



Institute for Fiscal Studies

IFS Green Budget 2020: Chapter 7

Alex Davenport
Ben Zaranko

Levelling up: where and how?



7. Levelling up: where and how?

Alex Davenport and Ben Zaranko (IFS)

Key findings

- 1 The UK is one of the most geographically unequal countries in the developed world; compared with 26 other developed countries, it ranks near the top of the league table** on most measures of regional economic inequality. There are also substantial differences in earnings, wealth, health, educational attainment and social mobility across the country. That said, median living standards, as measured by net income after housing costs, are not so unequally distributed and on this measure London does not perform especially well. In addition, it is not a simple case of London and the South East versus the rest: the inequalities *within* regions are larger than the inequalities *between* regions.
- 2 Neither the focus on nor the rhetoric around ‘levelling up’ is new, but reducing these spatial disparities is a stated priority of this government. The UK’s regional inequalities are deep-rooted and complex: even well-designed policies could take years or even decades to have meaningful effects.** ‘Levelling up’ will need to be a long-term, multifaceted agenda if it is to succeed where other governments have failed in the past.
- 3 There is no single set of factors that characterise a ‘left-behind’ place. In turn, this means there is no one-size-fits-all policy agenda. The challenges faced by cities such as Newcastle and Glasgow are different from those faced by towns such as**

Dudley and Merthyr Tydfil, which are in turn different from those faced by coastal communities such as Margate and Blackpool.

The government cannot be all things to all places. It needs to decide what it is trying to achieve and how.

- 4 We combine measures of pay, employment, formal education and incapacity benefits to identify which areas might be considered 'left behind' and in need of 'levelling up'. These areas can be found across the country, but **left-behind places are particularly concentrated in large towns and cities outside of London and the South East, in former industrial regions, and in coastal and isolated rural areas.**
- 5 However, layered on top of these deep-seated inequalities are the more recent economic shocks from COVID-19 and Brexit. Each will be a challenge in its own way: we find that **the traditionally 'left-behind' areas are *not* those most exposed to the short-term economic impact of COVID-19.** This complicates the picture with regard to 'levelling up', since it introduces another dimension of geographic inequality.
- 6 There are, however, important exceptions: a number of **hospitality- and tourism-dependent coastal communities** (such as Blackpool, Great Yarmouth and the Isle of Wight), and the **centres of some Northern and Scottish cities** (such as Liverpool, Glasgow and Dundee), **face the 'double whammy' of being both 'left behind' and vulnerable to the immediate economic fallout from the pandemic.**
- 7 **Brexit could make 'levelling up' more difficult.** While the economic impact of Brexit remains highly uncertain, the options on the table are likely to impose a particularly high economic cost on some groups, such as less-educated male workers in blue-collar jobs. Many of these are **concentrated in traditionally 'left-behind' areas in the North of England, South Wales and the West Midlands.**

- 8 **Currently, some sorts of public spending – transport and R&D, for example – are heavily concentrated in London and the South East. Increasing spending on these in other parts of the country might help with levelling up.** But we should not forget that ‘current’ spending – especially on things such as schools and further education – may be as, if not more, effective.
- 9 **There are at least eight existing place-based spending programmes** relevant to the ‘levelling-up’ agenda. These include the EU’s Regional Development Fund, which provides funding only until the end of this year. Rather than reinventing the wheel, the government could seek to build on these schemes, and develop a broader strategy around how they fit together.
- 10 This year’s Spending Review is a natural opportunity to set out details on these and many other areas. **The Chancellor should pay particular attention to the important role that local governments will play in ‘levelling up’** – potentially as a part of a broader devolution strategy – and ensure that this is backed up with adequate funding, both for investment and for running costs.

7.1 Introduction

In his first speech as Prime Minister, Boris Johnson stood outside Number 10 Downing Street and promised to ‘level up across Britain’ and ‘answer the plea of the forgotten people and the left-behind towns’. He pledged to ‘unleash the productive power’ of every corner of the country, and made clear that boosting economic performance outside of London and the South East would be a priority of his new government.

This is not the first time that spatial disparities across the UK have been high on the policy agenda. Nor are the rhetoric and language new. A Treasury report published in 2003 declared that ‘for too long, too many nations and regions of the United

Kingdom have been allowed to fall behind’ and argued that ‘real economic gain must come from a process of “levelling up” – enabling every part of the UK to develop and grow to its full potential’ (HM Treasury, 2003). Regional policies in the UK date further back still: the 1934 Special Areas Act sought to provide economic assistance to the parts of the country suffering from especially high rates of unemployment during the Great Depression. But the issue has certainly become increasingly prominent in recent years, and concerns about inequalities between different parts of the UK have very much come to the fore.

While ‘levelling up’ is clearly a priority of this government, precisely which areas are to be ‘levelled up’, and how, remains to be seen. Some of the detail is likely to come at the Spending Review (SR) later this year, a stated priority of which is to ‘level up economic opportunity across all nations and regions of the country’ (HM Treasury, 2020a). This is almost certain to translate into a commitment to greater amounts of investment in research and development (R&D), transport and other infrastructure outside of London and the South East. But inequalities between regions are deep-rooted, complex and multifaceted. They cannot be addressed through investment spending alone.

In any case, before the government makes firm decisions on the ‘how’, it needs to think carefully about the ‘where’. Is the focus to be on reviving ‘left-behind’ towns and struggling coastal communities as economically successful places in their own right? Or is the priority to boost the productivity of the UK’s large cities outside of London – which lag behind similarly sized cities in other countries – as a means of boosting their wider regions? If the government seeks to be all things to all places, it risks spreading its resources too thinly.

The fallout from COVID-19 complicates the situation. In the immediate term, some parts of the country will be hit harder by the recession induced by the public health response to the pandemic, owing primarily to differences in sectoral and skill composition across areas. Longer term, the crisis also has the potential to accelerate structural changes in the UK economy. It remains far from clear how this will pan out, and it is possible that one consequence will be a diffusion of prosperity away from extremely large urban centres such as London. But rapid structural changes – such as deindustrialisation in the 1970s and 1980s – are often accompanied by substantial economic pain that endures for a considerable time.

Brexit complicates the picture further, not least because the details of the future economic UK–EU relationship are still being negotiated, and a disorderly ‘no deal’ exit remains a possibility. The overall hit to economic prosperity from Brexit is highly uncertain, but will be greater for some industries and regions than others. Among other factors, the distribution of the costs will depend on the nature of the future relationship, the extent to which regions and industries currently rely on trade with the EU, and how easily they are able to take advantage of any new opportunities within the UK and elsewhere. Based on the current set of economic outcomes that appear possible (see Chapter 3), we can be confident that areas with significant manufacturing employment and a less-educated workforce are likely to face substantial costs from Brexit (though the ranking of which areas might be worst affected is harder to predict). In any case, it seems unavoidable that some of the areas considered ‘left behind’ will face considerable economic costs from the UK’s departure from the EU (though these should, of course, be weighed against non-economic benefits such as greater sovereignty).

In this chapter, we consider the evidence on UK regional inequalities and place them in international context. We then assess which areas might be classified as ‘left behind’ and in need of ‘levelling up’. Support for areas badly affected by the economic fallout from COVID-19 and/or by economic changes related to Brexit will also need to be incorporated into the ‘levelling-up’ agenda. We demonstrate that, for the most part, the traditionally ‘left-behind’ areas of the UK are *not* those most exposed to the short-term economic impact of COVID-19. However, a number of deprived coastal communities (such as Blackpool, Great Yarmouth and the Isle of Wight) appear to be both ‘left behind’ and particularly vulnerable to the immediate economic fallout from the pandemic, as do a number of big cities outside of London. The picture with regard to Brexit is less clear, but we ought to be concerned about the potential for the economic costs of Brexit to fall heavily on areas with less-educated workforces and greater reliance on manufacturing – many of which are traditionally ‘left-behind’ areas in the North East, West Midlands and in the so-called (former) ‘red wall’.

The economic malaise of the country’s ‘left-behind’ regions cannot be addressed overnight: the UK’s regional inequalities are entrenched, and even well-designed policies could take years, or decades, to have meaningful effects. Complex problems require complex solutions, and an effective ‘levelling-up’ agenda would need to incorporate public investment, education and training, tax reform, devolution, planning law, and a multitude of other policy tools. Such a broad

agenda would take time to design and implement. In the second half of this chapter, we consider some of the policy levers that can be pulled relatively quickly. As such, we do not seek or claim to provide the basis for a comprehensive programme for ‘levelling up’. Rather, we provide context for and analysis of some of the options available to the government in the short term, with a particular focus on public spending. We consider three areas where government action is expected (investment in transport, boosting R&D, and moving civil servants out of London), set out the details of existing place-based spending programmes, and consider a further set of issues to be addressed at this year’s Spending Review.

7.2 UK regional inequalities

The recent public policy focus on ‘levelling up’ reflects a widespread perception that regional inequalities in the UK are too great and need to be addressed. Regional disparities in economic performance across the UK are not a new phenomenon: as far back as 1901, GDP per person in London was 34% higher than the Great Britain average, and 7% higher in the South East of England (Geary and Stark, 2016). But the issue has unquestionably leapt up the policy agenda in recent years and promises to be a prominent feature of political and economic debates over at least the remainder of this parliament.

Recent research at IFS has examined the extent of geographical inequalities in the UK in detail (Agrawal and Phillips, 2020). It shows large gaps in productivity and earnings across the country, with mean annual earnings in London 1.3 times the UK average and 1.5 times higher than in the North East, for example. The research also shows that London is pulling ahead of the rest of the country in terms of wealth, health and educational attainment.

However, the inequalities *within* regions are larger than inequalities *between* regions. This is especially true in the South of England. Between-region inequalities in earnings and household incomes after housing costs have in fact narrowed slightly since the early 2000s. This largely reflects the fact that, after accounting for housing costs, median household income in London is not all that high (only 1% higher than the national average). The key difference between London and other parts of the UK is that London is over-represented at both the top and bottom of the income distribution: it has a great number of very high-income people, but also a large number of households living in poverty (after accounting for housing costs).

Taking a longer view, the UK appears to be considerably more regionally unbalanced now than was the case 40 or 50 years ago (at least in terms of GDP per head) (Zymek and Jones, 2020). This is a consequence of the large increases in regional inequality over the last quarter of the 20th century, driven by deindustrialisation, which have not been reversed.

Other, related work from IFS researchers has highlighted the substantial differences in social mobility between areas of England (Carneiro et al., 2020). It shows, for example, that depending on where they grew up, sons from disadvantaged families can earn (on average) up to twice as much as similar sons who grew up in the least socially mobile areas. Again, the differences within regions are often the starkest, with deprived areas with limited opportunities found adjacent to more affluent areas with greater opportunities throughout England. This is not a simple story of a North–South divide, or London versus the rest.

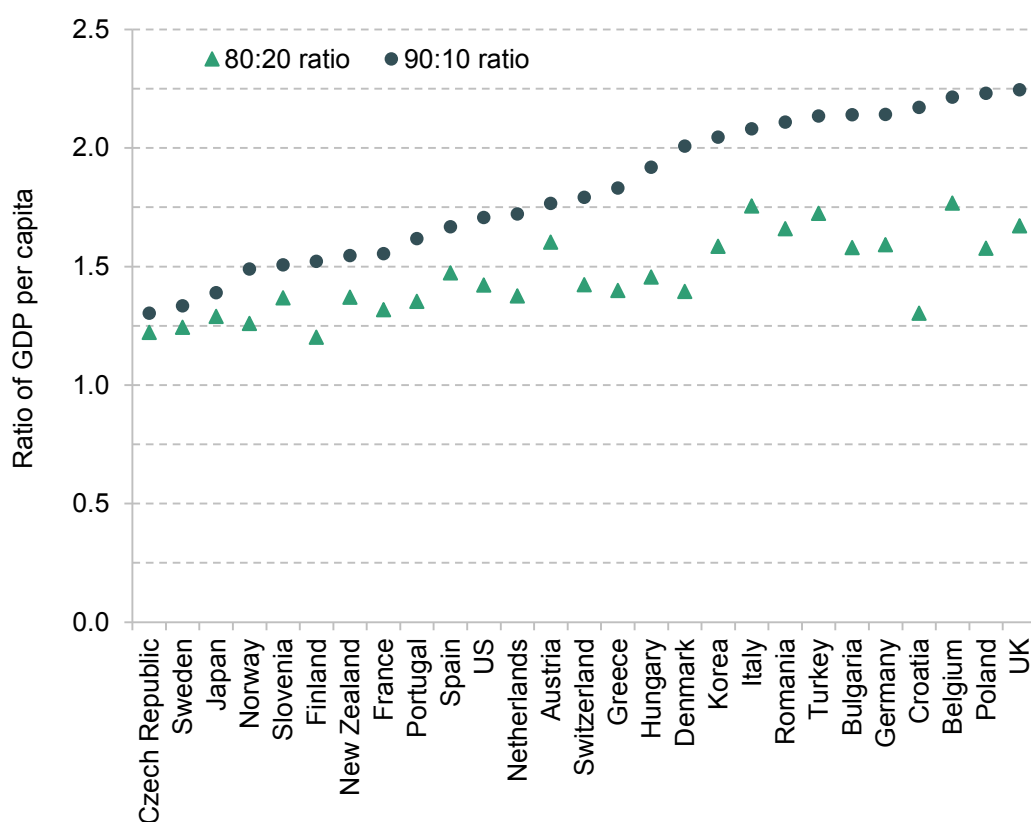
International comparisons

To place the UK experience in context, it is useful to look at inter-regional inequalities in other countries. The UK is widely considered to be among the most geographically unequal countries in the developed world (Gal and Egeland, 2018; McCann, 2020; Carrascal-Incera et al., 2020; Zymek and Jones, 2020). On a wide variety of measures, regional disparities in the UK are greater than in most comparable countries.

To illustrate how the UK compares internationally, Figure 7.1 shows the 90:10 ratio and 80:20 ratio in regional GDP per capita for the UK and 26 other OECD countries.¹ GDP per capita is not a perfect or complete economic indicator, and because it is measured pre-tax and pre-transfers, it does not fully capture differences in living standards. However, it serves as a valuable measure of

¹ We define regions using the OECD TL3 (small region) definition. On this definition, there are 179 regions in the UK, varying in size from a population of 22,000 (Orkney Islands) to 1.2 million (Hertfordshire). More than 70% of regions have populations between 100,000 and 500,000. We use data from the OECD on regional GDP for countries with at least 10 TL3 regions. This gives a sample of 27 countries: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey, the UK and the US. Figures used are from the most recently available year for which a whole country's figures are available. In most cases, this means figures are from 2017. Note that the average size of region varies across countries: there are the same number of TL3 regions in the US as in the UK, despite a population five times the size. On the other hand, the regions are larger on average in the UK than in other countries such as Germany.

Figure 7.1. Measures of inequality in regional GDP per capita, by country



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

Source: Authors' calculations using OECD.Stat regional GDP (accessed 19 August 2020).

economic performance in a local area and as a proxy for other important economic variables (such as wages, productivity and business investment) in a manner that is internationally comparable.

Figure 7.1 shows that, in the UK, GDP per capita in the 90th percentile ranked region (Aberdeen City and Aberdeenshire) is 2.25 times higher than in the 10th percentile ranked region (Durham). This is the highest ratio (biggest difference) of all countries in the sample. On this measure, then, the UK is the most regionally unequal country that we look at. The figure also shows that GDP per capita in the UK's 80th percentile region (York) is 1.67 times higher than in the 20th percentile region (Breckland and South Norfolk). Only in Belgium, Italy and Turkey is the 80:20 ratio higher.

Table 7.1. International comparison of regional inequality

Country (27 in total ^a)	80:20 ratio rank	90:10 ratio rank	Max:min ratio rank	Coefficient of variation rank	Overall rank
UK	4	1	1	1	1
Germany	7	5	2	3	2
France	21	20	3	6	8
US	14	17	4	18	11
Italy	2	9	12	16	12
Netherlands	17	16	11	17	16
Spain	11	18	24	23	20
Sweden	25	26	25	26	26

^a Table 7A.1 in the online appendix shows the ranks for all 27 countries.

Note: Ranks are out of 27. A rank of 1 would indicate the highest level of inequality and a rank of 27 would indicate the least. Overall rank is calculated as the rank of each country's mean ranking across all six of our measures of regional inequality in GDP per capita (the four shown in the table, along with the ratio of the maximum region to the median region, and the ratio of the maximum to the mean region).

Source: Authors' calculations using OECD.Stat regional GDP (accessed 19 August 2020).

The 90:10 and 80:20 ratios are useful indicators, but there are many other ways to capture and measure inter-regional inequality. We therefore use a similar methodology to McCann (2020) and construct three further measures of the differences between regions with high and low GDP per capita within a country,² and a measure of the overall spread of GDP per capita.³ This gives six different measures of regional inequality for each country.

² As well as the ratios between the 90th and 10th percentile ranked regions, and between the 80th and 20th percentile ranked regions, we construct the ratios between the GDP of the maximum region and that of the mean, median and minimum regions. These capture the extent of inequalities at the very top of the distribution.

³ We use the coefficient of variation, which is the standard deviation of GDP per capita across regions divided by the mean GDP per capita.

We then rank each country by these measures, with a higher rank indicating a greater degree of inter-regional inequality (so that the country ranked number 1 is the most unequal on that measure). Table 7.1 shows the ranks for the UK and a selection of other countries on four of these measures.

Although different measures of regional inequality give slightly different rankings across our 27 countries, the UK is consistently among the most unequal of these countries. In particular, inter-regional inequality consistently appears higher in the UK than in the US (where inter-household inequality is usually considered very high) and generally higher than in Italy (known for its stark North–South divide). Sweden, known for being relatively egalitarian, has generally very low ranks (i.e. a lesser degree of inter-regional inequality).

In the final column of the table, we show each country’s ‘overall rank’, i.e. the rank of their average rank across all six measures. On this measure, the UK is the most geographically unequal of the 27 countries included in our sample, and ranks considerably higher than other Western European countries such as France, Spain and the Netherlands.⁴ Germany is in second place, with high inter-regional inequality there driven by continuing differences between the former East Germany and the rest of the country.

7.3 Which areas need ‘levelling up’?

Defining ‘left-behind’ areas of the UK

If the government is to design an effective ‘levelling-up’ agenda aimed at reducing regional inequalities, knowing which areas such an agenda should target will be key. However, it is not entirely clear how to identify areas in need of support.

⁴ It has been highlighted that the appearance of high regional inequality in the UK in data such as these could be driven by the existence of Camden & City of London as a TL3 region (see McCann (2020) for a discussion). Whilst it is true that this region does have GDP per capita many times the national average, this is a common feature in several other countries (albeit not to the same magnitude). This will affect measures using the maximum value, but does not significantly affect measures such as the 80:20 ratio, where the UK also exhibits very high inter-regional inequality. For robustness, we repeated all of our analysis excluding Camden & City of London and the other UK TL3 region with exceptionally high GDP per capita (Westminster). This still leaves the UK with the second-highest average rank, behind Germany.

The concept of ‘left-behind’ towns, cities and regions has become especially prevalent in political discourse in recent months. The Conservative Party manifesto at the 2019 general election included a promise to ‘listen to the people who have felt left behind’ (Conservative Party, 2019). This was followed by a promise in the March 2020 Budget of ‘an ambitious programme of investment in communities across the country, many of whom feel left behind’ (HM Treasury, 2020b, para. 1.51) and a speech from the Prime Minister on 30 June which argued that ‘too many parts of this country have felt left behind’ (Johnson, 2020). Yet areas thought of as being ‘left behind’ vary greatly, ranging from large cities such as Sheffield and parts of Glasgow, to mid-sized towns such as Burnley and Merthyr Tydfil, and extending to smaller, often coastal places such as Blyth in the North East, Clacton-on-Sea in Essex, Margate in Kent or Workington, home of the eponymous ‘Workington man’, in Cumbria.

While these areas differ in many respects, there are several factors indicative of an area that has fallen behind the rest of the country. We explore some of these to shed light on regional inequality in the UK and to give a sense of which areas might be high up on the ‘levelling-up’ agenda.

A ‘left-behind’ area, in need of ‘levelling up’, is characterised by broad economic underperformance, which manifests itself in low pay and employment, leading to lower living standards in that area. Behind these factors lie other considerations such as poor productivity, which in turn may be associated with a low skill base. The health of the population may also be relatively poor: in some cases, this could be a legacy of deindustrialisation or long-term unemployment, as well as deep-rooted socio-economic issues.

Clearly, no single economic indicator is able to capture every aspect of inequality between places or of being ‘left behind’. In this analysis, we combine indicators on four important dimensions: employment rates, pay, health and formal education. We analyse data for each lower-tier local authority (LA) in Great Britain (these

Table 7.2. Components of illustrative left-behind index

Measure	Employment	Formal education	Incapacity benefits	Pay
Details	% of working-age population in employment	% with a degree or equivalent	% of working-age population receiving ESA or equivalent in universal credit	Median all employees weekly pay (£, 2018 prices)
Mean	77.1%	39.4%	5.5%	£483
Median	77.5%	38.4%	5.1%	£468
Coefficient of variation	0.07	0.28	0.38	0.14
Top five	Torridge (90.9%) Adur (90.4%) Eden (89.2%) Hart (89.0%) Dartford (88.8%)	Wandsworth (71.6%) Hammersmith/Fulham (70.0%) Cambridge (69.5%) Westminster (65.5%) Kensington/Chelsea (65.5%)	Blaenau Gwent (12.3%) Neath Port Talbot (11.8%) Blackpool (11.7%) Inverclyde (11.7%) Merthyr Tydfil (11.4%)	Kensington/Chelsea (£772) Richmond upon Thames (£734) Hammersmith/Fulham (£726) Wandsworth (£720) Westminster (£703)
Bottom five	Middlesbrough (62.9%) Barrow (63.3%) Nottingham (63.9%) Ceredigion (65.1%) Birmingham (65.2%)	Great Yarmouth (15.0%) Bassetlaw (16.3%) Wellingborough (17.7%) Corby (18.1%) Bolsover (19.1%)	Wokingham (2.1%) Hart (2.3%) Uttlesford (2.3%) Windsor/Maidenhead (2.4%) South Bucks (2.4%)	Melton (£359) North Devon (£374) Great Yarmouth (£374) Blackpool (£379) Craven (£379)

Note: For full details of measures and data sources, see the online appendix to this chapter. Figures are for England, Wales and Scotland only.

include London and metropolitan boroughs, unitary authorities, and district councils).⁵ These measures are detailed in Table 7.2.

There are several key points that emerge from this analysis:

- Skill levels vary greatly across different areas in the UK. For example, 71.6% of residents of Wandsworth have a degree compared to only 15.0% in Great Yarmouth. In general, towns in the North of England, South Wales and coastal areas have the lowest share of adults with degree-level qualifications. Outside of London, other big cities in the UK also have fairly low shares of residents with degrees. This perhaps contributes to the general finding that in the UK, unlike other countries, ‘second-tier’ cities are not particularly productive (OECD, 2020; Carrascal-Incera et al., 2020).
- The proportion of the working-age population receiving an incapacity benefit (i.e. employment and support allowance (ESA) or its successor benefits in universal credit),⁶ which we are using as a measure of the health of the workforce, is highly variable across Great Britain. These rates of receipt are as much as six times higher in some areas than others. In general, receipt of an incapacity benefit appears to be much higher in former mining areas in South Wales, the North East and South Yorkshire, as well as around Greater Manchester, Merseyside and Glasgow. It is much lower in the South East, particularly the ring around London.
- In contrast, employment is much less variable, although even here there are some stark differences: 91% of working-age adults in Torrington (in North Devon) are employed, compared with 63% in Middlesbrough. Low employment rates are predominantly found in urban areas across Britain,

⁵ We use lower-tier local authorities (of which there are 371 in Great Britain) as our unit of geographical analysis for three primary reasons. First, upper-tier authorities contain areas that can be very diverse economically, whereas in many cases lower-tier LAs represent just a single town or rural region. Second, much regional economic policy is done along the lines of lower-tier LAs or groupings of such LAs. Third, excellent data availability on the lower-tier LA level allows for more detailed analysis than would be the case for many other units of geography. We exclude the City of London and the Isles of Scilly for data reasons, leaving a final sample of 369. We exclude Northern Ireland as data on skills, pay and employment rates are not available on a local authority level, but we consider the economic characteristics of Northern Ireland as a whole in the next subsection.

⁶ ESA is available for individuals below the state pension age with a health condition or disability that affects their ability to work. As such, it serves as a proxy for the health of the working-age population in each local area. To account for the gradual roll-out of universal credit (UC), we add numbers who still receive traditional ESA to numbers claiming the ESA-equivalent component of UC for each area.

particularly in parts of London, Manchester and other parts of Northern England. Rural areas of Wales and Scotland also have relatively low employment rates.

- The scale of differences in pay lies somewhere between those in employment and those in formal education. Median weekly full-time pay in the highest-paid area (Kensington & Chelsea, £772) is just over twice as high as in the lowest-paid area (Melton, £359).⁷ Most areas have median pay between £400 and £600 per week. Pay is highest in London and the South East of England, and is notably low in rural areas of the South West and North of England, Wales and Scotland. Of course, this measure of pay is before taxes, transfers and housing costs, so it is related to – but not the same as – living standards.

Each of these measures has a different geographic pattern across Britain, but some clear trends emerge. Unsurprisingly, London and the South East of England generally perform well on all measures, with the exception of low employment rates in London. Towns in the North of England and Wales perform less well on most measures. To combine the information from each of these sources into a single measure, we construct an index, with higher values of the index indicating that an area is more ‘left behind’.⁸

Clearly, there are other factors – both economic and otherwise – such as productivity, quality of housing, rates of crime and children’s outcomes, that may also be relevant to identifying ‘left-behind’ areas. However, these are likely to be correlated with the measures we are using. In any case, far from providing a definitive answer, our ‘left-behind’ index is intended only to provide an indication of the areas the government might consider as in need of ‘levelling up’. A sense

⁷ Note that pay figures are for all employees (part-time and full-time) in 2018, in nominal (cash) terms. We have also looked at mean weekly pay. Mean weekly pay is slightly more variable than median weekly pay and is generally higher. In general, the places with the highest mean weekly pay are the same as those with the highest median weekly pay, and the same is true for places with the lowest pay, although there are some exceptions in more rural areas where pay is more dispersed.

⁸ Specifically, we construct Anderson indices; see Anderson (2008) for details of the methodology. The code to create these indices is based on a program written by Cyrus Samii (<https://cyrussamii.com/?p=2656>). The aim of the index is to combine the information from the different measures, whilst putting a higher weight on new information by giving a lower weight to variables that are correlated with one another. Our index is robust to the choice of methodology; for example, the correlation between our main Anderson index and an analogous index constructed via factor analysis is 0.908.

check of our measure, in which we examine its correlation with English indices of deprivation,⁹ is provided in the online appendix to this chapter.

Which parts of the country are ‘left behind’ on this measure?

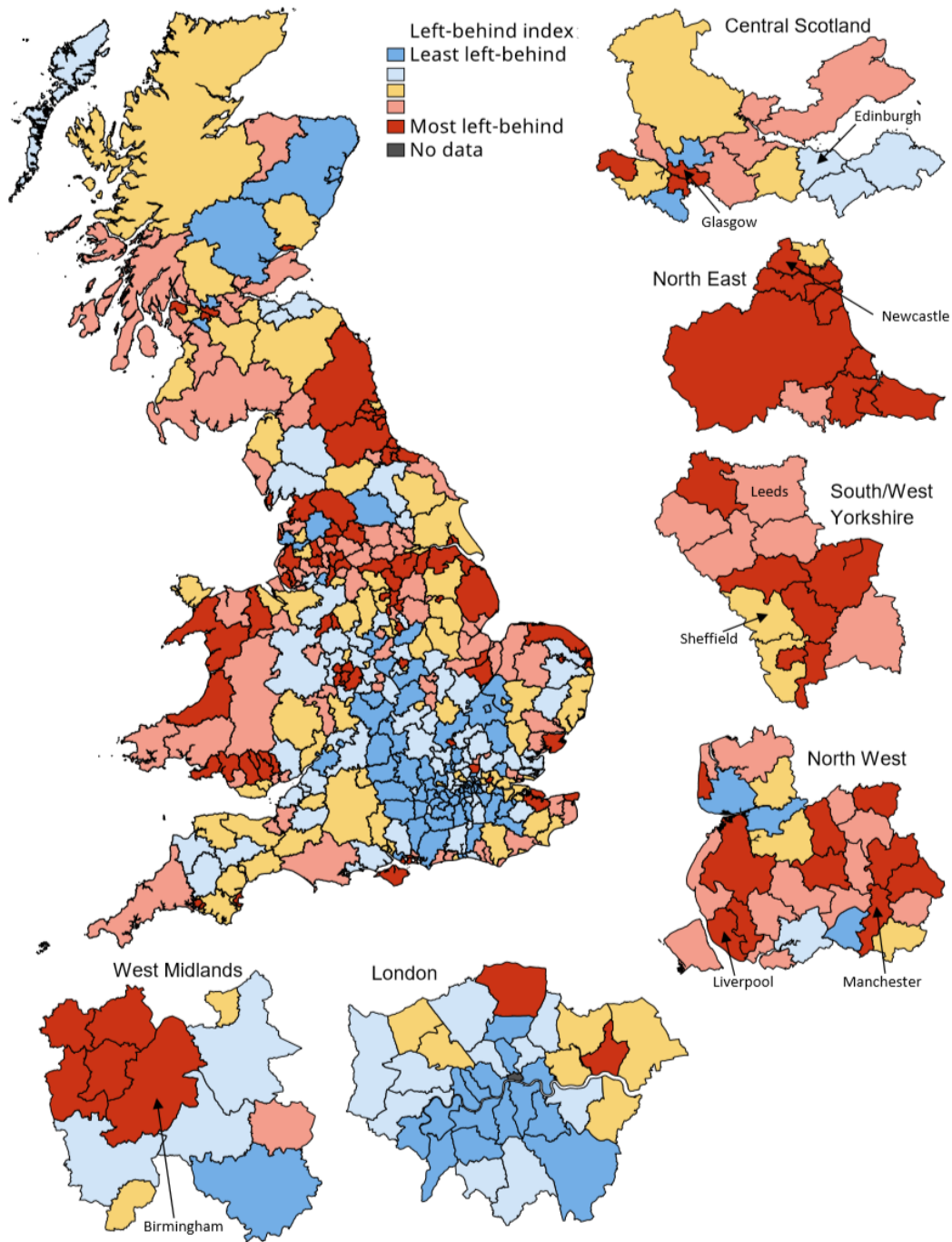
Figure 7.2 shows which areas of Great Britain our index identifies as being more ‘left behind’ and so in need of ‘levelling up’. Areas that perform worst across the four measures outlined above (employment, skills, health and pay) are shaded darker red, with those performing best on those measures shaded darker blue.

Broadly speaking, ‘left-behind’ areas can be divided into several categories (with some overlap):

- **Large towns and some cities outside of London and the South East.** This can be seen by the concentrations of red-coloured local authorities in the North East, Yorkshire, and the North West around Liverpool and Manchester, as well as in the West Midlands. The so-called ‘red wall’ of former Labour seats that changed hands at the 2019 election (stretching from Liverpool across to Hull) can also be seen in Figure 7.2, as can the fact that many cities outside of London (such as Birmingham, Glasgow and Newcastle) are, to an extent, laggards rather than leaders.
- **Former industrial regions.** Although significantly overlapping with the previous group, there are also concentrations of ‘left-behind’ areas in the former mining and steel regions of South Wales, South Yorkshire and around County Durham, and around former textile towns in West Yorkshire and the North West. These areas may be characterised by persistent long-term unemployment, with origins in past deindustrialisation.
- **Coastal towns and regions.** Local authorities containing coastal towns such as Margate in Kent, Clacton-on-Sea in Essex, Great Yarmouth in Norfolk, Skegness in Lincolnshire, Blackpool in Lancashire and Aberystwyth in Wales all appear ‘left behind’. These areas may have largely lost their fishing industry and/or seen significant declines in tourism. They also tend to have relatively poor transport links.

⁹ The Index of Multiple Deprivation aims to capture a number of dimensions of social and economic disadvantage at a much lower geographic level (the Lower Layer Super Output Area, LSOA). However, since these indices are not comparable across the nations of the UK, and since our focus is on geographic areas that have some administrative capacity to manage levelling-up policies (i.e. lower-tier district councils and larger), we focus on our own left-behind index.

Figure 7.2. Quintiles of illustrative left-behind index



Note: Darker red areas indicate areas classified as in the most 'left-behind' fifth, with darker blue areas in the least 'left-behind' fifth. Boundaries are for lower-tier local authorities as of April 2019.

Source: See the online appendix to this chapter for details of components of the index.

- **Isolated rural areas.** In the most and second-most ‘left-behind’ fifth of local authorities (shown in pale red in Figure 7.2), there are a number of relatively isolated rural areas including large parts of Wales, rural Scotland and Cornwall.

Not all of these data are available for smaller areas within Northern Ireland, but related data do exist for Northern Ireland as a whole. On many dimensions, Northern Ireland comes out performing worse than the UK average. For example, the employment rate in Northern Ireland is 71.5% among those aged 16–64 compared with 76.7% in the rest of the UK, and the proportion of the population with no qualifications is 13.6% against an average of 7.7% for the rest of the UK.¹⁰ In addition, 6 out of the 11 sub-regions of Northern Ireland are in the bottom 25% of UK regions in terms of their GDP per capita.¹¹ Therefore, we are confident that much of Northern Ireland would appear ‘left behind’ on the measures we have used.

7.4 What impact could COVID-19 and Brexit have on regional inequalities?

Many of the underlying factors that have led to certain parts of the UK being ‘left behind’ are long-standing. For example, a decades-long process of deindustrialisation has contributed to long-term unemployment and economic hardship in parts of Northern England and South Wales. Other contributing factors, such as patterns of migration from Northern to Southern England, have their roots even further in history (Clark and Cummins, 2018). And, as was noted earlier in the chapter, sizeable regional inequalities in the UK are not a new phenomenon, dating back at least as far as 1901 (Geary and Stark, 2016).

Looking ahead, there are two current economic shocks with the potential to have substantial and long-lasting effects on UK regional inequalities. The first of these is the economic fallout from the COVID-19 pandemic. The second is the end of the UK’s transition period with the European Union at the end of 2020. In this section, we explore how the impacts of each of these shocks may vary across the country. It

¹⁰ Employment rate is for July 2020, calculated using the Labour Force Survey from the Office for National Statistics (ONS) rather than the Annual Population Survey, which is used in our left-behind index. Proportion with no qualifications is for the 2019 calendar year, calculated using the Annual Population Survey.

¹¹ This calculation uses the data and definition of ‘small regions’ underlying Table 7.1; see footnote 1.

is important to stress the uncertainty involved in such an exercise and the difficulty in precisely predicting the economic effects of Brexit and COVID-19 on different parts of the UK. Nonetheless, this analysis gives a broad sense of the sorts of places whose economies we might expect to be hit hardest by some of the more obvious impacts of each shock, and an indication of how these areas line up with those classified as ‘left behind’ earlier in the chapter.

How might COVID-19 affect inter-regional inequality?

The short-term economic impact of COVID-19

The outbreak of COVID-19, and the public health response to it, has caused the sharpest and deepest economic downturn in at least a century. A key question for the months and years ahead is what shape the recovery will take. At least some of the economic damage inflicted by COVID-19 is expected to last. In the central scenario in the OBR’s July 2020 Fiscal Sustainability Report, economic activity is not expected to return to its pre-crisis level until the middle of 2022, and the unemployment rate remains 1 percentage point higher than pre-crisis as late as 2025 (Office for Budget Responsibility, 2020) (other forecasts of the recovery are even less optimistic – see Chapter 2). The broader impacts of COVID-19 on the economy and public finances are discussed elsewhere in this Green Budget.

An economic dislocation of this pace and scale is certain to have substantial – and likely lasting – effects on all parts of the United Kingdom. However, there are strong reasons to think that some areas will be affected more than others (Bhattacharjee, Nguyen and Venables, 2020; Aitken and Overman, 2020; Davenport, Farquharson et al., 2020). This will be driven in large part by differences in sectoral and skill composition across regions of the UK. For instance, areas particularly reliant on tourism are likely to have been harder hit by the lockdown and continued social distancing measures. Some of the industries that have been especially affected by government restrictions and changing consumer preferences, such as aviation, are also geographically concentrated. And previous research has shown that the share of workers in occupations that could be done at home is highest in London and the South East (Costa Dias, Farquharson et al., 2020).

So far, government support – such as the Coronavirus Job Retention Scheme (CJRS) and other business support measures – has provided a substantial cushion against what the immediate impact would otherwise have been. But as these

measures unwind, many jobs will cease to exist and many businesses will fail. In the longer term, the COVID-19 crisis seems likely to accelerate structural changes in the UK economy; although it is unclear precisely how this will play out, rapid changes in the structure of the economy are often accompanied by economic pain. The rapid deindustrialisation of the 1970s and 1980s is probably the most recent time the UK economy underwent such a dramatic shift, and it is the legacy of that change that is often blamed for poor economic performance today in many of the ‘left-behind’ areas identified earlier in this chapter.

COVID-19 could have similar implications; with the sectoral structure and skill base of the UK economy varying greatly across local areas, this would likely have implications for levelling up. As the government promises to ‘build back better’ and ‘build back bolder’ (Johnson, 2020), policies aimed at recovering from the COVID-19 crisis and levelling up are likely to be intertwined.

Which areas of the UK will be most affected economically by COVID-19?

There is significant uncertainty around what the long-term impacts of the COVID-19 crisis will be and how these may vary across the country. Much will depend on how quickly a vaccine or effective treatment for the virus is found, the degree to which the switch to home working for many office workers persists, the extent to which consumption patterns are permanently changed, and a multitude of other unpredictable factors (see Chapter 2).

However, to gain some understanding of the potential variation in the regional economic impacts of the COVID-19 crisis – at least in the short term – we use information from three measures of the impact on a local area:

- **Proportion of workers who work in sectors that were forced to close during lockdown.**¹² These are the jobs that were hit hardest in the short term by lockdown measures, and include workers in non-essential retail, restaurants and other leisure activities. Although many of these businesses have reopened since, they are still affected by ongoing social distancing measures and many

¹² Data are sourced from the ONS Business Register and Employment Survey 2018 and are based on employment location by workplace not residence. The data include both employees and the self-employed (as long as they are registered for VAT or PAYE schemes).

will have seen their balance sheets damaged. The large number of redundancies reported in these sectors suggests that, going forward, these could be sectors where job losses are focused.¹³

- **Proportion of eligible employees ever furloughed.**¹⁴ The furlough scheme has prevented unemployment from rising as dramatically as it otherwise would have (Lenoël, Macqueen and Young, 2020). However, the furlough scheme is now being wound down and is scheduled to end in October, before which employers will have to either bring employees back or make them redundant. Many furloughed roles may no longer exist as the economy evolves in response to the crisis, and so areas that have seen a greater proportion of employees furloughed may also see larger rises in unemployment and thus greater economic damage from the pandemic going forwards.
- **Fall in job vacancies in 2020 relative to 2019.**¹⁵ The large fall in job vacancies posted in 2020 relative to previous years has been widely reported.¹⁶ Although many employers ceased hiring in response to the crisis, if employers base their decisions on whether to keep hiring on their expectations of how their future demand will be affected by the crisis, alongside their current situation, job vacancy changes may give an indication of which areas will be hardest hit in the coming months.

These measures are explored in more detail in Table 7.3, with several key points emerging:

- The proportion of those employed in shut-down sectors is highly variable, with areas such as the Isles of Scilly and the Lake District (which are highly reliant on tourism) having far higher proportions of workers employed in these sectors

¹³ See job loss tracker by The Guardian for recent examples of redundancies related to the COVID-19 crisis (<https://www.theguardian.com/world/2020/jul/31/uk-coronavirus-job-losses-the-latest-data-on-redundancies-and-furloughs>).

¹⁴ This is measured using HM Revenue and Customs (July 2020), Coronavirus Job Retention Scheme (CJRS) Statistics: July 2020. This gives data on the proportion of eligible workers in a local authority for whom CJRS claims were made to the end of June 2020. Just over 400,000 of around 9.4 million total CJRS claims are not attributed to a local authority. Compared with the peak number of employees furloughed at any one time, by 30 June 2020 when the data run to, the total number of furloughed employees was 77% of its peak from 8 May 2020, indicating that around two in nine workers put on furlough have now been taken off.

¹⁵ The specific measure looks at the % fall in vacancies posted in each local authority in 2020 relative to 2019 over the three-month period April–June. Full details of the data can be found in Costa Dias, Norris Keiller et al. (2020).

¹⁶ See IFS real-time job vacancy tracker for an up-to-date picture of changes in job vacancies (<https://www.ifs.org.uk/realtimejobvacancytracker>).

than areas such as Slough and Watford (where a greater number of office-based employees have been able to work from home). In general, it is tourism-focused coastal and rural areas, and parts of London with large hospitality sectors, which fare the worst on this measure.

- There is less variation in furlough rates across the country; even so, the furlough rate in the most-affected area (South Lakeland, with 42% of eligible employees furloughed at some point) is twice that in Boston, the least affected area. This measure overlaps to a considerable extent with the measure of shut-down sectors (as many of those workers were furloughed, at least during the lockdown). But it also captures wider effects on local labour markets from sectors that were not shut, but where demand dried up at some point during the crisis (for example, in manufacturing-focused parts of the West Midlands).
- The relative change in job vacancies from 2019 to 2020 varies massively by area. Four areas have seen an *increase* in the number of job vacancies – all in Scotland (with particularly strong growth in Inverclyde and North and South Ayrshire), but this is rare: in 98% of areas, vacancies have fallen year-on-year, and the worst-hit areas had around 80% fewer job vacancies in April–June of this year than they did a year earlier. The picture across the country on job vacancies looks very different from those on furlough and on being employed in shut-down sectors, with the worst-hit areas focused across the East and West Midlands, in Manchester and Bristol, and to a slightly lesser extent in South Yorkshire. London and the South East, and parts of the East of England, look to be less severely hit on this measure.

Note to Table 7.3

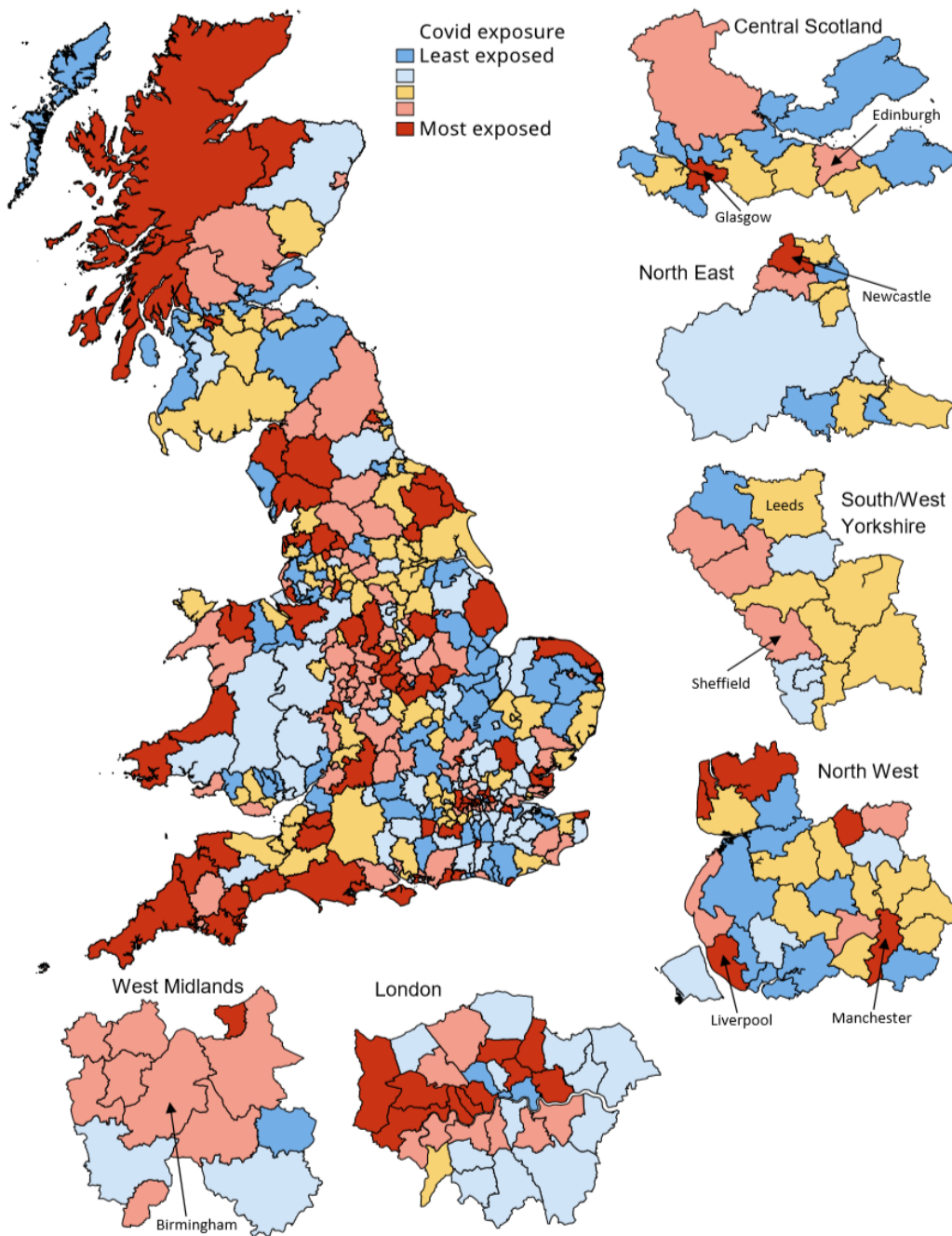
For full details of measures and data sources, see the online appendix to this chapter. Figures are for England, Wales and Scotland only. Shut-down sectors and job vacancy measures are workplace based, furloughed workers are residence based. Furloughed data for some local authorities are available for a grouping of LAs; in these cases, we give each LA in the grouping the grouping furlough rate (Cornwall/Isles of Scilly, City of London/Westminster and Bucks unitary authority). For the % change in job vacancies, three areas with very few vacancies (Orkney Islands, Shetland Islands and Scottish Islands) are excluded from the table due to the small sample size (which makes calculating % changes unstable), and these areas are also top-coded when we construct the index of COVID's economic impacts (see footnote 17).

Table 7.3. Components of illustrative COVID-19 measure

Measure	Shut-down sectors	Furloughed workers	Job vacancy changes
Details	% of those in employment in shut-down sectors	% of employees eligible for the CJRS who were ever enrolled into it	% change in job vacancies posted April–June 2020 versus 2019
Mean	18.5%	31.4%	–50.9%
Median	17.9%	31.3%	–53.2%
Coefficient of variation	0.23	0.09	0.36
Most affected five	Kensington & Chelsea (33.9%) South Lakeland (33.9%) Hounslow (31.7%) East Lindsey (30.7%) Torbay (30.2%)	South Lakeland (42.4%) Eden (41.1%) Crawley (41.0%) Newham (39.0%) Pendle (38.4%)	North West Leicestershire (–83.9%) Hackney (–82.8%) South Derbyshire (–81.8%) Blaby (–81.3%) North Warwickshire (–80.8%)
Least affected five	Tower Hamlets (10.1%) South Cambridgeshire (10.5%) Fenland (11.0%) Ashfield (11.3%) North Warwickshire (11.3%)	Boston (21.1%) South Holland (23.8%) Barrow-in-Furness (24.4%) Cambridge (24.5%) Outer Hebrides (24.8%)	Inverclyde (+52.9%) North Ayrshire (+23.0%) East Renfrewshire (+9.3%) South Ayrshire (+7.1%) Fife (–2.5%)

Note: See previous page.

Figure 7.3. Quintiles of illustrative index of short-term economic impact of COVID-19



Note: Darker red areas indicate areas classified as more exposed to the short-term economic hit from COVID-19, with darker blue areas less exposed. Boundaries are for lower-tier local authorities as of April 2019.

Source: See the online appendix to this chapter for details of components of the index.

We again combine the information from each of these three measures into an index, with higher values of the index indicating an area is expected to be more severely impacted by the COVID-19 crisis.¹⁷ The measures chosen here focus on the likely short-term impact on local economies in particular. As with ‘left-behind’ areas, there are clearly other factors that could influence both economic and wider impacts from COVID-19, particularly in the longer term, such as health, education levels and family structure (Davenport, Farquharson et al., 2020). Nonetheless, the three measures chosen here serve as a useful proxy for the broader short-term impacts of COVID-19, which a joined-up recovery and levelling-up agenda would need to consider.

Figure 7.3 shows which areas this index identifies as being more economically vulnerable to COVID-19, and thus which areas may require relatively more ‘levelling-up’ support to enable recovery from the crisis in the medium to long term. Red-shaded areas represent those considered likely to be worst affected, with blue-shaded areas considered less affected.

Areas that appear to be particularly economically hard hit by COVID-19 vary greatly, but can broadly be viewed in several categories:

- **Rural and coastal areas.** These areas are very dependent on the tourism and hospitality sectors for income. As such, they were likely to have been especially hard hit during the lockdown period and to have had many workers furloughed. Even if a rise in staycations provides some benefit during Summer 2020 (and potentially beyond), continued social distancing measures will still likely have an impact. These areas are concentrated in coastal areas of the South West, Wales and Norfolk, as well as rural tourist hotspots such as the Lake District, Derbyshire and parts of Scotland.
- **Hospitality-dependent cities.** Large cities in Britain appear relatively badly hit on our index, with the city centre districts of Manchester, Liverpool, Newcastle and Glasgow among the worst-affected areas. The poor performance of city centres likely reflects a reliance on retail, hospitality and some tourism.

¹⁷ See footnote 8 for details of index construction. In this index, we top-code the % change in job vacancies at the 99th percentile of the distribution (this affects the vacancies measure for the Orkney Islands, Shetland Islands and Scottish Islands). These three areas had very low rates of vacancies in 2019, which makes calculating % changes unstable.

- **Large parts of London.** Although the picture in London is somewhat mixed, many London boroughs are among the worst economically hit areas in the country short-term due to COVID-19. Falls in job vacancies have been limited in London, but rates of furlough and employment in shut-down sectors are very high, particularly in West and North-East London. This likely reflects the high dependence of London on hospitality sectors serving a now largely home-working office-based workforce, and impacts on tourism.

As with ‘left-behind’ areas, there are data limitations for Northern Ireland that prevent us from including it in our composite index measuring the impact of COVID-19.¹⁸ However, data on job vacancies and furlough rates are available. Across the 11 local authorities of Northern Ireland, the average fall in job vacancies posted between April and June was 58.6% versus a year earlier (compared with 50.9% for the rest of the UK). Northern Ireland therefore appears relatively hard hit on this measure, and this appears to be particularly true in the cities of Belfast and Derry/Londonderry. Rates of furlough are very similar to those in the rest of the UK.

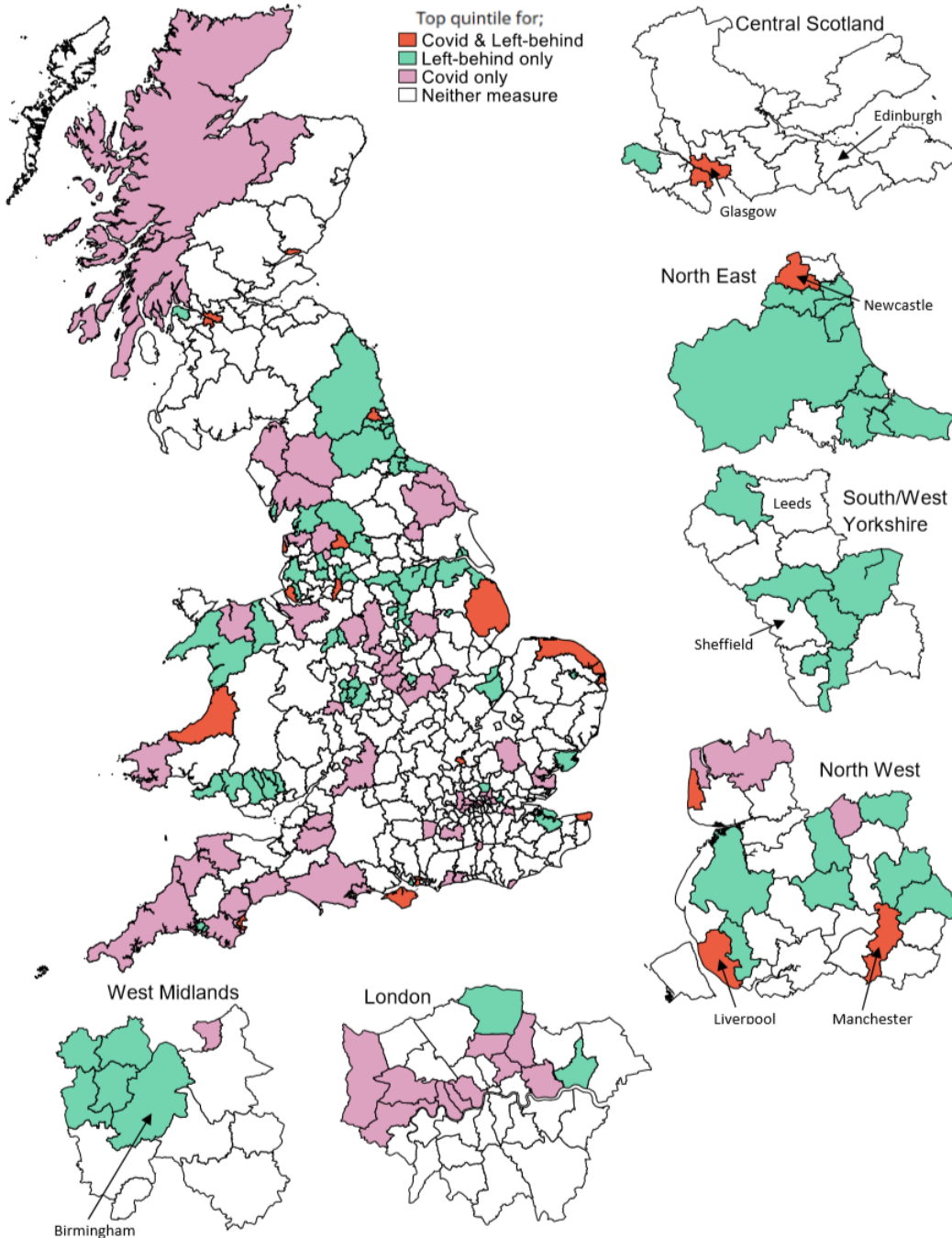
Are the areas most affected economically by COVID-19 also ‘left behind’?

An important question for the ‘levelling-up’ agenda in the coming years is whether the areas traditionally thought of as ‘left behind’ and in need of levelling up have also been hardest hit by the economic effects of the COVID-19 pandemic.

Overall, the correlation between our index of COVID-19’s economic impact on local areas and our index of ‘left-behindness’, is very close to zero (–0.04). This suggests that whilst there are some places that appear most in need of levelling up that have also been particularly afflicted by the economic fallout from COVID-19, other apparently ‘left-behind’ areas have escaped relatively lightly. It also means that many areas hit hardest by the current COVID-19 crisis would not necessarily have been targets for any ‘levelling-up’ programme based on pre-pandemic criteria.

¹⁸ Specifically, the data used to calculate the share of workers in shut-down sectors are not available for Northern Ireland.

Figure 7.4. Areas economically impacted by the COVID-19 crisis and considered ‘left behind’



Note: Dark red areas indicate lower-tier local authorities classified as in the top quintile (top 20%) on both the left-behind index and the COVID economic impact index. Green areas represent those in the top quintile (top 20%) on the left-behind index but not on the COVID impact index. Purple areas are in the top quintile (top 20%) on the COVID impact index but not the left-behind index. Areas shaded white are in the top quintile on neither measure.

Source: See the online appendix to this chapter for details of components of the index.

To identify more clearly whether there are some areas already ‘left behind’ that might be badly affected by the COVID-19 crisis, we combine our analysis so far and examine which areas are in the top fifth on our left-behind index, on our COVID-19 economic impact index, on both measures or on neither. This is shown in Figure 7.4. Areas identified both as being ‘left behind’ and as having local economies vulnerable to COVID are shown in red. Areas that are ‘left behind’ but not in the top fifth in terms of vulnerability to COVID’s economic impacts are shown in green. Areas that are vulnerable to COVID but are not ‘left behind’ are shown in purple. Areas in the top fifth on neither measure are shown in white.

The purple-shaded areas on Figure 7.4 show that many of the areas hit worst by the COVID-19 economic crisis are different from the most ‘left-behind’ areas on traditional measures. In particular, many of the more rural areas in the South West of England and Cumbria that may be hit badly by the short-term economic effects of the COVID-19 crisis were not struggling economically as much as other areas before the crisis.

The green-shaded areas show the other side of this coin: the areas that are quite ‘left behind’, but could escape the worst of the short-term economic hit from the pandemic. These include many areas in the North East and North West of England, the so-called ‘red wall’, South Wales and the West Midlands. This is likely due to those areas being less reliant on tourism and hospitality.

There are, however, exceptions. Some areas that were already struggling will also be among the worst-affected by the economic impacts of COVID-19. These are primarily coastal communities that are relatively deprived and highly reliant on tourism. These include Blackpool, Torbay, Thanet, Great Yarmouth, the Isle of Wight and Ceredigion. Many of these areas also have older, less healthy populations, and so may also be more susceptible on health grounds to any subsequent waves of COVID-19 (Davenport, Farquharson et al., 2020).

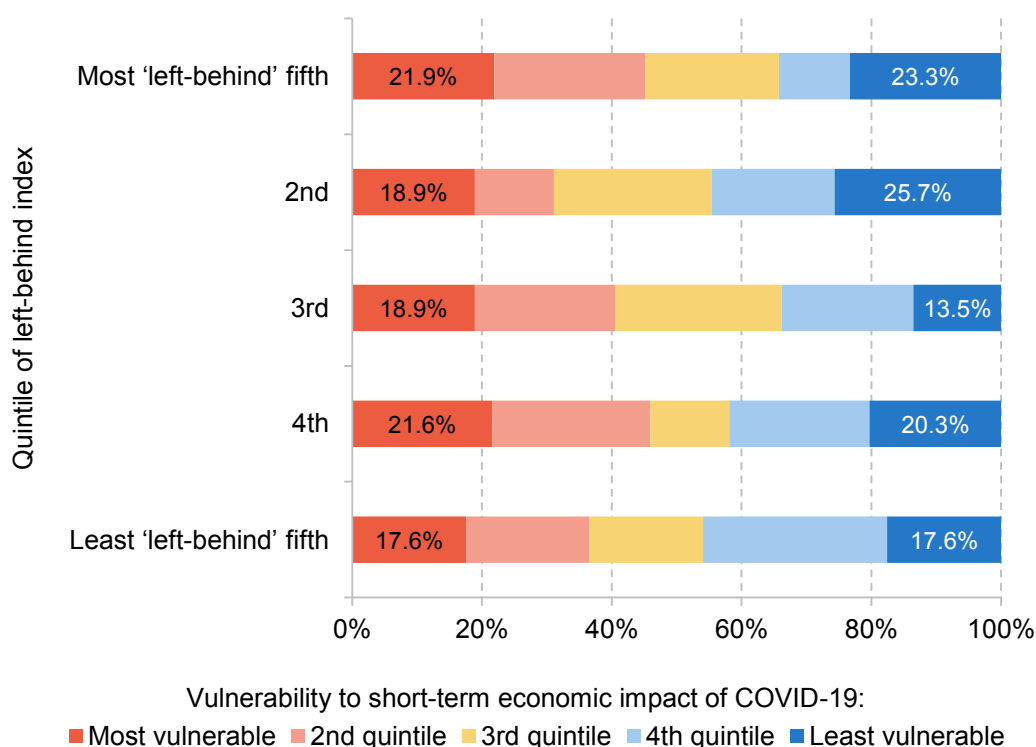
The centres of several larger cities outside of London, including Glasgow, Dundee, Liverpool, Newcastle and Manchester, also appear to be both economically vulnerable to COVID-19 and relatively ‘left behind’. This reflects the large hospitality sectors in cities, which create greater economic exposure to COVID-19, as well as the persistent deprivation that is present in many larger urban areas. A combination of deprivation and high levels of need for children’s social services also means that the long-term consequences of school closures may be more acute

in some of these areas (especially those outside of London) (Davenport, Farquharson et al., 2020).

As noted earlier, due to data limitations we are not able to include Northern Ireland in our left-behind index or in our measure of the impact of COVID-19. However, given its low employment rate and low levels of formal education, and its large fall in vacancies, it appears that at least parts of Northern Ireland may also belong to the group of areas that were already ‘left behind’ and have also been hit hard by the current crisis.

What does this mean for the levelling-up agenda? For the most part, there appears to be limited crossover between the areas most affected by the short-term economic impacts of COVID-19 and those classified as ‘left behind’. There are exceptions, including those shown in Figure 7.4, and the government should be conscious of

Figure 7.5. Vulnerability to short-term economic impact of COVID-19, by quintile of left-behind index



Source: Data underlying Figures 7.2 and 7.3. See the online appendix to this chapter for full details of index construction.

that fact when designing policy. But on the whole, our analysis demonstrates that the areas already struggling economically will not be the areas hit hardest by the short-term impacts of COVID-19. Just 16 (out of 369) LAs are in the top (most affected) fifth on both measures. Figure 7.5 shows that the share of LAs in the worst-hit fifth on our COVID-19 index is around 20% for each of the five groups of our left-behind index. This is in line with what we would expect if the two measures were unrelated to one another, and it provides further evidence that the effects of the pandemic bear little relationship to more traditional measures of economic disadvantage in the UK. This is likely to complicate the picture when deciding which areas to target for ‘levelling up’.

Will Brexit complicate the situation further?

The UK formally left the European Union on 31 January 2020, but entered a transition period with the EU running to the end of 2020. Unless it is extended, this transition period will end on 31 December and the UK will enter a new trading and regulatory relationship with the European Union and any third countries where existing EU arrangements have not been replicated.

Although the details of the future economic UK–EU relationship have not been agreed, the government has repeatedly stated that the transition period will not be extended. Regardless of what agreement is or is not reached, new barriers to trade, in the form of both tariffs and non-tariff barriers, are set to be introduced at the start of 2021.

This will have different implications for different industries and regions within the UK, depending on the extent to which they rely on trade with the EU. Additionally, the UK’s departure from the EU will already have impacted on local economies through changes to business expectations and investment, and migration patterns – impacts which may persist. Brexit is therefore likely to have consequences for regional inequality going forwards and ought to be considered as part of any ‘levelling-up’ agenda.

It is beyond the scope of this chapter to provide a comprehensive assessment of the local economic impacts of Brexit and how these may alter the picture of regional inequality. In any case, changes to the precise details of any deal struck with the EU could have major impacts on such an assessment (see Chapter 3 for an indication of how these change estimates of the overall economic impacts). However, we can

draw on evidence and analysis from several existing studies to explore how Brexit might be expected to change the picture going forwards.

There is evidence that the anticipation of Brexit has already had some varying local impacts. Fetzner and Wang (2020) estimate the economic impact of the Brexit vote at the local authority level (up until the end of 2018).¹⁹ They find that, in 255 of the then-382 districts of the UK, gross value added is lower than it would otherwise have been, with 168 ‘clearly’ losing out (in the sense their losses are consistent across estimation approaches) compared with only 78 that have clearly gained.²⁰ Higher output losses from the first 18 months of the Brexit process appear to be concentrated in areas with higher manufacturing employment and with a higher share of residents with low formal education. There is no clear geographical distribution of the areas classified as Brexit ‘losers’, but districts with the most negative impact are concentrated in the South East of England, the West Midlands and the North East. As an assessment of the impact of Brexit up to the end of 2018, this work makes no assumptions about the future trading relationship with the EU.

On a more forward-looking basis, Griffith, Levell and Norris Keiller (2020) estimate the exposure to the impact of a ‘hard’ World Trade Organisation (WTO)-rules Brexit on different workers. They do this by looking at the trade barriers that would be expected in this scenario, and seeing how these interact with local mixes of industries (taking into account how firms and consumers might change their behaviour in response). This gives an exposure level for workers, which tends to be higher among workers who are older, less educated, disproportionately male and in blue-collar occupations.²¹ The authors find that, on a regional level, the proportion of workers potentially exposed is highest in the East Midlands, the North West and Scotland, and lowest in London and the South East.

However, it is important to emphasise that estimates such as these are very sensitive to assumptions made on non-tariff barriers, and specifically assumptions regarding

¹⁹ The authors use a synthetic control method using annual district-level data for 382 lower-level local authorities in the UK.

²⁰ Among the 168 clear Brexit ‘losers’, the average output loss is reported at 8.54 percentage points relative to the control; and among the 78 clear ‘winners’, the average gain is reported at 6.54 percentage points.

²¹ The authors use micro-data to estimate individual and household exposure to new trade barriers, considering a variety of factors including industry exposure, outside options, firm responses to changes in trade barriers and exposure of other family members.

barriers to services trade in sectors such as finance. For example, Dhingra, Machin and Overman (2017) make different assumptions about non-tariff barriers (with higher estimates of non-tariff barriers for services such as finance), and estimate that the effect of a ‘hard’ Brexit would in fact be highest in the South East of England, although substantial economic damage in former and current manufacturing areas such as Greater Manchester and Teesside are also predicted.²²

Much of the disagreement in the literature is based on uncertainty about the eventual shape of the UK–EU relationship, and so different studies that make different assumptions come to different conclusions about which parts of the country will be worst hit. But while the relative rankings are uncertain, there is widespread agreement that certain groups of workers – particularly less-educated men working in blue-collar roles – are quite exposed to the economic consequences of Brexit (and that this is true for most of the options for a future relationship that are currently on the table). While we cannot know whether these workers and their local areas will be among the *worst* hit, we can be fairly confident that they will be considerably hit. And, since many of the areas where such workers are concentrated (especially in the North of England and South Wales) already appear to be relatively ‘left behind’, there is potential for a hard Brexit to worsen the economic situation in these areas and compound some of the difficulties of levelling up.

7.5 Short-term policy options

Designing and implementing a coherent policy agenda to reduce the UK’s entrenched regional inequalities, against a backdrop of Brexit and COVID-19, is to put it mildly a challenging task for the government. Policies well designed to address the economic malaise of the UK’s ‘left-behind’ regions could still take years, or even decades, to have meaningful effects. Change cannot be delivered overnight. And just as the UK’s spatial disparities are multifaceted, an effective ‘levelling-up’ agenda would need to use multiple tools, incorporating public investment, education and training, tax reform, planning law, devolution and a myriad of other policy areas. This would need to be a sustained, long-term agenda.

²² This is driven by the fact that different assumptions about non-tariff barriers have a bigger impact on the finance- and services-dependent South East.

Here, we focus on options for the short term, with a particular focus on public spending. The government will be under pressure to deliver – and to be seen to deliver – results sooner rather than later, and public spending is a policy lever that can be pulled relatively quickly. It will not form the entirety of a ‘levelling-up’ programme, but it will likely form a major plank of one. The 2020 Spending Review, due to be concluded later this year, represents an opportunity for the government to provide some detail and to commit the necessary funding.²³ Given the emphasis placed by this government on ‘levelling up’, we can expect these plans to be subject to considerable scrutiny.

The government has already given some indication of the sorts of policies we might expect to be announced in the short term. In this section, we seek to place these in context. We first consider investment spending (and investment in transport specifically) and spending on research and development, before discussing the geographic location of civil servants and how this has changed over the past decade. We then consider the existing place-based spending programmes, such as the Towns Fund, noting that a successful ‘levelling-up’ agenda would seek to learn from and potentially build on these existing structures. Finally, we set out a number of issues and outstanding questions for the Spending Review due to be held later this year.

Government spending on investment and R&D

Investment spending

To date, much of the debate around ‘levelling up’ has focused on government investment. It is certainly the case that well-planned and well-executed investment in particular sectors and/or regions could help deliver productivity growth across the UK’s regions, and the government clearly expects investment to play an important role. The March 2020 Budget stated that:

‘The only sustainable way to drive economic growth and improve living standards in every corner of the country is to boost productivity. The government is therefore investing in people and places – by taking the first steps in its plan to level

²³ The broader outlook for this year’s Spending Review is discussed in more detail in Chapter 6.

up skills across the country, ahead of setting out further details at the [Spending Review], and by committing record levels of investment to infrastructure that will directly support productivity. These actions will boost national growth as well as addressing economic and social disparities and restoring the fabric of our towns and cities.'

HM Treasury, Budget 2020, paragraph 1.125

It is therefore worth considering the existing regional pattern of investment, which will form the backdrop against which any 'levelling-up' investment programme is delivered.²⁴ We also consider the regional patterns in investment in transport, which policymakers often look to as an engine to drive new regional powerhouses.

Investment spending – and particularly investment in transport – is inevitably 'lumpy', and so can vary considerably between years as projects are started and completed. We therefore examine the average level of investment spending per head across the five most recent years of data (2014–15 to 2018–19). Over this period, investment spending per person was higher in London than anywhere else in the country, as shown in Figure 7.6. Capital investment per person there averaged £1,461 a year over this five-year period (in today's prices), compared with an average of £851 in the rest of the UK, and just £658 in the East Midlands.

The gap between investment spending per head in London and elsewhere was driven in large part by higher investment in transport, which averaged £688 a year per head in London between 2014–15 and 2018–19, considerably higher than in any other region (and 2.8 times higher than the average of £247 a year per head in the rest of the UK). This, in turn, was driven almost entirely by spending on investment in railways in London (which in recent years includes Crossrail). Investment in railways averaged £610 a year per head in the capital, 5.5 times the £110 average for the rest of the UK (Figure 7.7). Per-person investment in local and national roads was spread more evenly across the country over this five-year period,

²⁴ For discussion and analysis of the government's overall plans for investment spending, see Chapter 6.

Figure 7.6. Capital spending per person, by nation and region, annual average between 2014–15 and 2018–19

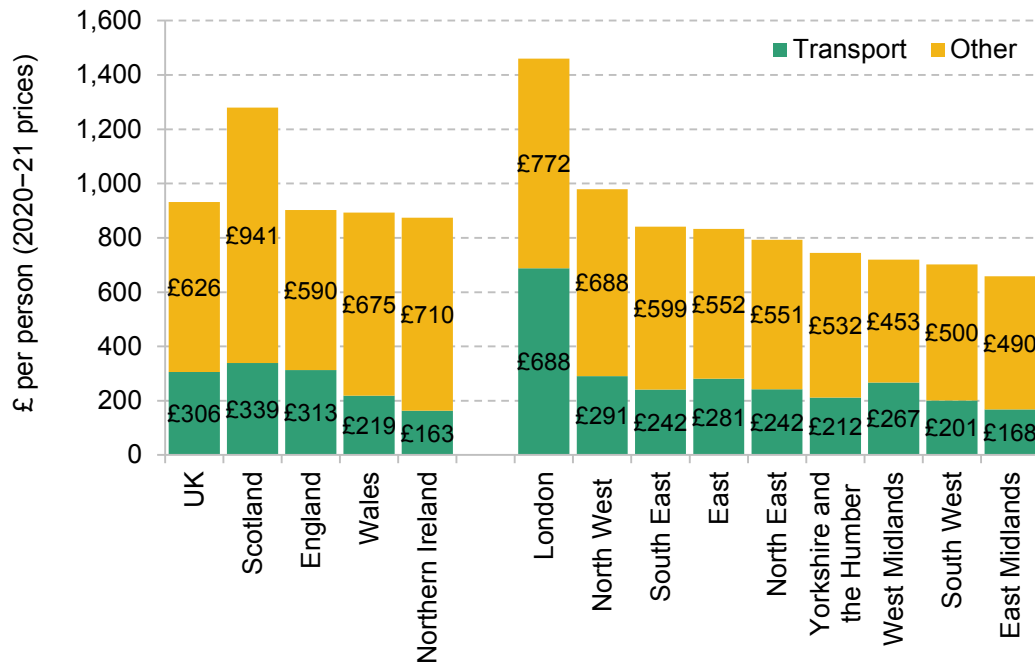
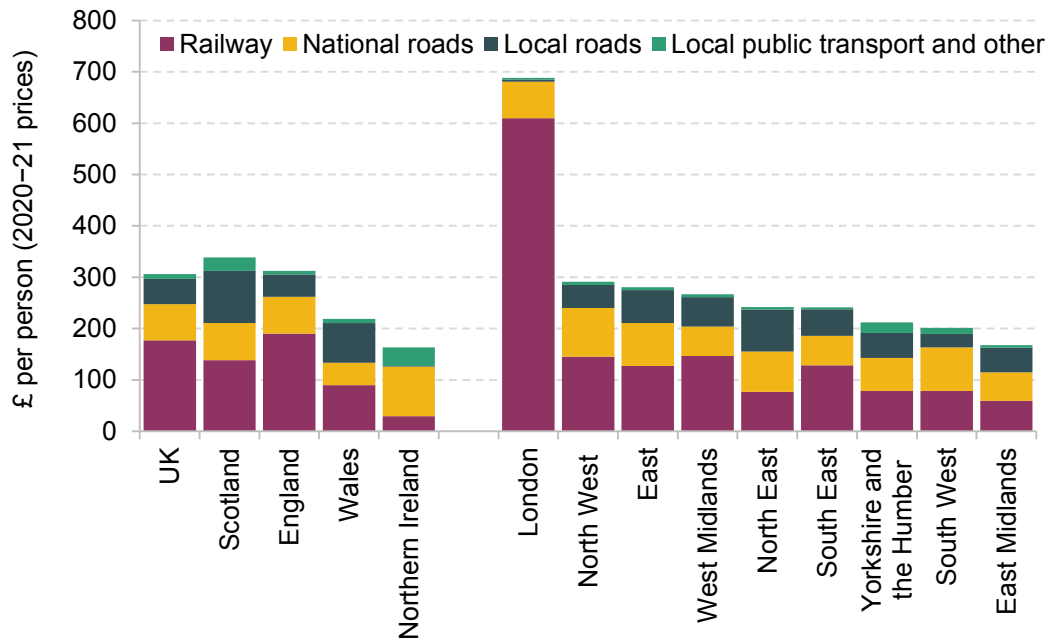


Figure 7.7. Transport investment spending per person, by category, nation and region, annual average between 2014–15 and 2018–19



Note for Figures 7.6 and 7.7: Figures denote the average level of identifiable capital expenditure by person between 2014–15 and 2018–19 (in 2020–21 prices).

Source for Figures 7.6 and 7.7: Authors’ calculations using HM Treasury’s Country and Region Analysis 2019, ONS mid-year population estimates for each year and ONS June 2020 GDP deflators.

but was highest in Scotland (average of £174 per person per year) and lowest in London (£76), Northern Ireland (£98) and the East Midlands (£104).

There are number of caveats necessary to the interpretation of these figures. First, some of the higher transport spending in London is financed through locally raised taxes and fares.²⁵ Second, at least some transport spending in London will in fact benefit individuals who reside elsewhere (such as those who travel into the city for work, mainly from the wider South East). Nonetheless, it is clear that transport investment in London has been considerably and consistently higher than in other parts of the country, and that this is likely to have increased productivity differences between regions.²⁶

What might ‘levelling up’ transport investment mean in practice? As an illustration, if the government were to take a literal approach, and raise per-person transport investment spending across the UK to the London level, it would require more than £22 billion of additional spending per year – more than doubling the existing budget. Per-person spending would need to more than treble in Yorkshire and the Humber and more than quadruple in the East Midlands.

This is absolutely not prescriptive and is merely intended to illustrate the scale of the gap between London and the rest of the country. Clearly, increases on this scale would not be sensibly achievable over a short-term or even medium-term time frame.

Cost–benefit analysis of transport spending

It is also far from obvious that such a literal approach to equalising transport spending would be desirable: there are good reasons for transport investment to be higher in some parts of the country than others, and the appropriate mix of spending (for example, roads versus rail) will certainly differ across the country. London is a densely populated, highly productive urban area with greater demand – and willingness to pay – per head than many other parts of the UK. These factors mean

²⁵ For instance, in 2018–19, total identifiable capital expenditure on transport in London was around £5.8 billion. Transport for London capital expenditure (including Crossrail) amounted to around £3.5 billion (Transport for London, 2019a), some 60% of the total, and approximately half of Transport for London’s funding came from passenger fares (Transport for London, 2019b). Net income from the Congestion Charge (which in 2018–19 amounted to around £150 million) is also spent on transport in London.

²⁶ For a discussion of the evidence on transport investment and economic performance, see Venables, Laird and Overman (2014) and Frontier Economics (2016).

that the cost–benefit analyses used by government to judge which projects deserve funding often estimate greater financial returns to investment in London than elsewhere.

However, such an approach is not without its flaws and critics. The primary concern is that this approach can create a self-reinforcing cycle, where the rules favour investment in areas that *already have* productive jobs, dense populations and higher property prices (such as London), which then become more productive, and are then favoured for more investment, and so on.²⁷

If the government is keen to close some of the gap in transport investment between London and elsewhere, one option would be to revise the rules governing which projects receive funding to place explicit weight on regional equity, or on the perceived social and economic advantages of more regionally balanced growth. There may also be scope to place more emphasis on the potential for certain projects to transform a regional economy and provide extensive spillover benefits.

But incorporating these dynamic effects into decision-making is much easier said than done (Atkins, Davies and Kidney Bishop, 2017). By definition, these sorts of ‘transformative’ impacts are extremely difficult to predict with certainty ahead of time. And while greater flexibility allows policymakers to take a wider view on how a project might affect a local economy, increasing the role of discretion also makes it easier for projects to be prioritised based on more political factors and for inappropriate inconsistencies in decision-making to emerge. A shift towards explicitly prioritising funding to areas and projects on criteria other than their expected economic benefits would also run the risk of earning a lower rate of return on overall transport spending (in terms of UK-wide economic growth), though potentially this return would be more evenly spread. The government has committed to a review of these rules (the ‘Green Book’), with the new rules expected to be published alongside the Spending Review later in the year. Whatever changes are made, it is important that investment decisions are made on a transparent and consistent basis.

²⁷ A detailed assessment of the Treasury’s approach to cost benefit analyses and project appraisal is beyond the scope of this chapter. For a critical review, see Coyle and Sensier (2020).

Finally, while the long-term implications of the COVID-19 pandemic are of course unknown, it seems likely that we will see changing patterns of transport use. In particular, a shift towards more home working could lead to substantial reductions in passenger numbers on public transport systems in London and other major cities. The case for further investment in those systems could well be weaker as a result. At the very least, the government ought to consider how this affects its analysis of costs and benefits, and whether the appropriate mix of transport projects could be different in a post-COVID world.

Research and development

Another area of spending potentially important for promoting regional economic growth is research and development (Griliches, 1998; Jones, 2005). While public investment in R&D (and, relatedly, universities) can have benefits for the country as a whole (because new research and technology can have widespread applications), at least some of the benefits are concentrated in the areas where the research is carried out (Bode, 2004; Kantor and Whalley, 2014; Valero and Van Reenen, 2019; Atkinson, Muro and Whiton, 2019). This is not just because of the direct spending by universities or research institutions, or because of the high wages of their staff. It is partly because R&D can support the development of a prosperous, knowledge-based local economy and contribute to greater local productivity. It could also be because interaction between R&D workers and their communities influences the types of questions that are answered, meaning that the new knowledge is more useful to the local economy. This is likely to be particularly true for the manufacturing sector (Forth and Jones, 2020).

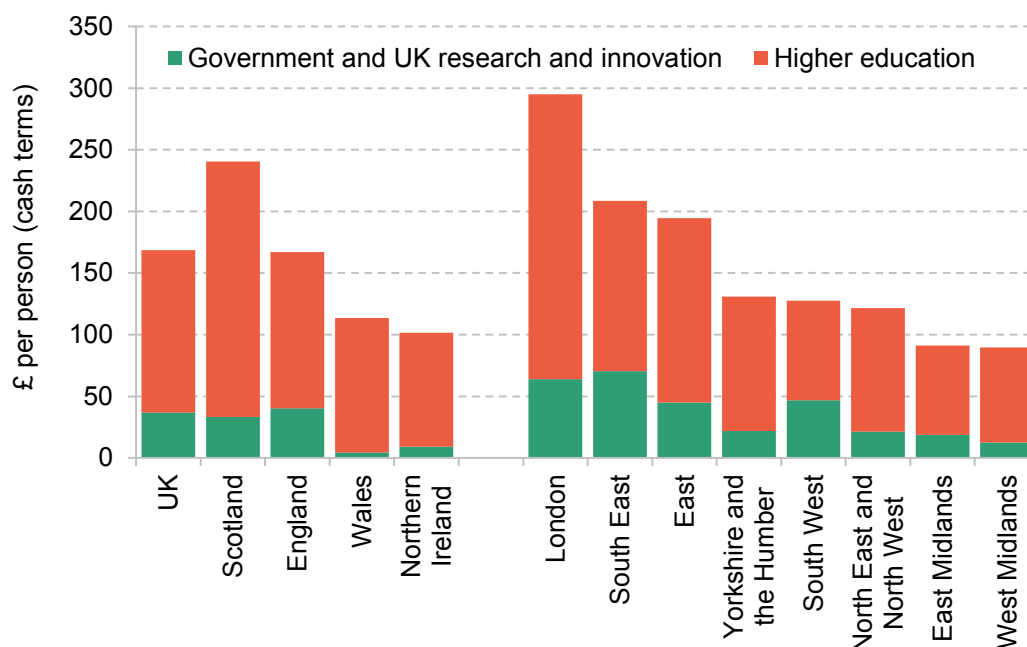
The UK government is committed to doubling public R&D investment from £11.2 billion in 2018 to £22 billion per year by 2024–25, with the objective of boosting public spending on R&D (which includes universities) to 0.8% of national income by that year, and boosting economy-wide investment in R&D (which also takes in private spending on R&D, done mostly by businesses) to 2.4% of national income by 2027 (HM Treasury, 2020).²⁸ At the Spending Review, the government has committed to providing further details on funding and to ‘examine how R&D

²⁸ For context, UK gross expenditure on R&D was 1.71% of GDP in 2018, and averaged 1.60% between 1990 and 2018 (Office for National Statistics, 2020).

funding as a whole can best be distributed across the country to help level up every region and nation of the country' (ibid.).

Currently, public sector spending on R&D is spread far from evenly across the country (Figure 7.8). If one considers R&D spending by both government²⁹ and higher education institutions, spending per head is highest in London (£295 in cash terms in 2018), Scotland (£240), the South East (£209) and the East of England (£209)

Figure 7.8. Government and higher education expenditure on R&D, by country and region, 2018



Note: North West and North East England are combined by the ONS for confidentiality reasons. Government and higher education spending together make up around 30% of R&D spending in the UK, with most of the rest done by private business.

Source: Authors' calculations using ONS gross domestic expenditure on research and development by region and ONS mid-year population estimates.

²⁹ This includes research carried out at government-owned research institutes and laboratories. These are managed by departments such as the Department for Business, Energy and Industrial Strategy (BEIS), the Department for Environment, Food and Rural Affairs (Defra) and the Department of Health and Social Care (DHSC).

(£194). At £237 per head, R&D spending in London, the South East and the East of England is 1.8 times higher than the average for the rest of the UK (£129).³⁰

The government recently published a ‘UK Research and Development Roadmap’, which included a commitment to ‘take greater account of place-based outcomes in how we make decisions on R&D in the UK, ensuring that our R&D systems make their fullest contribution to [the] levelling up agenda’ (Department for Business, Energy and Industrial Strategy, 2020). A ‘UK R&D Place Strategy’ is due to be published later this year to set out further details.

Purely for illustration, were the UK government to pursue a literal approach to ‘levelling up’ R&D and commit to raising public sector R&D spending per head across the country to the same level as in London, the South East and the East of England, this would require approximately £4.5 billion of additional spending. This could be readily accommodated within the overall increase in public R&D investment planned over the next five years or so.

But a fully equal allocation of R&D funding around the country is probably not be the best way to distribute funding. There are strong arguments for public R&D spending to be higher in areas with a greater number of research-intensive, high-quality universities, for example. Given that some R&D spending has the potential to benefit the country as a whole, one could argue that it should be invested in the places with the greatest capacity to absorb it and deliver top-end R&D. Not all places in the UK will have the same ability to do so (Forth and Jones, 2020; Enenkel, 2020). Nonetheless, the government’s commitment to place more weight on place-based outcomes when assigning R&D spending could see some of the gaps between regions narrow in coming years.

Moving civil servants out of London

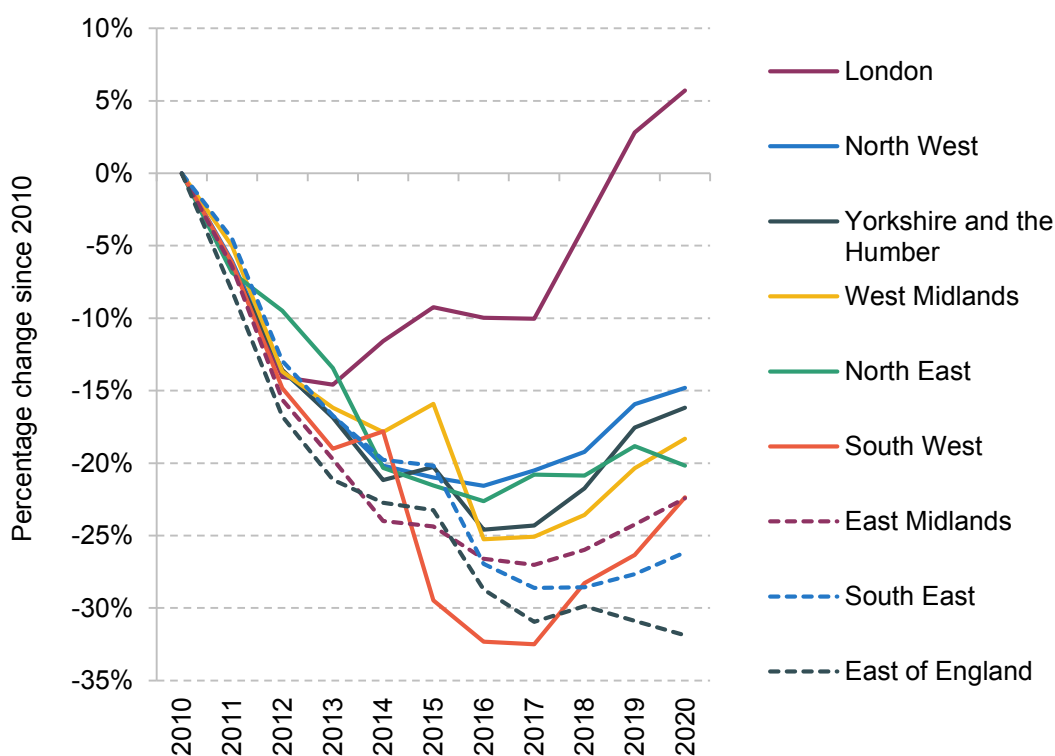
Another area of focus has been the potential for civil service jobs to be spread more evenly across the country. In his letter launching the Spending Review, the Chancellor asked each Secretary of State to develop a plan for relocating department offices and arm’s length bodies outside of London. This follows a long

³⁰ Government and higher education institutions are responsible for about 30% of total R&D spending, with the bulk of the remaining 70% done by businesses. This private sector R&D spending is distributed in a (broadly) similar pattern across the country, and is 1.9 times higher (per person) in London, the South East and the East of England than in the rest of the UK.

line of similar recommendations and promises. The 1963 Flemming Report proposed dispersing 57,000 jobs from London to the regions, and almost 40 years later the 2004 Lyons Review recommended significant dispersal of civil servants from London and the South East. The Conservative Party's 2017 election manifesto contained a promise to do just that. At the 2019 general election, the Labour Party promised to move a 'powerful section of the Treasury' to the North, while in 2004 the Liberal Democrats committed to moving the Treasury and the then Inland Revenue and Customs & Excise to Liverpool.

Were a substantial number of civil service jobs to be moved out of London, this would come after a decade where the number of civil servants has increased in London (by 4,700 full-time-equivalent, or FTE, workers) but fallen in every other region of England (by 66,400 FTEs). As Figure 7.9 shows, the number of FTE civil

Figure 7.9. Change in the number of full-time-equivalent civil servants, by English region, since 2010



Note: Figures are for the number of full-time-equivalent civil servants employed on 31 March of each year.

Source: Authors' calculations using ONS civil service statistics (2010–18) and Cabinet Office civil service statistics (2019–20).

servants in England fell by 17% between 2010 and 2013, at roughly the same pace across the regions of England. Numbers fell by 13% in the North East, 15% in London and 21% in the East of England over that period. After that point, London staff numbers rebounded sharply, and the number of civil service jobs based in London is now 6% higher than a decade earlier. This is in sharp contrast to the experience of all other parts of England, where the number of FTE staff remains between 15% lower (North West) and 32% lower (East of England) than in 2010.

One argument for moving jobs out of London is to provide direct economic benefits to the new location. This comes from the jobs themselves (and the wages they pay), the wider benefits from a boost in demand for local goods and services, the opportunities they offer to local workers (especially if incumbents leave rather than move with their job), and the potential for government jobs to make an area more attractive as a location for private business. Many of these benefits are likely to be greater for more senior, higher-skilled, better-paid civil service jobs. The latest figures indicate that while 20% of all civil servants are in London, the equivalent figure for the most senior civil servants is 64% (Cabinet Office, 2020).

Another argument is that moving roles outside of London could help shift the policymaking centre of gravity – an argument made explicitly by Labour in 2019. This would seek to address a perceived bias towards the capital among decision-makers.³¹ It is certainly true that some types of civil service jobs are heavily concentrated in London. As of March 2020, 64% of policy roles, 75% of economics roles and 40% of statistics roles within the civil service are based in London. This compares with just 14% of operational delivery roles and 25% of digital, data and technology roles (Cabinet Office, 2020). The potential benefits of a rebalancing across the country are genuine, but intangible and difficult to estimate. The decision to relocate around 1,000 Office for National Statistics (ONS) jobs from London to Newport in 2005–06 is, in some respects, a cautionary tale. Some 90% of the 1,000 or so staff based in London chose to leave the organisation, rather than follow their job to Newport, with some evidence that this adversely affected the quality of work done by the ONS (Bean, 2016). In making relocation decisions, the government

³¹ For example, there is some evidence that some transport projects in London with relatively low benefit–cost ratios (BCRs) have gone ahead, while projects in other parts of England with far higher initial BCRs have not: see Coyle and Sensier (2020) for a discussion. On the other hand, recent work from González-Pampillón and Overman (2020) finds no strong evidence of systematic bias towards particular regions.

should take care to avoid suffering a similarly damaging loss of experienced and highly skilled personnel.

Existing programmes aimed at ‘levelling up’

A number of place-based policies and spending programmes already exist. In designing a ‘levelling-up’ agenda, the government is not starting from scratch and will be able to build on these existing structures. We now discuss a number of them.

The Towns Fund

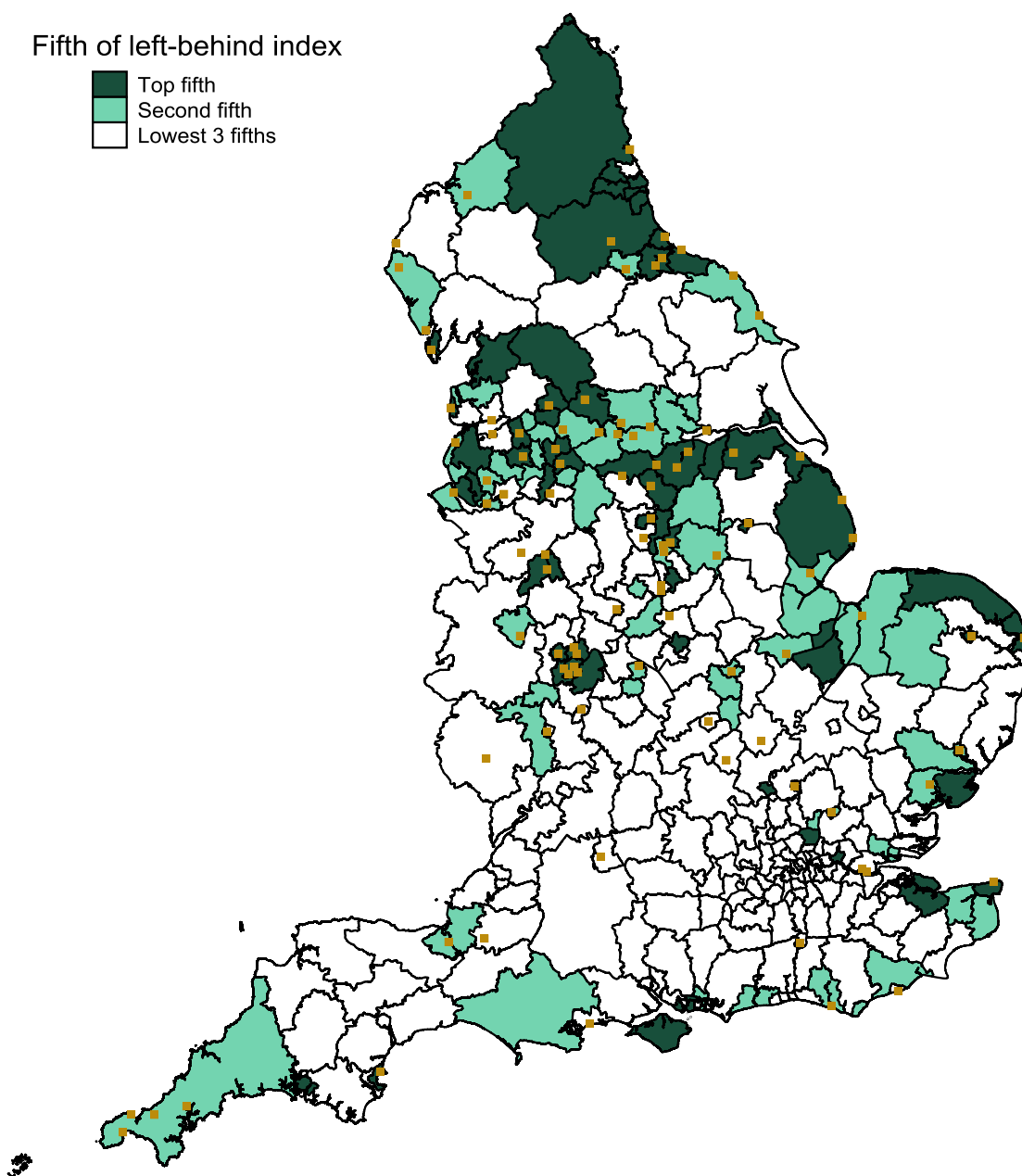
As political focus shifted towards ‘left-behind’ towns in 2019, the government launched its £1.6 billion Towns Fund in England, including £1 billion to be allocated on the basis of a needs-based formula (with most funding directed to the Midlands and North of England) (HM Government, 2019). This was subsequently combined with the previously announced Future High Streets Fund, and topped up by an additional £1 billion in July 2019, as part of the Prime Minister’s speech launching the government’s ‘levelling-up’ agenda (Johnson, 2019). Selected towns can get up to £25 million in one-off funding (though exceptional cases can receive double that) to put towards certain local priorities, such as improved transportation links, retraining and skills support, and investment in culture and heritage. 90% of the funding available is capital (rather than current) funding.

The first 100 towns to be involved in the Towns Fund were announced in September 2019, with a large number of the selected towns located in the North and Midlands of England.³² To explore how well targeted this funding is and how well it aligns with the wider ‘levelling-up’ agenda, we map the towns receiving funding from the scheme onto the areas classified as the 40% most ‘left behind’ on the index discussed earlier in the chapter.

Figure 7.10 shows that over two-thirds of the towns receiving funding from the scheme are in areas classified as being in the 40% most ‘left behind’ on our index, with 38 of them in the bottom fifth (shaded in dark green on Figure 7.10). This indicates that the fund is relatively well targeted at places that appear in need of support, and many of the places scheduled to receive funding that do not lie within

³² For a complete list of the recipients of funding, see <https://www.gov.uk/government/news/100-places-to-benefit-from-new-towns-fund>.

Figure 7.10. Location of Towns Fund recipients relative to left-behind areas



Note: Dark green shaded areas indicate the 20% most 'left-behind' areas (the top quintile) on our left-behind index. Light green shaded areas are in the second 20% most 'left-behind' areas (second quintile). Yellow squares indicate towns scheduled to receive Towns Fund funding.

Source: Ministry of Housing, Communities and Local Government. See the online appendix to this chapter for details of components of the left-behind index.

‘left-behind’ local authorities, such as Workington and Crewe, are still relatively deprived (even if the surrounding local authority is not).

Broadly, then, the formula used to determine recipients (which gives a high weight to income deprivation but also incorporates skills, productivity and exposure to EU exit) appears to be functioning well.³³ However, the selection process also includes discretionary measures chosen by the Ministry for Housing, Communities and Local Government, and gives a 20% weighting to ‘alignment to wider government intervention’. This has led to accusations that the choice of towns was at least partly politically motivated.³⁴

Other place-based spending programmes

Beyond the Towns Fund, a number of other place-based funds have been announced for England in recent years.³⁵ A detailed analysis of each of these is beyond the scope of this chapter, but they are important context for the spending decisions to be taken later in the year, as the government may seek to build on (or rationalise) existing programmes. A summary is provided in Table 7.4.

The schemes vary in their size, time frame and purpose, and in the extent to which they are aimed at ‘levelling up’. Most are made up predominantly of capital funding, and most are less explicitly targeted at ‘left-behind’ areas than the Towns Fund. In particular, some of the earlier schemes – such as the Transforming Cities Fund and the Local Growth Deals – were focused on transport and productivity, rather than helping ‘left-behind’ areas.

³³ Exposure to EU exit is determined based on a Bank of England list of sectors at risk in a no-deal, no-transition Brexit. Full details of the selection process for the towns chosen for intervention (including details of which areas scored highly and were not selected, and vice versa) can be found in National Audit Office (2020).

³⁴ See, for instance, ‘Labour questions impartiality of England’s £3.6bn regeneration money allocation’, *Financial Times*, 21 July 2020, <https://www.ft.com/content/b6d1a0aa-c861-4e6b-b642-6f5fe9fbee86>.

³⁵ The focus here is on England, because it is these programmes which are expected to be covered in the Spending Review. Other parts of the UK have similar schemes in place (such as the Scottish Town Centre Fund, <https://www.gov.scot/news/new-scheme-to-support-town-centres/>) but decisions over these are devolved and so will not be made in the Spending Review. Our analysis earlier in the chapter indicated that many ‘left-behind’ areas are outside of England, with Wales appearing particularly vulnerable. It is therefore important that ‘levelling up’ encompasses the whole of the UK, and not just England.

Table 7.4. Regional spending schemes in England

Scheme	Total fund amount	Time frame	Places targeted
Restoring Your Railway Fund	£500 million	2020–	Non-specific, many successful projects in the North/Midlands
Towns Fund	£2.6 billion	2019–	100 towns, mostly in the North/Midlands
Future High Streets Fund	£1 billion	2019–	100 high streets across England
Transforming Cities Fund	£2.45 billion	2018–23	18 city regions in England
Opportunity Areas	£90 million	2017–	12 areas of low social mobility
Local Growth Deals	£9.1 billion (England)	2014–20	Local enterprise partnerships in England, extended to other nations of the UK since 2018
Coastal Communities Fund	£229 million	2012–20	A large number of coastal towns in England
EU structural funds, ERDF and ESF	£6.2 billion	2014–20	Local enterprise partnerships in England (funding also allocated to devolved nations)

Source: Restoring Your Railway Fund, <https://www.gov.uk/government/publications/re-opening-beeching-era-lines-and-stations>; Towns Fund, <https://www.gov.uk/government/news/100-places-to-benefit-from-new-towns-fund>; Future High Streets Fund, <https://www.gov.uk/government/collections/future-high-streets-fund>; Transforming Cities Fund, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/765425/transforming-cities-fund-supplymentary-guidance-for-shortlisted-city-regions.pdf; Opportunity Areas, <https://www.gov.uk/government/news/18m-extension-to-opportunity-area-programme> and https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/747975/2018-09-04_OA-process-eval_FINAL.pdf; Local Growth Deals, <https://researchbriefings.files.parliament.uk/documents/SN07120/SN07120.pdf>; Coastal Communities Fund, <https://www.gov.uk/government/collections/coastal-communities>; EU structural funds, <https://www.ifs.org.uk/publications/14936>.

Rather than reinventing the wheel, the government could use its focus on levelling up to build a broader strategy around how these different schemes fit together. Increasing the funding or increasing the number of areas benefiting from these schemes could then be a starting point for a ‘levelling-up’ agenda.

Table 7.4 also highlights an imminent challenge facing the government, which is that two of the largest sources of regional development funding – the Local Growth Deals and EU structural funds – only provide funding to the end of 2020 (although some projects may continue beyond this for a time). Over the past seven years, these sources of funding have together provided more than £15 billion to local enterprise partnerships (LEPs) to spend regionally, and this money has also underpinned many of the recent moves towards devolution in places such as Greater Manchester and South Yorkshire. The government has already announced that the UK Shared Prosperity Fund will replace EU structural funding; we return to this later in this section.

Other issues and questions for consideration at the Spending Review

As discussed earlier in the chapter, an effective ‘levelling-up’ agenda would need to encompass multiple policy areas and span a period of years, if not decades. But many of the early decisions relating to the design of the ‘levelling-up’ agenda are due to be made later this year, at the Spending Review. These include, for example, departmental capital budgets, the funding settlement for local government, and details on which EU spending programmes the government intends to replace (and how). Many of these decisions will involve difficult trade-offs, made only more difficult by the turbulent economic backdrop. As is argued in Chapter 6, given the unprecedented degree of economic uncertainty, there is a strong argument for holding only a one-year Spending Review, and delaying many of these and other decisions until a point where some of that uncertainty has dissipated. Nonetheless, some decisions will need to be made, and the Spending Review provides an obvious opportunity for the government to make progress on its ‘levelling-up’ agenda. Many of the areas discussed above – such as investment in transport and R&D – will fall within the scope of the Spending Review. Here, we discuss a further (non-exhaustive) set of issues and outstanding questions that will need to be considered and/or addressed.

Which areas to target?

First and foremost, the government needs to decide what it is trying to achieve through ‘levelling up’ and to define what success would look like. Is the objective of ‘levelling up’ to revive the fortunes of the UK’s ‘left-behind’ towns as economic success stories in their own right? Or ought the focus to be on improving the productivity of large cities outside of London, to allow them better to support their regional hinterlands?³⁶ Should funding be targeted at where it is most needed, or where it would have the most impact? If the government tries to be all things to all people and all places, it will spread itself too thinly and fail to achieve meaningful change. Prioritisation will be key. In addition, it is important that the method for determining which areas to target is not perceived as politically motivated. An objective, transparent process for allocating any new funding would be beneficial.

As we have outlined in this chapter, ‘left-behind’ areas vary across multiple important dimensions. The challenges facing a struggling coastal community may be very different from those faced by a post-industrial town or deprived urban centre, and different types of support will likely need to be targeted at different areas. Our analysis indicates that, in general, ‘left-behind’ areas are not the areas most vulnerable to the economic impact of COVID-19, but there are important exceptions. We ought to be particularly worried about the fate of deprived coastal communities that were already struggling, and now appear especially vulnerable to the short-term economic impact of the pandemic. Targeted support for those areas and communities may be necessary in the months and years ahead.

Providing certainty through longer funding cycles

Change cannot be achieved overnight. Economic development and growth-enhancing programmes take careful planning and require time to implement. For officials in central and local government seeking to design and deliver such programmes, there are considerable advantages to the certainty provided by multi-year funding cycles, which allows for effective planning. Government capital budgets are typically set for four or five years at a time, and EU funding for regional development came in seven-year cycles. Although the uncertain economic climate does not lend itself to multi-year planning, and short-term funding arrangements would allow the government to retain flexibility, the government

³⁶ The case for the latter has been convincingly made by, among others, the OECD (2020) and the Centre for Cities (Swinney and Enenkel, 2020).

should strongly consider whether local ‘levelling-up’ funding could be allocated over a similar time frame. The issues such an agenda seeks to address are deep-seated and long-standing, and progress will require a coherent and joined-up approach across areas. Long-term funding arrangements would help foster such an approach and encourage local areas to commit to potentially transformative schemes.

Looking beyond capital investment

Much of the focus to date has been on investment spending, with particular focus on transport infrastructure. But ‘levelling up’ needs to be about much more.

It may be that some towns are close to a prosperous city and would benefit from improved transport links to that city, to enable workers with higher spending power to move in and commute. On the other hand, for towns not within a practicable commutable distance to an economic hub, additional transport spending is unlikely to be the answer to their problems. For these places, a more natural focus might be investing in skills training (for example, in further education colleges) or business support schemes. Other places might gain most from investment in cultural amenities to attract young graduates to live and work there. The flexibility to pursue different approaches that are suited to local needs, rather than a one-size-fits-all approach, will be important.

The government also needs to consider the appropriate mix between capital funding (for building new infrastructure) and current funding (to keep it running). Many local funding schemes announced to date are capital intensive. The Towns Fund, for instance, is composed of 90% capital funding and just 10% current (or ‘revenue’) funding. This is not necessarily a problem if a capital investment generates savings or revenue in the future. But if it creates ongoing running costs once built, this can pose problems for local authorities and discourage them from investing. For example, new bus lanes are of little use if the council cannot find the money to pay bus drivers. An increase in funding for investment projects is not unwelcome, but needs to be coupled with adequate current funding to ensure that new transport systems, colleges and local infrastructure can be operated effectively.

Don’t forget local government funding

This relates to a wider point about local government, which will be an important vehicle for any ‘levelling-up’ agenda. Local government funding has been cut

substantially over the past decade, with the largest cuts falling on more deprived areas (Harris, Hodge and Phillips, 2019). In the face of pressures from an ageing population, councils' spending is increasingly focused on (mandatory) social care services, to the detriment of other, non-obligatory services. Between 2009–10 and 2019–20, councils in England reduced spending on planning and development services by 59% in per-person terms (*ibid.*). This includes, among other items, spending on economic development, community development, economic research and business support – exactly the sorts of spending that one might expect to be helpful in promoting local economic growth. Further cuts to local government funding would be difficult to reconcile with a coherent 'levelling-up' agenda.

More broadly, reforms to the system of local government finance have been moving in the direction of making councils more reliant on locally raised revenues and less reliant on central government grants. One risk is that poorer areas, with smaller council tax bases, struggle to raise the amounts necessary to keep pace with social care pressures and are forced to make savings elsewhere (such as economic development budgets). A government committed to 'levelling up' could, and should, act to avert this scenario.

Local government organisation as well as funding ought to be considered in light of the 'levelling-up' agenda. Devolution of significant economic power to the regions could be as important as, or more important than, decisions made in Whitehall.

Avoiding a naïve approach to levelling up

Investment spending is not the only form of spending that varies across the country: spending on health, education and other public services is also higher in some parts of the UK than others (Zaranko, 2020). In part, this is driven by variation in the cost of providing public services. It is more expensive to employ a nurse in Lambeth than in Leeds, for example. But the regions and nations of the UK also differ in their *need* for various types of spending. We would expect health spending to be higher where the local population is older or less healthy, we would expect police spending to be higher in areas with more crime, and we would expect benefits spending to be higher in regions with higher unemployment rates.

If the government were to take a literal and blunt approach to 'levelling up' these forms of spending, it would mean delivering additional funding to the areas of the country with the least need for it (or cutting spending where pressures are greater). While this perhaps sounds impossibly naïve, this is the broad approach that has

already been taken with schools: the Prime Minister’s promise to ‘level up’ schools spending means additional resources for schools in wealthier areas with fewer disadvantaged pupils and fewer pupils for whom English is not a first language (Sibieta, 2020). Applying a similar approach across the board could mean boosting funding for well-off parts of the South East and East of England, rather than poorer, ‘left-behind’ areas. The government needs to ensure that additional resources are well targeted.

The design of the new UK Shared Prosperity Fund

Over the period between 2014 and 2020, the UK has received an average of €1.6 billion (around £1.4 billion) per year in economic development funding from the European Union, via the European Regional Development Fund (ERDF) and the European Social Fund (ESF). However, with the UK leaving the EU schemes fully at the end of the transition period in December 2020, these funding sources will no longer be available.

These EU funds are large relative to other regional development funds available in the UK, and the 2019 Conservative Party manifesto committed to replacing EU funding with the UK Shared Prosperity Fund (UKSPF). This fund has been linked to increasing skills training and is expected to form a part of the government’s broader ‘levelling-up’ agenda.

However, no details of the scheme have yet been announced and, with funding from existing EU schemes to run out in just a few months, the government is overdue in setting out more details of the design and funding allocation of the UKSPF. It would be wise to integrate the new UKSPF into the wider place-based policy and ‘levelling-up’ agenda. Previous IFS research has outlined many of the policy options and challenges involved in the design of the UKSPF (Davenport, Phillips and North, 2020).

The potential for rationalising existing programmes

Table 7.4 shows that at least seven separate place-based spending programmes already exist within England alone. Each of these funds has different aims, target areas and time frames. Funding is also allocated to different bodies and levels of governance, including local authorities (in the case of the Towns Fund), local enterprise partnerships (in the case of EU funds and the Local Growth Deals) and combined authorities (in the case of the Transforming Cities Fund). This creates a

complex, overlapping patchwork of funding with the potential to deter joined-up, coherent local development plans and the potential to create duplication of effort when it comes to funding bids. The government should consider whether some of these existing programmes could be rationalised – perhaps under the umbrella of the UKSPF – to ensure that money is invested efficiently and effectively.

7.6 Conclusion

The UK is one of the most regionally unequal countries in the developed world. This government has pushed geographic inequalities to the top of the agenda and made clear its intent to boost economic performance outside of London and the South East, ‘level up’ across the country, and revive the fortunes of the UK’s ‘left-behind’ towns and cities. This is an ambitious agenda, and one that will not be quickly achieved with off-the-shelf policy solutions.

A great deal of detail is yet to be fleshed out. There is no single definition of a ‘left-behind’ place and no one-size-fits-all policy agenda. The challenges faced by cities such as Newcastle and Glasgow are different from those faced by towns such as Dudley and Merthyr Tydfil, which are in turn different from those faced by coastal communities such as Margate and Blackpool. The government cannot be all things to all places. If it wants to make real progress, it would be sensible to prioritise to ensure that resources are not spread too thinly.

There are two major shocks either in progress or on the horizon that threaten to complicate the situation. The first of these is the economic fallout from COVID-19; the second is the UK’s new trading relationship with the European Union. The long-term implications of both are highly uncertain, but each has the potential to have a significant impact on regional inequality. COVID-19, in particular, could induce structural changes to the UK economy that disperse prosperity away from major urban centres such as London in the longer term (though it is of course too early to say). In the short term, some parts of the country will be more vulnerable to the COVID-induced recession than others. Our analysis indicates that, in general, these are not the areas that would be traditionally considered ‘left behind’. However, some hospitality- and tourism-dependent coastal towns, and the centre of some Northern cities, do appear vulnerable on both fronts. The picture from Brexit is less clear, but we ought to be particularly worried about the potential impact on areas with significant manufacturing employment and/or a less-educated workforce,

many of which are already considered ‘left behind’. These impacts should be included as part of any ‘levelling-up’ agenda.

Designing and implementing a coherent policy agenda to reduce the UK’s entrenched regional inequalities, against a backdrop of Brexit and COVID-19, is a daunting task. In this chapter, we have focused on some of the short-term policy options that might form the start of such an agenda, such as the potential for investment in transport, R&D spending and the location of civil servants to be rebalanced across the country. All indications are that we can expect announcements on this in this year’s Spending Review. Decisions on these areas should be taken with care, and the government should avoid simplistic, knee-jerk announcements. And although it is perhaps not quite as eye-catching or glamorous, the Chancellor would be sensible to back up the important role of local governments in ‘levelling up’ with adequate funding, both capital and current.

It is important to emphasise that if ‘levelling up’ is to be successful, effort will need to be sustained over the longer term and the government will need to consider a much broader range of policies than just those discussed here. How and where to level up is a complicated question, and the government cannot solve it in one Spending Review (and should not try to do so). Nonetheless, this year’s Spending Review will be a natural place to start setting out a clearer direction of travel to help the UK’s left-behind areas.

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