

Levelling Up, Housing and Communities Committee

Oral evidence: Funding for Levelling Up, HC 744

Monday 14 November 2022

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Members present: Mr Clive Betts (Chair); Bob Blackman; Mrs Natalie Elphicke; Florence Eshalomi; Ben Everitt; Kate Hollern.

Questions 1 - 29

Witnesses

[I](#): Adam Hawksbee, Deputy Director of Levelling Up, Onward, Professor Steve Fothergill, Sheffield Hallam University, Paul Swinney, Director of Policy and Research, Centre for Cities, and James Morrison, Reader in Journalism and Author of "The Left Behind: Reimagining Britain's socially excluded", Robert Gordon University.

Examination of witnesses

Witnesses: Adam Hawksbee, Professor Steve Fothergill, Paul Swinney and James Morrison.

[This evidence was taken by video conference]

Q1 Chair: Welcome to this afternoon's session of the Levelling Up, Housing and Communities Select Committee. This is our first evidence session in our inquiry into the funding for levelling up, which is one of the key commitments of the Government, one of their key policies, and indeed it is in the Department's name now, the Department that we scrutinise.

I will ask Committee members to put on record any particular interests they have that are relevant to this inquiry and then I will come over to our witnesses. I am a vice-president of the Local Government Association.

Florence Eshalomi: I am also a vice-president of the LGA.

Kate Hollern: I employ a councillor in my office.

Bob Blackman: I am a vice-president of the LGA and I employ councillors in my office.



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Mrs Natalie Elphicke: I am a vice-president of the Local Government Association and my council has Levelling Up Fund bids in it as well.

Ben Everitt: I am also a vice-president and I employ a councillor. We have levelling up bids in NMK as well, skin in the game.

Chair: That is our particular interests. I will come to our panel today. Three of our witnesses are in the room. I will go down the table and ask you to say who you are and the organisation you represent today.

Paul Swinney: Good afternoon, everybody. My name is Paul Swinney from the Centre for Cities.

Adam Hawksbee: Good afternoon, Adam Hawksbee, Interim Director of the think tank Onward.

Professor Fothergill: Steve Fothergill, professor at Sheffield Hallam University.

Chair: Thank you, and James Morrison is with us online.

James Morrison: I am a reader in journalism at Robert Gordon University in Aberdeen.

Q2 **Chair:** Thank you all very much for coming this afternoon. I will begin with a question and go down the table and then come to James to answer. When we have looked at these issues in the past, the first thing that is apparent when talking about funding is that it is almost impossible at first glance to understand what is going on. We had a look at funding pots, not just for levelling up but generally. We identified over 130 different pots of money that local authorities across government had to bid for or could bid for, and levelling up is establishing more pots in addition to the ones that already exist.

In the levelling up White Paper the Government said that initial steps have been taken to address “the complexity in the funding landscape”. How far do you think that that has happened?

Paul Swinney: I do not think a great deal has happened, full stop, since the White Paper has been published, for a range of different reasons. The goal to try to rationalise those pots is a good one and is very much a welcome one, not least for the figures that you pointed out. However, there has been very little action so far on it, or public action at the very least. Maybe the Department has been working behind the doors to do this, but we have heard very little so far about that being the case.

Adam Hawksbee: There has been very little progress so far in delivery on that promise. There have been some positive noises. I was quite pleased to see that when the investment zones proposals came out—although I understand that the future of that policy is under debate—one of the three pillars of investment zones was to simplify and streamline funding settlements for those areas that might have had investment zones and had mayors. There have been relatively few signals from Treasury that it would be satisfied with that form of funding, so the



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inclusion of that in an official Treasury prospectus was for me good news in the direction of travel. Whether that gets delivered is yet to be seen.

Professor Fothergill: I share the view of my colleagues here that some rationalisation and simplification is a very good idea. I hear that very strongly from local authorities that I work with. They think the system at present is hugely burdensome. However, as to whether there is any progress, I also share the impression that so far the answer is not a lot. Only a couple of weeks ago I was in the Treasury talking to the official who oversees DLUHC expenditure. I said, "Where have you got to on all of this?" at which point he took a very deep breath and said, "We had this commitment to say something by the end of the year. I don't think we are going to make it on that timescale. It is clearly going to slip." However, the willingness is there.

That begs the question of what will be put into the pot and how you manage it and allocate it. These are major questions in their own right.

Chair: We will come on to those but they are obviously very relevant. I am sure that the Treasury will be thinking about that as well.

James Morrison: I will add one point to something that I should have said in introducing myself. My expertise is slightly different to the rest of the panellists in that I am here as someone who recently published a book entitled "The Left Behind", focusing on the discourse of left behind communities and levelling up and the red wall and so forth. Therefore, my expertise is based less on the policy end and more on having conducted a lot of interviews in the last two or three years in people from "left behind" communities and neighbourhoods in the UK and other groups that one might describe as being economically or in other ways left behind.

Those interviews include a lot of local authority councillors at all sorts of levels and business owners but also residents and ordinary members of local communities. When levelling up was mentioned, and also questions of funding came up in some of those interviews over the last couple of years, I found—even among some people who were district and county councillors or unitary authority councillors—a great sense of bafflement about the various funding streams that are now available, even under the nomenclature of levelling up, which has been around for only two or three years. My impression is that that has carried on since the levelling up White Paper came out. I agree with all the other panellists, albeit from a different perspective, that a heck of a lot more rationalisation is needed in practice.

There was also a great deal of scepticism among a lot of people I interviewed, from councillors to ordinary members of the public, about whether levelling up was amounting to anything very tangible at all. Some people found it hard to get a handle on exactly what it meant and whether it was likely to amount to anything, whether they had seen any evidence whatsoever at the moment of anything that could be seen to be the seeds of levelling up taking place.



Q3 Chair: I will go back and follow up on a particular point. James, you mentioned this confusion among elected representatives at local level, which is understandable. We can get confused as well trying to scrutinise all this. We have had the Levelling Up Fund, Towns Fund, High Street Funds, Sustainable Transport Fund, all with the objective of trying to look at—left behind areas is probably not a term that everyone would use—areas that are in need of additional funding. Have you seen any evidence that these are joined up, let alone that these are joined up to the rest of government spending?

James Morrison: It is mixed. Some of the people I was interviewing, including some of the councillors who had been involved directly or indirectly in bids, recognised that there was an attempt or will at a government level to try to not only rationalise the system but integrate these schemes a little bit more and that they were all meant to be part and parcel of a much wider overall levelling up agenda.

There was a sense with business leaders and local chambers of commerce and things that they did not seem to integrate terribly well or complement each other. I also noticed that there was pessimism in some areas, that because an area that has long been identified in one way or another as economically disadvantaged and in desperate need of investment had missed out on other of the earlier schemes that were introduced under the overall levelling up umbrella, that was likely to happen again. There was a sense that the areas that had succeeded in those early bids, whether this was true or not, were more likely to gain further additional funding on the back of that—funding attracting funding, almost, and some areas falling further behind. “Left behind” is a term that I question myself in my book.

There was a sense in some areas that they had missed out on some of these early pots of money. The interviews reflected concerns among colleagues, if it was local councillors who I was talking to, that this was likely to continue. They felt that they needed some support in putting together a first successful bid, a small-scale one perhaps, to get their foot in the door.

Professor Fothergill: I talk to local councillors and local authority officers quite regularly in the things that I get up to. The general impression that I get from what they tell me is that linking up of these funds is very limited indeed. In fact, it is very difficult to achieve that linkage even if you wanted to because some funds, like the Shared Prosperity Fund, have been allocated by formula so you know that you have the money there on the table, but other funds you have to bid for. Therefore, you cannot guarantee that you will be able to link up your Shared Prosperity Fund money with, let’s say, Levelling Up Fund tranche 2 money, because you do not know whether you will win that money. Councils around the country are being put in an impossible situation.

Adam Hawksbee: You have two opposing forces here when it comes to joining up these funds. You have leaders in local areas, some of whom are doing a very good job of pulling together these different pots. Two



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examples are Andy Street in the West Midlands, who I used to work with when I was head of policy, and Jamie Driscoll up in the north of Tyne. They will look at a suite of capital projects that they have in their area and then think through which of these could be eligible for city regions, sustainable transport settlement, for Levelling Up Fund, for the Towns Fund and so on. They will go through each of those schemes. Some of them will be bidded and others will be things like their Gain Share Fund that they know they have access to and can borrow against for a certain period. The very best and the most mature of the mayoral combined authorities will bring those funds together.

To be clear, they should not have to do that. It is ridiculous that our mayors have become experts in speaking Whitehall language. What they should be doing is looking at the set of capital schemes, looking at the taxes coming in their local area, which are hopefully going in the right direction because of their interventions, and then allocating those to projects or indeed borrowing against future revenues, as occurs in basically every other developed western nation. That is not the situation that we are in.

That is one force, pulling together. The other is that Whitehall often actively fragments some of these funds, sometimes to meet individual ministerial objectives. Let me give an example from last year of adult skills. At one point three different Departments had launched separate and often contradictory adult skills programmes. The Department for Education was running the adult education budget, the Community Renewal Fund had an adult skills portion from DLUHC and then Multiply was launched out of nowhere by the Treasury.

All three of these programmes had broadly aligned objectives around tackling very serious and very real adult skills problems, but with very different delivery mechanisms, timelines, accountability structures and requirements in the bureaucracy that mayors and their teams needed to fill in. That is a real problem because you have mayors, councillors, others trying to bring these things together, which is tricky work, and at times you have Whitehall fragmenting and pulling some of these things apart. So real power to the elbow of the team behind the levelling up White Paper, in DLUHC and elsewhere, who are trying to tackle that second force of fragmentation.

Paul Swinney: There are two elements within that as well. You need to have a clear national strategy about what you are trying to achieve. A lot of these funds came out before the White Paper was launched in February, things like the Levelling Up Fund, the Towns Fund, the High Streets Fund. They have not been produced in the context of, "We are trying to do X and then all these things fit together" that goes back to individual ministerial steers about, "We want a pot of money for this or a pot of money for that", which I do not think is very helpful.

You also require a strategy at the local level to navigate this. Within the constraints of the game that have been set up, local areas should have a strategy in place to say, "We want to achieve this". If we are able to then



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say that we have the capital projects on our list, as Adam was pointing out, what is the pot of money available to try to do that? There is a clever way to try to access that money within the constraints of what we see. Some places are probably better at doing that than others. Adam has named two good examples. Sunderland is a good example of that as well in the things that it has been doing in its city centre recently.

Chair: Thanks. Moving on to look further at the funding allocations,

Q4 Bob Blackman: The White Paper went into the complexity of the various different bidding regimes and also the fact that lots of authorities bid sometimes but are unsuccessful. They do not know why they are unsuccessful, and we end up with almost a one size fits all type of system. Adam, you have done some work on what happened in Walsall on this. What is your view? Is it a one size fits all the right approach? If not, what should the approach be?

Adam Hawksbee: It is not the right approach. One size fits all, particularly where it is a local authority area and where you take that unit, is not sufficient. That is because within local areas there are often very different barriers to levelling up. In some places, it might be physical connectivity and a transport project will be more appropriate. In many places, that is not the case. We did some work in the Black Country where you have an area like West Bromwich. It is about 23 minutes on a tram into central Birmingham but about 75% of the people who live in the Black Country work in the Black Country. It is not just physical connectivity there, it is about human capital. There are real problems right the way through from early years to universities with getting the people the skills to access jobs in city centres.

We need a funding approach that combines two things. The first is the bottom-up flexibility for local areas to allocate funding to their priorities. There has to be the right accountability around that, but the best way to do that is fiscal devolution, that you spend the money that you tax and earn in your place. We are way off our international counterparts in that. You cannot just have fiscal devolution; you cannot just pass money down to a local area. You will need, like other countries do, stabilisers and top-ups between different areas so that you do not have just have those that are doing well running away and those that are doing poorly failing.

We need to move away from the one size fits all approach and have more funding from the bottom up with fiscal devolution and more sensible directed funding from the top down to top up the areas that are not doing well and target real need, taking money away from some of those areas that are doing more successfully.

Bob Blackman: Thank you, I will move along the panel. By the way, because we have four witnesses, if you agree, just say, "Yes, I agree".

Paul Swinney: I agree with everything that Adam said there. One further thing to say is that you are getting to capacity, maybe, within



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part of your question about the different capacities of different local authorities. That is a problem that we have in—

Bob Blackman: Capacity for bidding, do you mean?

Paul Swinney: Yes, exactly.

Bob Blackman: Or delivery?

Paul Swinney: It is probably a bit of both when you are bidding particularly in this context. That points to a broader structural problem that we have in the UK that we probably have too many local authorities. We have some very big ones with a lot of capacity within them; we also have some very small ones. That was what the levelling up White Paper was pointing towards. If there was some degree of rationalisation across that, some of which we have seen voluntarily already, that would deal with some of that problem as well. It is not just about changing the nature of what happens at the national level, it is also about how you wire up local government properly to make sure that it has sufficient institutions and resourcing behind it to do things like bidding, but also delivery, or what they really want to be is that devolved power and they have the capacity to deal with those devolved powers.

Professor Fothergill: Let me criticise one size fits all funding in my own words in my own way. There are two things fundamentally wrong with it. One is the need for levelling up funding clearly varies a great deal from one place to another across Britain, so you need very strong targeting. If you are interested in levelling up, you have to go for the places that need the help and perhaps recognise that some other places are doing quite nicely, thank you very much.

Beyond that, down at the local level, once you have the pot of money that is going to an area, it will vary a great deal according to what are the best ways forward to tackle the problems and opportunities in that area. There I think central Government has to begin to trust the local players and not be overly prescriptive. They could say, "Right, you know you are in need of levelling up support. You get on and work out what you really need to do with this money." That is the proper way forward.

James Morrison: Having given quite lengthy answers to the first couple of questions, you will be pleased to hear that I agree with all of those points. I 100% agree that the one size fits all approach is not the right one, and some excellent reasons were given there by everyone.

Q5 **Bob Blackman:** I will start with you for the second part of my questions. When Andy Haldane, the head of levelling up, was before us, he talked about removing ring-fences, lengthening duration, moving to a formula needs-based criteria and so on. Do you think that that would assist in achieving what we all want to see, which is the local levelling up taking place?

James Morrison: Yes, up to a point. There is a tension between the heavily competitive bidding process and the needs-based formula of



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various kinds that are already in place at local government level, and regionally to some extent, identifying areas of particular socioeconomic and other needs and deficiency and so on. There is a temptation whenever you introduce new funding schemes and a new agenda, as levelling up is overarchingly, to reinvent the wheel needlessly. There are already, particularly in these straitened times, ways that we can use existing formulae to some extent that identify areas at a fairly local level, not just regional level, of relatively greater socioeconomic need, as a springboard for identifying areas at the outset from top down that will clearly be in need of economically orientated levelling up.

Beyond that, there is work to be done for even more granular, hyper local level levelling up, even down to the point of very specific postcodes, individual streets, neighbourhoods up and down the length and breadth of the UK rather than regionally targeted as they currently are. We might come to some questions about those sorts of issues later on. Some of the existing formulae, for all their flaws, identify fairly well established areas of local need, and are a good starting point from the bottom up to begin mapping out the levelling up map before we get into finer calculations.

Q6 **Bob Blackman:** You mentioned competitive bidding. Are you in favour of competitive bidding? Is it always appropriate or is it never appropriate?

James Morrison: I would not say it was never appropriate. There are big problems with it and some of that relates to the issues around capacity that other panellists have mentioned. For example, another point that was alluded to but not directly mentioned is that some major local authorities now have politicians who are leaders and directly elected mayors who are also national-level politicians. They have networks and expertise and so on that give them a disproportionate advantage at the outset to those of smaller level, even upper-tier authorities elsewhere in the country.

The work of the Institute of Government recently identifies how hollowed out many local authorities up and down the UK have become over recent years with austerity cuts and so on. Some of those in the economically poorest areas of the UK are disproportionately hollowed out and have suffered disproportionately from cuts in government grants and so forth. Given the problems that they are facing just funding front-line services, there is not a level playing field there for authorities like that when it comes to mounting a competitive bid compared to upper-tier authorities in wealthier areas of the country and also those that are equipped with the network knowledge and the personal expertise of some of the higher-level leaders and elected mayors that we have elsewhere in the country. Competitive bids disproportionately disadvantage some parts of the country that probably are in most need of levelling up.

Professor Fothergill: First, can I disagree with one thing that James has just said? He referred to the levelling up agenda as being the new agenda. It is not really. For anyone like myself who has been in urban and regional economic development over decades, it is old policies under



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a new label. There is a vast amount of experience about what works and what does not work on which to build.

- Q7 **Bob Blackman:** One of the key points here is there is no point in bidding for something if you do not qualify for it. In other words, if you do not have the criteria right, with respect to what James was saying, if people are putting in these bids blindly and not understanding what the criteria are for selection, it is a bit of a waste of time and money, isn't it?

Professor Fothergill: In fairness, the Government have often said that these are the criteria on which bids will be judged. Also, for example, in the context of the Levelling Up Fund and the Community Renewal Fund, they identify priority areas. This was intended to guide the allocation of where successful bids might go. To some extent it certainly did. However, in detail the statistics that they threw into the pot to identify those priority areas was distinctly flawed and came up with some very odd priority areas.

I distinctly remember that the area of the Chancellor of the Exchequer—as he was at the time, now Prime Minister—came up as a priority in Richmondshire, which in most socioeconomic statistics is arguably one of the most prosperous parts of the whole country. There were flaws in that method.

- Q8 **Bob Blackman:** Looking at this, most people will say London is tremendously successful, does not need any help, it is fine, except we have some of the most deprived areas in the country within London that potentially could get excluded from all this.

Professor Fothergill: It depends what you are trying to do generally under the levelling up banner. If you are trying to raise the performance of the weaker local economies across Britain, you need to recognise that local economies operate at quite a wide geographical scale. What you are observing down at the neighbourhood level in parts of London is not necessarily the weakness of the London economy, because clearly it is very strong. You are observing the nature of the housing stock in places and the residential segregation between places where rich people live and places where poor people live.

Bob Blackman: Also the employment levels.

Professor Fothergill: Yes, that is what I am saying. The poor people who are often those who are out of the labour market for whatever reason. However, if you are looking at the overall economy and you are trying to raise the economy of the wider labour market, there are places with higher needs than London. Admittedly, you still have areas of deprivation, but that is mainly a reflection of what I would call residential segregation.

Adam Hawksbee: Your question asked about ring-fenced funding.

Bob Blackman: Yes, a whole variety of different questions.



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Adam Hawksbee: Yes. I think that all three of those things that Andy Haldane called for are important and are right. I have been a strong advocate that we need to give mayors greater financial firepower and councils as well, but—and it is a very important “but”—accountability needs to go with that too. Mayors themselves would be the first to recognise that the accountability frameworks currently in place for mayoral combined authorities are not sufficient for the amount of un-ring-fenced long-term funding that might come through.

There is also a particular concern for some of the county councils that might receive devolution deals. The Greater Manchester Combined Authority has a revenue budget of about £250 million; Surrey County Council is £1.2 billion. That is prior to any sort of devolution deal moving into place. I would like to see greater accountability, and I think that mayors would welcome this, at three levels: accountability up to Parliament, and that means things like mayors or chief executives becoming accounting officers and being responsible for NAO investigations into committees like this one; accountability across to other leaders in a local area through improved mayoral overview and scrutiny panels; and a better governance model between local authority leaders and mayors where they exist. However, most important is accountability down to the electorate, because it is ultimately at the ballot box where these organisations will be most accountable if they work well. That means taking steps to improve—

Bob Blackman: Also if the information is transparent.

Adam Hawksbee: That is exactly it, yes. There needs to be massive improvement in the understanding of the roles of mayors, and scrutiny. One of the things that we have done in Parliament, through the Office of Budget Responsibility, is increase the amount of third-party objective information around financial planning. Why do we not do the same thing about our mayors and local leaders to inject trusted information into a debate about mayoral performance and proposals?

Q9 **Bob Blackman:** What is your view on competitive bidding?

Adam Hawksbee: It is appropriate where one of the things that is being tested is the capacity of the place to gather around and put forward a good proposal. An example of that is research and development funding. If we are going to give lots of Innovate UK funding to an area to do quite complicated things around R&D, you would expect that area to be able to come forward and put together a five to 10-year plan, private, public, about how it would use some of that funding. That should not be project by project, as currently happens with the Strengthening Places Fund, but it should be strategic and long term.

You would not expect that sort of capacity if what you are looking at is funding to tackle child poverty or to look at significant deprivation in an area. We have done some work in Jaywick Sands just outside Clacton. It would be ridiculous to go to that area and say, “We will give you some funding if you put together a glossy 10-page brochure about what you



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will do with it". Competitive bidding is sometimes appropriate but not where the thing that is being funded is a lack of capacity in a local area.

Paul Swinney: Competitive bidding works, or the benefit of it, when it sharpens incentives and thinking around, "What is the bid we are going to put in?" It is not just, "Give me the money and we are going to go and spend it on anything". It pre-empts some thought to be put in before that money is awarded, and there is merit in that.

There is a number of issues with the competitive funding model, though. The biggest one is that it assumes that in asking central government to be the referee it assumes that central government have all the information required to choose which are the best bids. That requires either really good knowledge at the local level about the bus lane goes here or it goes there—that is unlikely; I could not tell you where a bus lane should go in Burnley or Leeds or wherever—or the bids to be excellent so that the information being provided there is such that you are able to do the comparison. That gets into issues about the capacity and so on, about the quality of bids that go in.

There is a number of other issues that then fall out from it, but that is the key crux of it. Where that gets you is if you did one or two along the lines that Adam set out, you could understand that that would be the case. In the realms of hundreds is going too far on that point. It feels like Michael Heseltine's "No Stone Unturned" report took the lid off the bottle for that and we have gone a bit crazy since 2011 around these things.

Q10 **Bob Blackman:** On the removal of ring-fencing and lengthening duration of funding?

Paul Swinney: Yes, I think that that is a good thing. Central government treats local government like children in that, "You have to balance your books every year". You have no certainty if you can borrow or invest between years. That does not create any certainty at all. It does not allow places to manage their budgets and remove uncertainty from the process. To try to move to a multiyear system with a removal of as many ring-fences as possible should be where we are trying to get to. That should be the final destination for devolution. It should be about having un-ring-fenced pots over a four or five-year period, perhaps not unlike what we see with spending reviews between Government Departments at the moment. Why could we not have that relationship with a reformed local government?

Chair: Moving on now to look at the Levelling Up Fund specifically.

Q11 **Florence Eshalomi:** You have all touched on it briefly. The previous two rounds of the Levelling Up Fund have focused thematically on certain objectives of the levelling up agenda. I was interested in your comment, Steve, about old policies under a new label. Given the cost of living crisis and rising inflation, what two suggestions do you have for the next round and subsequent rounds of the Levelling Up Fund?



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Professor Fothergill: I very much question whether, beyond 2025, we will see a Levelling Up Fund. If the Government go down the route of merging funds, we will not see a separate Levelling Up Fund, Shared Prosperity Fund, Towns Fund, High Street Fund and so on. We will be much more likely to see some sort of overarching fund that is then allocated, hopefully by formula, with perhaps an element of competitive bidding still in there, but formula-based allocations are much less wasteful of resources.

It is almost a question that does not apply any more about what should further rounds of the Levelling Up Fund will look like. I do not think that we will have them.

Adam Hawksbee: My first bit of advice is to scrap round 3 and reallocate the funding from round 3 to round 1 and 2. The impacts of inflation mean that otherwise it will be very difficult to deliver anything and there is no use having 70% completed projects across the country. We want some of these things to go through. Spreading the funding too thin will not be a wiser thing to do.

My second bit of advice is that if you are going to do a third round, allocate that funding to mayoral combined authorities, where they exist, so that they can take the decision locally about which projects they want to allocate to. They themselves might decide instead of funding new projects to reallocate within their area. I think that that would be wise. Inasmuch as you are giving it to mayors, do not what do what occurred with the Shared Prosperity Fund, where you indicate an amount that will go to each local authority, because that in practice entirely undermines the ability of the mayor, with local leaders, to identify some areas that they might want to prioritise more than others. That is a completely legitimate, democratic decision for those leaders to make, and it is not for Whitehall to indicate how much they should spend in each place.

Paul Swinney: The two things for me are to make it larger. If we say that cost of living will erode the value of what we have already, we will require more funding to deliver what we want to deliver. That is in the much broader context that the amount of money that has been put behind levelling up so far is very small, particularly compared to what we have seen in Germany in bringing the east and west back. The estimate is that the Germans spent about €2 trillion on that project over a 30-year period, and we are talking about pots of money of £4.7 billion and £5 billion. While clearly they are not insignificant amounts of money, they are drops in the ocean compared to what has been done in Germany.

I am not saying that we need to spend €2 trillion in the UK to deal with what we are dealing with, but it acts as some degree of a yardstick of how much we should be thinking about spending, and rising inflation only re-emphasises and squeezes that very limited money even more. It is not squeezing the limited money you have already; it is the size of the pot that is the bigger problem.



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The second one is not to be distracted by the cost of living. It is very clearly a big policy challenge that we need to tackle but it is separate from levelling up. There will be overlap between them, but if we get side-tracked into thinking about the cost of living—which I hope is a fairly short-term problem—and start to ignore the much longer, deep-seated problem of levelling up, we will run into trouble again.

Q12 Florence Eshalomi: James, do you think that there will be a third round? If there is, what suggestions do you have for the subsequent round of that funding?

James Morrison: I am not convinced there will be either, but assuming that there were, I have two suggestions. This is difficult, but going back to a point I was trying to make earlier, I think that a much more local to even hyper-local focus than the broad-brush, very regional and upper-tier authority orientated one that we have not necessarily had up until now but for practical reasons partly has been the entry point for levelling up so far—I would like to see a much more localised version of it, an attempt to be a bit more sophisticated. Obviously it is a real challenge, particularly in the current circumstances.

Mining down to neighbourhood levels, particularly given that there are pockets of—I understand the point that Steve was making about the distinction between local economies per se across a whole town or a city and the issues that individual streets might have within an overall local economy that is relatively more prosperous than elsewhere. However, there are still very complex, deep-seated, important inequality issues relating to individual streets and neighbourhoods within otherwise relatively prosperous local economies. We need to find a way, whether it is under the umbrella of levelling up or through some sort of associated funding, to mine down to a much more granular local level in that way, through funding if possible, funding allocations formulae and bid processes.

I agree that levelling up is just the latest iteration of a succession of attempts to introduce regional regeneration over a long period. However, levelling up until now has been very much focused on capital infrastructure. I was looking through the prospectuses today in quite a lot of detail in preparation for this. Under transport, we are talking about spending money to introduce many more bus lanes or cycle routes and things like that. It is all very material and capital focused.

It would be great to see some way of channelling some levelling up-orientated funding that is more revenue focused so that it can help subsidise new local bus routes to areas that have been neglected for decades, that are lifelines for many working people who are struggling and have been for some time since privatisation of the bus routes, for example. Back in the 1980s, the National Bus Company and successive bus companies decided that certain routes were unprofitable.

If levelling up could be more imaginatively applied in some way so that it is not just the big capital projects, or the relatively big capital projects, it



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also has a revenue dimension so that it can subsidise for a year or a few years down the line ongoing improvements in local services that many people still rely on. For me that would be a great way of making it more sophisticated, transforming it, giving it more longevity into the longer term.

- Q13 **Florence Eshalomi:** Thank you. In round 1 you had the area separated into priority areas 1 to 3 and that was considered when they were allocating the funding. To go back to what my colleague Bob Blackman mentioned, as a London MP I look at some of the issues of deprivation and poverty in my constituency in Vauxhall. The streets of London are not paved with gold. One of things that we always try to say is that we should not level down London to level up the rest of the country. Do you perceive that the priority allocations have been reasonable to date and are they objective and free from political considerations?

Professor Fothergill: If you look at the overall allocation of funding across the country, certainly at the regional and national level across the UK, there has definitely been a skew on a per capita basis to what you would consider to be the less prosperous regions. Wales and north-east England have been getting more money on a per capita basis than the south-east and London. Frankly, if you are trying to level up the strength of local economies, I think that that is correct. It has not meant that there has been no money for London or indeed for the south-east, but there has simply been more for other areas.

I would say that the broad picture has been fine. In detail it gets terribly messy, though, when you look at the very erratic pattern of winners and losers as the results of bidding. You can get neighbouring authorities that are otherwise very similar, where one authority has ended up with three times as much per head as a neighbouring authority. That does not seem very rational, looking from the outside, and it raises a question mark about the reliability of competitive bidding as a way of allocating funding. I know that out there is a widespread feeling that anything that involves competitive bidding ends up favouring the best bid writers, not necessarily the places with the greatest need or indeed with the best ideas. Sometimes that means putting vast resources into assembling a bid, hiring consultants and so on. This is not a very good use of public money.

Paul Swinney: Clearly there have been questions raised about the allocation of funding for round 1. I am sure colleagues at Barnsley would have some interesting views on that and I understand that you are going to talk to them in a few weeks' time. Part of it comes down to the selection of criteria that you use. I have absolutely no idea whether or not that had political interference. I am not the right person to answer that, but it certainly was bizarre that, let's say, Richmond did come out on top. That has raised eyebrows, as Steve has said, not only here today but in the press as well.

What we have to be careful on is not to jump to conclusions that that therefore definitely had political interference. There is another element to



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this, which is maybe a lack of understanding of what datasets show and measure. If I am right in recalling, part of the reason why Richmond did so well and some of the prosperous areas did so well was because when using measures of public transport, Richmond did not do very well. The reason for that is because Richmond is a rural community and, almost by function, we cannot provide the same level of public transport to a lower-density rural area as we would do in a high-density urban area. Therefore, we have to be careful about what these metrics show when we put them together into an index and say, "This one has come out top and this one has come out bottom". More data is a good thing but a framework for understanding that data is important too.

Your point on London points to the fact that a lot of different places face different challenges but those challenges are not the same. The intervention required in London, particularly around skills, may be different to what we see elsewhere. That is Steve's argument about some of the strength of the economy element where it might be that there is a transport intervention or an urban renewal intervention that you do in a place like Barnsley, for example, where the approach in Vauxhall might be slightly different, which is much more focused on skills.

That is where the whole discussion about removing ring-fencing and allowing local authorities to decide becomes important, if you move away from central government setting the agenda through one competitive pot that is different to another competitive pot and allow local authorities to come in and use that money much more effectively.

Adam Hawksbee: Very quickly on London versus the rest of the country, it is the case that in growth-enhancing spending London over the past 10 or 15 years has benefited significantly more than other parts of the country. On a per head basis, spending on R&D is about two times as much in the capital; transport about three times; housing about five times, culture about five times. I was pleased to see Arts Council funding redistributed. That is on growth-enhancing spending, mainly capital.

Where London benefits more, and should, is on things that are needs assessed and on an individual basis, things like pupil premium and housing benefit. That is where there will probably be an automatic stabiliser that goes towards London, given that deprivation is so high. I guess I am violently agreeing with Paul's point that it depends on what sort of funding you are talking about to try to make sure that there is a balance.

On political interference, the role of Members of Parliament is written into the guidance on the Levelling Up Fund. For better or worse, we have decided that for that fund it is the case that Members of Parliament should decide which projects go forward in their patch. I am not aware of any Conservative, Labour, Lib Dem or SNP MP that is opposed to that and when given the opportunity has said, "I do not want to take a role about which projects go forward". Inasmuch as that is the case, there is an acceptance that there are legitimate political priorities for which project should go forward. At the moment that is in the guidance from DLUHC



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and it seems that there is cross-party consensus that that political involvement is legitimate.

James Morrison: A lot of very good points were made there. On the surface a number of so-called “red wall” areas that the Conservatives managed to win in 2019 appear to have benefited relatively from these allocations, but on the other hand, going back to Steve and Paul’s points, the local economies in many of those areas did disproportionately require levelling up, arguably, so it is hard to be certain. Questions remain over Richmond and Yorkshire, notwithstanding what Paul said a minute ago. Beyond that, I would neither know nor at the moment discern an obvious bias behind the scenes of that kind.

- Q14 **Chair:** On the point that Paul made about not advocating spending the sorts of money that Germany spent, I was listening to a briefing the other day from Professor Phil McCann of the Manchester Business School and was previously at Sheffield and has been at Oxford as well. He said that the biggest challenge we have is that the regional differentials, the regional disparities in this country, are as different to almost anything else in developed countries in Europe. The difference now between London and the south-east and the rest of the country, particularly the northern areas, is as big as the gap between East and West Germany at the time of reunification, which was staggering. I did not get it but it is true, apparently. London and the south-east is on a par with other rich regions in Europe. Productivity in the north is lower than the Czech Republic now. I thought the figures were amazing and that this is the big economic challenge we have. Should we not be spending not just pots of money but looking at how, in the total government spending, we can address that?

Florence Eshalomi: We have to.

Paul Swinney: Yes, totally. It comes to that point about lack of strategy, doesn’t it? The big issue is understanding what the roles are that different parts of the country play and how far away they are from their potential and what that means for the investment that you would make. The research that we have done, and others have done as well, is if you look at the performance of cities across western Europe and in America, you tend to find that as cities get larger they get more productive. That fits into the theory of what you would expect to see as places get larger, called the agglomeration theory. You do not see that in the UK. The big problem in the UK is that the big cities outside of London—the eight or nine, Manchester, Birmingham, Glasgow and so on—are lagging the national average rather than driving the country on. It is that distance from their potential that is the big problem that is costing the UK economy almost £50 billion a year.

That brings us back to the point about just looking at data without a framework. If you look at data without a framework and other productivity across the country, you would say that there is loads of variation and lots of places in certain parts of the country are not doing very well. That is absolutely true. The question then is where should



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Manchester be and where should Cumbria be relative to where they are now? What does that then mean in how you would put that money in? It is costing the UK economy a lot of money each year by the fact that places like Manchester, Birmingham and Glasgow in particular are so poorly performing, which then means that you get to the point where the north and Midlands are performing worse than the Czech Republic. That is partly because these big areas, many of the growth engines of these places, are not playing the role that they should be.

Professor Fothergill: I am keen to come in on this. Frankly, if you want to grow the UK economy now, you have to grow it out in the regions away from London and the south-east because London and the south-east, for better or worse, is pretty much at full employment. There are a few extra labour resources that you can bring in to expand production here, but there is underutilised labour in large parts of the north and Scotland and Wales.

When I talk about underutilised labour, I am not just on about people who are registered as unemployed. We have had a lot in the press recently about economic inactivity among working-age adults and particularly how that has increased in recent times. However, the big numbers of economically inactive in Britain are out in the regions, in the poorer local economies of the north, the Midlands, places like south Wales, the west of Scotland and so on. If you really want to grow the national economy now, you have to grow it in certain places. You cannot just press the accelerator and expect to get growth now. There is a constraint on growth in London and the south.

Adam Hawksbee: Neil O'Brien, when he was Levelling Up Minister used to joke when he was introduced that, "We're all levelling up Ministers", as in every single member of the Government should be thinking about levelling up. There is truth to that as well when it comes to levelling up funding. I worry sometimes that when we talk about levelling up funding we view a very small number of pots that come from the Department for Levelling Up.

The White Paper was very clear that the cross-government changes that needed to happen were more important than individual pots launched by that Department: the creation of a Cabinet Committee to make sure that all funding was being co-ordinated to particular areas, the use of data by the Treasury, because the proper scorecard for levelling up should be what comes from the Treasury in fiscal statements for the whole of government not just what comes from the Department for Levelling Up or specific pots they have.

That is not just true of public funding, that is true of private sector funding as well. We are never going to have sufficient funding from the public purse to do levelling up correctly. We will need to leverage in private funding—£4.2 billion for the Levelling Up Fund. Andy Street just signed a deal with Legal & General for £5 billion worth of affordable housing in his patch and Nissan's latest investment in Sunderland is around £6 billion. These are figures that will always dwarf the amount of



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public money. The public money is meant to unlock additional funding from the private sector and we miss a big part of the picture if all we are doing is looking at what is coming from the public purse.

James Morrison: Those are all very good points and I go along with all of that.

Chair: We come on now to look at local areas and how they can be supported.

Q15 **Mrs Elphicke:** If I may build on some of the discussion we have just had, looking particularly at this relationship between regional-based funding and the local difference that it makes. First looking at what we describe as a region, being a south-east MP, I do not see myself as London and the south-east and I do not see my area of Dover and Deal being parts of the south-east that have completely different economic opportunities and descriptors to my area.

If I could start with you, James, about your comment that it might be the bus services that matter locally or it might be those few streets within an area of average or even affluent situations. Jaywick near Clacton, is the persistently most deprived small area in the whole country, yet is in a hugely affluent general area. Could you talk through a bit more about how we could use the data or the information that we are building up from local authorities? How are we targeting and addressing those particular needs?

James Morrison: I was going to pick up on the earlier comments I made in response to this question. One point I would consider for the kinds of pots of money that might be available in the future and who might be eligible to apply for those—again looking through the indices today and reading back through all of the briefing documents for the rounds that we have so far of levelling up funding—it is very much upper-tier authorities or consortia thereof that are in the frame and being invited to submit bids and so on, particularly when they are competitive bids.

One obvious thing you could do is have smaller, more focused pots of money that were not necessarily targeted at entire geographical regions—a very complex and problematic term in some ways anyway—but allowing even town, community and parish councils, or consortia thereof, to apply for some of this funding as well, or even other kinds of community groups, in combination with community groups, at a grass-roots, bottom-up level. If we are really serious about local devolution and not having one size fits all solutions to very complex, often very granular, hyper-local issues, which differ from one place to another quite considerably, we have to provide mechanisms for people to draw down funding for those very specific issues in a particular neighbourhood or particular village or little local network of villages.

It is interesting that you talk about Jaywick. I did not do interviews in the Jaywick area specifically or in Essex, but I did do interviews with a lot of people living in and around Great Yarmouth and in some of the



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surrounding villages. I did similar ones in other parts of the country as well. There is one village where I was interviewing parish councillors and they were talking about the fact that there are several thousand people, all told, who live in one of the two or three villages that I was interviewing these parish councillors from. There is no local bus service linking those villages any more at all. It simply does not exist. In one of these villages with 3,000 residents on the last count, there is no GP surgery. There is a disproportionately elderly population and a number of people with disabilities and so on.

How do you cope in a situation like that where there are no linking bus services at all, even to the neighbouring village several miles away, for elderly and/or disabled people when there is no GP surgery and any of a number of other services in the village that they are living in? If there is no linking bus route at all, there is a serious problem here. It is an infrastructural problem, and it is an ongoing service delivery issue as well as a capital investment one.

Yes, smaller, more granular pots of money thrown into the mix as well, the ability of lower-tier authorities and/or other community groups to club together to make bids would be a start.

Professor Fothergill: Could I pick up on the specifics of your area, Dover? Dover has been short-changed in some of this funding. I thoroughly accept the point that you are making that within the south-east of England there are some areas that are perhaps not as prosperous as others. In fact, I have done a lot of work on the south-east and on the south-east coastal strip. The coastal strip in the old south-east local enterprise partnership area on lots of indicators looks like a bit of northern England. That includes your patch in Dover.

However, what has happened recently in the allocation of the funding for the UK Shared Prosperity Fund is that there was a pot of money identified for the whole of the south-east LEP area and then it was carved up between all of the district councils. It was carved up fundamentally on a population-based formula, not on a needs-based formula. There was a small needs element in there but it was population that drove it. At the end of the day, Dover ended up getting about £1 million or thereabouts, which was the same as Tunbridge Wells got and Sevenoaks got and the very most prosperous bits.

- Q16 **Mrs Elphicke:** And Hastings, yes. If I could pick you up on that, though, we have had millions of pounds of both public and private sector investment into Dover and we do not share the same characteristics of employment and wages as, for example, Margate might have. However, the point is well made about the Shared Prosperity Fund, that it was divided by population not by need or opportunity.

Professor Fothergill: Not by need, yes. Among the district authorities, yes, and that led to a very flat distribution.



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Adam Hawksbee: This is another one where it depends on what sort of funding we are talking about. Philip McCann, who you mentioned, has done some excellent work on the appropriate population level for economic development funding, where you should be spending your transport, housing, R&D funding. He argues that that is between about 3 million and 5 million. In other countries that is the right scale to do that sort of work. That is roughly the size of our bigger combined authority areas, West Midlands, Greater Manchester and so on. That seems right to me. I have little reason to doubt those sorts of figures. That is absolutely not the right scale to do neighbourhood-by-neighbourhood regeneration and tackle poverty.

To the point that was made by Bob Blackman earlier on Walsall and the work that we have done there, the challenges there are hyper-local. Onward did a report a while ago called "Turnaround" that looked at a range of different regeneration approaches that have been made by Governments, from Wilson all the way through to Cameron. It found that Blair's New Deal for Communities was one of the interventions that had the best long-term success rate of areas that long after that intervention had finished had a better performance on factors like deprivation. The key thing that we found, and why New Deal for Communities worked so well, is that it was done at that hyper-local neighbourhood level and had real ownership from the community, such that at a point the Government seam stopped, the capacity and the resilience in the community continued. Therefore, I would argue that hyper-local is the right level to do some of that neighbourhood-by-neighbourhood regeneration work. If you are talking building trains and getting houses sorted, you need the scale of a region.

Q17 **Mrs Elphicke:** I guess that relationship between cities and some of those rural areas that we have touched on would be an interesting—

Paul Swinney: Yes, it would. Related to that, let me do a very quick defence of London first off. I do not think it is an either/or of: you do level up or you grow London. It is two things that are required and a different approach is required in each. We can overcome the constraints that Steve was talking about in London with more transport funding, for example, which is not a very popular view to air but if the constraint in London is congestion, more transport funding is required for London, whereas it is something else that might be required for elsewhere.

On the relationships between different areas, there needs to be an understanding about which parts of an area are places of production and which parts are more residential based, and what that means for interventions. That way the realms of your interventions from an economy perspective are based on a certain scale and looking at certain parts of the country, but you are then thinking about how that prosperity is accessed from a broader area, through transport or through skills. There are clearly big challenges even in Vauxhall, with all of the jobs that are available in central London, which is not about transport infrastructure but is about the skills—I am guessing most likely—of the



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residents there and how the education system has helped them or otherwise.

There is a lot of debate on the hyper-local issues, but I don't think there is any real element where this has been worked out fully. There are two things we need to think about on how to allocate money. The first is: what is the right spatial scale to be thinking about for different policy issues? That is size but also practicality, because there is an issue there about if you go very local—we are saying here that we already have too many fragmented funds trying to deal with too many local authorities. If we are going to go even more local still, how on earth do you manage that?

To me, that leads you back to a mayoral city or combined authority-type route, which is rationalisation of local government to some extent. Then the combined authority mayor or the local authority decides how that money is then allocated below that level because they have better knowledge, not perfect but better knowledge, about how that will be applied.

The second element is that we have to make sure we have accountability in place as well. If we talk about giving money directly to very local areas, where is the accountability in all of that? There is a risk there. I think we see that to some degree with parish councils about their structure and who gets engaged with that. Is the accountability in place there to provide scrutiny for the funding that comes in? Those are the two pillars to be wary of.

Mrs Elphicke: That is very helpful. Thank you.

Chair: Moving on to look at the UK Shared Prosperity Fund, and I am sorry for the noise going on. We are all shivering here. Austerity seems to have begun in this Committee at present. It needs a bit of heating put in.

Q18 **Kate Hollern:** In your view, is the UK Shared Prosperity Fund a sufficient replacement for the European Structural Investment Fund?

Professor Fothergill: If I can take this one, at least in the first instance because I have been up to my neck working on the UK Shared Prosperity Fund and talking to government officials and so on, even before the very name of the fund was conceived. As soon as the referendum happened in 2016, we knew that there was going to be a problem about replacing the EU funding.

The answer to your question is that there are good features of the Shared Prosperity Fund. It has been allocated by a formula rather than competitive bidding. It is strongly targeted at the less prosperous local economies up and down Britain, and indeed there has been no net shift of funding away from the north to the south of England, which I think a lot of people feared might happen. By the time you get to the financial year 2024-25 it matches the EU funding in real terms, the final year of the present spending round. The things you can do with the UK Shared Prosperity Fund are pretty flexible. There is a lot of discretion. I don't



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think any of the potential users of the fund are throwing their hands up in horror and saying, "Well, we would have really liked to have done this but we can't", and actually the new fund is more flexible than the old EU funding that it is replacing. Those are the good things.

Right, the bad things. It is a very short-term financial allocation. With European funding, we used to get a seven-year financial allocation, with the potential to roll on spending for a further three years. With the Shared Prosperity Fund, in theory it is a three-year allocation at the moment. We are still awaiting approval of the investment plans. Assuming that they are approved—hopefully on Thursday this week in the autumn statement—it has become two and a quarter years as a fund. The money has to be all spent by the end of March 2025. That is the first problem with the fund.

The second problem is that in detail the allocation of the funding across the country is not perfect. Essentially, the Government have frozen the old EU allocation of money, which is great for certain areas but not so good for others. These days South Yorkshire, Tees Valley and Durham are just as bad as Cornwall on the economic statistics, but Cornwall is getting three times as much money on a per capita basis because that is what the EU used to give Cornwall. Although I am saying it is good to be driven by formula, the allocation is still imperfect.

The Multiply programme for adult numeracy, which is a sub-part of the Shared Prosperity Fund, has been very much sprung upon people. It is not necessarily what a lot of players on the ground would have prioritised for such high levels of funding. That is not to say that there isn't a problem of adult numeracy, but around 20%-odd of the overall budget has been ring-fenced for that.

Then finally there is the big question of what happens beyond the end of the 2024-25 financial year. If we were to be having a genuine replacement for EU funding, we would have been looking at this stage at a programme worth in excess of £10 billion to the UK. At the moment we have a three-year programme that builds up to £1.5 billion a year but is only worth £2.6 billion over the three financial years that it covers.

I know that the Welsh Government and the Scottish Government have kicked up a fuss. They feel they are short changed. Yes, they are because at this stage those devolved Governments and indeed partners in England would have been able to look forward, not just at what they spend up to the end of 2024-25 but what they would be spending over a longer period. They would have then been able to get involved in bigger projects and bigger initiatives that could make a transformative difference to their areas. That is not possible with this very narrow, short-term financial silo that we have.

I am sorry that that is a long and complex answer, but it is a fund with good and bad aspects to it. Is that helpful?

Kate Hollern: That is very helpful. Thank you.



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Adam Hawksbee: I do not have much to add to that. It is very frustrating that lots of people say, "You wouldn't have started here with the Shared Prosperity Fund". It did not start that long ago. Ultimately, this programme was designed from 2017 onwards when it was first announced. Admittedly, there has been a significant churn in political leadership since that point, but each successive Governments seem to have taken the fact that there has to be this thing called the Shared Prosperity Fund and attempted to make that construct work.

I think that there is a lot of disingenuous positivity towards the previous approach of EU funding. EU funding was a nightmare to manage. I used to work in local government and operating within EU funding rules was a nightmare, and yet we seem to have imported some of the things that were nightmarish about it—those rolling central allocations. Admittedly you do not have to put in detailed plans but still have to put in some sort of prospectus, which is then marked by Whitehall and comes back to a local area. The spirit of Brexit was not that, whatever it was. I am not sure that just replacing Strasbourg with Whitehall was the right approach.

My feelings on the Shared Prosperity Fund is that it is a missed opportunity to do something fundamentally different. It would have been more about adding that money to streamline devolved pots that politicians of all parties are held to account for when they spend that locally. That would have been a much more progressive approach and would have moved us beyond where we were with EU funding. I suggest that when we think about what replaces the Shared Prosperity Fund, it is abolished and then it is aligned into different forms of funding to try to achieve the same goal.

Q19 **Kate Hollern:** There are so many funding streams right now that it is very difficult to measure and monitor. It is very confusing for local authorities up and down the country.

Paul Swinney: Related to that, things like the Shared Prosperity Fund get a lot of attention and airtime, "Look, there is a fund here with a sizeable amount of money in it". But, going back to what Adam said a couple of questions ago, in the context of all the money we spend on levelling up, a lot of that stuff is not badged as levelling up, which means that the SPF is fairly small in that broader context.

I agree with everything that has been said. I think it is worth just bearing in mind that we should not put too much emphasis on it, even if the money has gone down in the short term but it might get back to where it was from an EU perspective. It is a relatively small part of a much bigger spending puzzle that we have to try to contend with, not least because of all the other funds that you mentioned as well.

James Morrison: Steve's critique was spot on for me, so on this particular one I will defer to his greater in-depth knowledge of how it operates. My perception is that it has some strengths to it and it would be far too easy to deride it as just a very diluted version of what came before. It also appears to have complexities and issues with it, which one



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might have hoped to see ironed out as we launched our own replacement effectively for what preceded it.

Q20 Kate Hollern: How can the Government ensure that both funds don't duplicate, which would leave some areas without either? Does that make sense, Paul?

Paul Swinney: If you have two separate funds I think that becomes quite difficult, unless you are going to start tracking it and say, "We have given something to this area so we are now going to give something to that area". If you are down that route then why not just give them the money in the first place? It then moves away from the competitive pot element because you would basically just say, "Well, they did not get any of this so they are going to get some of the sweets over here instead". I think it is very hard to do that.

That is where I think the complex landscape of competitive pots is very frustrating because how could you possibly ever co-ordinate all of that? I think if you were instead in a position where you could say, "Here is a pot of money to do X, Y and Z over a four-year period" or whatever the timeframe is, akin to what we do with departmental spending reviews, it would put you in a much stronger position.

That is not perfect because you are still in an element of why have you allocated that much money to that place or that much money to that place and there would be bunfights about that. But that would be in a position of having a bunfight from a much stronger position of, "You are still getting this money that isn't ring-fenced and you can decide what you do to spend it within reason with your required accountability". That is ultimately where I think we need to be to deal with the concern that you raise that I very much agree with.

Adam Hawksbee: I have a suggestion for a very practical way that you could do what Paul has just described. At the moment, the Westminster combined authority and the Greater Manchester combined authority are undertaking trailblazing devolution deal negotiations with the Government. My understanding is there is a hope to make some announcements on that quite soon, possibly early next year.

I argue that those two negotiations should include a provision for a single mayoral settlement, and we talked about this in one of our reports. You would pull together all of the different funding—both revenue and capital—going into those two areas and instead of having individual assurance frameworks, either by department or by funding pot, you would have a single set of outcomes that that area was working towards that they are accountable for both to Parliament in that accountability up via Select Committees, NAO, accounting officer responsibilities, but also importantly down. As Bob Blackman talked about, there is public awareness and transparency around what those outcomes are, so that if they are exceeded there is a political and a bureaucratic award for that, kind of an administrative award, and if you fail that is also recognised.



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Including a single mayoral settlement as part of the trailblazer devolution deals would be a way of trialling and practising some of the things that Paul described. If we try to do it everywhere all at once it will not work and if we do not try anything at all we will not make any progress, so piloting seems to be the way forward.

Professor Fothergill: I am not at all sure that you can measure success and failure very easily on individual funding streams, or indeed on individual projects. One of the lessons of regional development over many years is that it is often the combined impact of many things happening and being done simultaneously that makes a difference.

One of the other lessons that we have learnt is that making a difference often takes a long time. You can invest this year and next year, but the real fruits of that investment may not come absolutely to the full for five, six, 10 years more. There is a whole industry of consultants out there running around trying to measure the effectiveness of any given intervention. It is a bit dubious as an activity, I have to say. It is a very imprecise and dodgy science.

James Morrison: Building on what Steve just said there, I think one of the reasons that we need levelling up—whatever we want to call it—and we are having these conversations and rightly worrying about trying to rebalance the UK economy between regions and localities is that in parts of the country particularly there has been so little sustained investment in jobs, training and infrastructure for so long and so many parts of the country were effectively neglected after de-industrialisation and so on.

What we need to guard against, whether we continue to call it levelling up or anything else in the future, is worrying constantly about short-term markers of supposed success when what we are desperately trying to compensate for is almost generations of the failure to invest for the long-term. We need long-term investment. Even if the real fruits of this are only visible in the medium to longer term, in a number of years' time, it is hugely important that the Government are driving that kind of investment to make up for the underinvestment that there has been in many regions for generations.

Q21 **Kate Hollern:** Do you think that there is a danger, with this scattergun approach to different funding, that it will be very difficult to measure any real success?

James Morrison: Yes. As well as the tensions around how you measure over time periods, and how soon or not we expect to see some tangible evidence of the fruits of these things and opportunities increasing and private sector investment increasing in areas and so on, there is also a huge danger. As you say, the more funds there are, the more different streams there are, the different formulae or not that are used versus competitive processes to allocate the funds.

However, the more complexity you introduce into the system the harder it will be to map the success or otherwise of the outcomes, isn't it? There



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is a danger there, although I think a certain level of complexity is sadly unavoidable.

Chair: Thank you. A new idea around is investment zones, at least for the time being. Ben, do you want to explore those?

Q22 **Ben Everitt:** Yes. Let's start with you, Adam. Assuming they still exist on Friday, will they help with levelling up?

Adam Hawksbee: There are three elements to these investment zone proposals and I think it is worth taking them each in turn: tax, planning, streamline funding. I am not convinced that the tax element is the key binding constraint to levelling up in many parts of the country. It is just not the case that there are investors saying, "If only I did not have to pay business rates I would be investing a huge amount of money in an area that has very high levels of deprivation, unemployment, and land parcels that are all over the place and needs remediating". The marginal tax rate there is not the key decision, and there is a huge amount of international evidence that indicates that that is not the key deciding factor.

The second element is planning. I think that there is very good evidence that planning flexibilities and more reliability within the planning system is a major incentive for investment. I would argue that there are other ways that you can get that planning certainty without having an investment zone. For example, the creation of development corporations, whether mayoral-led or locally led, can provide that planning certainty by aligning governance and planning authority underneath a single body. You have seen the success of that in London historically but also more recently in the Olympic Village and in places like Teesside with Ben Houchen delivering some fantastic work up there. Planning is absolutely part of it.

The third element of streamlining funding is really important for all the reasons we have talked about so far because it enables local leaders to invests strategically in that area. An important bit that is missing from investment zones—which on Friday I would like to see emphasised, whether that is on that policy accord or on something else—is the human capital element. There will need to be physical capital investments in these places—transport in some areas, particularly within areas like Leeds, is a major binding constraint—but international evidence indicates that it is often human capital that makes the big players change their minds on where to invest.

I wrote something recently about Amazon's experience with finding its second headquarters, an exercise it conducted five years ago. Lots of states gave it big cash incentives, an equivalent of tax breaks. One of the places it chose to go to was Virginia. That was because Virginia put together a \$1 billion 20-year package around 25,000 computer science bachelor degrees. It could arrange a pipeline of skilled talent to go to that company, which is worth far more than any sort of cash bung than it can give it upfront.



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Will investment zones, or whatever iteration is revealed on Friday, work? Yes, if they emphasise the planning elements, the streamlined funding elements and introduce elements of skills investment, and you can probably deprioritise some of the tax elements because there is less evidence for those.

Q23 Ben Everitt: You have covered off a lot of the potential criticisms of investment zones. One of the other things that comes up quite a lot is the displacement effect: are they just pulling investment from next door? Do you have any comment on that?

Adam Hawksbee: The displacement effects are very high. The stats I would cite to you are from the Centre for Cities, so I will probably let Paul reveal his very good study there. But, yes, the displacement concern is very high and that is not just from English evidence. Internationally, displacement is high because companies that move based on marginal tax rates do so around the country. Companies that move country to country do so based on underlying productive capability. That is around things like physical and human infrastructure.

Professor Fothergill: I have gone into print on whether investment zones will make a difference. The important thing is that in looking at investment zones, we are not starting with a blank sheet of paper in understanding what their impact will be because they are very similar indeed to the first generation enterprise zones. Second generation enterprise zones—the ones that I know Centre for Cities has done a report on—have a much weaker package. I don't think they are a very close parallel.

The first generation enterprise zones from the 1980s and the early 1990s had a very similar investment package and those enterprise zones were very thoroughly examined in evaluating their impact. The evidence I have to say is quite convincing. It shows that the old enterprise zones did have a strong influence on the location of jobs. Therefore, I would expect investment zones with a similar package—if they do go ahead after Thursday's statement—ultimately will have a significant impact on the distribution of jobs.

Some of the jobs are local displacement unquestionably, but by no means all. Many of the jobs that will go into investment zones, if they do happen, will be new to the wider sub-regional economy. The evidence from the old enterprise zones also tells us that you need to be targeting sites that are ready to go. It is no good just drawing lines around a piece of land on a map. If that piece of land needs all sorts of infrastructure, roads, utilities putting in, forget it. No, these have to be ready-to-go sites.

You also need more planning rather than less because one thing that investors like is certainty about what will be around them. The key incentive for success is the capital allowances on building investment. How the successful enterprise zones worked—and I would read across from the enterprise zones to the investment zones—is that if you have



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capital allowances for building investment, property developers pile in. They put up speculative warehouses, office space and so on. Then firms, when looking around at where to expand, say, "There is space for me here, and if I go to these locations I can also get a rate-free holiday". The rate-free holiday is the icing on the cake.

Potentially, there is an important tool here. As to whether or not they will contribute to levelling up if they do go ahead, depends on where investment zones are located. If they are scattered pretty much everywhere across the country—as I think was the first conception—the growth of one area will cancel out the growth of another area. If they are strongly concentrated in the places that are most in need of economic growth, it could be a very positive tool.

That is the evidence from exhaustive evaluations in the past that I am giving you. It is not some dreamed-up, Steve Fothergill's personal interpretation. There are big, fat documents. The Government have spent hundreds of thousands of pounds on these evaluations and they are thorough and convincing.

Q24 Ben Everitt: Thank you, Steve. Paul, you got a good advert for some of your work from Adam, so over to you.

Paul Swinney: I think I have a less rosy view to present than what Steve has, even from my experience of the first round ones.

Enterprise zones or investment zones—particularly in places that are struggling—are about making cheap places even cheaper places to do business. That is the thing that has been traded on for the last 30 or 40 years and this is what we have in how their economy performs today. It does not suggest that doubling down on the benefit that they offer is the road to prosperity for them.

I think we can see this from the jobs that went to the enterprise zones in round 1 and in round 2, which was the 2012 versions. The jobs that were created tended to be low skilled. I can see that even from going to the north-east. The number of enterprise zones that were there and the types of jobs tended to be call centres and those types of jobs. Those jobs were probably created at the expense of focusing on Newcastle and Sunderland city centres, which has caused a number of issues in the city-wide performance of those places in the last 20 or 30 years. There is a big challenge there.

If we look at places that are prosperous, we see that there are a lot of high-skilled jobs in there. The high-skilled businesses have gone there to access the two main benefits. One is access to lots of skilled workers and the other is access to a network of knowledge of other high-skilled businesses. The crucial thing for enterprise zones or investment zones is that those businesses have been prepared to pay a premium to get access to those benefits. That is why so many businesses are based where they are now, in the centre of London, even as opposed, say, to



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being based on the M25, because there are benefits to being right in the centre of London, despite the costs.

Trying to make a cheap place even cheaper will make a location even more attractive to an Amazon warehouse. It will not make any difference to Amazon headquarters, which is based over in Shoreditch, for all the reasons I outlined before. That is the key challenge that I do not think we can overcome.

The second issue is where I think the regeneration project idea that was in the Levelling Up White Paper was very interesting. That is focused on trying to put public investment in to overcome a number of market failures that have stopped the private sector from investing. If you do that, hopefully you can then get a bit of growth going. Even in King's Cross we required quite a lot of public sector investment to go in there before the likes of your Metas and your Googles and the like decided to come in.

Investment zones did not have any of that public sector investment and that is what we will need. That will be very interesting about what route the Chancellor takes on Thursday. Is he going to back this with some public sector investment to try to leverage in that private sector investment or are we not going to have any of that? That is the bigger challenge for levelling up. That deals with the first point that Adam raised of the three things and that is what we are very sceptical on.

On the planning element, we need planning reform within the UK but you can do that outside of an investment zone proposal. You can do that more generally with the planning policy. I totally agree with the idea of single pots and we can take that forward outside of investment zones. We don't need it hooked to that policy, and we should be doing that anyway.

Q25 Ben Everitt: Thank you, Paul. James do you have any comments to make on the answers so far?

James Morrison: I agree with all those latter reservations, to be honest. Big questions have been raised elsewhere, and the LGA and others have raised questions around governance, transparency and accountability. The devil will be in the detail of any iteration of the zones that come about.

From the point of view of levelling up and improving opportunities and so on for local people generally, I think the question will be: what is the precise nature of the investment that ends up coming about in the short to medium term, if they are given the go ahead? We will see. I wonder whether, particularly with all the tax incentives that are muddying the waters here, they could end up being largely driven by how to make a quick buck—to put it in very simple terms—for private sector investors.

I think that the devil will be in the detail for housing projects, for example. If there are areas that desperately need affordable housing, will that pan out in the short to medium term or when we look at any developments a few years down the line, how much disproportionately



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perhaps of a big, new housing development is a different kind of housing entirely, which is profitable but does not actually serve the housing-related levelling up needs of a local community?

I think that there are serious questions at the moment about how this would work in practice and whether—particularly knocking local authorities out of the equation a bit, with a lot of the decision-making around precisely the nature of the kind of development that is allowed to take place and relatively rapidly as well—transparency and accountability are thrown to the wind.

Q26 Ben Everitt: Thank you very much. Any further points to make? Two further points.

Paul Swinney: I realise that I did not mention the stat that Adam trailed, which is displacement in the 2012 versions was at least a third of all jobs created five years after, so a third of jobs moved from elsewhere rather than being new jobs.

Professor Fothergill: That proportion seems reasonable, by the way. If you want to see what can be achieved with investment zone-type incentives, and you want to see a successful example of the old enterprise zones, go to the Dearne Valley in South Yorkshire. This was one of the most inauspicious areas to promote development that you could imagine at one point. It was the old heartland of the Yorkshire coalfield. It was well off the beaten track and there was so much dereliction it wasn't true. It was a long haul. The dereliction was cleared and a new link road was put in, but just at the right moment the Dearne Valley sites were given enterprise zone status. This was by Michael Heseltine in the early 1990s, admittedly under pressure at that time.

These days there are more than 10,000 new jobs on the enterprise zone sites in the Dearne Valley in South Yorkshire. I am not claiming they are perfect jobs. I think you are absolutely correct, Paul, in saying that often these are lower-skilled jobs, but this is in an area that was absolutely on its uppers at one point. It can be made to be an effective tool.

Q27 Chair: I suppose the other side of it, coming back to the planning point, there is a big one in my constituency—I declare that—for an investment zone. One of the challenges is it is on a site that is very adjacent to all the advanced manufacturing developments going on, which will be a natural for further advanced manufacturers to come in as a cluster. If there are not proper planning controls on an investment zone, it could end up with warehouses on sites that could otherwise bring high-value jobs. Is that—

Professor Fothergill: More planning, not less. That is what you need on these sites to really make them happen.

Q28 Chair: Okay. Let's move on. I think that there is a real problem with the amounts of money being given to the various levelling up and other pots with inflation at present. There was a good article about the problems in Halifax—I think it was in the *Financial Times*—where they are basically



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not going ahead with certain big projects because inflation has meant that they cannot afford them without putting in other money from council budgets, which simply isn't there. How does that need thinking through at present?

Paul Swinney: In principle, you would uprate the awards in line with the increase in prices that we are seeing. The question is whether there is the fiscal room or desire to do that, which I guess we will see on Thursday.

Adam Hawksbee: I do not believe that will happen because many of those planning commitments were made prior to the war in Ukraine, the requirement for the energy price guarantee and some of the other factors that have driven the fiscal situation we currently find ourselves in. What I think should happen is a recognition that those schemes that have already been allocated funding need to go ahead and funding should be reallocated from elsewhere.

That is why on the Levelling Up Fund, for example, I said that there should not be a round 3 and that should be reallocated to round 1 and round 2. We are in the realm of trying to ensure that projects that are viable and have been awarded funding do go ahead, as opposed to funding additional projects and then none of those probably going ahead. Inflation will be an enormous problem, not just for these funds, by the way, but for the range of capital projects that are being undertaken in local areas on top of existing pressures on their budgets.

Professor Fothergill: I am aware of local authorities saying, "Oh, my God, we have got a problem on our hands", without knowing what the solution is. It is the case that a lot of the costs of construction have been rising faster than the general rate of inflation, building materials in particular. The authorities that I work with do not know what the solution is at the present time. I suppose they look to the Government to provide one but I do not know whether that will be forthcoming.

James Morrison: I strongly suspect that it will not be, but for me the stated purpose of levelling up is to spend quite substantial amounts of money to try to make a tangible difference to the inequalities between local and regional economies as they are. If you really want to put your money where your mouth is, in the circumstances we are currently in you have to build in some scope for some inflation protection, but I suspect that that probably will not happen.

Q29 **Chair:** A final question—and it will be a brief answer, not to be extended to more than one point—what one thing would you want to see the Government do to ensure the success of levelling up? James, first of all.

James Morrison: It takes me back to some of the points I made earlier. I would like to see a more granular and/or hyper-local formula or approach introduced for targeting funding, and very specific local level issues wherever they occur around the UK. Perhaps just to add on to that, with some kind of revenue dimension as well as a pure capital dimension. We are thinking about ongoing subsidies of long abandoned but much needed local bus services and so on.



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Professor Fothergill: Renew the political commitment. Levelling up has often been seen as a Boris Johnson idea. I think a lot of people are concerned that it may drop down the list of political priorities, so getting the political commitment for the future is the key.

Adam Hawksbee: There is the TS Elliot quote, "By dreaming of systems so perfect that no one will need be good". I worry that, when it comes to levelling up funding and all government funding, the question is: will someone make the right or the wrong decision? That is not the metric we should employ when it comes to funding. It is: is this local leader better able to make a decision than at the national level? Do they have access to some insight? Do we have information about whether the decision they make will go well or not go well, and then could we hold them to account for the results of that decision? Let's not try to design systems so perfect that no one needs to be good.

Paul Swinney: Deliver on February's Levelling Up White Paper, please.

Chair: Thank you all very much for coming. I think it was a very interesting and insightful session this afternoon with lots of good points for the Committee to consider. A bit of contention occasionally, but I think that we all recognise there is a major challenge here that perhaps needs some change in approach to get achieved. You put forward some very interesting ideas to the Committee. Thank you very much indeed.