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## 1. Introduction

1. This submission is based on research conducted as part of a project by the Universities of Birmingham, Surrey and Warwick, Cardiff University and think thank Demos, funded by the ESRC ('Local Institutions for Productivity, Sustainability and Inclusivity Trade-offs – LIPSIT', ES/T002468/1). The research was on the structural change needed for effective levelling up after Covid-19.

2. Our research (59 interviews and two workshops with practitioners, literature review and statistical analysis) concludes that 'levelling up' will be difficult but possible, that achieving it will require *strong local institutions*, and that this in turn will require leadership from the centre.

3. We concluded that the existing system for managing local economic policy from the centre is dysfunctional: in the absence of change, there is *zero* chance of reversing the long-term trend that levelling up requires.

4. Our research also suggests the nature of the change required. At the moment Whitehall exercises control through funding competitions. These lead to poor resource allocation, waste time, and create an adversarial atmosphere. Our proposal is that they are replaced with a system in which targets for productivity, inclusivity and sustainability are set by the relevant local authorities following strategic conversations with Whitehall. This then makes possible genuine long-term single pot funding. There would also be a rationalisation of the division of responsibilities between Combined and Unitary/County level authorities with LEPs retaining an advisory and convening role.

5. This requires Whitehall to up its game and provide leadership rather than simply management. It also requires strengthening local authorities' capabilities, as well as

measures to engage the public more actively and create more direct accountability for this area of policy.

6. The bulk of what follows sets out this argument in more detail – first in an executive summary and then in a full version (containing quotes and citations). However, in the next section, we have provided brief answers to the questions in your brief, with references to the relevant paragraphs of the summary and full submission.

## **2. Short answers to questions in the Inquiry brief**

### **Evidence base**

*What evidence exists to measure the performance of the various tiers of regional and local government in the delivery of growth?*

7. Our own comparative analysis of the performance of different areas across Britain is at [https://lipsit.ac.uk/wp-content/uploads/2020/04/LIPSIT-Briefing-Note-1-v.Final\\_.pdf](https://lipsit.ac.uk/wp-content/uploads/2020/04/LIPSIT-Briefing-Note-1-v.Final_.pdf)

The existing evidence base is patchy and not well collated however.

### **Local structures**

*What structures exist across the country and how does this compare across different regions?*

8. In some areas such as Tees Valley, the Local Economic Partnership (LEP) and the Combined Authority (CA) are in effect merged, and the division of Labour between the CA/LEP and local authorities is clear. In other areas – such as the West Midlands – there are in effect three layers – one CA, three LEPs and seven local authorities (plus a further ten ‘non-constituent’ authorities) – and considerable duplication and confusion (paragraph 62).

*What good case studies exist?*

9. See paragraph 24.

*How should local structures support delivery of regional growth across England?*

10. Local structures should identify sectors that can directly or indirectly result in good jobs in the area, encourage inward investment in those sectors, work with firms in those sectors and others to stimulate demand for skills, ensure a matching supply of skills and ensure transport infrastructure and services are adequate to enable people to take up the jobs created (paragraphs 25-39). They need to focus more on the firms that can create good middle level jobs and less on those leading-edge technologies that fail to do so (paragraphs 26 and 40)

*Where should government focus its post-Covid-19 levelling up policy?*

11. Our recommendations on the division of labour between the different kinds of authority are set out in figure 1 (paragraph 89).

### **Stakeholder engagement**

*How does each tier of regional or local government engage with delivery stakeholders?*

12. Engagement with business by LEPs can be good, although the duplication already referred to is both inefficient and irritating for business (paragraphs 54-55 and 76).

Engagement with the population is less good (paragraph 77).

### **Sustainable local economies**

*Which tiers are best placed to provide the leadership of local net zero and skills-based priorities?*

13. While many authorities have ambitions to move towards net zero, most of those we spoke with appeared to be a very early stage of thinking about this. Remarkably, the targets set locally were not co-ordinated with central Government's carbon budget targets (paragraph 94).

14. We believe there needs to be a national framework and a process through which local authorities set targets that add up to an acceptable national target. So national government leads the process, but with aspects of both strategy and delivery taking place at local level. (paragraphs 96-99).

### **Targeted regional investment**

*How could 'shovel ready' growth projects in England drive local growth and jobs?*

15. In some cases, investment in shovel ready projects is including provision for training – and thus potentially helping shake areas out of low skills equilibrium and contributing to longer term levelling up. This should be extended to most cases.

*How could clustered R&D investment support local growth?*

16. R&D investment should support existing clusters and strengths. This suggests a strong role for local management (paragraph 28)

*How should priorities be agreed across the regions?*

17. We propose a system of strategic dialogue in which objectives are set locally, and then iterated until they add up to an acceptable national total (paragraph 96-99)

### **Regional funding**

*How should the UK Shared Prosperity Fund be specifically targeted to replace EU Funding and address regional inequality?*

18. The Shared Prosperity Fund should be merged into a single pot as soon as possible, and distributed through the strategic dialogue process. The existence of a whole array of separate funds is one of the main weaknesses of the existing system (paragraphs 60, 63, 65-68).

### **Project Speed**

*How should Project Speed identify and distribute growth opportunities into communities across the country to best achieve its levelling up agenda?*

19. Project Speed represents an excellent opportunity to start the strategic dialogue process with those authorities that are equipped to do so. (paragraphs 60, 63, 65-68). It needs to build in commitments to training (including of adults) and apprenticeships.

*Do we have the capacity and capabilities at local and/or regional level to do this work on behalf of central government?*

20. The capacity exists in some places but not others – Project Speed cannot be run locally in some places only. (Paragraph 78).

## **3. Executive summary**

More detail on each statement can be found in the paragraph of the same number in the main submission, starting on page 12.

### **The problem to be solved**

21. The productivity gap between the best performing and worst performing UK regions has been widening since the early 1980s despite numerous initiatives.

22. The problem is not just inequality between regions, it is also inequality between areas within regions and persistent pockets of deprivation.

23. These less successful areas are often stuck in a 'low skills equilibrium' where local employers offer low skill jobs with little incentive for an unskilled population to upskill.

24. These problems can be solved: levelling up has been achieved in other countries.

### **The kind of interventions required**

25. There are five components to an effective strategy.

#### **Identify firms and sectors with the potential to create good jobs**

26. This needs to go beyond 'growth firms' and winning sectors which often constitute a small percentage of local employment.

27. Successful city-level strategy in other countries has included this activity.

### **Conduct focussed inward investment activities**

28. This analysis then makes possible inward investment initiatives focussed on firms that raise skill demand both directly and indirectly.

### **Partner with firms to boost skills demand in those firms and in the local economy**

29. Interventions to boost demand for skill often require firms to innovate and change their product market strategies. Firms may not want to do this. However, their reluctance can be countered by brokering relationships with other, successful firms. Knowledge exchange between universities and firms is also important.

30. Industry-region wide initiatives to improve quality and create new markets can be successful and may involve partnership between firms, industry bodies, educational institutions and local government.

31. It may also be possible to influence innovation and product market strategy through national and regional procurement.

32. This kind of activity formed part of successful city-level strategy in other countries.

### **Tailor skills strategies to the resulting demand, to enable people to access the jobs created and to progress**

33. This is also a key part of the city strategies already referred to.

34. This requires funding streams and performance management targets to encourage the necessary activity in training providers.

35. It would be possible to incentivise large firms committed to skills and quality to train more people than they need, who then improve skills quality in the area - as used to happen with Rolls Royce in Derby in the past.

36. This does not mean a top down system in which local and national government specifies the number of places in each subject that FE colleges are to provide. Apart from anything else, the students themselves have to decide to apply for places. Course provision planning needs to be 'joined up' with careers advice, as well as initiatives to address more fundamental blockages to course take up.

37. This activity must extend to people of all ages.

### **Adopt spatial and transport policies so that people can get to the jobs**

38. It must be possible for those living in relatively deprived neighbourhoods to access jobs being created elsewhere.

39. This priority has influenced infrastructure decisions in overseas cities.

### **The combination of interventions just described has not been widely adopted in the UK**

40. This combination of interventions has not been the norm in the UK.

- Relatively little effort has gone beyond growth firms
- Stimulating demand for higher quality skills is neglected
- There *are* schemes designed to stimulate demand for and supply of skills at the same time - but not many.
- Even skills supply management is patchy.

41. The result is that demand and supply of skills are not matched up in the way described above.

42. This may explain why we have not seen much 'inclusive growth', that is trajectories combining growth in productivity and growth in inclusivity.

***43. Our recommendations for structural change are designed to facilitate interventions of the type described in the previous paragraphs.***

### **The conditions and structures needed to make these interventions successful**

44. Local institutions need to facilitate effective co-ordination, partnership working and local accountability.

#### **Co-ordination**

45. Many levers need to be pulled in a co-ordinated way to make interventions of the kind described. It is implausible that long standing, entrenched problems can be solved without this kind of co-ordination.

46. This is a well-recognised observation, and has led to several attempts to facilitate integrated decision making over the years.

### **Partnership working.**

47. Many of the interventions just described add up to a process of co-ordinated behaviour change – amongst businesses, training providers and students.

48. To do this, you have to know and understand the people in an area.

49. What is more, the evidence suggests that change comes about when effective partnerships are formed.

50. These partnerships can – self-evidently – only be formed by the people on the ground.

### **Accountability**

51. There is a strong case for local democratic accountability: it is right in itself, it can drive effective performance by policy makers, and citizens – as decision makers themselves – are partners in the process.

### **Why the existing system cannot deliver**

52. The existing system cannot deliver the co-ordination, partnership working and accountability needed for levelling up.

53. But it has some strengths

#### **Strength 1: Some LEPs are effective creators of strategy and convenors of partnerships.**

54/55. Some LEPs have been effective at using data to create agreement, have built good working relationships and are effective convenors

56. They may have had a rocky start, but generally business and local authorities can now work well together – the more successful LEPs are what they say they are, partnerships.

57. Having said this, not all LEPs are well regarded, and some are clearly under-resourced.

#### **Strength 2: Capabilities in some Combined Authorities and local authorities**

58. While capability is universally recognised as uneven, there are many capable people working in local government in this area, particularly in the Combined Authorities.

59. However our interviews revealed several problems.

#### **Problem 1: Processes are wasteful**

60. A great deal of senior level time and energy is spent bidding for funds and then attempting to stitch together the proceeds.

61. In some areas, efforts are duplicated and time is wasted on multi-agency co-ordination.

62. This is associated with a confusion of roles.

**Problem 2: Funds are not spent on what places need**

63. LEPs and local authorities do not bid for what they think is needed but for what they think central government will approve.

64. In addition, there is a perception that the Green Book methodology does not prioritise levelling up and favours the short term.

**Problem 3: Strategy and long-term planning is difficult**

65. This is partly because funding cycles are short-term.

66. Longer term cycles would make private sector partnerships easier.

67. But it is also because fragmented funding streams makes stitching together strategy very difficult

68. This is made worse by the way multiple Whitehall departments are involved.

**Problem 4: Strategy is not implemented.**

69. The power to make local industrial strategy and the power to implement it are sometimes in different agencies.

70. The authorities that create a strategy may not have and may not be able to obtain budgets to implement it.

71. Authorities may not even have the decision rights to implement strategy

72. The problem is particular evident in the case of skills – the strategy is often not implemented, and funding is fragmented.

73. In this case, the perception is that the problem is exacerbated by an inflexible approach from the DfE.

74. The result is strategic bodies without the power to implement in this area.

75. This leads to a skills policy with a short-term focus

**Problem 5: The interface with business can be incoherent**

76. There are too many agencies and schemes providing support.

**Problem 6: Lack of local visibility and accountability**

77. The work of LEPs and CAs is largely invisible, making real accountability to the public impossible.



## **Problem 7: Capability**

78. While many competent people work in the field, quality is uneven.

79. In addition, there is no generally understood theory of change informing the kind of interventions that are needed – some policymakers may have a sophisticated understanding but not all.

80. Uneven competence and resource may reinforce economic inequalities between regions.

### **A grouping of these problems**

81. The first five of these problems stem from division of or lack of decision rights. The problems arise because there are no single institutions with the right to develop and implement strategy. Just about everyone involved in the system on the ground believes this. Given this, in the absence of change there is zero chance of reversing the long-term trend that levelling up requires.

82. The sixth and seventh problems also need to be tackled, but are distinct problems, each with their own solution.

## **Reforming the system**

### **Three options for solving the first five problems**

83.

1. *Fine grained improvements to the rules and structures. Decision rights still largely split, but some streamlining.*

This is a labour of Sisyphus – you will never roll the stone to the top of the hill because you are not addressing the underlying problem.

2. *Greater centralisation*

This is the RDA/Government Offices for the Regions approach. It might work better than the current system but it throws away benefits of Local Economic Partnerships

3. *Build stronger local institutions*

This is our recommendation: one authority with the rights needed for strategy development and implementation (see Figure 1 below).

### **The role of LEPs**

84. Even the best LEPs cannot be ‘strong local institutions’. They would lose their point if too much weight were put on them. They should continue as advisors and convenors with the right to be consulted, coterminous with the decision-making institutions.

85. The opportunity should be taken to look at the appointments procedure – to ensure all LEPs are as good as the best and act in the public interest

### Combined authorities and local authorities

86. Where they exist, Mayoral Combined Authorities (MCAs) can become these stronger institutions. Elsewhere, Unitary/Counties can either stand alone or combine into new MCAs where they are smaller than the functional economic area or a minimum efficient size.

87. The Government should avoid abolishing or merging Unitaries or Counties (as opposed to creating MCAs above them).

88. The Government should not make formation of MCAs dependent on political roulette, , and on the party political calculations that inevitably influence such processes.

### The roles and rights of the different bodies

89.

| Policy area   | Unitary/County      | MCA  | LEP                            | Central Govt.                          |
|---|---------------------|--|--------------------------------|--|
| Adult education, FE colleges, business skills, careers advice | Consultation rights | Decision rights                              | Advice, stakeholder engagement | Sets standards/ principles, advice     |
| Schools   | Decision rights     | Consultation rights                          |                                | Sets standards, advice                 |
| Inward investment   | Consultation rights | Decision rights (with supra-regional bodies) | Advice, stakeholder engagement | Co-ordination, sets principles, advice |
| Business support, innovation                                  |                     | Decision rights                              | Advice, stakeholder engagement | Sets principles, advice                |

|                              |                     |  |                                |  |
|------------------------------|---------------------|--|--------------------------------|--|
| Spatial planning and housing | Decision rights     | Consultation rights                          |                                | Sets standards,/<br>principles, advice               |
| Transport, infrastructure    | Consultation rights | Decision rights (with supra-regional bodies) | Advice, stakeholder engagement | Co-ordination, sets standards/<br>principles, advice |

Figure 1

### The role of Whitehall

90. Strong local institutions require a strong centre. The UK and England will continue to have national objectives and programmes, which in some cases can be delivered locally if Whitehall provides appropriate leadership (for example climate change mitigation), and which in other cases will need to be delivered centrally (for example overseas trade). Regional policy will also need co-ordinating (to reduce unproductive competition) and guiding (for example through standards for skills).

91. These functions add up to a leadership role – as opposed to management.

### The relationship between Whitehall and strong local institutions

92. At the moment, Whitehall exercises control over local spending and policy through a series of funding competitions, plus central funding and/or regulation of some activities.

93. An alternative – more in line with a leadership role – would be a process of strategic conversation through which agreed objectives are set. At the moment this does not happen.

94. One striking way in which there is a failure to co-ordinate objectives is carbon. Many local authorities have set long term carbon targets, but these are not co-ordinated with the national carbon budgets.

95. In Germany there is collaboration between locality and centre. Regional policy in Germany is mainly the responsibility of the regions. The main role of the federal government is to coordinate, through a Joint Taskforce.

### Creating this relationship

96. The interlocutors would be MCA mayors and the Leaders of Unitary/County councils on the one hand and a single senior interlocutor representing all Whitehall to each authority on the other.

97. The authority develops its objectives for productivity, innovation, skills, inclusiveness and carbon (and other environmental objectives) based on its assets and its citizens' preferences – but with an awareness of government objectives – and on the basis of these bids for a single pot grant.

98. The centre acts as an advisor in the first instance. If the sum of objectives from different places falls short of national objectives, the centre goes back to those areas best placed to up their game. If the sum of bids is greater than the amount available, it goes back to those areas best placed to reduce their budgets.

99. The end result is an agreed set of outcome targets of a kind that does not now exist.

100. In addition there would be processes to advise on policies, provide guidance on standards and review progress.

### **Accountability**

101. Problem 6 was weak accountability. Steps are needed to engage the public.

102. One aspect of this is a brand that creates expectations and support. Think of those policies and institutions that won love from the public and became unassailable: Lloyd George's Old Age Pension, Aneurin Bevan's National Health Service. A reversal of 40+ years of relative regional decline is just as big a deal.

103. MCAs, Unitaries and Counties can then improve the way they engage with citizens, building on existing good practice.

104. The importance of accountability is a reason for retaining identity led boundaries where possible.

### **Formal accountability**

105. Formal accountability to Parliament and local citizens can be based on the objective setting process already described, generating a limited number of KPIs. These can be publicised – and put life into often ignored formal scrutiny processes.

106. Interviewees generally recognised the need for robust accountability.

### **Strengthening capability**

107. Problem 7 – capability - is entirely solvable if a programme is instituted to develop existing talent and recruit new talent. The following steps are needed:

1. Signal devolution is for real
2. Ensure each local institution is large enough to have or recruit core leadership
3. Provide the resources to build out from there

4. Set high standards and expectations
5. Consider two-way secondments between central and local government.

108. Another aspect of the capability problem is provision of data and analysis. Local policy makers want more granular, action oriented support than is currently available. This includes information about best practice - which in turn requires more attention to and higher standards of evaluation.

### **Eight steps to levelling up**

109. These summarise our recommendations:

1. State the intention to create strong local institutions over a 2 to 3 year period.
2. Set out a framework for decision rights and roles.
3. Identify which authorities should form the basis for these institutions.
4. Initiate a process of setting shared objectives with these authorities and organise single pot funding.
5. As part of this process, clarify the on-going leadership role of the centre.
6. Invest in capability development in these institutions and in shared resources.
7. Put accountability systems (including to the public) and metrics in place.
8. Communicate to the public and brand the change.

## **4. Full submission**

### **The problem to be solved**

21. The productivity gap between the best performing and worst performing UK regions has been widening since the early 1980s despite numerous initiatives.<sup>1</sup> Simply repeating or tweaking what has been done before will not reverse this entrenched trend.

22. The problem is not just inequality between regions, it is also inequality between areas within regions and the existence of pockets of deprivation.

*“It’s basically a bit of a patchwork so that there are really difficult localities and communities ... But then ... there are still good well-paid jobs in manufacturing and engineering”* (Local politician)

*“We have a constant issue within the region which is to kind of point out to people that levelling up is between and within regions”* (LEP board member)

*“There’s a shared understanding there’s two agendas for us, there’s a levelling up within the region, there’s a levelling up with the rest of the UK” (LEP staff)*

23. These less successful areas are often stuck in a ‘low skills equilibrium’ where local employers offer low skill jobs and operate in low-cost markets, meaning there is little incentive for an unskilled population to upskill.<sup>2</sup> Shaking these areas out of their low skills equilibria is the real challenge.

24. These problems can be solved: levelling up has been achieved in other countries. For example, while GDP per worker in the Ruhr Valley was 4% lower than the German national average in 2000, GDP per worker in 2012 slightly exceeded the national average.<sup>3</sup> This involved the regional government being given more devolved powers, which allowed better resource allocation<sup>4</sup> and facilitated effective partnerships between regional stakeholders. This in turn led to additional investment, and innovative production links between spatially proximate firms. More localised problems and the existence of low skills equilibria have also been addressed in several regions and cities overseas<sup>5</sup> (see Pike et al 2017) and has been discussed by the OECD [others sourced]. We discuss the kind of interventions used in the next section,

## **The kind of interventions required**

25. Our experience, review of the literature and interviews suggest there are five components to an effective strategy.

### **1. Identify firms and sectors with the potential to create good jobs**

26. This enables focussing of efforts. However the OECD has emphasised the need to go beyond ‘growth firms’ and winning sectors which often constitute a small percentage of local employment.<sup>6</sup> This point was echoed by our interviewees:

*“If you have an economic growth strategy that is entirely reliant on life sciences and precision manufacturing, you’re probably going to have increased productivity... but that isn’t going to lead to wider inclusion. However, what you do is complement that focus with the long tail of low productivity firms... the foundational economy” (CA Staff).*

27. Successful city-level strategy in other countries has included this activity. For example:

- Portland’s economic strategy priorities four industry clusters which are identified as being able to provide middle-wage job accessibility
- New York targets its investment towards industries providing good quality jobs that are accessible to local residents

- In San Antonio the mayoral authority has undertaken sectoral analysis seeking to identify sectors where the city has a comparative advantage.<sup>7</sup>

## **2. Conduct focussed inward investment activities**

28. This analysis then makes possible inward investment initiatives focussed on firms that raise skill demand both directly and through impact on the rest of the economy.<sup>8</sup> These are not necessarily those at the technological frontier or with the highest productivity themselves. However this activity should work with the grain of existing sectors (i.e facilitating endogenous cluster formation rather than forcing things). Unfocussed subsidy schemes, like Enterprise Zones or the Regional Growth Fund, are relatively ineffective due to displacement.

## **3. Partner with firms to boost skills demand in those firms and in the local economy**

29. Interventions to boost demand for skill often require that firms innovate and change their product market strategies. Firms may not want to do this:

*“The number one thing that had to be done [in an innovation programme] was to convince them that being innovative was worthwhile” (Commentator)*

However, their reluctance can be countered by brokering relationships with other firms who are doing things well. For example, we were told that;

*“SMEs and firms that are less good at doing these things learn from those who are doing the same thing but are able to do it well.... with government acting as a broker” (Advisor to LEP)*

A Chamber of Commerce confirmed that contact with successful role models was particularly effective. Knowledge exchange between universities and firms is also an important part of the mix.

30. The shoe industry in the Brenta region of Northern Italy was revived and created higher level, more skilled jobs than it had done as a result of an industry wide initiative to market the region internationally as a provider of top quality shoes; this involved partnership between firms, industry bodies, educational institutions and local government.<sup>9</sup>

31. It may also be possible to influence innovation and product market strategy through national and regional procurement<sup>10</sup> (the most famous, well documented example of this being DARFA in the United States).

32. All this will require extensive co-ordination. For example cluster management teams employed by the Government of Hamburg act as contact points for the city’s eight economic

clusters. By providing support they increasingly see themselves as long-term partners and stimulators of new thinking, not just decision makers or funders.<sup>11</sup>

#### **4. Tailor skills strategies to the resulting demand, to enable people to access the jobs created and to progress**

33. This is also a key part of the city strategies already cited: in 2014 San Antonio formed a Talent Pipeline Task Force to better join-up education and training to the labour market in three main targeted industries, while Hamburg's labour supply policy, including initial and further training, is tailored towards its eight clusters.

34. This requires funding streams and performance management targets to reward and encourage the necessary activity - it is difficult if FE college funding is simply based on training places delivered.<sup>12</sup> LEP staff we interviewed felt that "LEPs and LAs need the power to commission particular skills from educational institutions" – in other words they felt they needed to take a more proactive role.

35. However some firms can also act as leaders. One LEP board member described the way it had worked in Derby in the past:

*"For every Rolls Royce apprentices Rolls Royce took on, for every ten, only three or four would stay in Royce's and the rest would be fed into the wider engineering ecosystem in and around Derby and that worked".*

The suggestion was that incentivising this kind of behaviour in large firms with a commitment to skills and quality would be a good use of the apprenticeship levy and other parts of the training budget.

*"Look at the people who are properly committed to training, give them the incentives to really drive the sort of skills we want to see... they can then feed the sector"....  
[this should be done by the LEP]*

36. A pro-active approach does not mean a top down system in which local and national government specifies the number of places in each subject that FE colleges are to provide. Apart from anything else, the students themselves have to decide to apply for and take up places (as one FE College principal pointed out to us). Course provision planning needs to be 'joined up' with careers advice, as well as initiatives to address more fundamental blockages to course take up:-

*"There is very low knowledge amongst teachers and parents about the shape of the changing job market"* (Workshop for LEP, CA and LA staff)

*"We need to inspire more people through careers advice"* (Local politician)



*“There needs to be a joined-up, well-funded and local attempt to tackle social problems which significantly limit the supply of skilled labour” (LA staff)*

37. Finally, this activity must extend to people of all ages: “given uncertainties, lifelong learning is an essential part of the mix” we were told by a Chamber of Commerce.

### **5. Adopt spatial and transport policies so that people can get to the jobs**

38. Many of those we spoke to emphasised the need to make it possible for those living in relatively deprived neighbourhoods to access jobs being created in other areas. This confirms existing research:

*Residents in low-income neighbourhoods are willing to travel to work but find commuting options constrained by unaffordable or unreliable public transport, especially when combined with the prospect of low-paid or insecure employment.<sup>13</sup>*

Residents may be willing to travel to work but we were told that in some areas not very far. Planning infrastructure and job opportunities may need to take this into account if attitudes are entrenched.

39. This priority has influenced infrastructure decisions in overseas cities. For example, in Cleveland transit lines were re-routed to provide better connections between inner suburban welfare households and outer suburban entry level employment. When Nantes developed an extensive tramway system in the 1980s, steps were taken to ensure that the trams linked to the more deprived parts of the city.

### **The combination of interventions just described has not been widely adopted in the UK**

40. Our research suggests that this combination of interventions has not been the norm in the UK. “Good quality, well paid jobs” (Local politician) may be a widespread objective. However,

- Relatively little effort has gone beyond growth firms

*“On the non-tradable foundational economy stuff, there’s less thinking.” (CA staff)*

*“We are not going into hairdressers, construction companies... but we are going into space and satellite companies, ... talking about how they can accelerate their growth even though they’re on a high growth trajectory” (LEP staff)*

*“It doesn’t have sufficient reach. It does a lot of very good work with local companies in terms of increasing their process innovation, but they are operating with 20/30/40 companies at most.” (Advisor)*

- Stimulating demand for higher quality skills is neglected

*Tacit acceptance of low-skills equilibria, and focus of effort overwhelmingly on getting people into employment.... Skills demand issues were covered in the majority of [LEP] reports, but in comparison with skills supply, discussions were often not well developed.... the skills remit is primarily understood in terms of skills supply.*<sup>14</sup>

- There are supply/demand schemes— designed to simulate demand for and supply of skills at the same time - but not many.

They are a cottage industry, with poor evaluation and not much roll out.<sup>15</sup> Indeed, more generally, there is a lack of evidence for precisely which interventions work in different contexts.<sup>16</sup>

- Even skills supply management is patchy.

While some LEPs we spoke with placed great emphasis on this (for example the North East LEP), we were also told by Chambers of Commerce in other regions that the LEP tended to “focus on the here and now” when it came to skills, or even that the skills agenda was “a bit of an afterthought”.

41. The result is that demand and supply of skills are not matched up in the way described above:

*“Demand and supply are not matched up. FE colleges get people through apprenticeships, but Is it the type of apprenticeships that are needed?”*

(Commentator)

*“We do it [matching supply and demand]- on paper”* (CA staff member at Workshop)

42. This may explain why the general pattern of development has not been ‘inclusive growth’, that is trajectories where growth in productivity is associated with growth in inclusivity. Our research suggests that there has been little correlation across 53 LEPs/CAs in the UK between growth of prosperity and growth of inclusivity 2013-2018. Further analysis suggests that this is because some LEPs have focussed on high productivity sectors in their regions: where this has happened, then inclusivity has not generally increased (and has sometimes reduced). By contrast, other LEPs have focussed on *low* productivity sectors in their regions, and inclusivity in those regions has generally tended to increase, particularly in those regions where productivity was already high. However, these LEPs have generally failed to increase productivity significantly.

**43. Our recommendations for structural change are designed to facilitate interventions of the type described in the previous paragraphs. They will have little effect on levelling up on their own.**

## **The conditions and structures needed to make these interventions successful**

44. Local institutions need to facilitate effective co-ordination, partnership working and local accountability.

### **Co-ordination**

45. Many levers need to be pulled in a co-ordinated way to make interventions of the kind described: inward investment incentives and marketing, business support activities, facilitating technology transfer, procurement as a driver of innovation and skills demand, skills supply investment, careers advice, transport infrastructure - and many others. It is implausible that long standing, entrenched problems – relative economic decline and low skills equilibria – can be solved without this kind of co-ordination.

46. This is a well-recognised observation, and as our interviewees reminded us, has led to several half-hearted attempts to facilitate integrated decision making and funding over the years.

### **Partnership working.**

47. Many of the interventions just described add up to a process of co-ordinated behaviour change: changing business demand for skills and innovation, changing the supply of training to meet this demand, and changing the demand from students and firms for training, in order to make this supply possible.

48. If you wish to change behaviour, it is not enough to know and understand the economics of the area, you have to know and understand the people. You need to know what is needed and what can be done:

*Whitehall does not understand the culture – how it will land.. You have to work with the weft of the place. Culture is not as recognised as people may think.<sup>17</sup>*

This is uncodified knowledge: you need to be there to have it.

49. What is more, the evidence from the international examples suggests that change comes about when effective partnerships are formed. In the words of one leading student of the skills system “at the heart of many of these approaches is effective partnership working”<sup>18</sup>. Many types of organisation may be involved: firms, trade associations, further and higher education institutions, trade unions, social enterprises and NGOs. Local and national

government and development agencies have a key role as they can facilitate and incentivise the necessary collaboration and networking as well as providing planning and other analytical expertise.

50. These partnerships can – self-evidently – only be formed by the people on the ground. The need for partnerships also explains why US economists Rodrik and Sabel have written recently that creating good jobs requires “governance arrangements that sustain public-private collaborations under conditions of uncertainty and learning,”<sup>19</sup>

### **Accountability**

51. Finally, there is also a strong case for local democratic accountability, because it is right in itself, because it could be a driver of more effective performance by policy makers and because citizens are not simply passive recipients of policy but decision makers themselves about what training and jobs to take, or encourage their children to take. As one of our interviewees put it:

*“Coming back to my children it’s about their quality of life, ... it’s about experiences and if we can develop an offer within [name of city] that actually satisfies that hunger for those types of experiences, then that is something that we should be trying to achieve”. (LA staff)*

This was recognised by the Government in the Queen’s Speech:

*...enabling decisions that affect local people to be made at a local level... With more powers and funds must come more local democratic responsibility and accountability<sup>20</sup>*

### **Why the existing system cannot deliver**

52. In this section we will argue that for all its strengths and achievements, the existing system cannot deliver the co-ordination, partnership working and accountability needed for levelling up. Our evidence is largely the views of those involved operating it. This means our argument depends on the premise that those operating a system ‘on the ground’ are likely to understand its defects, and that their views should be taken seriously.

53. But first, we set out some of the strengths of the existing system given the role described in the previous sections.

#### **Strength 1: Some LEPs are effective creators of strategy and convenors of partnerships.**

54. As the Industrial Strategy Council (ISC) reported, some LEPs have been effective at using data to create agreement and have built good working relationships.

*Developing the LIS was generally viewed as a useful and constructive exercise. LEP staff are well embedded locally, are aware of local strengths and challenges and have good working relationships with key local stakeholders... [they] bring together stakeholders constructively to agree priorities based on evidence....*

*There was a widespread appreciation of how data can drive prioritisation processes alongside stakeholder engagement. It also acted as a foundation for... ensuring discussions were not dominated by any individual or organisation.”<sup>21</sup>*

55. This was our impression too, based on interviews with LEPS themselves and Chambers of Commerce.

*“We have got the resources to do the scenario planning and analysis... Really good evidence based investigation into how our economy works... You can forward plan ... for a set of skills that will be adaptable, going forward” (LEP staff)*

*“Bringing people together to enable things to happen... lead and facilitate” (LEP staff)*

*“Everybody together around that board table is aligned around the economic plan.... we always come back to data and evidence to inform any decision making ... [even if] ultimately the politics are still there” (LEP staff)*

56. LEPs may have had a rocky start, but generally business and local authorities can now work well together – the more successful LEPs are what they say they are, partnerships, and as such can contribute to the partnership working that international experience suggests will be needed for levelling up.

*“The first few years were really hard ... the private sector personnel round the table ... didn’t quite get it, in terms of their role or democratic accountability .... I think the last four, five years, everything has settled down and the board genuinely work well together....” (LEP staff)*

*“I think there’s probably less difference [between business and local authorities on the LEP] than people might think. Everybody is going to be looking for the same ultimate goal which is more jobs economically” (Local politician)*

*“When I looked to get investment in special education needs I had no problem getting support for capital investment from the LEP and I got it mainly from the businesspeople” (LEP member, College Principal)*

*“Some of the business people on that are absolutely fantastic, really interesting” (Trade Union official)*

57. Having said this, not all LEPs are well regarded, and some are clearly under-resourced.

*“I think they’re past their sell-by date, definitely past their sell-by date”* (LA staff)

*“They’re not supposed to be Freemasons anymore but they must all go to the same golf club”* (Commentator)

*“Are they all encompassing or are they serving themselves?”* (LA staff, LEP member)

*“I don’t have an analyst in my team”* (LEP staff)

## **Strength 2: Capabilities in some Combined Authorities and local authorities**

58. While capability is universally recognised as a problem across the system as a whole (we return to this below), we were told – and this was our own personal impression – that there were many capable people working in local government in this area, particularly in the Combined Authorities.

*“In those areas that have enjoyed more significant devolution deals (e.g. Manchester) capability has been built”* (Workshop)

*“Because of the potential of combined authorities, you’re seeing a lot of people running towards them, good, high quality people”* (CA staff)

*“This is from what I know of the individuals, if you put together the best people from the [unitaries and counties] plus some of the really quite good people at district council level you’ve got a pretty good core team.”* (Commentator)

59. However our interviews revealed a series of problems which between them make the system incapable of facilitating the kind of interventions needed.

## **Problem 1: Processes are wasteful**

60. A great deal of senior level time and energy is spent bidding for funds and then attempting to stitch together the proceeds, and this is not a particularly good use of time.

*“All other areas in the country were travelling up and down to London to get these small amounts of grant”* (LA official)

*“A lot of LEP time I think is spent, in my experience, bidding”* (Local politician)

*“A lot of time and resource have been wasted on projects that are never funded”* (LA staff)

61. In some areas efforts are duplicated and time is wasted on multi-agency co-ordination.

*“Duplicated staff between the combined authority... and the LEPs”* (CA staff)

*“If people want to do their own stuff in their own council area that’s problematic, because they want their capability as well as the capability sitting at the regional level”* (Local politician)

*“Quite a lot of duplication”* (Chamber of Commerce)

*“If everybody was in one organisation, it would probably be so much easier and more efficient”* (LEP official)

*“I think again one of the problems, is lots of different players”* (Local politician)

62. This is associated with a confusion of roles. As interviewees told us:

*“It would really help us in the devo white paper if there was real clarity about who does what”* (CA staff)

*“If the white paper does anything, it needs to clarify who does what, roles and responsibilities”* (Local politician)

*“Knowing who has the purse strings can be quite challenging”* (Chamber of Commerce)

As the ISC has also reported, there is a need to clarify roles including of central government

## **Problem 2: Funds are not spent on what places need**

63. LEPs and local authorities do not bid for what they think is needed but for what they think central government will approve.

*“The priorities are defined by central government and the strategies need to get sign-off from central government. So local needs and wants get diluted..”* (Workshop)

*“Because our money comes from government, we’ve got to spend it in a way that they say is fine instead of being able to club together and really work out what our priorities are and almost put ourselves at risk a little bit more.”* (CA staff)

*“The three cities had to put in three separate bids. That money was almost certainly not spent on what the three cities would have regarded as their priority transport bids”* (Commentator)

*“Local Authorities and LEPs to some extent, just respond to that because it follows the food chain, it follows where the money is.”* (Commentator)

This point was also made during an ISC webinar and in an ISC report.

*Danger that areas with good LEPs or authorities get money they don’t need - and not even appropriate to their needs because of the design of scheme- while areas that need funds don’t get them<sup>22</sup>*

*Requiring strict alignment to the national Industrial Strategy makes it difficult for some areas to make LISs truly place-specific. This is particularly challenging in places which rely on low-productivity sectors (e.g. agriculture)<sup>23</sup>*

64. In addition, there is a perception that the Green Book methodology does not prioritise levelling up and favours the short term.

*“The Green Book prioritises ROI: it is higher in wealthy places” (Workshop)*

*“The UK govt has valued productivity at expense of inclusivity” (Workshop)*

*“The [target of] 5% GVA is not as important as doing something over the next 25 years by systematically tackling some of the issues” (LA staff)*

### **Problem 3: Strategy and long-term planning is difficult**

65. This is partly because funding cycles are short-term.

*“We can barely have a one year plan, let alone a three or a five year plan with any confidence” (CA staff)*

*“An R&D partnership with the university was not funded because there were no short term impacts” (LEP staff)*

*“We need... single investment pots over a long period of time and the certainty there is so we can make plans (CA staff)*

66. Longer term cycles would make private sector partnerships easier.

*[Then] “we can borrow and we can give the private sector confidence” (CA staff)*

*“We had a small infrastructure of three staff that delivered that, fantastic programme, Careers and Enterprise Company didn’t fund it after a year... we’ve got a fantastically supportive business community but you’ve got to feel for them when they do get on board and then all of a sudden the grant that supports these activities just disappear overnight” (LA staff)*

*“Trust is eroded by consultation on projects that do not get off the ground” (LA staff)*

67. But it is also because fragmented funding streams makes stitching together strategy very difficult

*“You want to have the ability locally to have a coherent strategy, so I think having it all divided up is not very helpful at all and the attempt to run things separately has historically been a problem” (Commentator)*

68. This is made worse by the way multiple Whitehall departments are involved.



*“LAs have to combine funds from different departments for single projects” (LA staff)*

*“The DfE for example isn’t always as connected with the BEIS agenda, so where you are driven by national programmes it makes it more challenging to co-ordinate at a local level” (CA staff)*

**Problem 4: Strategy is not implemented.**

69. The power to make local industrial strategy and the power to implement it are sometimes in different agencies.

70. The authorities that create a strategy may not have and may not be able to obtain budgets to implement it. . Problems with the Local Industrial Strategies were identified at an ISC webinar and in an ISC report:

*“Budgets not attached to LIS – so how will they be implemented? We are good at making plans – rubbish at getting them into practice..... What do you do with your strategy? No funds attached”<sup>24</sup>*

*Securing stakeholder engagement was at times challenging due to a lack of clear vision of how the LIS would translate into funding.<sup>25</sup>*

70. However the budget problem is wider than that:

*“Have we got the resources to respond to [the strategy]? well no.... I’m not sure that any of the local agents have unless the government unleashes those” (LEP staff)*

*“We don’t hold significant economic development funds within the combined authority, so it makes it very hard to realise regional economic strategy” (CA staff)*

71. Indeed both we and the ISC found that authorities may not even have the decision rights to implement strategy

*“If we really want to go to net zero, we need ambitious plans around modal shift. It’s really difficult to do that if we don’t know if we have access to all of the levers we might need” (CA staff)*

*The research also highlights questions about whether areas have the appropriate powers to design and deliver the policy required to improve local productivity... Many interviewees felt greater devolution of powers is needed to enable LEPs/MCAs to promote productivity in a sustainable and inclusive way. They considered current local powers as limiting their ability to address multi-faceted policy problems driven by long-standing and ingrained social and economic issues.<sup>26</sup>*

72. The problem is particularly evident in the case of skills – the strategy is often not implemented and funding is fragmented.

*“FE is fragmented... If you had a [county] colleges group you’ve got alignment of geography, you can align strategy.”* (LEP staff)

73. In the case of skills the perception is that the problem is exacerbated by an inflexible approach from the DfE.

*“The rules are very inflexible... around apprenticeships and qualifications”* (LEP member and college principal)

*“The DfE seem to adopt a one size fits all approach.”* (Local politician)

74. The result is strategic bodies without the power to implement in this area

*“So we have the 19+ powers but not enough 16-18 powers. I think because of the different institutions that are involved, you would be able to have a much more strategic skills commissioning provision environment”* (CA staff)

*“We have a reasonably well-worked through model of student as customer [of the skills system] ...but a less well developed way of thinking about how to encourage those organisations to have a civic agenda”* (Official)

*“[LEPS] don’t have enough power in the skill sector”* (Local politician)

*“I am sick of going to meetings at which skills are discussed but nobody has the power to do anything about it”* (Chamber of Commerce)

*“I’ve sat in numerous meetings where people have waxed on about mismatches of skills and what’s needed”* (Local politician)

*“We don’t have any influence over the colleges anymore.”* (LA staff)

*“No power over skills is a real weakness of LEPs”* (Chamber of Commerce)

75. This leads to a skills policy with a short-term focus

*“There’s too much of a focus on existing businesses... they respond to immediate demand from businesses. That partly comes from... institutional fragmentation”* (CA staff)

*“The landscape is very fragmented which makes it tricky to have that really clear pipeline all the way from early years through to apprenticeships and then long-term careers”* (CA staff)

### **Problem 5: The interface with business can be incoherent**

76. We were told that there are too many agencies and schemes providing support.

*“The LEPs have growth hubs... and then local authorities often have their own programme of engagement with businesses.” (CA staff)*

*“There are too many agencies.... The boroughs do their own business support ... don't create another network [to compete with us]” (Chamber of Commerce in non CA area)*

*“Knowing who's leading on business support... local authority...LEP growth hub...Combined Authority?” (Chamber of Commerce in CA area)*

*Business Wales has 30 skills and apprenticeship schemes, presenting an opportunity to increase accessibility by simplifying the structure, access requirements and application process<sup>27</sup>*

*“It would help business navigate what is going on if there was a joined up ask from the public sector.... This is what we want from good corporate citizens and this is what we will offer you.... Here are all the programmes – [ instead of] chaotic funding and policy environment... so many piddly little bits” (Chamber of Commerce in CA area)*

### **Problem 6: Lack of local visibility and accountability**

77. The work of LEPs and CAs is largely invisible, making real accountability to the public impossible.

*“The public don't really notice [the LEP] is there, I just think you need something with visibility” (Local politician)*

*“In fact, I would go as far as to say... there's a democratic deficit to it ... I don't think that people really are that enthused by it [the work of the LEP]” (Commentator)*

*“There is a need to ensure that the work of LEPs (and the benefits of local economic development are more visible to local people. (Workshop)*

*“[We need] transparency on what money is spent on and what it has delivered” (Chamber of Commerce)*

*“Much higher quality and early engagement with residents [at LEP and LA level is needed] to ensure that councils are working on the things that matter most to local people.” (Workshop)*

*“More emphasis should be put on accountability locally with the people it affects”*  
(Local politician)

*“Some combined authority bodies have been criticised for not involving more of civil society. I think it would be relatively straightforward to do that.”* (Local politician)

### **Problem 7: Capability**

78. As already noted, many competent people work in the field, but we were told quality is uneven.

*“The quality of [local] political leadership is dire”* (Workshop)

*“So, I’m going to be really candid with you, there are plenty of local authorities and plenty of LEPs I wouldn’t give them 50p, yes, they’re not competent, they’re not competent.”* (LA Staff)

*“[LEP1]is fairly highly regarded, [LEP2] isn’t. The local authority’s abilities in economic development do vary considerably”* (Commentator)

*“What’s a LEP, sorry?”* (LA Cabinet member)

79. In addition, there is no generally understood theory of change, informing the kind of interventions that are needed to make a difference – some policymakers may have a sophisticated understanding but not all. As already noted, there is little point changing structures if this does not lead to a coherent programme of intervention.

*“The Local Industrial Strategies are supposed to be driven by productivity. They didn’t, and I still think don’t, understand what that really means... if I was to say, “What are you going to do specifically that is going to make innovation better in the area?” That is something that they wouldn’t be able to cope with.”* (Commentator)

*“Grasping what [increasing local productivity in line with national strategy] meant in practice was more challenging.”<sup>28</sup>*

*“At a local level is people don’t actually really understand the structure of the economy”* (Commentator)

80. Uneven competence and resource may reinforce economic inequalities – as both our interviews and the ISC report suggest:

*The report also notes large differences in the number of employees in LEPs and the consequences of this in terms of LEPs securing funding for local programmes and interventions.... Regional disparities are not only visible in gross value added (GVA)*

*figures, but also in LEP capacity. Larger LEPs have more capacity to secure new funding, whereas small, rural LEPs struggle the most.*<sup>29</sup>

*“Our lack of resources means we are at a disadvantage against better resourced LEPs, creating a downward spiral”* (LEP staff)

### **A grouping of these problems**

81. The first five of these problems stem from division of or lack of decision rights. The problems arise because there are no single institutions with the right to develop and implement strategy. Just about everyone involved in the system on the ground believes this. Given this, in the absence of change there is zero chance of reversing the long term trend that levelling up requires.

82. The sixth and seventh problems also need to be tackled, but are distinct problems, each with their own solution.

## **Reforming the system**

### **Three options for solving the first five problems**

83. In principle, there are three ways of doing this:

*1. Fine grained improvements to the rules and structures. Decision rights still largely split, but some streamlining.*

This is a labour of Sisyphus – you will never roll the stone to the top of the hill because you are not addressing the underlying problem.

*“We have been involved in this kind of thing at least since probably the late 70s / early 80s ... we have gone through the various cycles, we probably do it better, ... but we are still scraping at the edge of the problem rather than tackling it head on.”*

(Commentator)

Instead, you may well reinforce cynicism.

*“I think there is a bit of a deceit about this devolution... I think it is organisations which are ... essentially doing what the government would like but doing it in a more sensitive way to the locality. There’s no way that they want to stop implementing what they want to do... Let’s slim it down, mash it all together and we’ll call it devolution”* (LEP staff)

*“National government likes devolution if it allows more effective delivery of national objectives”* (CA staff)

*2. Greater centralisation*

This is the RDA/Government Offices for the Regions approach. It might work better than the current system but it throws away benefits of Local Economic Partnerships – which as we have argued are the potentially an excellent vehicle for the kind of partnership working needed - and re-creates problems of accountability and bureaucracy

3. *Build stronger local institutions and therefore remove the need for the baroque architecture*

This is our recommendation, in line with overseas examples of success, and in order to facilitate co-ordination and partnership working as described in paragraphs xx to xx above. This would mean one authority has the rights needed for strategy development and implementation (see Figure 1 below).

**The role of LEPs given this approach**

84. Even the best LEPs cannot be ‘strong local institutions’. They would lose their point if too much weight were put on them. They should continue as advisors and convenors with the right to be consulted, coterminous with the decision-making institutions and with own identity/network. LEP staff and members and others we discussed this with agreed on this

*“If the Shared Prosperity Fund were managed by LEPs there would be a democratic deficit”* (LEP Staff)

*“The point on democratic accountabilities is valid which is why a combined authority with a directly elected mayor is a far better structure and you can see LEPs as a stepping stone towards that”.* (LEP member)

*“They have a sort of business nose... they’re much more agile than local authorities... but that is down partly to their size and they’re not trying to wield and awful lot of organisation and service delivery”* (Chamber of Commerce)

85. The opportunity should be taken to look at the appointments procedure – to ensure all LEPs are as good as the best, and that they all act in the public interest

*“I think there’s an opportunity to look at ... how people are appointed, I think is important”* (LEP member)

*“The situation improved as new directors were appointed. They had to be acceptable to the public and private sector members”* (LEP staff)

**Combined authorities and local authorities**

86. Where they exist, Mayoral Combined Authorities (MCAs) can become these stronger institutions – and we understand this is broadly the direction of travel intended by the

Government. Elsewhere, Unitary/Counties can either stand alone or combine into new MCAs where they are smaller than the functional economic area or a minimum efficient size.

87. The Government should avoid abolishing or merging Unitaries or Counties (as opposed to creating MCAs above them) unless there is a very strong case.

*“Diving in to start smashing up county councils because it’s rational is probably not good politics if you want to get things done”* (Commentator)

88. On the other hand, the Government should not make formation of MCAs dependent on political roulette, on all parties agreeing, and on the party political calculations that inevitably influence such decisions.. Instead, we need clear direction from the Government that minimises political game playing.

89. The roles and rights of the different bodies should be as set out in Figure 1. Where there is no MCA, the Unitary or County authority would adopt its role and rights.

| Policy area   | Unitary/County      | MCA  | LEP                            | Central Govt.                          |
|---|---------------------|--|--------------------------------|--|
| Adult education, FE colleges, business skills, careers advice | Consultation rights | Decision rights                              | Advice, stakeholder engagement | Sets standards/ principles, advice     |
| Schools   | Decision rights     | Consultation rights                          |                                | Sets standards, advice                 |
| Inward investment   | Consultation rights | Decision rights (with supra-regional bodies) | Advice, stakeholder engagement | Co-ordination, sets principles, advice |
| Business support, innovation                                  |                     | Decision rights                              | Advice, stakeholder engagement | Sets principles, advice                |
| Spatial planning and housing                                  | Decision rights     | Consultation rights                          |                                | Sets standards,/ principles, advice    |

|                           |                     |  |                                |   |
|---------------------------|---------------------|--|--------------------------------|---|
| Transport, infrastructure | Consultation rights | <b>Decision rights</b><br>(with supra-regional bodies) | Advice, stakeholder engagement | Co-ordination, sets standards/ principles, advice |
|---------------------------|---------------------|--|--------------------------------|---|

Figure 1

### The role of Whitehall

90. Strong local institutions require a strong centre. This is partly because the UK and England will continue to have national objectives and programmes, which in some cases can be delivered locally if Whitehall provides appropriate leadership (for example climate change mitigation, national levels of innovation), and which in other cases will need to be delivered centrally (for example overseas trade relationships or NHS investment in UK based innovation). It is also because local and regional policy will need co-ordinating (to reduce unproductive competition) and guiding (for example through standards for skills and innovation programmes, public consultation and policy evaluation).

91. These functions add up to a leadership role – as opposed to management. Figure 2 provides a generic set of definitions, contrasting leadership with management.

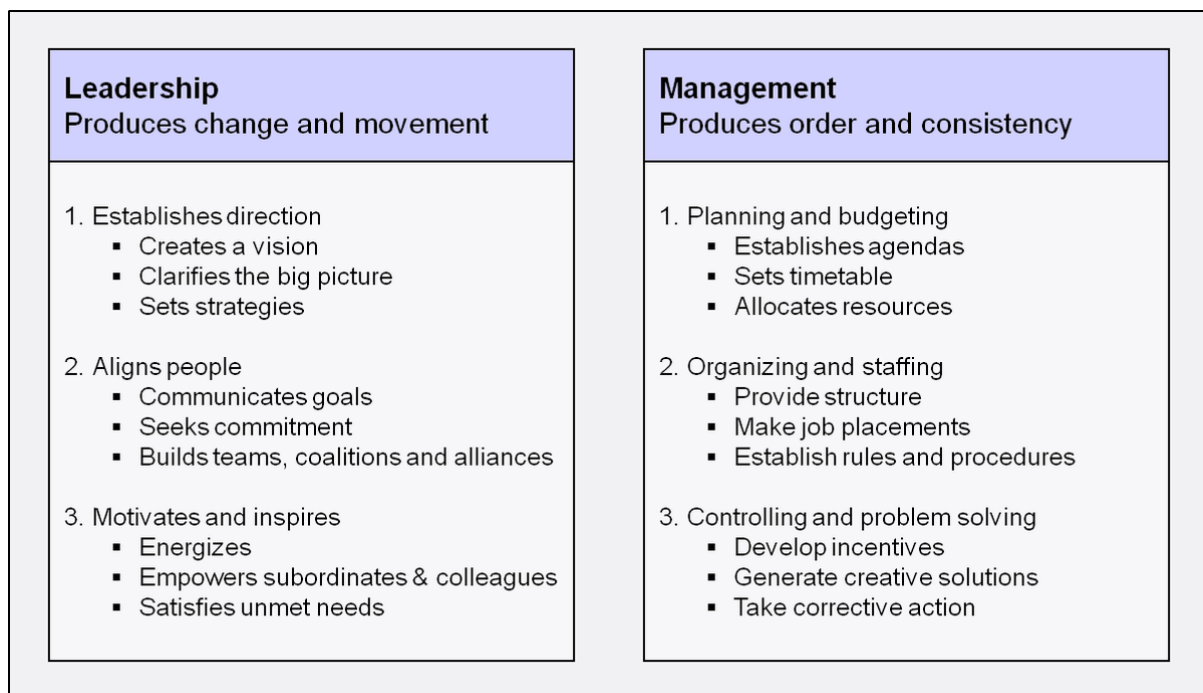


Figure 2



## **The relationship between Whitehall and strong local institutions**

92. At the moment, Whitehall exercises control over local spending and policy through a programme of funding competitions, plus central funding of some activities, and regulation of others. This – we have argued – has produced the mess we are in and is incompatible with strong local institutions with the power to develop and implement strategy.

93. An alternative – more in line with a leadership role – would be a process of strategic conversation through which agreed objectives are set. At the moment this does not happen (at the right level)

*“[They] don’t create the conditions for collaboration which would engender success”*  
(CA staff)

*“[There is a need to] establish shared local and national objectives for the strategies*  
(ISC report]

*“They don’t talk to local authorities about looking to the future and so on.”* (Local politician)

*“When devolution deals came round, there was no sense of here’s a place with a really special capacity to do certain things, how do we enhance it for the good of all?”*  
(Commentator)

*“We’d be very interested in working very closely with DWP around youth unemployment, ... but at the minute we have a complete mismatch of those conversations... with DWP doing its own thing”* (LA staff, LEP board)

*“Q You are saying BEIS are not managing that competition [between regions]?”*  
*“Yes, right that is exactly it.”* (LEP staff)

*“The existing system has no real feedback mechanisms. Local government cannot tell central government that things are not working.”* (Workshop)

*“We were in those conversations in the Treasury, talking to, no disrespect, very junior civil servants trying to shape a political economic future for the largest economy in the UK outside of London”* (LA staff)

*“The result is a ‘strained relationship’”* (Workshop).

94. One striking way in which there is a failure to co-ordinate is carbon. Many local authorities have set long term carbon targets, but these are not co-ordinated with the national carbon budgets, and LEP industrial strategies are not obliged to contribute to these.

95. In Germany there is collaboration between locality and centre. Regional policy in Germany is mainly the responsibility of the regions. This includes designing and implementing regional economic strategies, including selecting projects, setting aid rates and establishing priorities. The federal government is precluded from the direct delivery of most programmes. The main role of the federal government is to coordinate activity between different regions. This is achieved through the Joint Taskforce for the Regional Improvement of Economic Structures - a consensus-based co-ordination framework. Activities are jointly financed by federal and Länder authorities.<sup>30</sup>

### **Creating this relationship**

96. The interlocutors would be MCA mayors and the Leaders of Unitary/County councils that remain independent on the one hand and a single senior interlocutor representing all Whitehall to each authority on the other. The ideal would be a pooled national budget and set of objectives – we have not researched how best to organise this.

97. The interlocutors then conduct strategic conversations to set objectives. The authority develops its objectives for productivity, innovation, skills, inclusiveness and carbon (and other environmental objectives) based on its assets and its citizens' preferences – but with an awareness of government objectives, eg national carbon budgets – and on the basis of these bid for a single pot grant.

98. The centre acts as an advisor in the first instance, including on what different agencies can contribute. If the sum of objectives from different places falls short of national objectives, the centre goes back to those areas best placed to up their game (*'climate targets are easier in Bucks than in Burnley'* - Workshop). If the sum of bids is greater than the amount available (as is likely) it goes back to those areas best placed to reduce their budgets.

99. The end of this negotiation is an agreed set of outcome targets - a comprehensive set for every part of the country that does not now exist.

100. In addition there would be processes to advise on policies, provide guidance on standards and review progress/change course if need be. For example, these would probably need to cover skills policy. As one local politician put it:

*"[If the local authority had control of FE] there would still need to be some very clear [national] guidance and so on. I'm being very honest with you here, it's not going to be a panacea. Education is a very powerful part of any local authority and develops a very powerful set of interests."* (Local Politician).

## **Accountability**

101. Problem 6 was weak accountability. Steps are needed to engage the public to complement improvements to the national-local government relationship. The entire process is much more likely to work if there is public pressure on local and national politicians to make it work.

102. One aspect of this is a brand that creates expectations and support. Think of those policies and institutions that won love from the public and became unassailable: Lloyd George's Old Age Pension, Aneurin Bevan's National Health Service. A reversal of 40+ years of relative regional decline is just as big a deal and deserves just as big a brand. It is important to remember though that an effective brand communicates a reality, and has genuine brand values. It is more than a name or slogan, and it lasts for decades.

103. MCAs, Unitaries and Counties can then improve the way they engage with citizens. As one of our interviewees put it:

*"The CA has their ideas... that sometimes conflicts with the needs of the community"*  
(LEP member)

This builds on existing good practice.

*"We just went out for major consultation on a vision going forward to 2030 which actually thousands of people contributed to and quite rightly looked at some of the things that would be required, not just in terms of good jobs but things like the green economy"* (Local politician)

104. The importance of accountability is a reason for retaining identity led boundaries where possible (even where there may be economic reasons for changing them). Several of our interviewees pointed this out:

*"The places people identify with should be an important element in industrial strategies but is not always factored in"* (Workshop)

*"A slightly higher premium should be placed on regions that make sense to people in terms of identity, people saying this is where I live, than you might say was economically entirely rational"* (Commentator)

## **Formal accountability**

105. Formal accountability to Parliament and local citizens can be based on the objective setting process already described. The objectives need to be translated into a limited number of KPIs.

*“Need for appropriate metrics to assess progress against the priorities but not too many requirements - or it will collapse” (Workshop)*

These metrics can then be publicised – and put life into formal scrutiny processes which at the moment may not get that much attention

*“The combined authority in the North East has developed some of those [scrutiny] structures, it’s just that no real notice is taken of them and there’s very low engagement” (Local politician)*

106. Interviewees generally recognised the need for robust accountability.

*“I think it’s absolutely right that government provides money based on outcomes. The Treasury says, in order to give you X amount of money, we expect this amount of houses built, this amount of people in work, etc,.... a single, flexible pot for a defined set of outcomes” (CA staff)*

*“I think we have to be specific in what we’re asking for, we have to demonstrate the outputs and the outcomes...we could definitely be held to account in more robust ways” (Local politician)*

### **Strengthening capability**

107. Problem 7 – capability - is entirely solvable if a programme is instituted to develop existing talent and recruit new talent. The following steps are needed:

1. Signal devolution is for real.

*“You’re not going to build up the capacity and the expertise until there’s a point in having the capacity and the expertise” (Commentator)*

*“Substantial people aren’t going to do jobs which haven’t got some substance about them” (LEP member)*

*“It’s a chicken and an egg problem, in as much as without giving big flexible budgets, you’re not going to attract leaders” (CA staff)*

2. Ensure each local institution is large enough to have or recruit core leadership

As already noted, the MCAs have already managed to attract talent, and groups of Unitaries/Counties may have sufficient talent to form a core leadership group. There may be a problem, however, if every Unitary and County council has to develop its own leadership team – this is one factor in deciding whether to create a higher tier MCA.

*"I think if you try and look at those as five or six local authorities they are all a bit thin"*  
(Commentator)

3. Then provide the resources to build out from there - including by ring fencing the single pot grant.

*"There's probably enough senior expertise in the system if they've got the resource to build ... [but] as long as local authorities are going to be dragged to the brink every two months by social care bills and COVID bills then that's going to be very difficult"*  
(Commentator)

4. Set high standards and expectations

*"So, their expectations of us are crap and they treat us badly, so they don't create the right conditions for competency"* (CA staff)

*"If you hold them to really high standards, even if they undershoot your really high standards, they'll be better"* (CA staff)

5. Consider two-way secondments between central and local government.

*"It would improve both sides if there was more interchange between the two, undoubtedly"* (Commentator)

*"More central government officials could work for local government"* (Workshop)

108. Another aspect of the capability problem is provision of data and analysis. Local policy makers want more granular, localised and action oriented support than they currently receive.

*"We've got endless data sets... [but] I would really welcome an evidence base which is granular, current and user friendly enough to challenge received wisdom... and actionable"* (CA staff)

*"A lot of the statistics are not local statistics because they find it hard to get hold of that data, so they are using ONS aggregate information rather than being able to drill down into exactly what strengths and weaknesses do we have in our area"*  
(Commentator)

*"The piece that is missing is 'what does it mean?'"* (Chamber of Commerce)

This includes information about best practice...

*"There should be something more done around best practice... some sort of policy champions that are employed, that can go round spreading best practice"*  
(Commentator)

...but this in turn requires higher standards of evaluation

*“We produce a lot of outcome-based information but not a huge amount of output data about particular programmes or investments” (CA staff)*

*“We don’t have our own system to understand what the added value of what we do is” (LEP staff)*

The ISC identified a similar set of needs.

*However, gaps in local data at the LEP level was highlighted as a challenge. There is also a need for a publicly available research depository... Access to up to date LEP-level and LA-level data needs to be improved.<sup>31</sup>*

### **Eight steps to levelling up**

109. These summarise our recommendations

1. State the intention to create strong local institutions over a 2 to 3 year period.
2. Set out a framework for decision rights and roles.
3. Identify which authorities should form the basis for these institutions.
4. Initiate a process of setting shared objectives with these authorities and organise single pot funding.
5. As part of this process, clarify the on-going leadership role of the centre.
6. Invest in capability development in these institutions and in shared resources.
7. Put accountability systems (including to the public) and metrics in place.
8. Communicate to the public and brand the change.

*August 2020*

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<sup>1</sup> For example Gardiner, B. et al, *Regional Disparities in Labour Productivity and Capital Stock*. Presentation given at NIESR webinar 22 July 2020

<sup>2</sup> OECD, *Job Creation and Local Economic Development*, 2014; Tinker R., *Designing a Shared Prosperity Fund*, Joseph Rowntree Foundation, 2018

<sup>3</sup> Taylor R., *A Review of Industrial Restructuring in the Ruhr Valley and Relevant Points for China*, 2015. <http://www.cleanairechina.org/file/loadFile/160.html>

<sup>4</sup> Bross U. and Walter G., *Socio-economic Analysis of North Rhine-Westphalia*, INCO-COMPERNICUS, 2000

<sup>5</sup> Pike A., Lee N., MacKinnon D., Kempton L., and Iddawela Y., *Job creation for inclusive growth in cities*, Joseph Rowntree Foundation, 2017

<sup>6</sup> OECD 2014 op cit

<sup>7</sup> Pike et al 2017 op cit

<sup>8</sup> OECD 2014 op cit

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<sup>9</sup> OECD 2014 op cit

<sup>10</sup> Uyarra E., Zabala-Iturriagoitia J. M., Flanagan, K. & Magro, E., *Public procurement, innovation and industrial policy*; Research Policy, Feb 2020

<sup>11</sup> Pike et al 2017 op cit

<sup>12</sup> OECD 2014 op cit

<sup>13</sup> Crisp R., Ferrari E., Gore T., Green S., Mccarthy L., Rae A., Reeve K., Stevens M., *Tackling Transport-Related Barriers To Employment In Low-Income Neighbourhoods*. Joseph Rowntree Foundation, 2018

<sup>14</sup> CIPD, *Productivity and Place*, 2019.

<sup>15</sup> Examples include: Employment charters, Construction gateway (West Midlands), Apprenticeship subsidy scheme (Humber), Citizen's Education Curriculum (13 pilots), Manchester's Working Well scheme, Birmingham's Network rail Charter for Jobs

<sup>16</sup> Tinker 2018 op cit.

<sup>17</sup> Industrial Strategy Council Webinar, 17 July 2020

<sup>18</sup> Green A., *Low skill traps in sectors and geographies: underlying factors and means of escape*, 2016

<sup>19</sup> Rodrik D. and Sable C., *Building a Good Jobs Economy*, 2019

<sup>20</sup> Queen's Speech, October 2019)

<sup>21</sup> Industrial Strategy Council (ISC), *Understanding the policy-making processes behind local growth strategies in England*, 2019

<sup>22</sup> Industrial Strategy Council Webinar, 17 July 2020

<sup>23</sup> ISC 2019 op cit

<sup>24</sup> Industrial Strategy Council Webinar, 17 July 2020

<sup>25</sup> ISC 2019 op cit

<sup>26</sup> ISC 2019 op cit

<sup>27</sup> Tilley T. and Johnson C., *Planning for Economic and Social Recovery from the Coronavirus Pandemic*, Wales Centre for Public Policy, 2020

<sup>28</sup> ISC 2019 op cit

<sup>29</sup> ISC 2019 op cit

<sup>30</sup> OECD, *Regional Development in Germany*, 2019

<sup>31</sup> ISC 2019 op cit