responsibility (OBR) forecast in November 2010 that the fall in general government employment (broadly, state but not para-state) to 2014/15 would be 330,000 jobs. As the Coalition government is now planning a freeze in total public spending in real terms for 2015/16, this implies a further fall of 80,000 jobs in that year.

PwC has estimated the likely private-sector job losses in 2014/15 due to reduced public-sector demand, and these are shown in table 6.1.

**Table 6.1: Estimated private-sector job losses due to reduced public-sector demand, by sector, in 2014/15**

| **Sector** | **% loss of employment** | **Implied employment reduction** |
|---|---|---|
| Business services | 3.9 | 186,000 |
| Construction | 5.1 | 104,000 |
| Manufacturing | 2.0 | 51,000 |
| Transport and comm's | 1.9 | 47,000 |
| Distribution, hotel & catering | 0.4 | 25,000 |
| Financial services | 1.1 | 1,000 |
| Other sectors | 1.5 | 44,000 |
| **Total private sector** | **2.1** | **468,000** |

Source: PricewaterhouseCoopers

PwC has also researched the likely regional distribution of job losses in the public and private sectors. Table 6.2 shows the results.

This regional breakdown makes it clear that, although there will be significant job losses in all regions, the losses in the three Northern regions are proportionately higher than those in the South East.

**Table 6.2: Estimated public- and private-sector employment effects of public spending cuts by region, in 2014/15**

| Region | No of jobs lost (public and private) ('000) | Percentage total in region (%) |
|---|---|---|
| **Greater South East** | | |
| London | 122 | 3.1 |
| South East | 112 | 3.1 |
| East | 74 | 3.2 |
| **Northern three regions** | | |
| North East | 43 | 4.1 |
| North West | 108 | 3.7 |
| Yorks & Humber | 82 | 3.7 |
| UK total | 943 | 3.4 |

Source: PricewaterhouseCoopers

Note: The PricewaterhouseCoopers research is based on earlier OBR figures than the November ones quoted above.

### 6.3 Austerity and resource allocation in local government

**The local government finance settlement, 2011/12 to 2013/14**

Section 6.4 below considers the future for dedicated funding streams for regeneration and economic development. But in assessing the impact of the deficit reduction programme on the North of England, it is necessary also to look at the mechanisms for the allocation of resources for mainstream public services and investment. The following paragraphs consider government funding for local government and public transport.

**Table 6.3: Local government revenue grant reductions, 2010/11**

| Region | Reduction in grant per head (£) | Percent reduction (%) |
|---|---|---|
| **Greater South East** | | |
| London | 9.76 | 0.7 |
| South East | 6.19 | 0.7 |
| East | 6.40 | 0.6 |
| **Northern three regions** | | |
| North East | 13.61 | 1.1 |
| North West | 11.86 | 0.9 |
| Yorks & Humber | 10.13 | 0.8 |

Source: SIGOMA

As far as councils are concerned, the details of the headline decisions on spending in June and October are worked through in the local government finance system. Following the emergency Budget and the spending review, local authorities in the North are now receiving proportionately greater reductions in government support for their mainstream services than their counterparts in more prosperous regions. An existing bias towards the Greater South East has been confirmed and reinforced.

A first wave of grant cuts was implemented following the June emergency Budget. Table 6.3 gives a regional comparison.

This trend continued in the settlement for 2011/12, finalised at the end of January 2011. Table 6.4 presents the information for the settlement on a similar basis to table 3. The percentage cuts in formula grant fall within quite a narrow range (across England, the West Midlands has the lowest cut, at 10.8% – not shown here – and the East of England the highest, at 12.8%).

**Table 6.4: Regional impact of 2011/12 settlement on local government finance**

| | Formula grant allocation | | | Revenue spending power | |
|---|---|---|---|---|---|
| | Damp-ing grant 2011/12 (£m) | Percentage cut in for-mula grant 2011/12 (%) | Grant cut per head 2011/12 (£) | Revenue spending power cut 2011/12 (%) | Revenue spending power cut per head 2011/12 (£) |
| **Greater South East** | | | | | |
| London | 180 | -11.2 | 68 | -6.3 | 66 |
| South East | 120 | -12.9 | 32 | -1.9 | 14 |
| East | -28 | -12.1 | 34 | -2.3 | 17 |
| **Northern three regions** | | | | | |
| North East | -17 | -11.2 | 63 | -8.1 | 82 |
| North West | -22 | -11.6 | 59 | -7.1 | 67 |
| Yorks & Humber | -18 | -11.7 | 55 | -6.5 | 56 |

Source: SIGOMA

These similar levels of grant reduction, however, have quite different impacts. The first reason for this is that the damping grant limits the worst impacts of the grant cuts on the Greater South East. Damping grant is the amount of transitional protection given to certain councils. For 2011/12, all regions except London and the South East are net contributors, offsetting the cuts that would otherwise be borne by those two regions.

Second, the more of its expenditure a council can cover from the council tax, the less its overall spending power is affected by grant reduction. This favours those authorities with the most robust council tax bases, which are those in more prosperous areas. Such a local authority may raise as much as 80% of its revenue budget from council tax. A cut in its grant, therefore, will affect only the 20% of the budget for which it depends on government grant. By contrast, an authority in a poor area, with a weaker council tax base, could be in the opposite position, with the grant cut affecting 80% of its budget. By and large, those poorer authorities tend to be in the poorer regions.

Third, the government, starting with the 2010/11 in-year cuts, has removed many elements of ringfencing from the local government finance system. This is presented as a new freedom for local authorities; certainly, at the level of individual local authorities, it is something for which local authorities had been asking. Eric Pickles told the New Local Government Network in January 2011:

*With a couple of exceptions we've ended ringfencing so that councils get their money with no strings attached.*[58]

At the aggregate level of funding for local government as a whole, however, removing ringfences has meant the end of some programmes targeted on disadvantaged communities. Examples include the Working Neighbourhoods Fund and the Local Enterprise Growth Initiative. The means by which the desired level of cuts has been achieved has been the removal of such funding streams.

**Table 6.5: Local government settlement 2011/12 reductions in spending power upper tier authorities**

**(a) Top ten reductions in spending power**

| Council | Change in estimate spending power | IMD deprivation index (1=most deprived) |
|---|---|---|
| Liverpool | -11.34 | 1 |
| Manchester | -10.90 | 4 |
| Knowsley | -10.77 | 5 |
| Blackburn | -10.53 | 16 |
| South Tyneside | -10.49 | 31 |
| Hackney | -10.46 | 2 |
| Newham | -10.46 | 6 |
| Hartlepool | -10.39 | 21 |
| Tower Hamlets | -09.90 | 3 |
| Doncaster | -09.72 | 33 |

**(b) Least reduction in spending power**

| | | |
|---|---|---|
| Windsor & Maidenhead | -01.07 | 145 |
| Poole | -00.96 | 118 |
| Hampshire & West Sussex | -00.65 | 130 |
| Wokingham | -00.65 | 149 |
| Richmond upon Thames | -00.61 | 142 |
| Buckinghamshire | -00.60 | 143 |
| Surrey | -00.30 | 147 |
| Isles of Scilly | -00.14 | 69 |
| Dorset | +00.24 | 125 |

Notes: IMD = Index of Multiple Deprivation; * = IMD data not available at county level

Source: SIGOMA

58 25 January 2011

Chapter 2 draws attention to the paradoxical nature of London, where great wealth and acute poverty and unemployment exist side by side. Within London, it is the poorer areas that have borne the brunt of the settlement.

Table 6.5 shows the local authorities with the greatest and least reductions in spending power, following the settlement. It shows that, of the 10 councils with the greatest reduction in spending power, seven were in the three Northern regions, while three were deprived Inner East London boroughs. The table also shows the ranking of the areas on the government's Index of Multiple Deprivation. By contrast, the authorities with the least reduction in spending power were all in the South, and among the least deprived areas.

Newcastle University's Centre for Urban & Regional Development Studies explored in detail the relationship between deprivation levels and revenue spending power (RSP), and the potential impact of spending cuts on levels of deprivation, in a study undertaken on behalf of Middlesbrough Council. Its work shows how public-sector cuts will impact unevenly across the country. Places like Middlesbrough and many other communities in the North with high deprivation levels will be hardest hit because of their relatively high dependence on public-sector jobs. Deprivation will inevitably increase because of the job losses:

*... thus areas like Middlesbrough will see reductions in their level of public services, of which many address problems of deprivation, at the very time that their areas are seeing above average increases to their levels of deprivation due to planned public sector cuts.*[59]

**The North subsidising housing in the South**

Deprived areas in the North are also disadvantaged by government initiatives such as the New Homes Bonus, which rewards councils that allow homes to be built with payments equal to the council tax take from each new home. According to the National Housing Federation:

*... the present scheme design will result in a redistribution of local authority finances from the north to the south. This is because funding will be withdrawn from formula grant to fund a scheme where payment is based on housing values. Formula grant allocations are calculated in a way which benefits areas where levels of deprivation are generally higher, and land values (and thus council tax receipts) are lower. Many of these areas are in northern regions. The new homes bonus, as designed currently, benefits most those local authorities in areas where land values are higher, such as the southern regions.*[60]

Latest estimates from the National Housing Federation suggest that the scheme would cause the three Northern regions to lose £104 million of grant funding per year, while Southern regions (Eastern, South East, South West and London) would gain £342 million per year.

This transfer of housing funding from North to South is exacerbated by the government's decision to end dedicated public funding for low-demand housing in the North under the Housing Market Renewal Programme. While transitional funding has been made available for most of the low-demand housing pathfinders, future funding is uncertain. Housing Market Renewal Programme schemes will have to bid for funds from the Regional Growth Fund. Most will probably have to close down early, despite receiving positive evaluations from the Audit Commission.

**Funding for public transport**

As with local government, funding for public transport was reduced both in the early announcement of in-year cuts for 2010/11, and in the October spending review. The Passenger Transport Executive Group, the campaign group established by the English urban passenger transport executives, concludes that:

*If the 2010/11 budget (prior to the in-year cuts) is used as the baseline then, in real terms, headline DfT local transport funding outside London(all ring-fenced capital and revenue funding streams) will be 26% lower next year (2011/12), 29% lower in 2013/14 and 23% lower in 2014/15 than it was in 2010/11(pre in-year cuts).*[61]

The reductions in transport expenditure outside London are being introduced faster than the equivalent reductions within London, and they are happening in a context where government revenue and capital allocations for spending on transport in London have consistently been higher than elsewhere – reflecting the dilemma highlighted by The Economist. Table 6.6 shows regional levels of transport spending for 2008/09.

**Table 6.6: Regional levels of transport spending per head, 2008/09**

| | Total expenditure on transport per head (£) |
|---|---|
| **Northern three regions** | |
| North East | 234 |
| North West | 287 |
| Yorks & Humber | 248 |
| London | 641 |

Source: Passenger Transport Executive Group

**The local government resources review**

The Coalition agreement, in the context of localism, includes the following commitment:

*We will promote the radical devolution of power and greater financial autonomy to local government and community groups. This will include a review of local government finance.*

The scope of the proposed review is not yet clear: in the early part of 2011 arguments were going on within government over its terms of reference.

59 Centre for Urban & Regional Development Studies *Local Government Finance, Deprivation, & Public Sector Employment Cuts* (2011)
60 National Housing Federation *Response – New Homes Bonus* (December 2010)

61 Passenger Transport Executive Group *Transport in the Cities – CSR Number Crunch* (December 2010)

Since the 1980s there have been three systems of local government finance: first domestic rates were replaced by the poll tax, and then the poll tax was replaced by the council tax. Business rates became, and remain, a national tax rather than a local one. There have also been many reviews of local government finance since the Layfield committee reported in 1976.

Layfield suggested that a fundamental choice had to be made between local and central responsibility for funding local services. In practice, that choice has been resolved in favour of central responsibility. In 1974/75, the last year for which figures were considered by Layfield, central government grants amounted to 45% of total local government expenditure; now, they amount to 75%.

The most recent review, by Michael Lyons, reported in 2007. Lyons identified three aims that had to be reconciled by the grant system: stability, equity and incentives.

Reconciling these aims is not necessarily straightforward: when economic activity is unevenly distributed, then so are tax bases; equity may sit uneasily with localism.

Nevertheless, the review presents councils in the North with an opportunity to achieve some of their objectives, and they will want to explore the full range of possibilities. Two that have been widely discussed and seem certain to come within the terms of reference of the review are tax increment financing and the retention of local control of the business rate.

**Tax increment financing**

The Core Cities Group,[62] the CBI, the Local Government Association, the Royal Institution of Chartered Surveyors and the British Property Federation have all made the case for TIFs, or tax increment financing (see panel). The Core Cities Group is anxious that the TIF proposals should not be delayed and that the green light be given to schemes like those in Sheffield, Leeds and Newcastle. TIFs may well need new primary legislation; if they do, then the plans need to be firmed up quickly for this to be enacted by 2012. This has led TIF supporters to argue that, if there is any hold-up to the review, the TIF proposals should be uncoupled and put through separately.

TIFs have strong support from the business and property community in the North. The deputy prime minister, Nick Clegg, claims that TIFs are the "first step to breathing life in our great cities". However, while these new funding tools are welcome and can help gap-fund infrastructure projects, the greatest beneficiaries are likely to be the more prosperous areas. According to Tim Foulkes at the Institution of Civil Engineers:

*Less prosperous areas will present a higher risk yet it is often these areas that are most in need of new infrastructure to boost the local economy and create new jobs. If we are to rebalance the economy, funds need to be available for schemes that can help regenerate the areas that need it most.*[63]

62 See Core Cities Group work on TIFs, including joint Core Cities/PwC report *Unlocking City Growth: Interim Findings on New Funding Mechanisms* (2008)
63 *Local Government Chronicle*, September 2010

**Tax increment financing – TIFs**

Tax increment financing enables a local authority to borrow against a future revenue stream in order to fund investment. Specifically, in the context of English local government, TIFs would enable councils to borrow against future business rate income arising from a new development, in order to fund necessary infrastructure.

TIFs originated in the US, where they have been a popular instrument for cities undertaking major regeneration projects. In Britain, the Treasury has long been sceptical about hypothecation of revenue – preallocating income from a particular tax to a defined activity or project. The previous government had done a lot of work on the possible introduction of TIFs, and Coalition deputy prime minister Nick Clegg announced in September 2010 that the new government would be continuing with this.

In 2009 the then government invited expressions of interest in possible TIFs, and 82 councils put forward a total of 124 proposals for pilot TIFs.

Leeds, for example, submitted plans for a TIF focused on the Aire Valley regeneration scheme, a 400 hectare brownfield site where 8,000 homes are planned, along with employment space. The site needs £250 million in new infrastructure investment, but could bring in an extra £900 million in business rates over a 30-year period, from which an initial £250 million loan would be repaid.

In London there are ambitious plans, backed by the mayor, for a £600 million scheme to extend the Northern Underground line to Nine Elms and Battersea Park.

The introduction of TIFs has attracted broad support across the major cities and the real estate sector. They are likely to be most relevant in the core cities and other areas with strong property markets, and less useful in declining centres of traditional industry.

**Business rate**

Restoring the business rate to local control has been a key demand of local authorities since it was first taken away in the 1980s. It is important to note, however, that the main beneficiaries of such a change would be a small number of central London authorities. London has more than a quarter of the total rateable value for non-domestic rates in England, and this proportion has been rising.

Retention of the business rate would certainly benefit a number of central London authorities. It would probably also benefit, at least to a modest extent, some of the Northern cities. But it would be most unlikely to benefit outlying former industrial areas.

Table 6.7 shows how non-domestic rateable value is concentrated.

Localism and equity are not the same thing. If the objective is to ensure that Northern authorities have the resources both to support their local economies and to provide local public services, then the greater the extent to which the business rate is devolved, the more extensive an equalisation scheme would be needed.

**Table 6.7: Non-domestic rateable values, 2005 and 2010**

| | 2005 | 2010 |
|---|---|---|
| Total rateable value for England | 47.167 | 56.699 |
| London | 12.202 | 16.196 |
| | =25.9% | =28.6% |

Source: Valuation Office Agency

Similar issues are likely to arise with other potential tax bases – local income tax has long been discussed as a possible source of council revenue; others currently under discussion include sales, tourism and fuel taxes. Given the uneven distribution of economic activity, the tax base for all of these would also be uneven. After the experience with the removal of ringfences, local authorities perhaps need to be careful what they wish for.

**6.4 Local growth?**

If the object of the Coalition's local economic development policy is to rebalance the economy, with "sustainable growth and enterprise, balanced across all regions",[64] the means by which they aim to achieve this object is the new institutional architecture for economic development, local enterprise partnerships, replacing regional development agencies. It is through these structures that the Coalition must deliver for the North.

The proposals for LEPs, however, also have roots in the Coalition commitment to localism and the Big Society:

*… a radical redistribution of power away from Westminster and Whitehall to councils, communities and homes across the nation.*[65]

Localism, in turn, has its roots in pre-election Conservative policy documents:

*By giving people more power and control over the services that are delivered in their areas, we can inspire a new sense of civic pride in our communities.*[66]

Indeed, before the 2010 election a broad consensus had been emerging, across parties, that the trend towards greater centralisation had gone too far: Geoff Mulgan argued, in a Smith Institute report in 2006, for:

*… a cross-party consensus on double devolution, with a 10-year programme to shift power downwards: from Whitehall and Westminster down to town halls, and from town halls to communities and citizens.*[67]

The previous government had moved in this direction, with the 2008 empowerment white paper, and the establishment of an Asset Transfer Unit in the DCLG, to support the acquisition of public assets by community-based organisations.

Coalition policy for local economic development has unfolded since May 2010, in the Coalition agreement itself, the emergency Budget and the spending review, and the local growth white paper. It comprises:

- the abolition of the RDAs;
- the establishment of the LEPs; and
- the creation of the Regional Growth Fund.

At the same time, it has become clear that deficit reduction trumps rebalancing and localism: there is no (or very little money) for the LEPs.

It had not always been seen this way. For example, it is clear that the original intention was that the LEPS would inherit assets and budgets from the RDAs. When the original proposals for LEPs were aired in a Conservative Party publication, Control Shift, it was stated that the business secretary would need to be satisfied about the strength of the proposed LEPs "before he transfers to them the money currently spent by the RDAs".[68]

The original commitment on RDAs and LEPs in the May 2010 Coalition agreement was:

*We will support the creation of Local Enterprise Partnerships – joint local authority-business bodied brought forward by local authorities themselves to promote local economic development – to replace Regional Development Agencies (RDAs). These may take the form of the existing RDAs in areas where they are popular.*

The idea that RDAs would continue in some regions appeared to be confirmed by the new business secretary, Vince Cable, in May, when he visited the North West Development Agency:

*If there are areas like the North West where there is broad agreement that they (the regional development agencies) are doing a good job then there is no reason why they will not continue.*[69]

Such reassurance did not last long: civil servants quietly deleted from their presentations the last sentence of the paragraph from the Coalition agreement.

**The abolition of the regional development agencies**

It is the intention of the government that the regional development agencies will be abolished by 31 March 2012; they are already running down, with highly restricted budgets, and many staff will have left before the end of the financial year 2010/11. There is provision in the Localism Bill for their formal, legal abolition, but their capacity is already weakened. They will be gone well before the network of proposed LEPs is up and running.

Just as local government and public transport had their 2010/11

64 Nick Clegg and David Cameron, Coalition agreement foreword
65 Op cit
66 David Cameron, introduction to policy document
67 Mulgan, G and Bury, F (eds) *Double Devolution: The Renewal of Local Government* (Smith Institute, 2006)
68 Conservative Party, *Control Shift* (2009)
69 *Warrington Guardian*, 20 May 2010

budgets cut in-year by the emergency Budget in June 2010, so the RDA budgets for the year were also reduced, by a total of £270 million.

Some RDA functions will simply come to an end, including the regional skills role, and work on sectors. The Grant for Business Investment scheme – successor to the old grants to "assisted areas" – will simply stop, even though it is specifically targeted at the Midlands and North.

Other activities are being transferred back to central government, including work on inward investment, sectoral leadership, business support, access to venture capital, and innovation. RDA activity on inward investment was long a target for Conservative critics of the agencies, and both the DBIS and the Treasury had in the past been sceptical about regional international promotion. Business Link, the previously separate business advisory and support service, was transferred to the RDAs; it is now proposed to replace it with a national website and telephone advisory service from November 2011.

The RDAs had also taken over responsibility for tourism; partners in the tourism sector are being encouraged to sort things out for themselves: in the words of the local growth white paper:

*Going forward a strong emphasis will be put on leadership at the local level, particularly by local tourism businesses.*[70]

The white paper expressed the hope that the "wealth of knowledge and experience" of the staff in the RDAs would not be lost. In the absence of funding, however, it seems unlikely that this hope will be fulfilled.

Meanwhile, press estimates of the cost of abolishing the RDAs suggest a total of around £1.5 billion – marginally more than the entire RDA budget of £1.4 billion for 2010/11. Most of these costs will come from the DCLG, the balance from the DBIS.

At the same time as abolishing the RDAs, the Coalition government had decided to abolish the network of government regional offices (established by the Major government in the 1990s). Eric Pickles, secretary of state for communities and local government, in 2010 described the regional offices as part of the "command and control apparatus of England's over-centralised state".[71]

But in a surprise move in February 2011, the DBIS decided to re-establish a regional presence, to be called Local BIS , to handle relationships with LEPs, local authorities and business. A DBIS spokesperson said:

*The teams will be part of DBIS and will support [its] overall objectives, particularly those relating to growth and jobs and rebalancing the economy.*[72]

70 DBIS *Local Growth: Realising Every Place's Potential*, Cm 7961 (2010)
71 *Local Government Chronicle*, 1 February 2011
72 Ibid

**6.5 The coming of the local enterprise partnerships and the Regional Growth Fund**

In place of the network of regional development agencies, the Coalition is introducing local enterprise partnerships as the new vehicle for local economic development. Between 1997 and 2010, three RDAs worked to support economic growth in the North of England. At their peak the RDAs in the North invested annual budgets worth around £1 billion.

Nick Clegg has written:

*[W]e are creating local enterprise partnerships to bring together business and civic leaders to set the strategy – and take the decisions – that will allow their area to prosper. These partnerships will be equipped to promote private sector growth and to create jobs locally.*[73]

In June 2010, local authorities were invited to submit proposals for LEPs by September. The government said that it would expect to see LEP boards with equal public- and private-sector representation and a private-sector chair. Fifty-six proposals were received by the deadline, and an initial 24 were approved in October. The government's criteria for approving LEP proposals were:

- support from business;
- economic geography;
- local authority support; and
- added value and ambition.

By February 2011, a total of 31 LEPs had been approved by the government. Those in the three Northern regions were:

- Cheshire and Warrington
- Cumbria
- Greater Manchester
- Leeds
- Liverpool
- North Eastern
- Sheffield
- Tees Valley
- York and North Yorkshire.

Parts of the North are not yet covered by LEPs, including Lancashire and Humberside. In areas so far without LEPs, civil servants are continuing to work with local partners on bids.

In moving from RDAs to LEPs, the Coalition government is doing two things: changing the scale on which subnational economic development is undertaken, and changing the level of resources available for this work.

The government has argued that regions represented a remote and artificial tier of administration, and that local growth can best be delivered on the level of functional local economies. In justifying this, it draws upon a range of ideas, including

73 DBIS *Local Growth: Realising Every Place's Potential*, Cm 7961 (2010), foreword

agglomeration theory, and points to the relative success of city regions.

The first 24 LEPs to be approved varied widely in size. One, covering Essex, Kent and East Sussex, is in fact larger than one of the former regions (One North East), and larger than 15 of the 21 mainland French regions. The new London LEP also dwarfs the Northern LEPs.

The government is not providing any revenue funding for LEPs, except for a small capacity-building fund of £1 million a year. According to the local growth white paper, LEPs "will be expected to fund their own day-to day running costs".

Given the local government finance settlement, the prospect of much money coming from councils must be limited.

The LEPs will also not have access to dedicated investment funds; as far as the new Regional Growth Fund is concerned, LEPs "may wish to submit bids to the Regional Growth Fund, but will not receive preferential treatment", according to the local growth white paper.

It also seems likely that the LEPs will have very limited executive capacity or staff. Certainly, few if any are taking on any RDA staff.

The local growth white paper states that LEPs could "take on a diverse range of roles".

Those specified as examples include:

- working with government to set out priorities for infrastructure investment;
- bidding for RGF money;
- supporting high-growth businesses;
- involvement in planning policy and decisions;
- leading changes in how businesses are regulated locally;
- strategic housing delivery;
- working with partners to help workless people into jobs;
- leveraging private-sector funds;
- work on renewable energy and the Green Deal; and
- becoming involved in other national priorities such as digital infrastructure.

It is not clear, however, that LEPs will have the powers or resources to engage seriously with much of this ambitious range of issues. Abolishing the RDAs is part of the government's drive against quangos; it has been, perhaps understandably, reluctant to set the LEPs up as non-departmental public bodies. The government has not used the opportunity presented by the Localism Bill to create a legal identity or personality for the LEPs. It remains unclear what the legal identity of LEPs will be. It is likely that, if they do acquire the resources to deliver projects, these will have to be delivered on their behalf by accountable bodies.

The nine English RDAs had a combined annual budget approaching £3 billion. Under the new arrangements, there is to be a Regional Growth Fund, totalling £1.4 billion (over three years), to cover the whole country. Recommendations on the allocation of RGF funds are being made by an advisory panel, chaired by the former Conservative Cabinet minister Michael Heseltine, with the final decisions reserved to ministers.

Table 6.8 shows the allocation of the fund over the three years from 2011/12 to 2013/4.

**Table 6.8: England's Regional Growth Fund allocation 2011/12 to 2013/14**

| 2011/12 | 2012/13 | 2013/14 |
|---|---|---|
| £495m | £505m | £420m |

Source: Local growth white paper, Cm 7961 (2010)

According to the local growth white paper, the RGF is intended to:

*... support in particular those areas and communities that are currently dependent on the public sector make the transition to sustainable private sector-led growth and prosperity.*

While all areas of England are eligible to bid for the RGF, there is a warning that parts of the country "where there is currently high employment, low levels of deprivation and a vibrant private sector" may struggle to show how they meet the criterion spelt out above. So, subject to the quality of the proposals, it seems reasonable to suppose that the lion's share of the RGF will be allocated elsewhere than in the Greater South East.

There have been some suggestions that the RGF plans underestimated the complexity of ensuring that RGF decisions were compatible with European policy on state aid. Projects that are neither submitted by small and medium-sized enterprises, nor located in "assisted areas", are unlikely to qualify.

So far, more than 450 bids, in total worth £2.8 billion, have been submitted to the RGF. How much will be allocated to the North is unclear. However, even if the entire fund were to be granted to the North, it would still fall short of the previous RDA annual spend.

**6.6 The great LEP forward?**

For a new initiative by a new government, the replacement of the RDAs by the LEPs has been a curiously unloved policy. Even Vince Cable, secretary of state for business, has said:

*Getting rid of the RDAs and bringing in LEPs has perhaps been a little Maoist and chaotic ...*[74]

Business has shown a marked lack of enthusiasm for the new approach. Richard Lambert, outgoing director-general of the CBI, in his valedictory speech in January 2011, charged that the government has not been "consistent and focused when it comes to policies that support growth".

74 *The Guardian*, 12 November 2010

One of the instances he cited was:

*... the localism agenda, which has thrown an extra level of uncertainty into the planning system and led to the poorly-handled introduction of the new Local Enterprise Partnerships.*[75]

According to the Financial Times, he added:

*... it's not the demise of the LEPs that people are so worried about, it's the way the LEPs have got off to a pretty ropey start. So far it's been a bit of a shambles.*

Lambert's criticisms followed from the evidence given by the CBI to the House of Commons select committee on business, innovation and skills:

*[We] are concerned that in the rush to abolish Regional Development Agencies (RDAs) and elicit bids for Local Enterprise Partnerships (LEPs), there is a risk of throwing out the baby with the bathwater.*[76]

They went on to refer to the risk of fragmentation, and of too much competition between LEPs. Business was keen to retain something at a regional level.

In its report, the BIS Select Committee made strong recommendations on LEP budgets and powers: *We strongly recommend that, where there is a demonstrable need, the Government consider setting aside funds to support those LEP start-ups which lack the initial capacity to fund themselves ...*

*LEPs will need to have clear powers to influence and determine local authority policy or risk becoming nothing more than talking shops.*[77]

As well as the comments by Vince Cable, the DBIS junior minister Mark Prisk has also expressed reservations. In a leaked letter to Cable in October 2010, Prisk wrote:

*... there is a strong view amongst the business community that many LEPs lack the ambition to make a significant economic impact, undermining our agenda for growth ... lack of credible business representation, negotiations dominated by local politics.*

And even some of the business leaders who have signed up to run Northern LEPs have been critical: according to the Financial Times, James Newman, chair-designate of the Sheffield city region LEP, warned in January 2011 against abandoning much-needed investment too soon in many areas of England, while the chair of the Leeds LEP asked:

*Does a lump of money get thrown out there as a sticking plaster, or is it part of a long tem strategy for sustainable growth?*[78]

75 CBI press release, 24 January 2011
76 BIS Select Committee, written evidence of CBI
77 House of Commons BIS Select Committee, First Report for 2010/11
78 *Financial Times*, 21 January 2011

# 7. Conclusions and recommendations

## 7. Conclusions and recommendations

### 7.1 Introduction

The preceding chapters have:

- shown that the idea of a North/South divide is still a helpful one for policy makers (chapter 2;)
- reviewed the past experience of policies for the North of England, both before and after 1997 (chapters 3 and 4);
- explored changing ideas on spatial development (chapter 5); and
- considered the new policy and institutional framework for the North, following the early months of the Coalition government (chapter 6).

Since the First World War, regional differences in England have proved to be stubborn and intractable. Successive governments of all parties have dedicated substantial budgets to reducing these differences. But the most that governments have achieved is to mitigate the position.

Nevertheless, the Coalition has boldly reasserted the objective of redressing regional imbalances. In so doing it has the support of Northern businesses, councils and their partners.

While it is too soon to reach a long-term verdict on the achievements of the RDAs, it is clear that they did have their limitations. For the Coalition to have abolished the RDAs, however, before their replacement – the LEPs – could become effective, seems short-sighted. Furthermore, the prospect of the LEPs becoming effective, when they have neither a budget for their own running costs, nor any executive capacity of their own, nor any guaranteed access to investment funds, must be remote.

Rebalancing without resources is a recipe for failure.

Should a government committed to geographical rebalancing in the interests of the North, therefore, simply restore the *status quo ante* and re-establish regional development agencies?

The answer is that two things are important:

- the commitment to rebalancing; and
- serious devolved powers and resources to back that commitment.

Beyond this, the scale and boundaries of the geographical entities are second-order issues. City regions have been an effective force for development; some of the other new functional economic market areas may also be useful. Some problems demand a larger spatial level: infrastructure, energy, further and higher education. There is room for strong city regions in strong regions.

It is ironic that the architects of the RDAs began as critics of imposed, top-down policies and structures, and ended up accused of the same thing. It is equally ironic that, under the banner of localism, services that were delivered from Manchester, Leeds and Newcastle will again be delivered from London; decisions that had been delegated to regions are now once again reserved to Whitehall.

By contrast, the delivery of local development policies needs to become more plural, more civic, more empowering for third-sector and community organisations, with a strong central state ensuring fairness and equity. It is not enough simply to recreate traditional delivery organisations.

So the challenge is not simply to restore what went before, but to learn from the RDA experience and create something better and stronger.

This concluding chapter draws on the evidence assembled in the previous chapters, and on the discussion at the round tables organised by the Smith Institute in Northern cities in the winter of 2010/11, to make some recommendations for future policy:

- **Principles for rebalancing**
  Whatever the form of future regional policy – LEPs, RDAs or any other structure – these guiding principles are put forward

- **What Northern business and councils need to do now**
  Recommendations addressed to Northern councils and their partners in business, higher education and the third sector

- **Can the LEPs be made to work?**
  Recommendations addressed to government, LEP boards, business and local government

- **Moving beyond the LEPs: towards a new regional policy**
  Recommendations addressed to present and future government as well as local government, business and other partners

Finally, the report raises three difficult issues for the future:

- resource allocation and the Barnett formula;
- structures and governance; and
- sustainability and growth.

### 7.2 Principles for rebalancing

Some issues and themes are important regardless of the institutional approach to subnational economic development.

The RDAs had objectives that spanned the boundaries between purely economic development issues, social considerations and sustainability. While governments are increasingly committed to sustainable development, and the Coalition agreement includes strong environmental pledges, some argue that the challenges facing LEPs are such that their focus should be confined to economic issues.

A constant theme in the round-table discussions was access to resources, both for running costs and investment. An earlier chapter quotes a business representative in a Northern city, speaking about the LEPs:

*If there's no money, it's not localism, it's centralism.*

If rebalancing means supporting relatively poor regions, enabling them to compete more effectively with richer ones, then it needs money. It cannot be done by simply recycling resources within the poorer regions.

One of the regeneration success stories of recent years has been the renaissance of key Northern cities, out of which has come the drive to create city-region structures. The RDAs had begun to delegate their funding to subregional partnerships, including the city regions. Many of the LEPs, including Greater Manchester, Liverpool, Sheffield and Leeds, are based on successful city regions. City regions should remain a cornerstone of local development.

City regions by themselves, however, do not address the problems of isolated traditional industrial communities in decline. These exist across the North – in Furness, in Lancashire, in Northumberland and Durham, and on Humberside. Communities remote from airports, motorways, national rail routes, universities and cultural centres will never become core cities or creative hubs. But policy needs to provide for these communities as well, and for rural communities.

The experience of the final years of the RDAs, when responsibility for strategic land use planning was transferred to them, was that there did not exist a base of consent, in local government or more widely, for moving planning powers away from elected representatives. Policy makers for the future will need to respect this.

The following principles are therefore recommended:

**Recommendation 1**

**Principles for rebalancing:**

Governments should continue to try to overcome longstanding regional differences in economic performance.

In designing policies to achieve this end, whether through LEPs or other local or regional structures, they should:

(i) ensure that delivery organisations have objectives that include social and sustainable development considerations as well as purely economic ones;

(ii) provide resources adequate to the task from national taxation, distinguishing between resources for local development and resilience, and resources for service provision;

(iii) work with strong city regions as a cornerstone of effective delivery;

(iv) ensure that the policy framework makes adequate provision for isolated declining industrial communities, and for the particular needs of rural business and rural communities; and

(v) ensure that any organisations established with strategic land use planning powers are democratically accountable.

These principles are commended to business and local government in the North, to the Northern LEPs, and to central government.

### 7.3 What Northern business and councils need to do now

One day there will be a successor to regional policy. Until then, the challenge for the North is to ensure that it has an effective voice, and the capacity to influence policy debate – in the words of a council leader at one of the round table discussions, "leading, not pleading".

Both business and local government in the North will need to ensure that the LEPs deliver as much as is possible. But the issues and tasks facing the North of England are beyond the scope of LEPs alone. There is a strong tradition of Northern councils and their partners establishing their own institutions to address pressing regional problems, without waiting for the blessing of the government. Examples from the 1980s include Lancashire Enterprises and the Northern Development Company.

There is also a serious risk at the moment that the capacity and knowledge base for economic development in the North will be destroyed. This is not just a matter of the redundancy of the RDA staff. The regional observatories, which have monitored social and economic conditions, are disappearing. The Northern Way, launched in 2004 and responsible for commissioning pathbreaking research on the North, is at serious risk of closure. The contribution made by the RDAs and government regional offices to the collection and dissemination of evidence has come to an end.

This section of the report therefore looks at actions to be taken by local government and its partners in business, higher education, and the voluntary and community sectors in the North in order to retain, and strengthen, their capacity to support local growth.

- **Structures for the North**
  The LEPs will be focused on delivery in their own areas. But there will be issues on which the North should express a common view to Westminster and Brussels – major scientific and infrastructure investment, higher education and skills, and overall resource allocation. It will be important that individual LEPs are not be played off against each other. (The CBI has already warned in its evidence to the BIS select committee of the dangers of local rivalries.)

  There is a case for establishing a strong strategic advocacy body for the North, based on local government, business and civil society. It should be proactive, not reactive, "leading, not pleading". It should not be an executive body, but should have a small secretariat and access to research and statistics.

- **Resources**
  Major, long-term, questions about resources are considered below. For now, Northern authorities need to develop a set of innovative and creative approaches, aiming to maximise resources from the current local government finance review and the proposed TIFs, as well as developing new sources of investment capital. The local government resources review provides an opportunity for councils to put forward a positive set of proposals.

- **Strategic land use planning**
  Strategic land use planning is being abolished in every region except London. Section 2.3 above details how the previous policy of restraining the growth of London has been reversed: the policy of the London Plan is now that London should invest in transport and infrastructure in order to cope with the growth of population and jobs in London. The new structure of London government effectively makes these decisions for London.

  There are no equivalent structures in the North of England: planning is delegated to unitary, metropolitan and district councils. There are no organisations to take an overarching view. The RDAs had been in the process of assuming responsibility for regional spatial strategies, but, under current legislation, these strategies are being abolished.

  The North, however, needs a plan: a "Northern Plan", as a counterbalance to the London Plan. It should not fall into the trap of laying down detailed, prescriptive targets for homes and jobs, but should try to resolve some of the big strategic choices about investment and infrastructure. Not everywhere can have a cultural industries quarter or a nanotechnology centre. New nuclear power stations have to be built somewhere. Not all new road and rail projects can proceed.

  The absence of any continuing regional planning agencies means that, once again, major investment decisions about the North are being taken in Whitehall without local involvement. If London needs a plan, so does the North.

- **Infrastructure**
  There is a broad consensus across all sectors in the North of England around the need for new investment in infrastructure, and around the importance of improved infrastructure as a necessary precondition for improved economic growth. The RDAs, although established without direct responsibility for infrastructure projects, had significant roles as *advocates* for the infrastructure needs of their regions, and in *co-ordinating priorities* for new infrastructure projects. In 2003, the nine RDAs jointly commissioned a study on strategic infrastructure of national economic importance (SINEI), which set out to identify projects for which cross-regional support existed. Among other proposals, the SINEI study emphasised freight bypass routes around London, and east-west links across the North of England.

Even against the background of substantial reductions in capital as well as revenue spending, the present government has acknowledged this concern by continuing to fund new transport investment projects. The largest, and the furthest advanced, of these is the Crossrail project, in the South East, and other major schemes around London, including the Thameslink rail project, and further work on the M25, are also going ahead.

The government has also committed itself to the High Speed 2 (HS2) rail project, constructing the first phase of a high-speed link to the West Midlands, and on to Greater Manchester and Yorkshire by 2032.[79] According to transport minister Philip Hammond, the £32 billion HS2 line will "allow the economies of the North to benefit much more directly from the economic engine of London".

Journey times between London and Manchester and Leeds would be cut to less than 80 minutes and capacity would be increased. Commitments have also been made to continue with plans by the previous government for electrification of existing rail lines in the North, including Leeds-to-Manchester and Manchester-to-Liverpool. Committed road investment schemes in the North include improvements to the M1, the M60 and the M62.

The difficult question thrown up by the round-table discussions with business and local government across the North is whether the HS2 investment programme is really the right one? And, in particular, whether concentrating resources on HS2, which would eventually lead to a reduction in journey times between London and the North, is the main priority?

The government's proposals for Northern transport infrastructure are spread across more than one spending review period, and it is difficult to be precise about what schemes, and what resources, are fully committed.

But what is really needed is an integrated transport plan for the North, in which access to London is one of several criteria to be considered – others might include:

- east-west, Trans-Pennine links – "Crossrail for the North";
- commuter access in the North's city regions; and
- improved freight links.

Network Rail, backed up by assistance and research from the Northern Way, has developed the Northern Hub proposal (see panel) – investing in track and station capacity across the North to enable the rail network to carry more passengers and freight. The Northern Hub is a major runner for the next spending review period, starting in 2014.

Partner organisations now need, however, to commission the next phase of research and development work, identifying priorities for investment in 2018/19 and beyond.

79 Department for Transport *High Speed Rail: Investing in Britain's Future* (2011)

**The Northern Hub**
Most of the railways in the North were built in the 19th century by a number of competing companies.

In the 1960s and 1970s, with fewer people travelling by train, many lines in the North were axed. However, more people now travel by train than at any time since 1945, and increasing amounts of freight are transported across the North.

*Major problems*

- Not enough track space – major bottlenecks
- Tangled lines at junctions cause delays
- Lack of places for fast trains to pass stopping services

*The plan*

- New section of track at Salford to enable many more through services at Manchester
- Improvements to Manchester Victoria
- New track between Manchester and Leeds
- Cost: £530 million

*Transport benefits*

- Better rail links across the North, with faster and more direct services
- Fewer delays
- Improved commuter and local services
- Double capacity into Trafford Park freight terminals
- Access to potential new freight terminals
- 700 extra trains a day

*Economic benefits*

- £4 billion of benefits to the North
- Return of £4 for every £1 invested

The move away from a regional approach inevitably makes these big infrastructure decisions matters for national government. Of course, much of the expenditure required will always come from national taxation. But the North will need to develop effective institutions of its own to set its own strategy. And the really big decisions are too big for the LEPs; their consequences span too many boundaries.

Many embryonic LEPs have identified local infrastructure projects as important for the future success of their local economies, although their potential role in bringing them about is far from clear. LEPs will, clearly, continue to press and lobby for local priorities; in the previous section it has been proposed that a dedicated infrastructure fund should be developed.

But this is not the same as the Northern regions together setting clear priorities for the major infrastructure schemes needed for the North as a whole. There is a real risk that the atomisation of regional policy making and delivery into autonomous LEPs will make it harder to plan and co-ordinate an integrated transport strategy for the North.

- **Branding and marketing for the North**
  Section 6.4 describes how the Coalition is planning the re-centralisation of inward investment activity to London, with UK Trade & Industry taking the lead role.

  Despite the general abolition of the RDA role, it was announced in December 2010 that there will still be a promotional agency for London, with a budget of £14 million drawn from public funds. Although the details of this are opaque, it seems likely that some of the money will come from the government.

  In the North, alongside the RDAs, the major cities have led the way in promoting foreign direct investment. Manchester, Leeds, Sheffield, Liverpool and Newcastle all have major marketing operations.

  It must be a priority for LEPs to co-operate on inward investment. But there is also a strong case for local authorities and their partners in the three Northern English regions to band together to market the North as a whole.

**Recommendation 2**

**What the North should do now**

(i) Local authorities across the three Northern English regions should take the initiative, together with business, universities and the community and voluntary sector, in establishing a new, strategic advocacy body for the North – a "Council of the North" – to argue the North's case in Westminster and Brussels. Such an organisation should have a lean, minimal, even virtual secretariat, and access to an independent evidence base.

(ii) Building on the legacy of the regional observatories, and drawing where possible on their work, the partners, with the North's 25 universities, and alongside think tanks, should establish an independent research, evidence and statistical organisation, working in conjunction with the Council of the North, but empowered to publish its material independently.

(iii) The current local government finance review creates an opportunity for Northern local authorities to draw up and submit proposals designed to benefit the region as whole. There is also scope for organisations across the region to co-operate in expanding Northern venture capital funds, including in association with the local government pension funds.

(iv) Elected local planning authorities in the three Northern English regions should work together, initially on a non-statutory basis, to develop a strategic plan for the North, covering key housing and employment developments, infrastructure and skills.

(v) Northern local authorities and their partners, working through the Council of the North or a similar body, and informed by independent research and analysis, should aim to collate and prioritise infrastructure projects, building a consensus across the North. This workstream needs to include longer-term work, designed to identify priorities for future spending review periods.

(vi) Councils should actively promote a debate, based on research and data, on the best use of available resources: is HS2 the top priority? Or would a mix of schemes promoting connections across the North deliver better results?

(vii) Business and local government need to ensure that priority is maintained for the Northern Hub project in the next spending review period, and that engineering and project development capacity is allocated to develop future investment programmes.

(viii) Business and local government should actively encourage the emergence of a range of different financial sources for infrastructure development: not just government, but private and public-private sources, including pension funds, perhaps leading to a Northern Infrastructure Fund.

(ix) In addition to local co-operation between LEPs, Northern local authorities and their existing marketing organisations should collaborate to market the North as a whole as a place for business to locate, developing the Northern brand for international use.

**7.4 Can the LEPs be made to work?**

The local enterprise partnerships have had an uneasy and uncertain start, with their origins and their prospects criticised even by the ministers notionally responsible for their establishment. But for the time being LEPs are the only economic development vehicle on offer for the North of England. It is important that they should have the chance to deliver, and for this a number of issues need to be addressed.

Time is short; if the Coalition is serious about what deputy prime minister Nick Clegg has called "geographical rebalancing", action on these points cannot wait.

- **Money for running costs**
  As the DBIS select committee recommended (see chapter 8), LEPs need funding to cover their running costs, at least in the start-up period. Although a £4 million capacity-building fund for the LEPs has now been established by the DBIS, to cover initial studies, this makes no provision for staffing costs.

- **Focus and powers**
  The select committee also expressed concern at the lack of a clear statement of the powers of the LEPs, and referred to the criticism of "mission creep" at the RDAs. While the department has listed a very broad range of possible activities for LEPs, these do not include any clear responsibility for either skills or infrastructure, two of the issues mentioned most frequently in the round-table discussions.

  One of the key principles proposed above is that the objectives of delivery agencies should bring together economic, social and environmental considerations. The LEPs will need to be highly focused, but there is no general consensus about their role. Forging such a consensus is important.

- **Coverage**
  At present the LEP network does not cover the whole of the North. Remedying this is an urgent priority. While the dynamic city regions of Manchester, Merseyside, Leeds and Sheffield have been quick to build partnerships, others – including Humberside and Lancashire, Northumberland and Durham – lag behind. These areas include a number of declining industrial communities.

- **Rural issues**
  The (soon to be abolished) Commission for Rural Communities has expressed concern that rural economies may be marginalised when LEPs come to set their priorities.

- **Investment and project finance**
  The government's Regional Growth Fund is very limited, and will of necessity be spread very thinly. The more limited the resources from government, the more the LEPs will need to bring in funds from other sources, including private- and public-sector pension funds. The government has said it will introduce tax increment financing (TIF), enabling local authorities to have access to the extra stream of business rate income generated by a new development in advance, so as to fund necessary infrastructure. However, without extra incentives for the North this is likely to be of the greatest benefit in the parts of the country with the most buoyant property markets: London and the Greater South East. Whitehall needs to consider how to bias the TIF criteria in favour of the North.

- **Legal identity**
  At present the legal/governance position of LEPs is highly ambiguous. They will not be able to directly spend public money, as they are hybrid groupings of local government representatives and business people, and it is clearly not the government's intention that they should become non-departmental public bodies; much of their work may have to be via "accountable bodies". They will need some legal identity if they are to be able to apply staff. This could be as a company, limited either by shares or by guarantee.

- **Winding down of the RDAs**
  The process of shutting the RDAs is going ahead for the spring of 2012. But it is important – a point emphasised by the DBIS select committee – that the information and knowhow held by the RDAs and the regional observatories should not be dissipated. The government needs to ensure that the funding mandates for the RDAs in the run-up to their abolition provide for the fullest possible handover to the appropriate LEPs.

- **Centralisation of services**
  Government proposals to transfer a number of former RDA services, including inward investment, to the DBIS, are outlined in the paragraph above. The LEPs need to consider urgently how best to retain the skill and expertise in these policy areas within the North.

- **Skills and the labour market**
  Over their 12-year life, the RDAs acquired a limited and precarious stake in skills policy; they never had the lead responsibility. And the succeeding LEPs too will have only marginal involvement on skills, training and work-related learning. Funding for skills is the responsibility of the new Skills Funding Agency; in the blunt words of the local growth white paper, the RDA "role in skills strategy setting and commissioning training provision will cease". LEPs are being encouraged to develop effective local relationships. Yet few policy areas are more critical than skills for future growth. For many years skills policy in England has been criticised for failing to provide potential employees, young and in mid career, with the skills that employers need. The sector has been repeatedly reorganised, yet the criticism persists.

- **Building on success**
  Some of the Northern LEPs are based closely on the city regions that had evolved under the previous government. Greater Manchester, Merseyside, Leeds and Sheffield city regions have strong positive investment records, and had shown creativity in developing new governance institutions. Manchester, in particular, has secured agreement for the establishment of a combined authority, bringing together transport, economic development and other functions.

**Recommendation 3**

**Making the LEPs effective**
The recommendations that follow are addressed to national government and to the embryonic Northern LEPs:

(i) The government should provide adequate financial support to cover the start-up and operating costs of LEPs, including governance and legal issues, policy development, covering the costs of permanent or temporary staff where necessary.

(ii) The government should ensure that the core objectives of the LEPs bring together economic, social and environmental considerations. LEP boards need to work towards a clearly agreed consensus between partners on what the LEP will (and will not) do.

(iii) The government should take a lead in working with the potential partners in areas where LEPs have not yet been approved, in order to ensure that arrangements are in place across the Northern regions. These are the communities recognised by the Coalition government as most at risk of job losses from public spending cuts. Until the new structure is in place, RDAs should retain some capacity to support economic growth and job creation in these areas.

(iv) The government should recognise that the resources so far allocated to the Regional Growth Fund can make only a limited contribution to the recovery of the North. Further, significant, dedicated funding streams will be required, directed in particular towards infrastructure and skills projects.

(v) Where strong partnerships have emerged, backed by robust institutional arrangements, in particular in the city regions, the government needs to ensure that these partnerships enjoy the greatest possible level of autonomy and discretion, so that they can fulfil their potential.

(vi) All the LEPs in each of the three Northern regions should work with the outgoing RDAs, and with regional universities, to ensure that the knowledge, information and research held by the RDA is conserved for the benefit of regional development and not scattered.

(vii) LEPs should work with rural organisations and communities to ensure that rural issues are not lost to view in urban-dominated areas.

(viii) LEPs should take the lead in establishing their own investment funds, working with local authority and other pension funds and with the private financial sector; they need to assess the potential for their areas to benefit from the proposed TIF arrangements.

(ix) LEPs need to review the services proposed for transfer back to Whitehall, and develop plans to retain these activities within their region, if necessary through joint working between LEPs.

(x) The government should agree a clearly defined role for LEPs in setting local priorities for skills support, with representation on the boards of local further-education colleges, and the right to have their proposals considered.

(xi) A specific tranche of the Regional Growth Fund should be available to supplement other skills funding, where local priority needs are not otherwise being met by mainstream funding.

**7.5 Beyond the LEPs: towards a new regional policy**
For the present, the LEPs are the only show in town. The previous section put forward a set of urgent, practical proposals to show how the LEPs could be made to deliver at least something. But weak institutions with unclear mandates and limited resources cannot make a serious contribution to the objective of economic rebalancing. The longer the uncertainty, the harder it will become for LEPs to engage the private sector. Sooner or later a government will need to rebuild regional policy. This section draws together some recommendations on how this might be done, in the light of present economic conditions and past experience of regional policy.

Since the Second World War governments in Britain and elsewhere have operated a regional policy: that is to say, they have actively discriminated, in programmes and expenditure, in favour of areas of the country where economic performance is relatively weak, and unemployment or worklessness relatively high.

The Coalition has endorsed the objective of geographical rebalancing of the economy, but has taken away the resources necessary to achieve that objective. By default, the government's regional policy is to support a few big infrastructure projects in the North, while providing hardly any funds for local (and subregional) economic development. Otherwise the Coalition appears to be spatially blind, leaving the initiative at local level.

At the same time, the government is supporting some very large infrastructure projects in London and the South, and major science schemes in London and Oxfordshire. As section 6.3 shows, the overall effect of the 2010/11 local government finance settlement was to shift resources away from densely populated urban areas – primarily, though not exclusively, in the North – to suburban and rural areas. The ending of programmes focused on disadvantaged communities – such as Housing Market Renewal, and the Working Neighbourhoods Fund – has had a similar effect. Meanwhile, policy initiatives, such as the New Homes Bonus scheme, will actually shift resources from Northern councils to those in the South.

So government has not abolished regional policy, just weakened its redistributive character. An opportunity now exists to design a new regional policy: what worked well in the past? What less well? How should regional policy address the challenges of economic change, and sustainable development? How are the challenges faced by the Northern regions different from those of the past? What is the realistic aim government could have?

All communities dependent on traditional industries face change sooner or later; in England, the major regional cities have adjusted to change better than more remote towns with a narrower industrial base. Even though governments can no longer take jobs to where people live, directly assisting companies to move to areas affected by change, it is still important for government to prioritise support for those areas, both through funding streams for mainstream services, and directly for local economic development, encouraging indigenous growth in regions. This approach is adopted by most EU states and endorsed by the European Commission.

Successful regional policy will require delivery organisations on the ground. The scale and boundaries of any new delivery bodies are less important than ensuring that they have appropriate powers and executive capacity, adequate resources to meet their running costs, and access to investment funding. Strong city regions could comfortably coexist with strong regions.

In the context of the principles proposed in previous sections, three things are necessary for future regional policy:

- opportunities for action;
- resources; and
- institutions.

**Opportunities for action**

In a world where capital is internationally mobile, what are the means by which governments can still influence the prosperity and resilience of local economies?

- **Growing indigenous economies**
  A new regional policy must focus on working with the businesses and skills in a place in order to bring new jobs and prosperity. It must go with the grain of success, working with established city regions and other subregional groupings.

- **Targeted action for areas in decline**
  Something like the Grants for Business Investment scheme needs to be restored. This provides a simple way of supporting firms in areas of economic disadvantage, in a way compliant with EU rules on state aid.

- **Worklessness and job creation**
  The government's new Work Programme is an initiative to help claimants return to work through counselling, training, basic education and other forms of support. Research by Sheffield Hallam University has raised the concern that, especially in former industrial communities, there may not be sufficient jobs for people on the Work Programme.

  Sheffield Hallam proposes a new job creation programme, targeted at incapacity benefit claimants in declining industrial communities. As with the Future Jobs Fund (due to end in March 2011), jobs would be full-time, paid at the minimum wage, and expected to deliver community benefits.

- **Location of government agencies**
  Although governments can no longer move companies around the country, they can move their own staff and institutions, and can influence the decisions of institutions close to government, as in the case of the move of substantial parts of the BBC to Salford.

  Since the 1960s, governments have proactively relocated civil service jobs to areas of the country in need of additional employment. This process needs to continue. In addition, the Coalition is committed to establishing a number of new agencies, including a Green Infrastructure Bank and a Big Society Bank.

  The head offices of these new agencies should be in the North.

- **Role of higher education**
  The North is home to 25 universities. They make a major contribution to the regional economy – not just in the obvious sense of developing learning and skills, but also as major employers in their own right, centres of scientific research, and, through their business schools, in providing direct support to business. Universities contribute to making successful places: they generate jobs for support staff as well as academics, and bring the spending power of students to support local business. With lower land costs, and a lower

cost of living for students, it could be argued that the North has a competitive advantage in higher education. With higher education becoming increasingly market-driven, Northern universities need to consider together how to respond to the new challenges this will bring.

- **Investment in science and technology**
  Just as government can still control the location of its own activities, so it can strongly influence decisions on the location for major public centres and facilities for scientific research.

  The recent spending review announcement confirmed the location of two major projects, one in London and one in Oxfordshire. This represents a missed opportunity: government can assist the development and diversification of Northern economies by supporting major scientific investment there. The successful development of low-carbon technologies in the North is an example of what can be achieved.

- **Housing and regeneration**
  The RDAs made a major contribution to physical regeneration and place making, linked to wider social and economic objectives. Except in the central areas of the most successful cities, this activity has now come to a halt. The Homes & Communities Agency, while continuing as a facilitating and enabling agency, will retain only a very limited capital budget.

  At the same time, the Housing Market Renewal programme, which aimed to kick-start ailing housing markets, has had its funding withdrawn, leaving many neighbourhoods in a semi-derelict state.

  But the need to renew the physical fabric of Northern communities has not gone away. Good physical regeneration projects mobilise private as well as public resources, and renew investor as well as public confidence. And construction jobs provide a useful opportunity for getting people back to work.

  The government should reform its New Homes Bonus scheme to incentivise councils in deprived areas which support regeneration and place making, rather than just new house building.

- **Sustainability, energy and climate change**
  The RDAs supported many innovative environmental projects. For the future, sustainability will need to be at the heart of spatial development policy – an issue further considered below.

  However, there are important opportunities in this field in the coming years. Electricity supply may need to double between now and 2050, and the increase must come from low-carbon sources. Possible energy sources include nuclear, renewables and bioenergy. Where possible, new-generation capacity, and equipment manufacture, should be located in the North.

- **Skills**
  The RDAs only ever had a limited, consultative role in skills policy. Yet skills is an issue raised consistently by business as holding back economic performance in the North. In any future regional policy, skills should be much more of a priority and more closely integrated with broader economic considerations.

- **Infrastructure**
  The North has major infrastructure needs. Responsibility for meeting those needs is shared between a range of bodies, including government departments and agencies, and the private sector. With the disappearance of the RDAs and the government regional offices, all government funding decisions will now be taken in London. Northern local authorities and their partners must play a more active role in shaping and co-ordinating infrastructure policy and funding.

**Resources**

One of the five principles put forward in Recommendation 1 is that governments should provide resources adequate to the task of implementing a new regional policy from national taxation. Continuing regional disparities on the scale that persists between the Greater South East and the three Northern regions cannot be overcome simply by the resources of the poorer regions themselves.

In the spending review, expenditure on economic development and regeneration was treated as service spending and cut along with other programmes. But effective spending on local growth and job creation is important at times of downturn, and should be considered separately. Targeted expenditure on sound projects can reduce spending on benefits.

The issue of ensuring that the North has secure, long-term access to funds for economic development and regeneration is discussed below. At their peak, the three Northern RDAs invested annual budgets of almost £1 billion. Even in 2010/11 their budget was £574 million – more than the new Regional Growth Fund will provide in 2011/12 for the whole country.

These budgets have now been cut as part of the general spending review. As an initial guideline for restoring the resources for regional development, a new policy should start with the same level of funding as was available to the RDAs in their last full year.

**Institutions**

The regional development agencies in the North are already being missed. They had a powerful record of delivery against their core statutory objectives. While they could not by themselves reverse the trend towards the concentration of wealth and power in the South East of England, they provided an important resource for the growth and development of all regional economies. As the three Northern regions enter into a period of profound economic change, the absence of the capacity and professionalism of the RDAs will be felt (leaving aside the cost of winding up the Northern RDAs, which could be over £350 million).

It is suggested that any successors to the RDAs should be:

- focused on the task of growing the North's regional economies;
- strategic;
- slim;
- locally accountable; and
- mandated to work with the city regions and other subregional groupings, including LEPs.

In 1997, the incoming government adopted the existing government regional bodies. Even at that time there were those who argued that it was a mistake to subdivide the North into three regions: better to create one big Northern region, with a critical mass such that it could hold its own against other British and European regions

Most of the contributors to this inquiry agreed that the North would suffer from the withdrawal of strategic planning and regional co-ordination, particularly for cross-boundary issues such as infrastructure. The absence of regional proofing of national policies would also undermine spatial planning.

However, the case for a "Northern Plan" in part depends on the devolution settlement for England and future reform of local government.

**Recommendation 4**

**Beyond the LEPs: towards a new regional policy**
Future regional policy should:

(i) be firmly based on the principles outlined in Recommendation 1;

(ii) aim to grow the indigenous economy of the region, working with local business and local skills, and supporting successful local economies, as in the city regions;

(iii) include targeted support for businesses with strong potential in areas of economic decline, along the lines of the Grants for Business Investment scheme;

(iv) include new job creation programmes, in particular for traditional industrial areas where worklessness is high;

(v) continue the aim of relocating jobs in government departments and agencies to the North of England;

(vi) involve close co-operation with the North's 25 universities across the range of teaching, research and business spin-off;

(vii) actively aim to locate major national scientific research facilities in the North of England;

(viii) work with the Homes & Communities Agency, continuing investment in the physical fabric of the North;

(ix) aim to secure investment for the North, both in new generating capacity and in renewable energy, and equipment manufacture for sustainable energy policy;

(x) integrate regional skills policy with other aspects of economic development;

(xi) include responsibility for the co-ordination of infrastructure requirements;

(xii) treat funding for economic recovery and local growth separately from spending for service provision;

(xiii) initially restore funding to the North for economic development to the level of 2010/11, the last full year of the RDAs (£574 million), until a full assessment of needs can be carried out;

(xiv) ensure that any new regional structures:

- are slim and strategic – not major employers of staff;
- have clearly defined economic, social and sustainable development objectives;
- have their own policy and analytical capacity;
- devolve power and resources to city regions, local authorities and LEPs;
- are accountable to stakeholders in their region.

(xv) before creating any successor to the RDAs, review regional boundaries to determine whether it would be best to create a single, pan-Northern agency; and

(xvi) not transfer strategic land use planning powers to a regional tier without democratic accountability.

**7.6 Resource allocation and the Barnett formula**
Section 7.5 puts forward a basis for establishing a new regional policy, and suggests that an initial budget for the North could be based on the budget for the last year of the RDAs.

For the future, however, it will be necessary to look again at the distribution of resources between the regions and nations of the UK. There are major issues of fairness affecting the Northern English regions. But imminent changes in the funding arrangements for other parts of the UK create the need, and the opportunity, for changes in the way resources are allocated to the North.

This brings together two long-running debates:

- the issue of the distribution of funds within the UK, between the country as a whole, the devolved administrations in Scotland, Wales and Northern Ireland, and England – the Barnett formula; and
- the distribution of central government financial support for local government in England – the local government finance settlement.

Britain used to be a unitary state with an unwritten constitution; it is, cautiously and hesitantly, evolving towards a more federal state with a written constitution. This slow and gradual change has profound implications for the North.

The devolved administrations in Scotland, Wales and Northern Ireland started as elected bodies with limited or no tax-raising powers, and are moving slowly in the direction of acquiring more extensive tax-raising powers. English local authorities began as elected authorities with tax-raising powers, and have gradually seen those powers become more and more limited.

For both the devolved administrations and English local authorities, any locally raised receipts are supplemented by grants from Whitehall. In the case of the devolved administrations, the level of the grant is determined by the Barnett formula; in the case of English local government, by a formula based on need.

Widely perceived as arbitrary, the Barnett formula starts from inherited patterns of expenditure in the 1970s in determining allocations to the devolved nations within the UK. Changes in the grant to the devolved administrations are calculated by considering three elements:

- the changes in spending for England (or England and Wales in some cases) by UK departments;
- the "comparability percentage", which essentially refers to the extent to which a programme or service is devolved; and
- the size of the population compared with England.

In effect, this means that for every pound of extra spending in England each year on a service that is devolved, Scotland, Wales and Northern Ireland will get an increase in their block grant proportionate to their relative populations.[80]

Table 7.1 shows Treasury figures for public spending per head in the UK for 2008/09, by regions and devolved nations.

Barnett has long been criticised as producing unfair outcomes for the Northern English regions; a number of recent developments have served to reinforce those criticisms. Reviews of the financial position of the devolved governments in Scotland and Wales (the Calman and Holtham reports, respectively) have, for example, reopened the issue of the block grants. Holtham explicitly recommends that Wales should move to a system of grant allocation based on need; Calman proposes that Scotland should retain the Barnett approach for the time being, until a proper assessment of spending needs across the UK has been carried out.

In the long run, it will be difficult for governments to resist the notion that the allocation of resources to subnational areas should be on the basis of need. It has, of course, already taken some time for us to reach the long run: Barnett goes back to the 1970s, and its antecedents go back to the 1880s. All secretaries of state for Scotland have always been advised by their officials to resist any move towards a needs-based formula.

80 McLean, I, Lodge, G and Schmuecker, K *Fair Shares? Barnett and the Politics of Public Expenditure* (Institute of Public Policy Research, 2008)

**Table 7.1: Public spending per head, 2008/09**

| | £ | Index (UK=100) |
|---|---|---|
| North East | 8,783 | 107 |
| North West | 8,751 | 106 |
| Yorkshire & Humber | 7,848 | 95 |
| East Midlands | 7,339 | 89 |
| West Midlands | 8,034 | 98 |
| East | 7,001 | 85 |
| London | 9,666 | 118 |
| South East | 6,921 | 84 |
| South West | 7,400 | 90 |
| England | 7,971 | 97 |
| Scotland | 9,538 | 116 |
| Wales | 9,162 | 111 |
| Northern Ireland | 10,003 | 122 |
| UK identifiable expenditure | 8,219 | 100 |

Source: House of Commons Library note SN/EP/4750, from HM Treasury's PESA 2009

This matters for the North. As long as economic activity is unevenly distributed, so will potential tax bases be uneven – property, income, sales, will all be concentrated in the wealthier regions. That is almost a definition of what a wealthy region is. Local government in the North will need to balance the demand for freedom and autonomy against the possibility that they would simply gain the freedom to put up tax rates. Equalisation and central grants will always matter – they will be important for the cities, but vital for declining older industrial areas.

However, what is new for the North is that the Calman and Holtham reviews have put the issue of reform on the table, and one of the devolved administrations, Wales, is supporting a move towards a needs-based formula.

Local government in the North of England therefore needs to get fully involved in the Barnett debate; to argue that the variations across the English regions are such that allocations to England must be considered at the regional, not the national level; and to make common cause with the Welsh.

In the end, the issues with Barnett and local government finance are similar: the balance between what can be raised locally, and what needs to be supplied by grant aid from the centre.

### 7.7 Structures and democracy: answering the English Question

Britain is partway through a constitutional upheaval. The full implications of devolution to Wales, Scotland and Northern Ireland have yet to be worked through.

Some talk of the West Lothian Question – how is that *Scottish* MPs can vote on *English* schools and hospitals while *English* MPs cannot vote on *Scottish* schools and hospitals?

Others talk of the English Question – Kevin Morgan has described England as "the gaping hole in the devolution settlement".[81]

Others again call for a separate English parliament.

These issues will not be resolved easily or overnight. The original intention of the Labour government was for a staged process of regional devolution, starting with RDAs, introducing indirectly elected regional chambers, and then moving to elected regional assemblies. This process stalled following the unsuccessful referendum in the North East in 2004.

The RDAs were always vulnerable to the criticism that their accountability was upwards, to national government, rather than downwards to local people. This was exacerbated by the move, in the last phase of Labour's period in office, to transfer responsibility for the regional spatial strategies to the unelected RDAs. The upshot is that, while devolution to Scotland and Wales, and the creation of the London mayoralty, have won broad support as part of the long-term constitutional settlement, it has proved possible for an incoming government to abolish the RDAs virtually overnight.

Recommendation 1 proposes that, as a guiding principle for future regional policy, there should be no future transfer of planning powers to unelected bodies.

This does not, however, obviate the need for strategic planning for areas larger than individual districts. Not all planning issues can be properly resolved at a district (let alone a neighbourhood) level: roads, railways, power stations, wind farms, recycling plants, ports and airports, new homes and shopping centres, while they may be located in one district, affect many others. It is a strange anomaly that only London, of all the English regions, will now have a strategic plan.

The last national review of English local government, the Royal Commission led by Redcliffe-Maud, reported in 1969. Its recommendations were only ever implemented in part, and the present pattern of local government structures has evolved piecemeal over the following 40 years. It predates entry into the EU, devolution to Scotland and Wales, and the major reorganisation of London government in 2000 which established the office of the strong city-region executive mayor.

In the three Northern regions, two-tier local government remains in the shire counties of Lancashire, Cumbria, and North Yorkshire, albeit with unitary authorities carved out of Lancashire in Blackburn and Blackpool, and at York from North Yorkshire. In Northumberland and Durham, unitary counties have replaced the former two-tier system, while Cheshire has become four unitary authorities. Elsewhere, the metropolitan structures in Greater Manchester, Merseyside, West and South Yorkshire, and Tyneside have persisted without their county councils since 1985, and groups of unitary councils have replaced the former counties of Humberside and Teesside. In the North, only Doncaster, North Tyneside, Hartlepool and Middlesbrough have adopted the mayoral model of government, although new legislation will aim to introduce mayors for all the major cities. Greater Manchester is in the process of establishing stronger executive functions, bringing the city region together.

Structures are complex and asymmetrical; finance is more and more centralised; and there is no democratically accountable basis for strategic planning above district level outside London. Any government that wants to introduce arrangements for planning and economic development above district level will need to mobilise the broadest possible consensus in support of their proposals. An incoming government could not simply re-establish the RDAs: they would need to look at the whole issue of the governance of England. It is now time for a new inquiry to re-examine functions, accountability, planning and finance.

In Scotland, the key preparatory work for devolution was undertaken by the independent Constitutional Convention: backed by organisations in civil society rather than by government, supported by voluntary organisations, church groups and political parties. Because the convention had produced its report, and built a broad consensus, an incoming government could legislate quickly. Something similar is needed for England.

**7.8 Sustainability and growth**

Much divides the Coalition from its New Labour predecessor. But they are united in their commitment to economic growth. Indeed:

*The Government's central economic objective is to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.*[82]

*The government is determined that as we reduce the deficit, we also rebalance the economy and put it on a greener, more sustainable footing.*[83]

Both governments have placed economic growth at the heart of their policies towards local and regional economies.

Both also allude to environmental concerns and sustainability. Chapter 6 of this report refers to the strong record of the RDAs on sustainable development – although, in the RDA Act, the sustainable development aim was the only one of the five statutory purposes of the agencies to be qualified by the curious phrase "where it is relevant to its area to do so". The LEPs will not have a statutory purpose of sustainable development – indeed, they will not have any statutory purposes at all.

On environmental issues, the role of the LEPs is seen as "exploring opportunities for developing financial and non financial

81 Morgan, K "The English Question: Regional Perspectives on a Fractured Nation" in *Regional Studies*, 36 (7) (2002)

82 HM Treasury, DTI and DCLG *Regional Economic Performance to Date* (December 2006)

83 "The Coalition Government's Vision for Sustainble Development" (2011) (http://sd.defra.gov.uk/2011/02/the-coalition-governments-vision-for-sustainable-development/)

incentives on renewable energy projects and Green Deal".[84]

Meanwhile, on the future of RDA work on low-carbon issues, the white paper says:

*… some local areas have clearer opportunities for delivering low carbon enterprise and growth than others. It will be for local enterprise partnerships to make the most of their areas of strength or comparative advantage through coordination of industry and local partners.*[85]

Too often, the environment is relegated to the category of "green jobs" – another sector, like casinos, or motor manufacturing, or banking, for which a place might develop a competitive advantage.

There is a strong, if tacit, assumption that underpins the statements on local and regional economies from successive governments: it is that continued economic growth is possible, desirable and necessary.

That assumption is increasingly being challenged, in Britain and elsewhere in the world, by environmentalists, green economists, and think tanks. Within government, the (soon to be abolished) Sustainable Development Commission (SDC) has questioned the underlying vision of prosperity built on continual economic growth. In its report Prosperity without Growth?, the SDC argued:

*Economic growth is supposed to deliver prosperity. Higher incomes should mean better choices, richer lives, an improved quality of life for us all. That at least is the conventional wisdom. But things haven't always turned out that way.*[86]

The SDC does not underestimate the changes necessary – in economics, in government, in public expectations – in moving towards a sustainable economy. It argues that government "tends to stall endlessly on the over-arching commitment to economic growth".[87]

What are the implications of all this for the North of England? First, central government, local government, business, the LEPs, and their other partners, cannot continue to compartmentalise questions of sustainability as simply being about "green jobs". The debate on growth does not have an easy or simple conclusion. But economic development organisations need to incorporate thinking on growth and sustainability into their approach.

Second, these issues are central to the prospects of disadvantaged communities. The eternal hope of just one more big investment decision, just one more car plant or power station, being sufficient to transform the fortunes of a declining industrial community needs to be replaced by greater stress on local strengths, on local resilience.

There is another way in which the issue of future economic growth may affect the future of the Northern regions. Researchers for the government's Foresight programme looked at the future of land use in Britain, in particular if growth continues in the South East, in the context of demographic, climate and technological change. Global warming and population change, for example, are likely to lead to acute pressure on water resources in the South East.

They concluded:

*There are important decisions to be made on the desirable balance between accommodating a rising population in the South east of England, or encouraging population shifts to other regions or countries in the UK.*[88]

Possible policy options could include either ensuring that those who live and work in the South East bear the full costs (on housing, transport, congestion and pollution) – or incentivising development elsewhere.

These longer-term environmental considerations could lead to a fundamental reappraisal of the nature and scope of regional policy. There needs to be a new synthesis between local development and sustainability, recognising that unrestrained growth is no longer the objective of all stakeholders.

**7.9 Conclusion**

The Coalition has set out to rebalance the economy. But the central contention of this report is that Coalition economic policies will do little to reverse existing long-standing imbalances. Indeed, withdrawing resources may have the effect of widening the gap between prosperous and lagging parts of the country, making a bad situation worse.

Chapter 2 of this report compares conditions in the three Northern English regions with the Greater South East. It demonstrates that wealth and prosperity are concentrated in London and the South East – and in a smaller area, running westwards from Canary Wharf and the City, through the West End, towards Heathrow and beyond on the M4 corridor, spreading out into an arc of affluent dormitory towns to the north and south of London.

Chapters 3 and 4 examine the record since the 1930s of the attempts to bring new jobs and economic activity to England's declining regions. Success has always been limited, difficult and slow. For 100 years the British economy has been subject to powerful centralising forces. As the basic industries of the Industrial Revolution declined, so, as Barlow described, the new consumer goods industries of the inter-war period established themselves around London. The further decline of manufacturing was matched by the growing importance of finance and business services, and jobs (especially senior jobs) in these sectors are overwhelmingly concentrated in the South. Corporate headquarters too are mostly in and around London.

In the face of these trends, governments have continued to try to steer investment to less prosperous regions. The report documents

84 DBIS *Local Growth: Realising Every Place's Potential*, Cm 7961 (2010)
85 Ibid
86 Sustainable Development Commission *Prosperity without Growth* (2009)
87 Ibid

88 Government Office for Science *Foresight Land Use Futures Project* (2010)

the results: half a million jobs in "development areas" between 1945 and 1966; half a million jobs created or safeguarded by the RDAs between 2002/03 and 2006/07. These numbers represent real achievements and value for money. But they were never going to be sufficient to reverse the trend. Regional policies, old and new, made a difference, and it was difference worth making. Not to invest would have been worse.

And Britain is not unique in facing these problems. Inter-regional disparities persist in many developed and developing countries (for example, between east and west Germany; between east and west Canada; between north and south Italy; between coastal and rural Brazil; and between east and west Ireland). The EU has made convergence a major theme of policy. The evidence from OECD studies is that it is possible for economies to make progress on reducing divergence – but that it is necessary for governments to invest in regional policy over the long term. Successful interventions to improve regional (and local) growth demands greater synchronisation between the political/policy cycles (every four to five years) and the business/development cycles (10 to 20 years).

The report argues for a holistic approach to development, bringing together economic, social and environmental aims. Within a framework of basic principles, the recommendations in this report consider the steps that business and local government partners in the North need to take now. Amid fears that the new local enterprise partnerships will be weak, under-resourced, and ineffectual, the report makes practical suggestions to improve them. And it suggests what a new regional policy might be like – not simply reinventing the regional development agencies, but learning from their experience, building something better, more accountable, sensitive to the strengths and dynamism of the great cities of the North, but tasked and resourced to support isolated industrial communities as well.

The present year marks a turning point in policies for local development, and the report suggests that it is now necessary to address some difficult issues: the way in which central government allocates resources across the UK (the Barnett formula); the structure of government within England after devolution (the English Question); and the relationship between economic growth and sustainability.

The report has shown that the task of rebalancing the economy, adopted as an objective by the Coalition, is neither easy nor straightforward. It demands a fairer allocation of resources, strong delivery structures, and a lasting commitment from government and its partners in the councils and businesses of the North. Without these basic building blocks, the prospects for the North look worryingly bleak.

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