

REPORT | SEPTEMBER 2021

Delivering Levelling-Up

Don't turn on the taps without
fixing the pipes

Background

This report is based on research to date conducted as part of the LIPSIT project, undertaken by the Universities of Birmingham, Cardiff, Surrey and Warwick and the think tank Demos, and funded by the ESRC, Grant ES/T002468/1. The aim of the LIPSIT project (Local Institutions, Productivity, Sustainability and Inclusivity Trade-offs) is to identify institutional and organisational arrangements at the regional level that tend to lead to the ‘good’ management of policy trade-offs associated with increasing productivity, and to make recommendations based on this.

This is the second of two reports produced by the LIPSIT project; the first, [‘Achieving Levelling Up: The structures and processes needed’](#), was published in November 2020. Further information about the LIPSIT project can be found at <https://lipsit.ac.uk/> and by following our Twitter channel [@LIPSIT_Project](#).

Acknowledgements

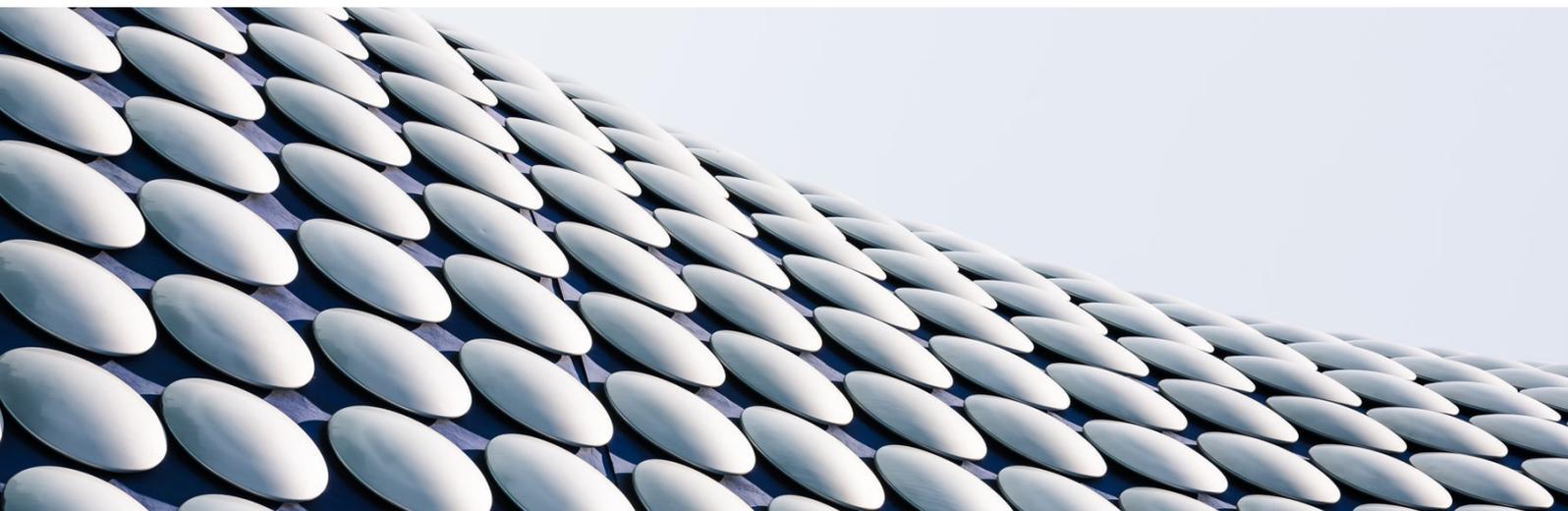
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Overview

This report brings together a wide range of evidence collected by the LIPSIT project, over a two-year investigation into the organisational arrangements of local and regional governance in the UK. The project has primarily focused on how the design of these institutions contributes to improvements in productivity, inclusivity, and sustainability. Over the course of the project, the notion of ‘levelling up’ has emerged and taken hold as a major policy agenda in British politics. This report therefore mobilises the findings of the LIPSIT project as a contribution to the UK government’s levelling up ambitions, ahead of the expected White Paper in Autumn 2021.

The report begins by defining and considering the aims of levelling up, showing that these aims require long-term, cross-sector, and multi-level policy interventions. Over the four chapters that follow, the report explains how problems with subnational governance represent major barriers to the delivery of levelling up. These problems cover ‘the funding system’, ‘multi-level governance’, ‘subnational institutions’, and ‘stakeholder relations’. The report then outlines a series of policy recommendations to fix the system and enable the delivery of levelling up.

The report’s findings are based on a wide range of evidence from research activities carried out by the LIPSIT project team. These include interviews from across the country, as well as workshops, secondary data analysis, and document analysis. Most of the research was conducted in case-study regions across England and Wales. Further information can be found here: <https://lipsit.ac.uk/project-outputs/>.

The central argument of this report is that the UK’s existing system of subnational governance makes what is already a difficult task – levelling up – even more difficult. This is because levelling up is a multi-level and cross-sector agenda that requires long-term and strategic interventions at the local level, often requiring close coordination and partnership working by government agencies and the private and third sectors. However, the UK’s subnational system is geared towards short-term and fragmented interventions, with much of it controlled by central departments, often themselves poorly coordinated. In addition there is a disjointed and unsettled system of spatial governance.

Much of the current debate about levelling up revolves around the distracting question of whether Whitehall or local people know how best to transform local economies. But the crucial challenge remains the capacity of the UK’s political institutions *at all levels* to implement major economic transformations effectively. For this challenge to be met, the systems and processes that link the central, regional, and local levels need to work smoothly and efficiently. Currently, they do not.

“ If you want to pursue levelling up, if you want to say: ‘well, we are not going to leave certain areas just to fall behind and waste resources that way’, we need to ensure that economic development is being pursued and pursued rigorously and efficiently at all levels. You need some kind of structure that actually makes that happen.

(Interview, HE Leader)

There is insufficient time to create a perfect system of local and regional governance before getting on with the business of improving people’s lives. The critical challenge is to identify those reforms that will make the biggest difference and that can be implemented quickly, and to make those a priority. More far-reaching reforms may follow later. We have attempted, in [Chapter 6](#), to set out some such priorities. These are based on an in-depth analysis of the problems with subnational governance in England and Wales. We have divided these problems into four clusters and analysed them Chapters 2-5.

As shown in [Chapter 2](#), there are problems with the way in which funding is distributed from the centre. Most existing investments in levelling up, such as the ‘Levelling Up Fund’ or the ‘Towns Fund’, are allocated according to a competitive bidding process. However, this approach creates major problems at the local and regional level. It means that place-based strategies develop according to the bids they manage to win, rather than the actual needs, specialisms, and ambitions of the local economy. The funding system also leads to short-term rather than long-term planning, competitive rather than collaborative relations, and fragmented rather than cross-sector policymaking.

As shown in [Chapter 3](#), there are problems with the organisation, interaction, and separation of the various layers of government in the UK. At both the local and regional levels, there are a range of different institutional forms, all operating with different powers and processes, and working towards various uncoordinated goals. The borders between places, especially in England, are unsettled, making long-term planning and collaboration particularly difficult. This complexity and instability enables political game-playing and undermines effective communication. The communication problem is further exacerbated by day-to-day misunderstandings and confusion over roles and remit.

As shown in [Chapter 4](#), within this system, there are problems with the institutions themselves. While there are many capable and hard-working people in local and regional institutions, these institutions do not attract enough talented or competent individuals. Much of the work is done by overstretched and understaffed teams who lack the expertise and analytical capacity to deliver impactful policy. Much of this has to do with organisational structure. ‘Local economic partnerships’ (LEPs) in England and some of the Growth Deals in Wales lack resources, workforce, expertise, analytical capacity, public recognition, and inspirational leadership.

As shown in [Chapter 5](#), there are also problems with how subnational institutions interact with local stakeholders. Unstable funding and unstable governance undermine partnerships between businesses, educational institutions, local authorities, and regional bodies. These collaborations are uneven across places and sectors, and often ineffective in meeting major long-term policy challenges. Relations with the public are also troubled. There is a democratic deficit in LEPs, and the public are widely disengaged from the activities of local and regional politics. Engagement and accountability are much stronger where there is an elected mayor.

The levelling up agenda, with its aim to tackle place-based inequality, is long overdue. Regional inequalities, such as the productivity gap between the best- and worst-performing regions, have been widening since the early 1980s despite numerous initiatives. If the UK government is to intervene in economic disparities between regions and between places within regions, it will need significant investment of resources and highly efficient implementation mechanisms. So far, it has signalled a commitment to at least some investment, but without any plans to create the implementation mechanisms. If the UK government attempts to deliver levelling up without creating the implementation mechanisms, it would be analogous to turning on the taps without fixing the pipes, and watching vast resources leak away in a highly inefficient system of place-based governance.

To overcome these problems and to enable successful implementation of the levelling up agenda, there are a number of practical solutions outlined in [Chapter 6](#) of this report. Most of these can be implemented quite quickly, but doing so will require determination and political leadership from central, regional and local government. Our recommendations are:

Fixing the funding system

- Create a rolling 5-year funding formula for local and regional bodies
- To level up, funding should be allocated in order to target place-based inequalities, rather than on the basis of institutional performance
- Accountability of funding should be based on strategic negotiations to ensure that local and regional objectives align with national objectives

Repairing multi-level governance

- Rationalise the existing multi-tier system of subnational governance, making as few changes to existing borders as possible
- The regional level should consist of a complete map of cities and counties, governed by mayoral combined authorities or county councils, or Corporate Joint Committees in Wales
- Create a clear separation of the roles of local and regional bodies, with economic strategy led by the regional tier

Developing subnational institutions

- Local and regional institutions with long-term stability, sufficient budgets and enhanced powers will attract talented and capable people, creating a virtuous circle
- Capabilities could be further improved by two-way secondments and a requirement for senior civil servants to have served at the local and/or regional level
- All English regions should be governed by a mayoral combined authority or a county council, or a Corporate Joint Committee in Wales; and all English regions should have a referendum on installing a mayor

Building stakeholder relations

- Stable, well-organised, and well-funded subnational governance will enable stronger and more effective partnerships with businesses and educational institutions
- Accountability can be strengthened with elected mayors and London-style assemblies, and with the creation of place-based scrutiny committees at regional and national levels
- Linking these reforms together under the Levelling Up brand will engage the public, while the creation of place-based performance indicators will retain engagement

Chapter 1: What is Levelling Up?

This chapter looks at the meaning of levelling up, mobilising analysis of the UK government's rhetoric and outputs. Rather than imposing a specific definition, a broad definition is maintained. The ambiguities of levelling up are considered in order to identify the key features of its delivery. In broad terms, to level up is to reduce inequality between places, while maintaining outcomes in all places. There are ambiguities in the definition of 'places' and the measures of 'inequality', but the delivery of levelling up will inevitably require policymaking that is 'place-based', 'cross-sector', 'multi-level', 'strategic', and 'long-term'.

Between 2019 and 2021, the idea of 'levelling up' spread across government and civil society in the UK. It became common parlance in Whitehall, the media, pressure groups, businesses, think tanks, academia, and among the general public. The proliferation of calls for 'levelling up' has steadily raised expectations so that it is now one of the most anticipated UK policy agendas of recent decades.

There have been many attempts to specify what levelling up is, and indeed to pronounce what it should be and guess what it might become. This speculative and often politically motivated jostling around the meaning of the phrase has been enabled by the UK government's ambiguity about what it actually means to level up. Rather than seeking to impose a new definition, this report builds from the UK government's own speeches, press releases, and policy papers to identify a broad-based understanding of the levelling up agenda.

Across various measures, the UK has a long history of regional inequality and remains one of the most spatially unequal advanced economies. As the Prime Minister has highlighted, the UK "has a more unbalanced economy ... than pretty much every major developed country" (Johnson, 2021). At its heart, the levelling up agenda seeks to tackle inequality between places. "Levelling up means creating new good jobs, boosting training and growing productivity in places that have seen economic decline" (Queen's Speech Briefing Notes, 2021: 30). At the same time, the Prime Minister has insisted that "[we can't] make the poor parts of the country richer by making the rich parts poorer" (Johnson, 2021). Therefore, although levelling up is first and foremost about reducing inequality between places ('levelling'), it seeks to do this while maintaining outcomes in all places ('levelling up'). This leads us to a basic definition:

To level up is to reduce inequality between places, while maintaining outcomes in all places.

However, there are two ambiguities here. Firstly, what are 'places'? Places might be 'regions', but they also might be smaller geographical units like 'left behind communities' or 'struggling towns'. Secondly, what are the outcomes against which place-based inequality is measured? This could be inequality in productivity, but it could also be about inequalities in income, investment, R&D, infrastructure, skills, health, education etc. As long as these two ambiguities remain open, levelling up will remain elusive. But, through analysis of the UK government's existing policy and rhetoric, it is possible to identify a number of basic features that will be central to any attempt to level up the UK.

Places as regions and city regions

The nature of spatial inequality clearly depends on how one carves up the map. One common definition of 'places' in the levelling up agenda is the UK 'regions'.

- "There are large disparities both across and within nations and regions, with only London and the South East with productivity above the UK average." (Build Back Better, 2021: 24)

- “The UK has significant regional disparities, both economic and social.” (Queen’s Speech Briefing Notes, 2021: 32)
- “The primary objective of this government is to change that, ensuring no region is left behind as we achieve greater economic prosperity.” (Build Back Better, 2021: 12)
- “We want every region and nation of the UK to have at least one globally competitive city.” (Build Back Better, 2021: 27)

The statistical analysis underpinning claims about regional inequality tends to be based on England’s former RDA regions plus the three devolved administrations. This is shown in the graph below, which appears in the UK government’s growth plan to illustrate place-based inequality. While the graph fails to take into account population disparities, it does show the government’s central concern with inequality between the nations and regions.

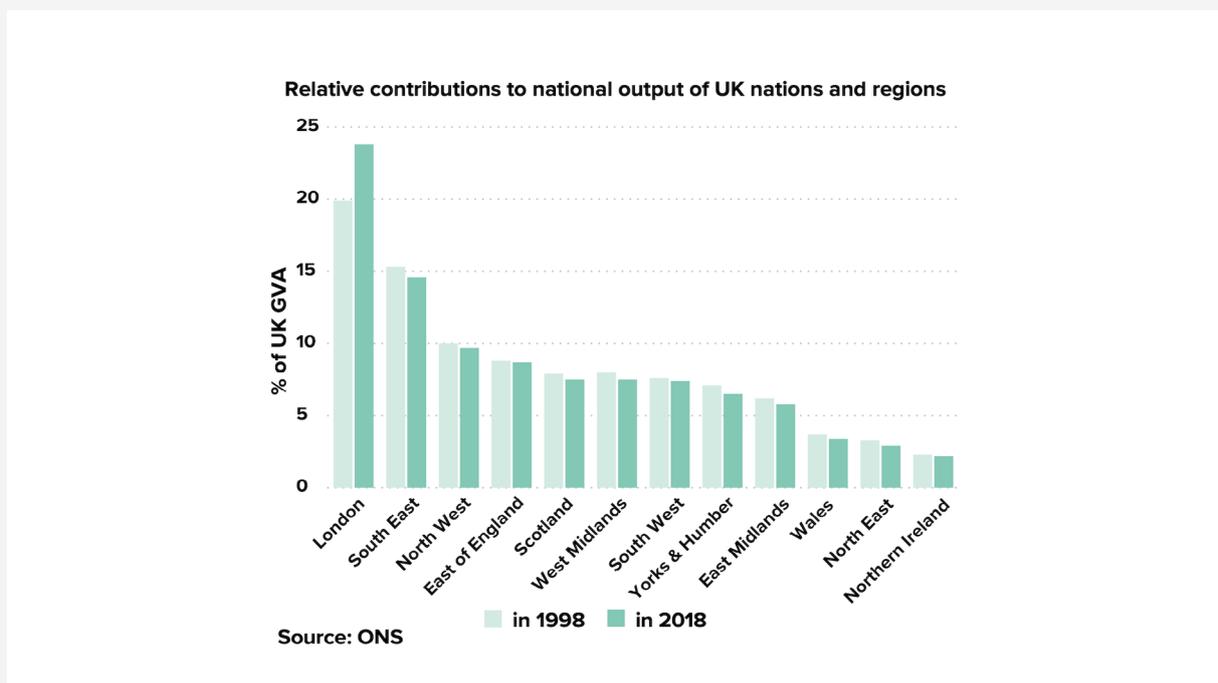


Figure 1: GVA Contributions of UK nations and regions (Build Back Better, 2021)

Although the problems are framed in these terms, the Prime Minister has explicitly rejected this regional map of the UK.

- “The UK will never fit into some cookie cutter division into regions named after points of the compass.” (Johnson, 2021)

While regional inequality tends to be presented using the nations and regions (as in Figure 1), the proposed solutions that make up the levelling up agenda tend to focus instead on city regions.

- “I am fulfilling my promise to give eight city regions like the West Midlands the funding to start making their bus and train networks as good as London.” (Johnson, 2021)
- “We will back cities as engines of the UK economy.” (Build Back Better, 2021: 76)

The focus on city regions aligns more closely with the existing map of regional governance, where there is a patchwork of LEPs and ‘combined authorities’ (CAs) in England, and City Region Deals in the devolved nations. The map on the next page is simplified to ignore the more complicated overlaps and border problems; these are shown in Chapter 3, [Figure 4](#).

Current regional governance in England and Wales

- Local Enterprise Partnership
 - Welsh Growth Deal
 - Greater London Authority
 - Combined Authority
- 1 Buckinghamshire LEP
 - 2 Cheshire and Warrington LEP
 - 3 Coast to Coast Capital LEP
 - 4 Cornwall and Isles of Scilly LEP
 - 5 Coventry and Warwickshire LEP
 - 6 Cumbria LEP
 - 7 Derby, Derbyshire, Nottingham, and Nottinghamshire LEP
 - 8 Dorset LEP
 - 9 Enterprise M3 LEP
 - 10 Gloucestershire LEP
 - 11 Greater Lincolnshire LEP
 - 12 Heart of South West LEP
 - 13 Hertfordshire LEP
 - 14 Hull and East Yorkshire LEP
 - 15 Lancashire LEP
 - 16 Leicester and Leicestershire LEP
 - 17 New Anglia LEP
 - 18 Oxfordshire LEP
 - 19 Solent LEP
 - 20 South East LEP
 - 21 South East Midlands LEP
 - 22 Stoke-on-Trent and Staffordshire LEP
 - 23 Swindon and Wiltshire LEP
 - 24 Thames Valley Berkshire LEP
 - 25 The Marches LEP
 - 26 West of England LEP
 - 27 Worcestershire LEP
 - 28 York and North Yorkshire LEP
 - 29 North Wales Growth Deal
 - 30 Mid Wales Growth Deal
 - 31 Swansea Bay City Region
 - 32 Cardiff Capital Region
 - 33 Greater London Authority
 - 34 Cambridgeshire and Peterborough Combined Authority
 - 35 Greater Manchester Combined Authority
 - 36 Liverpool City Region
 - 37 North East Combined Authority
 - 38 North of Tyne Combined Authority
 - 39 South Yorkshire Combined Authority
 - 40 Tees Valley Combined Authority
 - 41 West Midlands Combined Authority
 - 42 West of England Combined Authority
 - 43 West Yorkshire Combined Authority

Figure 2: Map of Current Regional Governance in England and Wales (Newman et al 2021)

Places as towns and communities

Despite the central focus on regions, the government has insisted on the importance of inequality within regions.

- “inequalities are found within the regions of the United Kingdom – not just between them.” (Johnson, 2021).

This of course is true: there are prosperous places in relatively poor regions and struggling places in prosperous regions.

This aligns with the UK government’s wider concern with ‘towns’ and ‘left behind communities’.

- “Successive Governments have often focused on cities [but] struggling towns do not always have the fundamental building blocks of a strong local economy in place.” (Towns Fund Prospectus, 2019: 5)
- “For those still living in shrinking towns, social mobility often falters. Where this is accompanied by declining quality of employment opportunities, ... it can lead to feelings of being ‘left-behind’.” (Towns Fund Prospectus, 2019: 5)

There is no standard definition of a town or a community. This could be measured according to local authority districts, or at an ultra-local level, such as the ‘Lower Layer Super Output Areas’ that are used in the English Indices of Deprivation. In the UK government’s outputs on levelling up, there is a lack of consistency about which level is the focus for tackling place-based inequalities.

In addition, the appropriate scale may depend on what aspect of inequality is being measured: if it is productivity and employment opportunities, it may be the travel to work area, if housing or health or living standards it may be something much smaller.

Inequality of productivity

As the levelling up agenda has developed, the UK government has increasingly offered a broad vision across different policy areas, but the central concern remains productivity.

- “The plan for growth sets out how this investment will help the economy to recover [and] tackle our long-standing productivity gap.” (Build Back Better, 2021: 26)
- “Only London and the South East [have] productivity above the UK average ... Our commitment to Levelling Up means tackling these disparities.” (Build Back Better, 2021: 24)
- “[Major cities] are now seeing ... a growth in productivity that outstrips the rest of the country and we need this levelling up to go much further and faster.” (Johnson, 2021)

The three pillars of the Plan for Growth (infrastructure, skills, innovation) each aim to boost productivity.

- Infrastructure: “We will ... stimulate short-term economic activity and drive long-term productivity improvements via record investment.” (Build Back Better, 2021: 13)
- Skills: “We will ... support productivity growth through high-quality skills and training.” (Build Back Better, 2021: 13)
- Innovation: “We will ... support our small and medium-sized enterprises (SMEs) to grow through two new schemes to boost productivity.” (Build Back Better, 2021: 13)

This focus on productivity is the core of the vision to level up regional economies and thus rebalance the UK economy. Other policy areas are framed as drivers of productivity.

- “Levelling up means creating new good jobs, boosting training and growing productivity.” (Queen’s Speech Briefing Notes, 2021: 30).
- “Certain types of spending, transport, R&D, housing, culture, are vital to boost productivity.” (Queen’s Speech Briefing Notes, 2021: 33)

Other place-based inequalities

Although productivity and the drivers of productivity are crucial, levelling up is increasingly framed with reference to other outcomes, especially ‘living standards’ and ‘quality of life’.

- “Infrastructure improves everyday life ... This is why I created the Levelling Up Fund.” (Levelling Up Fund Prospectus, 2021: 1)
- “[With levelling up], professionals will be able to stay and bring up their families and enjoy a higher quality of life without the need to move to the supposedly fashionable conurbation.” (Johnson, 2021)

Levelling up has now also become synonymous with the Conservative Party’s three-part election campaign message on health, education, and crime.

“[Levelling up] is about improving health, education and policing, particularly where they are not good enough.” (Queen’s Speech Briefing Notes, 2021: 30)

- Health: “It is an outrage that a man in Glasgow or Blackpool has an average of ten years less on this planet than someone growing up in Hart in Hampshire.” (Johnson, 2021)
- Education: “In York nearly half the working population has a higher education qualification, in Doncaster that figure is only 25 per cent.” (Johnson, 2021)
- Crime: “People in the most deprived fifth of neighbourhoods in England are about 50 per cent more likely to experience crime.” (Queen’s Speech Briefing Notes, 2021: 32)

Finally, levelling up is commonly associated with fostering people’s pride in their community or region, and with ensuring a more inclusive spread of opportunity.

- “I believe we will have made progress in levelling up when we have begun to raise living standards, spread opportunity, improved our public services and restored people’s sense of pride in their community.” (Johnson, 2021)
- “for many people, the most powerful barometer of economic success is the positive change they see and the pride they feel in the places they call home.” (Levelling Up Fund Prospectus, 2021: 2)

Our Data Analysis Findings: Productivity, Inclusivity, and Sustainability – While differences in productivity are seen as the major cause of regional disparities, improving productivity alone will not necessarily improve inclusivity, which is the key element of levelling up. Inclusivity relates to the extent to which prosperity is spread evenly. Thus, policies are required to go beyond “mere” productivity improvement. The LIPSIT project has therefore focused on the potential trade-offs between productivity and inclusivity. Analysis of data over the 2013-2018 period shows the existence of an entrenched trade-off between prosperity and inclusivity at the regional level. While places that were more prosperous in 2013 have seen some increase in inclusivity, the more inclusive places in 2013 have seen declines in their prosperity growth. There are no geographical areas that have seen increases in both prosperity and inclusivity over the five-year period.

Crucial for Levelling Up – Regardless of how it is defined, levelling up will require prosperity growth in currently less prosperous regions. The rarity of this phenomenon to date demonstrates the scale of the challenge. Furthermore, while a narrow vision of levelling up might ignore inclusivity, it seems problematic for levelling up to accompany declining inclusivity within regions. Current data suggests that improving regional prosperity and regional inclusivity is a major challenge.

So what is levelling up?

Our starting point still stands...

To level up is to reduce inequality between places, while maintaining outcomes in all places.

The ambiguity about place is easy to resolve: levelling up will reduce inequalities between places, whether big or small. It will tend to reduce inequalities between regions by improving the position of the 'struggling' parts of the less prosperous regions – but it will not ignore the 'struggling' parts of the more prosperous regions either. How these places are defined will depend on the nature of the inequality being addressed and the particular circumstances of the place. In other words, levelling up is **multi-level** and **place-based**. For each level of place-based inequality, it is crucial that the map is clearly and consistently defined. Otherwise, it will become impossible to evaluate the success or failure of levelling up policies. To avoid this disintegration, levelling up must be **cross-sector**.

The ambiguity about the type of inequality is more problematic. Are the government concerned with jobs and productivity, living standards, health, education, high streets, or crime? Probably with all of these things to some extent – anything else would represent the disintegration of the UK government's central policy agenda.

Levelling up will continue to entail multiple sectors (skills, education, infrastructure, health, etc.) and multiple scales (towns, cities, regions). Over the coming years, levelling up may expand or shrink, policy areas may be added or removed, geographies may be simplified or complicated, but the levelling up agenda will continue to be cross-sector and multi-level. It is precisely for this reason that it needs to be guided by **strategy**. Given that levelling up entails tackling historically entrenched place-based inequalities, it is also unavoidably a **long-term** and transformational policy agenda. These necessary features of levelling up are outlined in the below table, and are referred to throughout this report.

Levelling up is...

| | |
|---------------------|---|
| Place-based | To level up is to tackle a specific form of inequality - inequality between places. |
| Multi-level | Levelling up entails multiple geographical scales, from the UK's twelve 'nations and regions', though to the local level of 'towns and communities'. |
| Cross-sector | Although productivity is seen as the core problem, levelling up seeks to deliver improved outcomes across a wide range of sectors and policy areas. |
| Strategic | If levelling up is to deliver cross-sector interventions in places, it depends on coherent local strategies for places, guided by a coherent national strategy. |
| Long-term | The history of entrenched place-based inequalities in the UK means that levelling up will be a slow and transformative process. |

Because levelling up will be **place-based**, **multi-level**, **cross-sector**, **strategic**, and **long-term**, its success inevitably depends on the UK's system of subnational governance. Even if the UK government continues to deliver levelling up from the centre, it will still need to mobilise actors at various levels to implement the proposed interventions, with a crucial role for local authorities, regional bodies, and devolved administrations. While levelling up will ultimately succeed through the work of businesses, public services, educational institutions, charities, and individuals on the ground, their coordination will rely on partnerships led by the institutions of subnational government.

Crucial for Levelling Up – Transformative place-based interventions will require the mobilisation of a wide range of organisations. All of these organisations are important to the delivery of levelling up, but they can only succeed if they work in partnership and operate according to coordinated strategies. The only institutions capable of delivering this place-based coordination are local authorities, regional bodies, and devolved administrations. Therefore, levelling up can only work if this multi-level system of subnational governance is working efficiently and effectively.

In the following four chapters, this report identifies fundamental problems with the existing system of subnational governance. It argues that the implementation of levelling up can only be implemented effectively if these problems are fixed. Some relatively modest fixes are then proposed that target the existing problems without the need for another radical reorganisation of local government (see [Chapter 6](#)).



Chapter 2: Problems with the Funding System

The UK government has been clear that levelling up will require significant investment, but turning that investment into outcomes in the right places will require an efficient delivery system. Currently, levelling up is primarily being delivered by a series of funding pots created by the UK government and bid for by regional and local organisations. These include the Levelling Up Fund, the UK Community Renewal Fund, the Future High Streets Fund, and the Towns Fund. This chapter shows that this funding system is highly inefficient and unable to deliver the transformational, cross-sector change necessary for levelling up.

The chapter begins by summarising the funding systems in England and Wales. It then addresses in detail three major problems with the current funding system: short-termism, fragmentation, and waste. Throughout the chapter, explanations are given as to why these problems fundamentally undermine the levelling up agenda.



It does fill me with dread, thinking about what the funding regime will be going forward because [if] it's a continuation of the current regime, it's very much driven by central government, departmental-basis, rather than thinking more holistically about the outcomes we want to achieve locally.

(Interview, Local Authority)

The funding system in England

In England, local authorities receive three main sources of funding. Roughly half of their annual income comes through council tax, a charge raised on domestic properties. Since 2012, authorities must hold a referendum if they are to increase council tax above a certain level, which is usually around 2-5% according to Whitehall rules (MHCLG, 2021). In 2021-22, total council tax in England will be around £34.4 billion, spread across 309 district councils and 24 county councils (MHCLG, 2021).

The second source of local authority funding is business rates, which are collected on commercial properties according to their rentable value. Local authorities retain half the value of business rates, sending the rest to the UK government (LGA, 2018). There are plans to allow councils to retain a larger proportion of business rates, but this has yet to be finalised (IfG, 2020). The business rates received by the UK government are used to part-fund the third source of local authority funding, central grants, which amount to roughly one third of local authority income (IfG, 2020). These grants have decreased significantly over the last decade, with the National Audit Office reporting that “Government funding for local authorities has fallen by an estimated 49.1% in real terms from 2010-11 to 2017-18” (NAO, 2018: 7).

England's ‘combined authorities’ (CAs) are funded through levies on their constituent authorities, and by deals with central government that might include business rate retention and investment pots for particular projects or sectors (LGA, 2016). “Each devolution deal includes a capital investment fund of between £450 million and £1.1 billion, paid in yearly instalments over three decades” (IfG, 2021). Funding arrangements vary significantly across the country, and are much more restrictive for CAs without a mayor. Finally, ‘local enterprise partnerships’ (LEPs) have historically played a central role in channelling EU investment, but they have also received money through various government funding pots, such as Local Growth Deals and Regional Growth Funds.

The funding system in Wales

Over 80% of the total Welsh Government budget of nearly £23 billion in 2020-2021 was derived from UK government grants (calculated from Welsh Government, 2021: Table 3.13). The UK Treasury identifies the amount of money that the UK Government is spending in England on matters that are devolved to Wales, and the Barnett formula is used to calculate the grant to Wales based on population adjustment and an uplift that recognises economic and social needs. This means that when the UK government increases its spending on devolved areas in England, Wales gets more funding. When the funding decreases in England, it also goes down in Wales (Welsh Government, 2016). The Welsh Government can choose how it spends this money.

The block grant that the Welsh Government received from Westminster fell by 5% in real terms between 2011 and 2019-20 (Downe and Taylor-Collins, 2019). This, in turn, has filtered down to local authorities which have experienced an average reduction of around 12% in public service spending between 2009-10 and 2016-17 (Gray and Barford, 2018: 553, cited in Downe and Taylor-Collins, 2019). Most of the grant funding for local authorities comes from the Welsh Government via the Revenue Support Grant, which local authorities can spend at their discretion (Sion and Ifan, 2021).

The Cardiff Capital Region City Deal (CCRCD), one of four regional growth agreements in Wales, provides a 20-year investment contract of £1.2 billion agreed in 2016 between the UK government and 10 local authorities in South East Wales. Its negotiation did not involve the Welsh Government (Beel et al., 2021). City Deals in Wales and Scotland differ from LEP growth deals in England, as they do not devolve revenue generation to the region but they can independently fund new projects (Beel et al., 2021). Figure 3 illustrates the funding and governance structures in Wales, the flow of funds between different administrative levels and the relationship between the UK government and the Welsh Government. The four city and growth deal partnerships in Wales comprise the local authorities within their areas, which will form corporate joint committees once they are established in legislation.

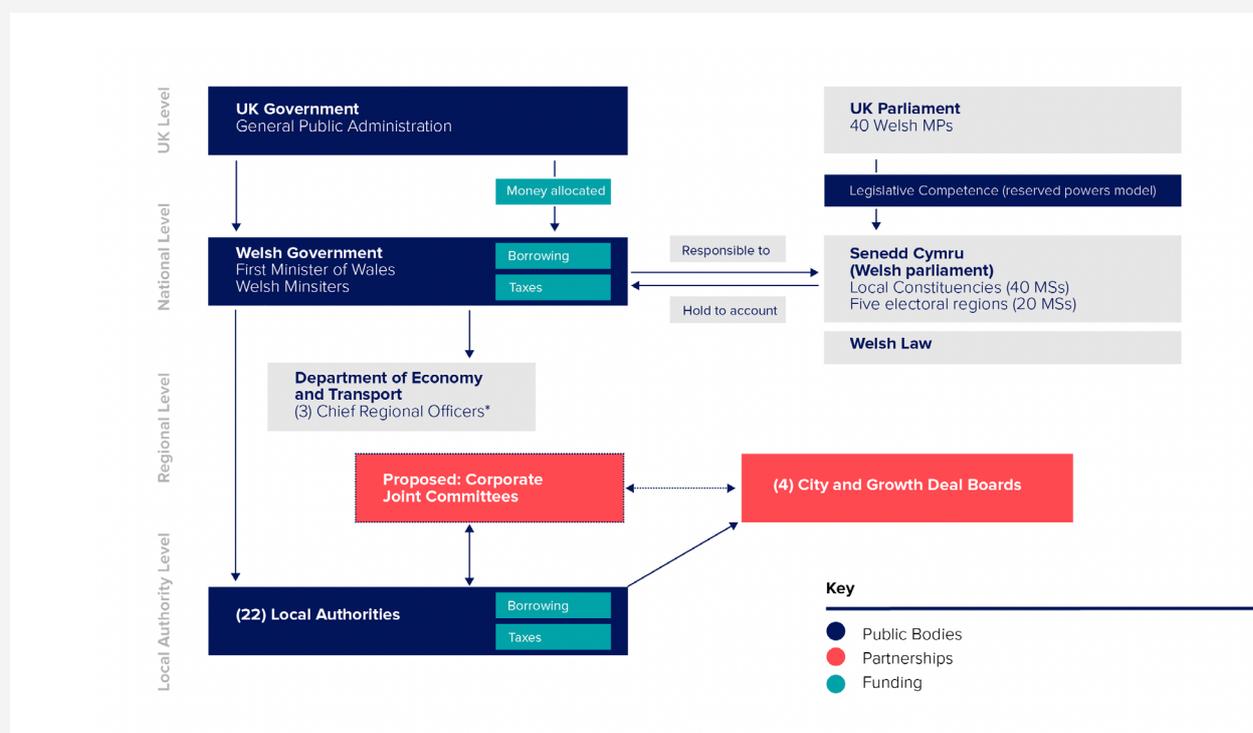


Figure 3: Structure of funding and governance in Wales (OECD, 2020: 42)

Funding timeframes

Section Summary – The most pressing problem for the funding system, especially in the delivery of the levelling up agenda, is the in-built short-termism. Existing funding rounds, funding competitions, and budgetary regulations mean that local authorities and regional bodies tend to focus on a one-year horizon, which is insufficient for the delivery of transformative change and significantly limits the capacity for partnership working. There is insufficient institutional certainty to plan into the future, with local and regional policymakers knowing that when a funding period ends, there could be a funding cliff edge and/or top-down institutional reform.



We're bidding for really small pots of money regularly and we can barely have a one year plan, let alone a three or a five year plan with any confidence.

(Interview, Combined Authority)

Short-term funding is exposed to the daily turbulence of national politics.

- “Bids are written around the central government’s flavour of the month and those are the bids that are pushed, that might not actually be what you really want to do on the ground but actually what we want is the money.” (Interview, Local Authority)
- “You’re on a constant sort of hamster wheel I would say of following whichever direction government goes that week.” (Interview, Combined Authority)

Short-term funding undermines partnership working with the private and third sectors.

- “We’ve got a fantastically supportive business community but you’ve got to feel for them when they do get on board and they do start something then all of a sudden the grant that supports these activities just disappears overnight and they don’t understand why it’s happened.” (Interview, Local Authority)
- “Having a longer term, sustainable funding solution for local authorities will then help give [businesses] a greater understanding of what we’re doing [and] how we’re going to fund it.” (Interview, Local Authority)

Transformational change requires long-term budgetary certainty.

- “The fundamental challenge for local authorities, which has been one for decades is the lack of certainty.” (Interview, Local Authority)
- “There needs to be longer term budgets, major budgets that span either ten or fifteen years that we can plan against [and] we can lend against.” (Interview, Local Chamber of Commerce)
- “We need... single investment pots over a long period of time and the certainty [that they will continue], so we can make plans.” (Interview, Combined Authority Staff)

Crucial for Levelling Up – Budgetary certainty over the longer term is one of the central issues for the implementation of levelling up. This is because levelling up entails interventions in the long-standing economic challenges of left-behind regions. These challenges can only be addressed with a long-term strategy, and a long-term strategy is only possible with budgetary certainty.

Fragmented funding

Section Summary – Currently, the structure and culture of Whitehall processes tend to produce fragmented and overly-specific funding pots. This creates huge inefficiencies in local and regional spending. There is a lack of flexibility to transpose funds from one sector or project to another, which undermines budgetary efficiency. Funding pots have so many strings attached that regional decision makers end up knowingly spending funds on projects and initiatives that are unlikely to deliver the desired outcomes. Fragmented funding streams provide an unstable foundation for long-term and coherent strategy. Overall, this fragmented funding approach prevents the cross-sector holistic interventions that are necessary for transformative change.

Whitehall’s centralised culture creates major challenges for local authorities and regional bodies in securing and managing funding. Even where there are devolution deals, these are tied to specific targets and evaluation processes that impact future funding.

- “When you’re drawing down funding... you’re beholden to the various different bits of the Whitehall monster.” (Interview, Combined Authority)
- “... it still seems a very centrally controlled, grant-orientated approach which means that you just haven’t got that flexibility to move things around.” (Interview, LEP)
- “We are signed up to....a GVA model, every time we don’t do somethingbecause we want to invest in sustainable development, active travel, new ways of working, etc... every time we don’t hit that GVA target, we can expect some kind of fiscal penalty.” (Interview, Wales)

Due to over-specified funding pots, regions do not bid for what they think is needed but for what they think the UK government will approve. Spending is confined to a strict central framework of project appraisal and evaluation as set out in the Treasury’s Green Book.

- “Because our money comes from [UK] 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.” (Interview, Combined Authority staff)
- “Local authorities and LEPs to some extent, just respond to that because it follows the food chain; it follows where the money is.” (Interview, Commentator)
- “None of that money has been spent.... It’s been sitting in a bank for five years ...because nobody is able to write a bid that meets the requirements of the Treasury Green Book.” (Interview, Welsh Government)

Many important projects fail to attract funding because they do not meet the specific requirements of centrally designed funding pots.

- “The rules around the way in which investment comes with drivers and measures from government, from different levels of government, mean that quite often you can’t do the right thing because of the wrong reasons.” (Interview, HE Leader)
- “If we did get money right now... the government would be like, well get it spent and then you’re like, okay, even if it’s not the right thing.” (Interview, Combined Authority)
- “The priorities are defined by central [UK] government and the strategies need to get sign-off from central government. So local needs and wants get diluted...” (Stakeholder Workshop)

Overly Specific Funding Requirements – In one case-study region, the LEP worked in partnership with the university and others to produce a plan for a flood testing centre. This centre would have consisted of a floodable street to test flood devices and train for emergency responses. However, the available funding pots required a list of the specific properties that would be protected; this was impossible given the nature of the project. This example shows the problems with over-specified funding pots.

Transformational change cannot be delivered through fragmented funding because it requires a cross-sector holistic approach.

- “I find it just really unproductive, having to scramble for things and sometimes they’re just such insultingly small amounts of money.” (Interview, Combined Authority)
- “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.” (Interview, Commentator)
- “Rather than just allocate money, how do you really think about the regions, the different countries, their needs, how [can this be made] an explicit part of the thinking rather than just continuing to serve the same areas.” (Interview, South East Wales)

Crucial for Levelling Up – To deliver the long-term transformational change inherent in the levelling up agenda, local authorities and regional bodies need to receive as much of their funding as possible via a single block grant. This is because they need the ability to plan their own budgets in line with long-term economic strategy. If fragmented funding streams come from the centre, place-based policy interventions will also be fragmented, and thus significantly less effective.

Competitive funding mechanisms

Section Summary – The current processes of competitive bidding may have certain administrative benefits for Whitehall, but the system has disastrous consequences for the efficiency of local and regional governance. There is a huge amount of wastage in the system because of the amount of time, energy, and resources that go into each funding bid. A great deal of senior level time and energy is then spent attempting to stitch together the proceeds. In their attempts to maximise limited revenue, regions will bid for a huge range of funding pots, many of which they won’t secure. These problems are compounded when combined with fragmented funding streams.

The competitive system is hugely inefficient, because a lot of time and money is spent putting together bids, often for small amounts of money. Many of these bids are unsuccessful.

- “A lot of LEP time I think is spent, in my experience, bidding into those streams and trying to get the best allocation possible.” (Interview, Local Politician)
- “I think there was some analysis that said, each funding bid costs the Local Enterprise Partnership about £30,000 on average and that doesn’t feel like a very sustainable solution.” (Interview, Local Authority)
- “A lot of time and resources have been wasted on projects that are never funded.” (Interview, Local Authority Staff)

Crucial for Levelling Up – The current inefficiencies in the competitive funding system mean that the more money that is spent, the more money that is wasted. Local and regional institutions waste time and resources on the bidding process, and their long-term strategies are a product of their bidding capabilities rather than the needs of the local economy. The danger is that the inefficiencies and failures of the competitive process will multiply if levelling up is delivered in this way.

Competitive bidding sets subnational institutions against one another, undermining regional cooperation.

- “The funding is a mess. Still the principle is competitive bidding, which I think is totally wrong ... This was the idea that somehow you could set one local enterprise partnership against the other... It’s a complete nonsense...” (Interview, LEP Chair)

There is a great deal of cynicism about the competitive funding process. This undermines trust in the UK government, and weakens central-local relations.

- “It’s not even a real competition because if you look at how the government allocates money at the end of the competition, they give just about as much money to each area as they would have intended to if they’d done it by formula beforehand.” (Interview, Commentator)

Summary: How the funding system prevents levelling up

Levelling up will entail major investments from the centre to certain place-specific projects. This in turn requires an efficient and effective system through which funds are distributed to local and regional actors. This chapter has identified three main problems with the existing system of funding. Firstly, **funding is short-term**, preventing the development of effective partnerships, long-term strategy, and transformative policy interventions. Secondly, **funding is fragmented** across different pots and departmental silos, limiting flexible and cross-sector policymaking. Fragmentation also means that local and regional institutions knowingly spend money on the wrong projects. Thirdly, **the competitive funding system creates huge inefficiencies**, wasting the time of over-stretched staff and weakening collaboration between different institutions.

How the funding system prevents levelling up

| | |
|-------------------------------------|--|
| Levelling up is place-based | Local and regional institutions have limited control over how funding is spent, meaning that they are often unable to address place-specific challenges. As a result, they also struggle to develop and nurture their economic and cultural specialisms. |
| Levelling up is multi-level | Short-term funding undermines collaboration between organisations at the local and regional levels. Partnerships between tiers of government are weakened by competitive funding. |
| Levelling up is cross-sector | With various pots of funding coming from different departments, cross-sector policymaking is very challenging. Fragmented funding pots have to be stitched together into cross-sector agendas. These challenges are compounded by underfunded organisations and small teams. |
| Levelling up is strategic | The fragmentation of the funding system means that place-based strategies are based not on local challenges and opportunities but on the projects that they can win funding for. These projects are significantly influenced by the particularities of central funding pots. |
| Levelling up is long-term | Existing funding rounds mean that short-termism is built into local and regional policy. This is partly because funding is for particular short-term projects, but also because local and regional authorities are too exposed to the turbulence of national politics. |



Chapter 3: Problems with Multi-level Governance

With the levelling up agenda seeking to make interventions at various geographical scales, it will need a robust system of multi-level governance to ensure that these interventions deliver the desired outcomes. Multi-level governance refers both to the interaction between different tiers of government (multi-level) and the way that each tier is able to mobilise and coordinate a range of non-state institutions (governance) (Bache and Flinders, 2004). While the government may emphasise the role of businesses, charities, and educational institutions in the actual implementation of levelling up (addressed below in [Chapter 5](#)), the success of the wider policy agenda will depend on their strategic coordination through multiple tiers of government.

However, as explained in this chapter, **the system of multi-level governance in the UK is currently in disarray**. There is an inherent instability in the system architecture. Throughout the 2010s, devolution to the nations and regions has been based on ad-hoc negotiations, which have created huge complexities and inequalities in the various powers of different places. Ongoing negotiations have created a permanent state of flux, further destabilised by political game-playing and shifting local borders. The consequences include inefficiencies caused by a lack of standardisation, time wasted negotiating, and communication failures across the system. There is also an unclear separation of powers between different agencies and levels, and a general lack of understanding about roles. Subnational institutions have a difficult relationship with Whitehall, often characterised by confusion, misunderstanding, and cynicism.

Overall, as this chapter explains, these **failings in the UK's system of multi-level governance are major barriers to the delivery of levelling up**. The chapter begins with a summary of the multi-level governance arrangements in England and Wales.



Central government seems to think that command and control is the best way to deal with stuff. I think it has been proved time and again to fail. Command and control does not work.

(Interview, English Local Authority)

Multi-level governance in England

England is commonly separated into nine regions for statistical purposes, but these regions no longer undertake a regional governance function. At a lower geographical scale, England's regional governance is conducted by four types of institutions.

- The 'Greater London Authority' (GLA), which covers 16% of the population, is led by an elected mayor and an assembly. It has a substantial budget and policy remit.
- 'Combined authorities' (CAs) cover 30% of the population. They are groups of local authorities with a devolution deal, which gives them extra powers and resources.
- 'County councils' (CCs) cover 37% of the population. They are often considered local rather than regional institutions, as they provide many local services. However, they sit above district councils, and are comparable to CAs in terms of geography and population.
- 'Local enterprise partnerships' (LEPs) cover all of England in 38 LEP areas. Some act as advisory boards to CAs, while others take on a broader role in regional governance, channeling central funding and supporting economic development.

At the local level, England is divided into 309 local authority districts of different sorts. ‘London Boroughs’ sit within the GLA. ‘Metropolitan Boroughs’ sit within CAs. ‘Non-metropolitan Districts’ sit within CCs. ‘Unitary Authorities’ either sit within CAs or, more commonly, are not covered by any regional body other than a LEP. Many, though not all, local authority districts are further subdivided into town and parish councils.

Multi-level governance in Wales

Wales has four main tiers of governance. At the highest level, it is governed by the Senedd (the Welsh Parliament), which has responsibility for areas that are not reserved to the UK government, including: agriculture, fisheries, forestry and rural development; education and training; health and social care; highways and transport; economic development, environment, housing, language and culture; tourism; and local government.

At the regional level, Wales has four growth deals, funded by the Welsh and UK governments. These operate as partnerships between local authorities and private sector stakeholders, with oversight from their boards. Proposed Corporate Joint Committees will legislate for the operation of the partnerships between local authorities, with the aim of formalising the collaborative bodies and simplifying the governance landscape.

At the local level, there are 22 single-tier local authorities that have broadly comparable powers and structures to each other, although they differ in their capacity and resources. At the lowest level, there are town and community councils, although these are not present across all of Wales and they vary in the services they provide. More detail on the structure of subnational governance in Wales is addressed above in [Chapter 2](#) of this report and illustrated in [Figure 3](#).

Unequal devolution to regions

Section Summary – The deal-based approach means that devolution, and the associated investment, does not always go to the places most in need. A consequence of this is that some regions fall even further behind, creating greater regional inequality, and acting as a force against levelling up. Further problems arise with the political game-playing that occurs in the negotiation of deals and the allocation of funding.

Whitehall is burdened with the responsibility for micromanaging regional activity. Regions themselves are left without the space to plan long-term economic strategy and spend a great deal of time negotiating, especially via the funding process. These inefficiencies are compounded by an absence of standardisation across the subnational governance system.

Some of the places most in need fall outside of existing devolution and investment deals. The government’s cost-benefit approach directs ‘rewards’ to already successful regions and projects. These act as forces against levelling up.

- “Compare us with, say, Leeds City region or Greater Manchester where they’ve got ... teams of dozens of people that we haven’t. [We’ve got] one person to talk to in each authority.” (Interview, LEP Staff)
- “You’ve got some places where there are teams of people who are working on bidding or developing stuff. You’ve got people who’ve got massive teams of analysts... If you haven’t got that capacity locally then you’re going to be further behind.” (Interview, LEP CEO)
- “Morally... I believe the right thing to do [is] to try and ensure that you do get growth spread as best you can across challenged and deprived areas as well as areas of growth and success.” (Interview, LEP)

Crucial for Levelling Up – The deal-based system acts as a booster of regional inequality. It gives some regions much greater tools and resources to drive a successful regional economy, leaving other regions further behind. Currently, rural areas, towns, and coastal places are losing out to the big cities. Therefore, levelling up needs to be based on equal regional capabilities, even if regions are given the freedom to use those capabilities in different ways.

There is an acute awareness of political game-playing in the regional devolution process. This means that favourable treatment goes to the best-connected areas, rather than the places that are most in need. This has been a key factor in the emergence of ‘left-behind places’.

- “... there is a willingness, particularly with a Conservative area, a Conservative government, to give more powers there.” (Interview, Local Chambers of Commerce)
- “We’re in a bit of a benefit locally at the moment in that we’ve got a Conservative government and we’ve got a Conservative mayor.” (Interview, Local Politician)
- “We have good connections with our MPs. So we’ve got quite influential MPs. We did have Sajid Javid... Well, we’ve still got him but he’s not the Chancellor anymore, but that was quite a good [advantage] for a while.” (Interview, Anon)

Negotiated deals do not give regions the autonomy to plan long-term transformations.

- “[The] approach to devolution [in England]... is Whitehall decision-making, with a little bit of local trimming around the edges. It’s autonomy as long as you deliver what Whitehall wants.” (Interview, Commentator)
- “We are one of the most centralised nations and I don’t think we’ve seen any change to that.” (Interview, English Local Authority)

North East Border Difficulties – The ongoing border disagreements in the North East have led to a complex system of regional governance that includes the North of Tyne CA, the North East CA, the North East Joint Transport Committee, and the North East LEP. Those on the ground in the North East say they have processes to make the system work. However, it is an inefficient and fragile settlement with overlapping borders. It shows the importance of resolving border disputes, rather than building institutions around them.

The map on page 23 shows the lack of clarity around England’s regional borders. Only 11 regions have settled borders, where the LEP aligns with a regional body. These include 5 combined authorities, 5 county councils, and the Greater London Authority. All other areas have either overlapping institutions or no regional institution (other than a LEP). The areas highlighted in red are regions with particular border problems that need resolving; these are also explained in the Figure 4 map key.

Current Regional Border Problems in England

- Key border problems
- Other unaligned borders
- County council with aligned LEP
- Greater London Authority with aligned LEP
- Combined Authority with aligned LEP

- 1 **The North East** – There is one LEP but two combined authorities (CAs) in the North East. The key border question arises over whether the two CAs should be combined to align with the LEP or whether the LEP should be split.
- 2 **West Yorkshire** – West Yorkshire CA covers the county of West Yorkshire, but Leeds City Region LEP extends into North Yorkshire, including the districts of Craven, Harrogate, and York. The LEP needs aligning with the CA.
- 3 **Humber** – In 2021, the Humber LEP split, with Hull and East Riding LEP to the north and Greater Lincolnshire LEP to the south. If this settlement is maintained, the statistical regions of England need realigning, so that 'Yorkshire and the Humber' becomes 'Yorkshire'.
- 4 **West Midlands** – Currently, the West Midlands CA is covered by three different LEPs. Black Country LEP is entirely within the CA borders. Coventry and Warwickshire LEP extends beyond the CA boundaries to include the whole county of Warwickshire. Birmingham and Solihull LEP extends into Staffordshire and Worcestershire, overlapping with other LEPs.
- 5 **West of England** – The West of England LEP extends beyond West of England CA to include North Somerset. A decision needs to be made on whether to include this district in the CA or to shrink the size of the LEP.
- 6 **South Coast** – Coast to Coast Capital LEP, Enterprise M3 LEP, and Solent LEP cut across the three county councils of Hampshire, Surrey, and West Sussex, as well as incorporating a number of unitary authorities. A decision needs to be made about whether to use the LEP geography or the county geography.

In the areas not highlighted on the map, there are either no regional authorities or there are county councils that do not align with a LEP. In these areas, there are decisions to be made about whether to use LEP or county geography for regional governance.

Figure 4: Current Regional Border Problems in England

Day-to-day relations with the UK government

Section Summary – There are currently major flaws in the day-to-day relations between the UK government, devolved governments and local government. Regional leaders have to deal with multiple departments at multiple levels, without a main point of contact at the centre. Efforts are often duplicated and time wasted on multi-agency coordination. This is associated with a confusion of roles at national, regional and local levels. The complexities of this relationship create inefficiencies and make close partnerships difficult. This leads to a lack of communication about specific projects and investments, and has a longer-term effect on the levels of trust. This has now reached damaging levels, with widespread cynicism among local and regional leaders.

Local authorities and regional bodies find it very difficult to work in partnership with the UK government because they have to deal with so many different contacts, departments, rules, and processes. This is exacerbated by limited communication within Whitehall.

- “You have got different stakeholders reporting into different government departments. For example, the DfE isn’t always that connected with the BEIS agenda, and the routes of funding that are channelled through those departments aren’t always talking to each other. So where you are driven by national programmes it makes it more challenging to coordinate at a local level.” (Interview, Combined Authority Staff)
- “One of central [UK] government’s big challenges is [that] it’s so big and it isn’t joined up. It’s very, very, difficult for us to have an institutional relationship with them.” (Interview, Local Authority Staff)
- “... you’re all regulated by a different bit [of Whitehall]... If you’ve got a contract with MHCLG, you’re on Delta (MHCLG’s online procurement system) and you do things through Delta and it forces you to be separate from other people doing similar things. Whereas if you’re collaborating and you’re collectively creating your resource pool, it makes you work together...” (Interview, Combined Authority)

There is a failure in the channels of communication between the UK government, devolved governments and regional bodies. Key projects, strategies, and investments are hindered by an absence of regular conversation.

- “I think there needs to be much more clarity as to who they’re dealing with at [the UK government]... I’d like to see some real genuine connection with government.” (Interview, Local Politician)
- “There’s many times I’ve opened the paper to find a major investment which the government has agreed for this area and the first I know about it I read in the paper. The Department for International Trade are wonderful at keeping things to themselves.” (Interview, LEP Chair)

A Lack of Multi-level Communication – When an international company wanted to establish a major manufacturing plant in one region of the UK, the UK government led the negotiations. However, once a location was chosen, local and regional leaders felt excluded. Eventually, after local and regional leaders had found out details in the press, the company itself insisted on their involvement. It was felt that the UK government sought to retain control throughout.

Crucial for Levelling Up – If the levelling up agenda is to entail multi-level and cross-sector interventions, it is essential to improve the channels of communication between different government agencies and especially between different tiers of government. While improving the communication skills and guidance for individuals is clearly valuable, effective communication will depend on changes to existing systems and structures. Local and regional leaders need an interface between themselves and Whitehall (see [Chapter 6](#)).

There is widespread cynicism among local and regional leaders about the intentions of Whitehall and central government. This indicates very low levels of trust.

- “I think that devolution [in England] is an easier way for the government to increase its centralisation. I can’t really see why the Treasury would let go of very precious resources and put them in the hands of local authorities, which it has never shown any particular indication that they trust.” (Interview, LEP Staff)
- “The fundamental flaw with the model of [English] devolution that we’ve pursued so far is [that] it just seems really capricious and it doesn’t make a lot of sense. And it seems very politically driven by which minister can bear the idea of letting go an aspect of their power.” (Interview, Combined Authority)
- “I think that LEPs are agents of central government completely. We can only fund what we’re given by government to fund. We really have to get permission to do that.” (Interview, LEP Staff)
- “Whitehall; you take the power off us to be able to manage these institutions and these organisations within our authority and then you blame us.” (Interview, Local Politician)

Ministers and civil servants are too distant from local and regional governance institutions. Communication and understanding is limited between the centre and subnational institutions.

- “Civil servants, if I may be so bold, are a little bit lazy in getting out to all the stakeholders to find out what’s really going on and therefore they just receive back from the LEP themselves their own assessment of how they’ve done.” (Interview, Local Chambers of Commerce)
- “I think it wouldn’t be a bad idea if the CEO role in local government was a career civil service move, so that they belonged to MHCLG and did two, three, four-year tours in different local authorities, and that way provided the conduit from local government to central government.” (Interview, Local Authority Staff)
- “In Manchester, what Howard Bernstein did there brilliantly was he got a dozen of the very brightest civil servants in Treasury to come and work alongside [the city council].” (Interview, Local Authority)

I I think it’s fundamentally and understandably about control. And, I think, central [UK] government perhaps confused the need for oversight and the need for management and delivery, and they need to distinguish those roles.
(Interview, English Local Authority Staff)

Regional-local relations

Section Summary – The powers to make economic strategy and the powers needed to implement it are often in different agencies. The authorities that create a strategy may not have, or be able to obtain, the budgets to carry it out. The problem is particularly evident in the case of skills, where funding is fragmented and strategy is often not implemented. There is a widespread lack of understanding about the respective responsibilities of the local and regional levels, and the respective roles of different regional organisations. This creates tensions between regional stakeholders and makes partnership working difficult, as they are constantly having to negotiate their remit.



If the white paper does anything, it needs to clarify who does what: roles and responsibilities.

(Interview, English Local Politician)

An overly complex subnational governance structure prevents a rational distinction between the local and regional levels, leading to confusion and the duplication of work.

- “I think working with local authorities would be easier if there were a clearer divide between here’s what the CA does, here’s what a LEP does and here’s how you should work together.” (Interview, Combined Authority)
- “It would really help us in the devo white paper if there was real clarity about who does what.” (Interview, Combined Authority 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.” (Interview, Local Politician)

Crucial for Levelling Up – It is essential that the UK government and the Welsh Government clarify the separation between the regional and local level. While different areas should be given the space to take their own place-based approach, this must happen within a clear framework. This requires a standardised separation between the roles of regional and local government. This is one of the most important steps in improving the efficiency of the system as a whole. A specific challenge in Wales relates to how groups of local authorities are brought together as the new Corporate Joint Committees are established. This is likely to vary by area depending on the history of past relations.

The distribution of power within regions is often seen as a zero-sum game. For example, in England, CAs are seen as a threat to the powers of LEPs and local authorities.

- “... in the future there might well be some tensions because I think the combined authority wants more powers and obviously somebody is going to lose them and I think that’s where there might be a bit of tension.” (Interview, Trade Union)
- “... there tends to be duplication where actually there’s plenty for everybody to do.” (Interview, LEP)
- “If everybody was in one organisation, it would probably be so much easier and more efficient.” (Interview, LEP Official)

Party politics can get in the way of partnership working between local and regional authorities, and between local authorities themselves.

- “... sometimes I think politics gets in the way... The different political colours and interests between the local authorities and the combined authority can sometimes be a hindrance to moving things forward.” (Interview, Local Authority)
- “Lots of things are done for political reasons rather than practical reasons... I have no doubt there will be less discontent from the Labour politicians and more discontent from Conservative politicians in exactly the opposite direction. So, for me, making the mayors political, I think was a mistake. I think as a mayor, you should work with all political parties to try and bring everybody together but being a particular colour, politically I think causes issues that don’t need to be there.” (Interview, Local Authority)

The problematic party politics links to distinct place-specific identities that are influenced by the history of regional alliances and rivalries.

- “... there’s some politics of geography going on as a consequence of the politics of parties.” (Interview, Local Chambers of Commerce)
- “It is like having the Conservative Party and the Labour Party, you know they will oppose each other ideologically because it’s Gateshead and Newcastle. It is almost as bad as the rivalry between Newcastle and Sunderland Football Clubs... You are one or the other, you can’t be both.” (Interview, Anon.)

Divisions in the Humber Region – The Humber region is united by the Humber Estuary and its shared economic history, but divided by the Estuary as a geographic barrier and a historic border between North and South. The rivalry between the North and South banks undermines the integrity of the Humber identity and manifests itself in electoral politics. This divisive issue is further fuelled by the rivalry between an urban Labour Party and a rural Conservative Party. The Humber LEP collapsed in 2020, and the Humber region is now split between the Hull and East Riding LEP on the North Bank and the Greater Lincolnshire LEP on the South Bank.

It is important not to lose the invaluable ‘local input’ and to encourage all partners to engage in processes. The role played by smaller authorities is crucial in delivering services and managing relationships with constituents in their local areas.

- “... you can’t lose the local feel, and that is the balancing act, I think. If it feels like it has all been done somewhere over in [the big city] and people are stuck away in [small towns] or other areas ... and they don’t feel connected to that sometimes. So it needs to make sure it is very, very local.” (Interview, Local Chambers of Commerce)

Summary: How problems with multi-level governance prevent levelling up

Levelling up will require the effective functioning of multi-level governance in the UK. However, **the existing governance system lacks the stability, coherence, and efficiency to deliver place-based interventions at multiple levels.** Attempts to tackle place-based inequalities are likely to be derailed by the difficulties in defining what a ‘place’ is within the UK’s system of shifting borders and uneven distribution of political power. The broader lack of system architecture means that **multi-level governance is an inefficient and complex process that undermines**

communication and collaboration between different government tiers and agencies. A lack of clarity about the hierarchy of roles and remits, a lack of understanding about different ways of working, and a widespread lack of trust further contributes to a system unable to develop and deliver a long-term strategy across sectors.

How problems with multi-level governance prevent levelling up

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|-------------------------------------|---|
| Levelling up is place-based | Deal-based devolution contributes to increasing inequality between places, as some of the most deprived places fall outside of devolution deals. This is exacerbated by political game-playing. The boundaries between places are constantly shifting, undermining local identity and economic strategy. |
| Levelling up is multi-level | Currently, the UK government is burdened with the responsibility to micromanage regional activity. Failures in communication and partnership-working undermine the effective interaction between levels of government, especially between Whitehall and local leaders. This is caused by (and contributes to) wide-spread cynicism within local places. |
| Levelling up is cross-sector | The lack of coherent system architecture limits the scope for cross-sector policymaking at the regional and local levels. A particular problem is the confusion about the remit of different government agencies and the different layers of government. |
| Levelling up is strategic | Ongoing negotiation and political game-playing create a state of flux that is not conducive to the development of coherent strategy. The historic lack of clarity about the separation between the local and regional levels is a particular problem. |
| Levelling up is long-term | The communication difficulties and ongoing negotiations with Whitehall limit the opportunity for places to develop long-term plans. A broader lack of trust undermines commitments to long-term working. |



Chapter 4: Problems with Subnational Institutions

Having so far considered the system of funding and multi-level governance, this chapter turns to the subnational institutions themselves. These institutions include local authorities, regional bodies, and devolved parliaments. The institutions of subnational governance are central to the transformative place-based interventions of levelling up because they develop a place-specific strategy, deliver local services, and form partnerships with stakeholders at all levels. They are also the only institutions capable of coordinating multiple stakeholders to deliver long-term economic interventions. The regional level is of particular importance to levelling up because of its alignment with functional economic areas. Therefore, it is crucial that subnational institutions have the right people, the right institutional capacities, and the right organisational structure that are ‘fit for purpose’.

This chapter addresses each of these three issues in turn. With regard to the individual capabilities, it is clear that there are many competent people on the ground and many examples of successful projects delivered by small teams. However, it is also clear that there are many problems with the leadership of subnational institutions and with their breadth and depth of policy expertise. Similarly, with regard to institutional capacities, the gaps in expertise and understaffing leads to a reliance on external consultancy and an inability to deliver long-term strategy. Another shortcoming is the availability and analysis of data at the local level, which reduces the overall effectiveness of policymaking. Finally, with regard to organisational structure, it is clear that the ‘mayoral combined authority’ model is superior to the LEP model in England and the City Deal model in the other UK nations.

Individual capabilities

Section Summary – It is clear that there are many capable people on the ground, even if they are spread thinly and unevenly. This is a solid foundation to work from. However, regional institutions are not currently appealing places for talented people to work. Capable people are attracted to well-funded institutions, with flexible budgets, appropriate powers, a clear vision, and public recognition. Attracting and retaining talent means thinking about the quantity of personnel as well as their quality. Regional institutions are currently operating on very small teams of overstretched staff, where capable people cannot perform to their potential. Existing capabilities cover specific areas, leaving gaps in some key sectors and functions.

Capability is universally recognised as a problem across the system as a whole, but we were told that there are many capable people working in regional governance.

- “We were capable enough in our Covid19 response to pull together multi-agency, multi-partnership approaches to support our vulnerable citizens when central government couldn’t... I think we have proved that we can deliver on the ground.” (Interview, Local Authority)
- “When I go out to people and tell them what we do in the LEP, people assume I’ve got a team of 60 or 70 people working for me and when I tell them that I’ve got a team of nine including my admin staff, people just get staggered {and ask} how the hell do you achieve all that?” (Interview, LEP Chair)
- “There’s local social action and all of those things are valued in a much more disseminated model of leadership.” (Interview, South East Wales)

However, there are major concerns about capabilities in LEPs across a number of sectors and functions.

- “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.” (Interview, Local Authority)
- “We [at the LEP] do have a limited size of team and a limited resource and quite often we’ve had to outsource to bring in colleagues to support that.” (Interview, LEP Staff)
- “If [there] was going to be a devolved block grant to the region, you would need to absolutely beef up the leadership of the LEP ... I think you just need a different calibre of people doing that.” (Interview, Local Commentator)

CAs have stronger capabilities, but there are still gaps, especially in research and policy development.

- “Compare us with, say, Leeds City region or Greater Manchester where they’ve got ... teams of dozens of people that we haven’t. [We’ve got] one person to talk to in each authority.” (Interview, LEP Staff)
- “... they can’t afford anything else which means that they don’t invest in the nice to have... Unfortunately research and good strategy development is nice to have.” (Interview, Combined Authority)

In the current system, the job role is unappealing, meaning that talented people are not attracted to work in subnational governance.

- “They’re thankless jobs and they’re not rewarded properly and the agenda they’ve got is very emaciated. They get messed around by central [UK] government all the time. Business people ... who want to be in public service [will] be saying, ‘Christ, I don’t want to do that. I’d prefer to be sitting in a nice office in London working using my intellect’... It’s just all the wrong way around. We’ve got to change that.” (Interview, LEP Chair)



The job definition is the key thing. What is the job? If you want able people they will want a substantial job description and, at the moment, that is not the case.

(Interview, LEP Chair)

To attract the best people, the job role and description are key. Capable individuals are attracted to regional institutions with power, direction, resources, visibility, and long-term prospects.

- “If you’ve committed to that devolution effectively you’re creating an instrument whereby you’re creating activities which will bring in the capable people.” (Interview, LEP CEO)
- “Combined authorities with proper long-term budgets and powers and interesting areas of devolution policy; that’s a more attractive place to work in.” (Interview, LEP Staff)
- “I think because of the potential of combined authorities, you’re seeing quite a lot of people running towards them, good, high quality people that want to make change.” (Interview, Combined Authority)

The job roles in local and regional institutions are linked to a broader need for more place-based strategising in the public sector.

- “I think that the public sector’s role is beyond just enabling and intervening and troubleshooting. It is about actively taking risk for reward. I think it is much more about shaping the future and saying these are the big industrial and societal problems we

need to solve.” (Interview, South East Wales)

Crucial for Levelling Up – Because the delivery of levelling up will rely on capable personnel in local and regional institutions, attracting talent is crucial. To attract talent, job roles need to be clear and appealing. This relies on local and regional institutions being exciting places to work, with large support teams, public recognition, policy decisions, and future prospects.

Institutional capacities

Section Summary – There is insufficient investment in the capacities of local and regional governance institutions. This is especially the case at the regional level, where many institutions are run by small core teams of staff. Too often, decisions are made by people without the expertise to make them. To be capable of implementing the levelling up agenda, local and regional governance institutions need sufficient funding to build capabilities, particularly in key sectors (e.g. transport) and in key functions (e.g. data analysis). This is not a matter of paying big money for a handful of executives, but about regional institutions building capable teams who are dedicated to specific sectors and functions. These teams can then create partnerships to draw in required expertise.

Most regional institutions lack sector-specific knowledge in key areas.

- “We have never had a passenger transport executive. There’s never been a history of that kind of level of transport planning in the region.” (Interview, LEP Staff)
- “We’ve got very little policy and research capacity left these days. Local authority capacity was cut back. It was one of the first things they got rid of.” (Interview, LEP)

Across all regions, there are deficiencies in data analysis and policy evaluation. There are also missed opportunities to collaborate in this area.

- “There’s a need for much more analytical capacity at [regional] level. I don’t have an analyst in my team. I wouldn’t be able to find many people of that kind of level to compete with the analysts available in central government either, which is a real problem.” (Interview, LEP Staff)
- “... economists in the local government areas, they tend to just photocopy what the ONS state, they don’t actually rip it apart and examine what’s going on.” (Interview, Civic Organisation)
- “I think it would be good to share resources and the evidence base... We’re crunching our own data to understand how the policy interventions we’re making are having an impact on the ground and if not why not. So, I think that would be a really good space where we could collaborate in a much more effective way.” (Interview, English Local Authority)

Most regional institutions, and especially LEPs, are operating with very small teams of staff, supplemented by expensive consultants, who lack area or sector specific knowledge.

- “We [at the LEP] do have a limited size of team and a limited resource and quite often we’ve had to outsource to bring in colleagues to support that.” (Interview, LEP Staff)
- “... there sometimes is a culture of paying a lot of money to external consultants... to then rewrite things that have already been developed over the years, which can be quite frustrating.” (Interview, LEP)

- “The vast majority of what we’ve got is people on short-term contracts to deliver particular projects. The ability to build up expertise and have continuity of approach all the time is quite challenging.” (Interview, LEP Staff)

Reliance on Consultants – The Local Industrial Strategies were an attempt to enable long-term planning of economic interventions at the local and regional level. Although they have since been scrapped, there are important lessons to learn. One lesson is that reliance on external consultancy has contributed to a uniformity of strategy across the country, with individual regions failing to engage with their own unique place-based challenges, and failing to capitalise on their unique strengths.

|| [The Local Industrial Strategy was written by] me and a couple of others, a little bit of consultancy support on research and analysis and quite a few late nights.
(Interview, LEP Staff)

Stronger institutional capabilities will take time to build, and will only develop with investment in people within local and regional institutions.

- “I think weak capabilities stem from lack of investment in helping people improve.” (Interview, Local Authority)
- “I have a core team of nine, nine people, that’s including my admin and resources to run the LEP and do all the business and the policy and everything with nine people, absolutely not possible.” (Interview, LEP CEO)

Organisational structure

Section Summary – There are currently two main types of regional institutions in England, ‘local enterprise partnerships’ (LEPs) and ‘combined authorities’ (CAs). However, the complexity of the system means that there are also differences from one region to another, with some CAs being much stronger than others. There are also complexities in the role of LEPs within CA areas. Mayoral CAs are widely recognised as a good institutional form.

In the devolved nations, City Deals are the main form of regional institution. The City Deals in Wales vary in their degree of development, capacity and relationships with local authority and private sector stakeholders. The problems experienced by LEPs are shared to some extent.

A major problem with regional structures in England and Wales is that institutions lack the necessary authority, funding, and organisational resources to be able to fully utilise the policy levers that are available to them.

- **Networks:** most regional institutions, especially LEPs and City Regions, operate by forging and mobilising networks, meaning that the fulfillment of their strategies is often at the discretion of other institutions.
- **Authority:** although some CAs have powers, most regional institutions lack decision-making powers on key issues such as skills.

- **Funding:** funding streams are fragmented and come with many strings attached, and funding levels for regional institutions are insufficient to enable them to implement their responsibilities.
- **Organisation:** regional institutions largely operate with small teams in small offices and without the skills, expertise, and material resources needed to fulfill their role.

While LEPs are valuable in giving a voice to the private sector, they are not suitable as decision making bodies because they are not accountable to people.

- “The opportunity for LEPs is more about how you get a co-ordinated, commercial and private sector voice. And that doesn’t have to be around funding. And, I think, that’s where it gets quite confusing because you pass on power to people who are ultimately not accountable for the outcomes.” (Interview, Local Authority Staff)
- “[LEPs] are not democratically accountable because who are they accountable to? They’re not accountable to anyone... I think that the combined authorities could probably do their work and spend the money just as easily with better democratic oversight.” (Interview, Local Politician)

Our Data Analysis Findings: LEPs – Our data analysis looks at the performance of LEPs between 2013 and 2018, and explores how localities have sought to improve local economic prosperity. Most have sought to focus on certain sectors, and to encourage the development of firms in these sectors, as well as encouraging inward investment and the associated supply chain effects. In many cases however, where such efforts have been successful, these have fostered productivity rather than inclusivity. The analysis suggests that none of England’s 38 LEPs have succeeded in improving both prosperity and inclusivity in their patch over this five-year period. Only two LEPs who started out with below average prosperity have managed to increase prosperity. Both used sector targeting in the health sectors or professional services.

Crucial for Levelling Up – The data indicates that the LEP model of regional governance has failed to deliver impactful economic or social interventions. As a minimum, levelling up entails the improvement of prosperity in left-behind regions. If it is to be a success, levelling up also entails the improvement of both prosperity and inclusivity in a given region. Because LEPs have been shown to fail in both regards, it seems that a reappraisal of their role is a necessary prerequisite for levelling up.

CAs are viewed favourably than LEPs by those working in both institutions. This is because they have clear visibility, accountability, and leadership.

- “... there’s a level of invisibility in LEPs. If I asked somebody in the street what the LEP did and who led it, I think I’d be challenged. If I asked people in the street ... do they know who the mayor is, they’ll tell you straight away.” (Interview, Local Authority)
- “Rather than give [block funding] to the local authorities where it gets into a big muddle, the mayor is clearly accountable, and people can make up their minds whether they’re doing a good job or not doing a good job” (Interview, LEP Chair)

Summary: How problems with subnational institutions prevent levelling up

The implementation of the levelling up agenda will depend on the activities of subnational institutions, especially at the regional level. However, currently those institutions lack the necessary individual capabilities, institutional capacity, and effective organisational structure. Without sufficient individual capabilities, the levelling up agenda will lack the inspirational local leaders and visionary strategists needed to build partnerships, coordinate stakeholders, and engage the public. At a more basic level, understaffed and overstretched institutions will be unable to develop and implement long-term strategy across multiple sectors. With major deficiencies in analytical capacity and sector-specific expertise at the regional level, it is unclear how transformative economic interventions can be place-based or multi-level. CAs are better organised than LEPs, though they too have deficiencies. In many places, there is an absence of regional governance, especially in England’s LEP-only regions.

| How problems with subnational institutions prevent levelling up | |
|---|--|
| Levelling up is place-based | A place-based agenda needs places to be led by capable and inspiring people. There are some talented people in local and regional institutions but they are far too few, especially in LEPs. Currently, subnational institutions are attracting capable individuals. |
| Levelling up is multi-level | The overlapping of CAs, LEPs, and local authorities means that coherent multi-level governance is very challenging. The separation and coordination between levels is much more effective with the CA model and in some devolved nation City Deals. The latter are expected to be enhanced by the introduction of Corporate Joint Committees in Wales. |
| Levelling up is cross-sector | There are major expertise gaps in key sectors (e.g. skills and transport). With small teams of overstretched staff, subnational institutions are unable to build teams with cross-sector expertise. |
| Levelling up is strategic | To develop effective and deliverable strategies, subnational institutions need strong analytical and research capabilities. Currently, this is one of the major weaknesses. Strategy also depends on visionary individuals and well-staffed teams. Both are currently lacking. |
| Levelling up is long-term | Small overstretched teams are unable to think beyond the most immediate challenges. Long-term policy interventions depend on an accurate understanding of the current problems and the mobilisation of the latest research. Most subnational institutions currently lack capabilities in data analytics and policy research. |



Chapter 5: Problems with Stakeholder Relations

As the levelling up agenda seeks to make interventions in particular places, there needs to be some mobilisation of the people and institutions in those places. If place-based interventions are going to be cross-sector and transformational, then that mobilisation will need to bring together a wide range of local people and institutions. Therefore, levelling up can only be delivered if local businesses, local educational institutions, and local people are engaged in the strategy for change. This requires **three main forms of engagement**. Firstly, there is a need for **stable and effective partnerships between local government, regional bodies, businesses, and educational institutions**. Secondly, there is a need for a broader **public engagement** so that local people know about the policies and know about the future strategies and ambitions. Thirdly, there is a need for **democratic accountability within local government and regional bodies**.

This chapter outlines the current situation with regard to each of these three requirements. It is clear that partnership working already exists across the country, with businesses playing a central role in LEPs, and educational institutions forging relationships with businesses and local authorities. However, those on the ground report that many of these partnerships are unstable and ineffective. Businesses have an unclear and unbalanced position within LEPs, while many local authorities report dwindling relationships with schools and colleges. All partnerships are weakened by a lack of resources, unstable funding, and complex governance structures. With regard to public engagement and democratic accountability, there is a widespread lack of public knowledge about regional institutions, and even less awareness about local and regional policy. This significantly limits the scope for public accountability. Where there is an elected mayor, engagement and accountability are much stronger.

Partnerships with the private and educational sectors

Section Summary – Partnerships between businesses and subnational governance institutions are made difficult by a lack of resources and an overly complex governance structure. There are also concerns about the relationship between LEPs and businesses, in terms of appointments and the resultant focus of LEP activities. With regard to educational institutions, some local and regional bodies report really strong partnerships with colleges and universities, while others identify poor relationships. Relations with secondary schools are more consistently criticised. There is a widely observed failure in the three way partnership between educational institutions, businesses, and local/regional governance. This failure is primarily manifested in the failure to match the supply of and demand for skills.

Limited resources within regions encourages stakeholders to prioritise their own needs over the needs of the region.

- “Unfortunately, limited resource, [that’s] when things get tough [and] people turn inwards. They focus on solving their own problems and looking after their own organisations.” (Interview, Local Chamber of Commerce)
- “We get parochial; so when money comes out all we are bothered about is the road at the end of our drive.” (Interview, Local Chamber of Commerce)

Partnerships are also undermined by short-term and unstable funding streams, and overly complex governance arrangements.

- “We’ve got a fantastically supportive business community but you’ve got to feel for them when they do get on board and they do start something, then all of a sudden the grant that supports these activities just disappear overnight and they don’t understand why it’s happened.” (Interview, Local Authority)
- “We bid in for about £100,000 ... to try and improve the careers education of year nines. We did a really successful programme and that came to an end. The evaluation was fantastic, schools wanted more of it but Hop (the Office for Students funding partnership) decided they didn’t want to buy any more and therefore the infrastructure around that disappeared. It didn’t happen again and it’s left a bit of a bitter taste in the school’s mouth.” (Interview, Local Authority)

Business leaders have a strong presence on LEPs, bringing a good level of insight, but there is a lack of clarity about whether they merely inform politicians or actually perform a leadership function.

- “Where the private sector add value is in giving the insight into the wider direction and strategy of the local economy, keeping the political side and officers into literally what’s really happening in the economy, and that’s especially important in the current times.” (Interview, LEP Staff)
- “The LEP is meant to be business-led and I think at times we’ve struggled a bit with [being] business-led because of the political differences.” (Interview, LEP)
- “... the private sector members of the board ... had a chance to express a view on [which projects] would deliver the greatest returns on investment, but they see it as local authority business to get on and deliver those projects. They don’t want to interfere with that.” (Interview, LEP)

There is a concern that LEPs target their support and engagement at large well-established businesses. This is often at the expense of start-ups, micro-businesses, and employees.

- “Some of the new emerging businesses and entrepreneurs trying to push through, they’re not connected, and they don’t understand. They haven’t got a clue sometimes what the Chamber of Commerce is, never mind what the LEP is. I keep mentioning that at the board; you need to be pushing down on the support so that very small family businesses are just as likely to get financial support from us and help in loans, every bit as much as the big industries and the well-established companies.” (Interview, Local Politician)
- “[LEPs are] focused on supporting businesses but what about actually the millions of working people ... who depend on those jobs. Those interests aren’t factored in at all so I think that’s an important thing.” (Interview, Trade Union)

There is a concern over the appointment procedure of LEP members.

- “They tend to be the large accountancy firms or they tend to be lawyers or they’re always the volunteers for committees rather than people that actually have a full understanding of what’s going on.” (Interview, Local Authority)
- “I suppose they’re not supposed to be Freemasons anymore but they must all go to the same golf club because there’s a remarkable pattern there about where they all come from.” (Interview, Civic Organisation)

A Lesson from Valencia – In Valencia, the development of only a few sectors such as real estate, construction and the service industry led to stunted growth as most of the policies promoted public-private partnerships with zero accountability. The new government that came to power in 2015 focused on transformative economic growth and economic restructuring, based on the principles of sustainability. This entailed a cross-sector approach and regional specialisation.

The relationships that local and regional institutions have with education institutions is varied. In some regions, the partnership with local colleges works effectively, but in other regions, local authorities blame poor relationships on their lack of powers over budgets and commissioning. In most regions, there is a concern that the academy school model has undermined partnerships.

- “We work incredibly closely with the colleges, particularly and the schools. We work closely with the universities across a range of activities ... But we work particularly with the colleges in terms of their provision, the quality of that provision, ... and we’ve got a very close working relationship.” (Interview, Combined Authority Staff)
- “We would love a relationship, a stronger relationship with the FE commissioners and things like that but it’s very limited.” (Interview, Local Authority Staff)
- “We’ve got academies that took over the majority of our schools up and down [England] and I don’t think they feed in and communicate well with each other if I’m brutally honest with you. They’re very standalone; they’re very self-serving. They’ve got their own independent agendas, whatever that may be and by putting it into academies, that communication has completely been lost.” (Interview, Local Politician)

The partnerships between businesses, educational institutions, local authorities, and regional bodies are currently failing to match up the supply and demand of skills.

- “There’s a big dislocation between local authorities, employers and colleges. No one seems to have got their act together as far as I’m concerned.” (Interview, Trade Union)
- “Yes, there’s been a skills problem which is why there’s probably been a productivity problem... You train 80 hairdressers but the local economy really needs 80 bricklayers.” (Interview, Trade Union)
- “I think there’s an issue in terms of the short-term nature of funding. Policy is difficult and from a LEP perspective, we don’t really have too many levers of control in terms of the academisation of large parts of the education system.” (Interview, Local Authority)

Crucial for Levelling Up – Local and regional partnerships are important for many reasons, but it is on the issue of skills that partnerships have the most potential but also the most difficulties. Skills partnerships require a long-term strategic three-way relationship between subnational government, businesses, and educational institutions. Creating this partnership depends on giving local and regional institutions the stability, powers, and resources to develop holistic and forward-thinking skills strategies. In England, LEPs and CAs both have skills partnerships, but these are widely seen to be unsuccessful in the difficult task of matching the supply and demand of skills. In Wales, the three regional skills partnerships are recognised as being under-resourced, although perceptions of their effectiveness varies.

Public engagement

Section Summary – Public engagement is essential if subnational institutions are to be held to account. This engagement allows for place-based policies to be bottom-up rather than top-down. Currently, the work of LEPs is largely invisible, making real accountability to the public impossible. Mayoral CAs are much more effective in engaging the public. This is primarily because they have a prominent leader who receives attention in the local and national media. Public engagement is more effective when institutions operate on smaller scales, and when they have the stability to deliver on their promises and proposals, and thus retain public trust.

Community engagement is a key component of public accountability.

- “...maybe there is also a way of engaging the community in some of these plans, instead of them feeling like it’s a kind of top-down government strategy... There’s got to be a bit of, well actually, these are the things that are really important to this community.” (Interview, LEP Staff)
- “I think my hope is that people can engage with their local democratic system and be more educated about the choices that they make... I don’t mind whether that choice is to invoke whatever colour rose that you want to vote for, but unless the population, in some way, shape or form, holds its elected officials to account..., then the democratic process will not improve.” (Interview, South East Wales)
- “Unless we have a more engaged and informed and knowledgeable electorate or citizenship, we’re going to get what we’ve always got.” (Interview, South East Wales)

There is currently a problematic lack of public engagement, which makes the role of LEPs largely invisible. This undermines their capacity to lead regional economic transitions.

- “Peter public don’t know what the LEP is” (Interview, LEP Chair)
- “I don’t think that people really are that enthused by it or appreciate it or really know a great deal of it because there’s no ... directly elected members that directly go to the combined authority; it’s all via local government.” (Interview, Trade Union)
- “The problem is that when you’ve stripped it down to that level... the public don’t really notice it’s there and even businesses I dare say don’t really notice it’s there to some extent. That’s a problem then, because you need some visibility of structures to give that public confidence.” (Interview, Local Politician)

Elected mayors are seen to be a positive step in public engagement. Their visibility and leadership creates a connection with the people.

- “The elected mayor would be responsible for that money. If it wasn’t spent properly they would be kicked out. There’s some logic in it.” (Interview, LEP Chair)
- “... the mayor is seen as the voice of the geography, of the combined authority. So [the mayor] would be the first person’s door they’d knock on when government want to know anything...” (Interview, Combined Authority)

Crucial for Levelling Up – Local and regional institutions need to be recognised by the general public if they are to make impactful interventions in local and regional economies. Levelling up is potentially a very powerful brand that indicates a major transformation in left behind areas. This brand needs to be tied to local and regional institutions and leaders who are seen as implementers of the government’s vision to level up.

The current system of subnational funding has a damaging impact on engagement. This is because local and regional bodies undertake public consultation when putting together bids, but as many projects are ultimately not delivered, the public slowly loses trust.

- “The problem is, procuring a project is quite time-consuming, costly, ... It’s not always appealing to go out to the public, find out what they want, work up a project, have it sitting there with artistic impressions and aims and objectives of what you want to do and then not be able implement it. You can soon get yourself in a position where the public think, oh no not again, not more artistic impressions.” (Interview, Local Authority)
- “All the consultation... You’re consulting the public, you’re finding out what they want, and you don’t even know if you can deliver it.” (Interview, Local Politician)

Smaller scale governance institutions are much better at engaging the public. This can be seen by comparing county councils with district councils: districts have historically been much better at public engagement.

- “The county now has to get involved with the public; that’s become quite interesting, because they’re not really that used to being so closely involved with the public. It is usually the boroughs and districts that have that personal contact.” (Interview, Local Politician)
- “Intermediary layers of government are really, really important because from the principle of subsidiarity: the closer you are to the people who the decisions are going to affect, the more likely it is that it will serve those interests.” (Interview, Trade Union)

Democratic accountability

Section Summary – There is a strong case for local democratic accountability for a number of reasons: because it is right in itself, because it could drive up standards, and because citizens are not simply passive recipients of policy but decision-makers themselves. The individuals and institutions of subnational governance need to be accountable to local people as well as to higher tiers of government. This local accountability will become increasingly important as local and regional institutions take on an expanded role within the levelling up agenda. While local authorities, CAs, and devolved parliaments all have directly elected representatives, LEPs and City Deal Regions have no direct democratic mechanisms. Directly elected mayors are an important mechanism of accountability, but the complexity of the subnational governance system makes accountability a challenge in all regions.

It is important for local institutions to be accountable to local people. Local accountability needs to be a key consideration in how local institutions work.

- “I think more emphasis should be put on local accountability, on the people who are affected by a decision. Any decisions that we do take, regardless of whether it’s regeneration-based or anything else, should be swayed by the response from the local people.” (Interview, Local Politician)
- “The opportunity for LEPs is more about how you get a co-ordinated, commercial and private sector voice. And that doesn’t have to be around funding. That’s where it gets quite confusing because you pass on power to people who are ultimately not accountable for the outcomes.” (Interview, Local Authority Staff)

Local and regional institutions should be accountable directly to people as well as to central government. Central control should not undermine local accountability.

- “The central government should have an eye on what’s happening right across the country and should look at best practice. I would not impose. Imposing things from central government is the destruction of accountability. If the imposition has been made [by] the centre, is the centre then going to be ultimately accountable? Of course it isn’t.” (Interview, LEP Chair)
- “I think the main gain for the government from LEPs is they’ve got instruments that do what they’re told by BEIS. I think if you really want devolution, then you want economic development that’s responsible to your local leadership.” (Interview, Commentator)

The democratic accountability of local and regional institutions is particularly important if those institutions are to take on more power and responsibility.

- “The answer is to decentralise and to give the resources to those local institutions and make them accountable.” (Interview, LEP Chair)
- “You would need to make sure that the governance of LEPs was looked at at the same time as that. So how are they representative of the region? How are the decisions open and transparent etc? And as long as that was done, then yeah I think that block grant approach could work well.” (Interview, HE Leader)



“I think there’s an inherent challenge there in terms of LEPs not being democratically accountable and thinking about what that means for the handing down of powers.”

(Interview, Local Politician)

It is widely acknowledged that there is a major democratic deficit in LEPs. This was one of the most common and consistent findings across all of our interviews.

- “So, the fact that they were supposed to be largely represented by the private sector, but actually all the accountability was on the public sector, probably didn’t help them...” (Interview, Local Authority Staff)
- “I think they [LEPs] are... undemocratic... although LEPs have local representatives from the local authorities, it tends to be business-led.” (Interview, Local Authority)

Crucial for Levelling Up – The accountability problem in LEPs makes them unsuitable implementers of the levelling up agenda. It is recognised by all parties that the democratic deficit is only sustainable because of LEPs’ currently limited powers and resources. If regions are given the capacity to implement economic strategy, this needs to be done through an accountable institution like a mayoral CA. LEPs could take on a temporary role in this transition, and should remain as advisory panels of private sector leaders.

Accountability is generally challenging in the UK’s subnational governance because of the overall complexity of the system, especially with the uncertainty about roles and remit.

- “At the moment none of us know where decisions are being made and that probably includes people like myself who are so close to the flame. I still can’t quite see what is going on, so for most normal people it sits way back... So, accountability is very, very difficult.” (Interview, Local Chamber of Commerce)
- “We face a bit of an age-old challenge. You often have different responsibilities, with different agencies reporting up and accountable to different government departments.” (Interview, Combined Authority Staff)

Directly elected mayors are widely seen to be an important mechanism of democratic accountability.

- “If you’re promising to bring 2,500 jobs to an area and you bring 25, then somebody needs to answer for that. There needs to be somebody that’s fully accountable for that. We’ve sometimes seen money paid into areas get frittered away and just disappear.” (Interview, Local Politician)
- “The mayoral model that we have got is based on a cabinet structure, with the local authority leaders represented on that cabinet. So, it is something which enables different viewpoints to be tested, to be challenged by different political views, and ultimately the politicians have got that democratic accountability.” (Interview, Combined Authority Staff)

Summary: How problems with stakeholder relations prevent levelling up

Local authorities and regional bodies can only implement long-term cross-sector transformations if they have strong relations with local stakeholders. While there is a good foundation of partnership working in some areas, especially in combined authorities and in some Welsh City Deals, there are multiple problems that prevent stable and effective collaboration. There is a lack of clarity about the role of businesses in regional governance, and only a partial representation of the local businesses community. There are stark variations in the relations that educational institutions have with local authorities and regional institutions. Some report strong partnerships and others report little collaboration. There are also widespread deficits in democratic accountability and public engagement. Both accountability and engagement are seen to be important in their own right and important prerequisites for effective place-based policymaking. LEPs in particular lack democratic mechanisms and lack visibility among the general public. Where there is an elected mayor, accountability and engagement are much stronger.

| How problems with stakeholder relations prevent levelling up | |
|--|---|
| Levelling up is place-based | In many places, there are problems with the development of partnerships between key local institutions. There are also major deficiencies in the accountability and visibility of regional institutions. This means that policies are not rooted in the needs and ambitions of local places. |
| Levelling up is multi-level | Multi-level governance requires accountability at each level. While local councillors are directly elected, many of the more important roles in regional governance are entirely unaccountable to the electorate. Similarly, regional bodies are often invisible to local people, leading to a broad disengagement with regional strategies. |
| Levelling up is cross-sector | For policymaking to be truly cross-sector, local and regional bodies need to engage local people in a broad movement for change. This requires the visibility of accountable leaders and institutions, and the engagement of local businesses in each sector. While this is working in some combined authority regions, there are problems across the UK. |
| Levelling up is strategic | Effective strategy at the local and regional level depends on collaboration between businesses, educational institutions, and governance institutions. However, currently this collaboration is not working effectively, and is not supported through public engagement. |
| Levelling up is long-term | Solutions to economic problems such as the mismatch of skills require long-term planning through partnership working, but existing partnerships are not stable enough to deliver such forward-thinking planning. |



Chapter 6: Recommendations

In the preceding chapters, this report has identified four main clusters of problems that stand in the way of levelling up. [Chapter 2](#) outlined the problems in the funding system, [Chapter 3](#) the weaknesses of multi-level governance, [Chapter 4](#) the failings in subnational institutions, and [Chapter 5](#) problems with partnerships, public engagement and accountability. If the UK government attempts to deliver levelling up without solving these problems, it would be analogous to turning on the taps without fixing the pipes, and watching vast resources leak away in a highly inefficient system of place-based governance. This chapter proposes a set of reforms that would not only enable the efficient delivery of levelling up, but could form the foundation of the levelling up agenda.

This chapter is separated into four sections, each proposing solutions to one of the four clusters of problems. The first two sections are by far the most important, as these recommendations represent a strong foundation for the rest, and indeed a strong foundation for the levelling up agenda as a whole. The first section proposes that **subnational funding should be based on a stable and long-term funding formula, devised at the centre and distributed according to regional inequalities**. Accountability to the centre would be maintained through negotiated objectives. The second section proposes a **rationalisation of the regional and local levels boundaries**, ensuring **settled borders** at each level and, more importantly, a **clear and consistent separation of decision rights**. These reforms would lead to significant improvements in institutional capabilities, partnership working, public engagement and democratic accountability. This is explained in the third and fourth sections of this chapter, along with further policies to bolster the improvements.

Fixing the funding system

What needs to change?

The institutions of **local and regional governance should be funded through a single funding stream (or a small number of funding streams) allocated on a rolling 5-year basis**, reflecting the current Parliamentary term. It is essential that local and regional institutions are able to spend funds freely, rather than receiving a multitude of funding streams each tied to specific projects. It is also essential that funding is allocated according to a pre-agreed formula, rather than the wasteful infrastructure of competitive bidding. At the end of a 5-year period, there should of course be a re-evaluation of the formula, but this should not entail the withdrawal of funds from under-performing regions. As per the levelling up agenda, **funding should be allocated to tackle place-based inequalities and not as a mechanism to tackle poor institutional performance**.

Whitehall's role in subnational spending can then begin to shift away from a time-consuming management role, where it establishes agendas, rules, procedures, incentives etc. Its role should focus on one of leadership, where it creates a vision, sets strategies, builds coalitions, and inspires others. Regional institutions should also be freed from strict frameworks of project appraisal and evaluation, such as those set out in the Treasury's Green Book.

Given these changes, the UK government will need an alternative mechanism to hold local and regional institutions to account. This could be achieved through negotiated objectives, where local and regional institutions are expected to meet objectives established through strategic conversations with the centre. The UK government would set national objectives, while local and regional authorities would propose their own local objectives. The strategic negotiation would then ensure that the sum local and regional objectives match up with the national targets (e.g. on GVA).

Where local and regional institutions fail to meet their objectives, the UK government can retain powers to intervene in those institutions (e.g. by requiring changes in strategy, changes in institutional structure, or changes in personnel). Poor performance should not be punished with a reduction of funds, as this will act as a force against levelling up.

Who needs to deliver this change?

The UK government must devise a funding formula through consultation with stakeholders and the latest research. Given the way in which such formulae are open to political abuse, we recommend that it is given a statutory basis. Objectives would be negotiated between the UK government, devolved governments, regional governance institutions, and local authorities. A single senior official should represent Whitehall to each layer of governance. The risk with this approach is that the ‘negotiation’ of objectives could degenerate into an imposition of central targets. Our proposal is that there would be a statutory obligation on ministers to accept the objectives set by local authorities, except where revisions are needed to hit the pre-set national targets (e.g. on CO₂ emissions).

When should this change be enacted?

In its current form, the subnational funding system is the biggest barrier to levelling up. Therefore, reforming the funding system should be the number one priority of the levelling up White Paper. The UK government has already made steps towards reform by adjusting the Treasury’s Green Book. They must now take the next step and reorganise the allocation of funds to local and regional bodies. The first 5-year funding formula could be established before the end of this Parliament (2024) and represent the centrepiece of the levelling up agenda.

How will we know when the change has been delivered?

This new approach to subnational funding needs to replace the existing system, rather than appearing as yet another funding pot in the current system. Therefore, this change will only be delivered once local and regional institutions receive the vast majority of their funding through a directly allocated formula and are able to spend this money according to their own priorities.

Regional Autonomy in Valencia – The decentralised governance system in Valencia ensured that regional policies were designed to address regional problems. This was possible in the Valencia region because of the prevalence of the Statute of Autonomy, which enabled the regional authority to exercise self-government through the prevailing institutions, including a high degree of budgetary and legal autonomy (GV, 2016; Etxaleku and Girbes, 2011).

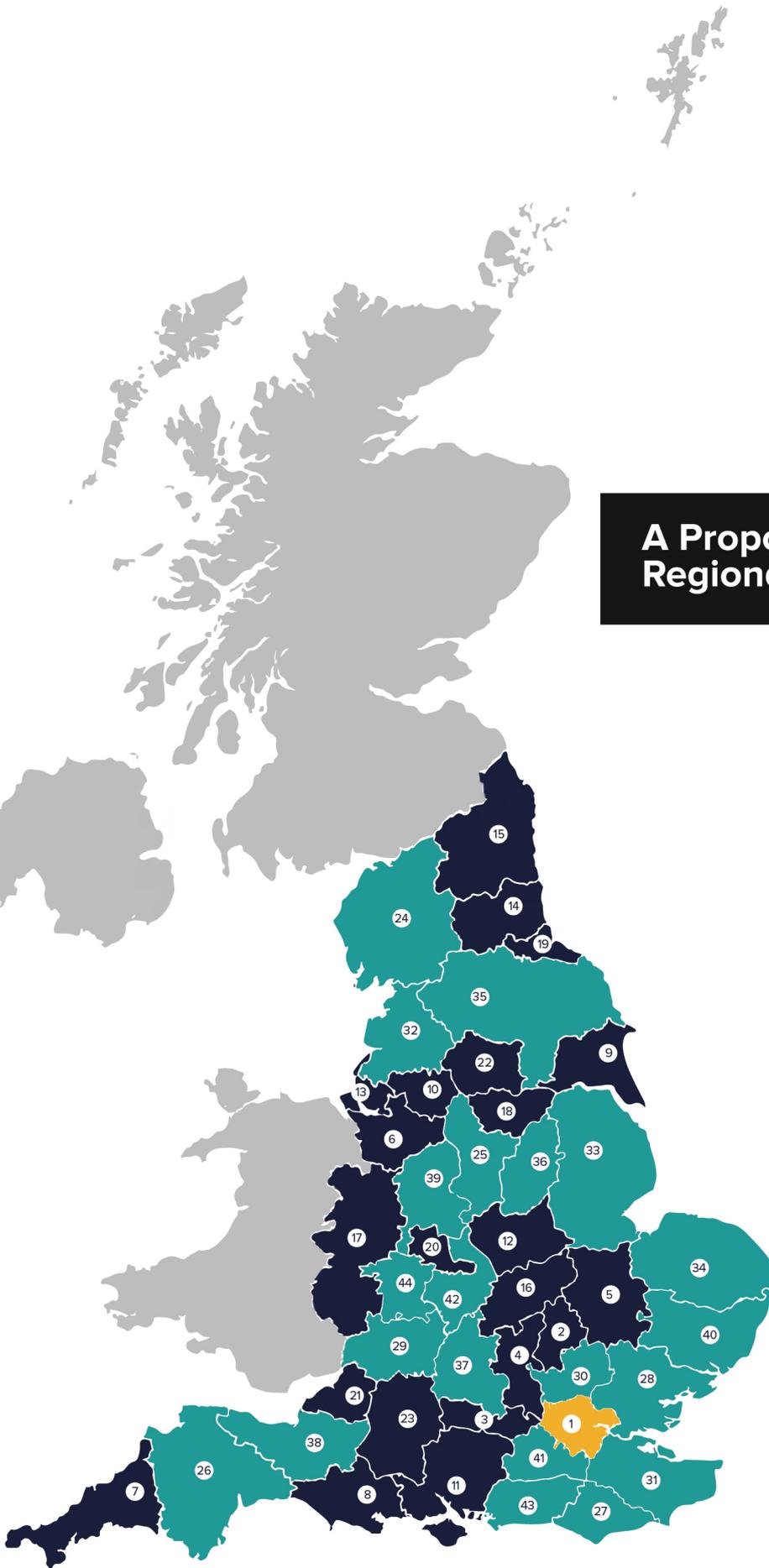
Repairing multi-level governance

What needs to change?

The starting point for repairing multi-level governance in the UK is to settle existing uncertainties around geographical decision rights. The complex history of subnational governance in the UK means that there are many overlapping borders at different territorial levels. There is a need to **rationalise the existing multi-tier system so that there is a clear and consistent regional level and a clear and consistent local level**. This means removing anomalies and blocks, while making as few changes to existing borders as possible. This would allow for a system capable of implementing levelling up policies, without engaging in fundamental political reform that would distract from the task at hand.

Mayoral combined authorities, where they exist, should be the entities to which power is devolved. Their number should be increased but they should not be imposed where county councils can be the entities to which power is devolved. It is crucial that all areas have a regional tier of governance, and that all these tiers have equivalent powers and remit. There are a number of existing overlaps and anomalies that need to be addressed (see [Figure 4](#)). [Figure 5](#) shows an example of our proposed rationalised map of England’s regional borders. While there are regions on this map that could be further split, merged, or rearranged, this map could be used as the starting point for consultation. Regional and local identities are important, and can be maintained by developing existing county and city borders. However, while determining boundaries will present political challenges, it should not stall the levelling up agenda.

A Proposed Map of Rationalised Regional Borders in England



- Greater London Authority
 - Combined Authority
 - County Council
- 1 Greater London Authority
 - 2 Bedfordshire Combined Authority
 - 3 Berkshire Combined Authority
 - 4 Buckinghamshire Combined Authority
 - 5 Cambridgeshire and Peterborough Combined Authority
 - 6 Cheshire Combined Authority
 - 7 Cornwall and Isles of Scilly Combined Authority
 - 8 Dorset Combined Authority
 - 9 East Yorkshire Combined Authority
 - 10 Greater Manchester Combined Authority
 - 11 Hampshire and the Isle of Wight Combined Authority
 - 12 Leicestershire and Rutland Combined Authority
 - 13 Liverpool City Region
 - 14 North East Combined Authority
 - 15 North of Tyne Combined Authority
 - 16 Northamptonshire Combined Authority
 - 17 Shropshire and Herefordshire Combined Authority
 - 18 South Yorkshire Combined Authority
 - 19 Tees Valley Combined Authority
 - 20 West Midlands Combined Authority
 - 21 West of England Combined Authority
 - 22 West Yorkshire Combined Authority
 - 23 Wiltshire Combined Authority
 - 24 Cumbria County Council
 - 25 Derbyshire County Council
 - 26 Devon County Council
 - 27 East Sussex County Council
 - 28 Essex County Council
 - 29 Gloucestershire County Council
 - 30 Hertfordshire County Council
 - 31 Kent County Council
 - 32 Lancashire County Council
 - 33 Lincolnshire County Council
 - 34 Norfolk County Council
 - 35 North Yorkshire County Council
 - 36 Nottinghamshire County Council
 - 37 Oxfordshire County Council
 - 38 Somerset County Council
 - 39 Staffordshire County Council
 - 40 Suffolk County Council
 - 41 Surrey County Council
 - 42 Warwickshire County Council
 - 43 West Sussex County Council
 - 44 Worcestershire County Council

Figure 5: A Proposed Map of Rationalised Regional Borders in England (Newman et al 2021)

One point where there is potential for disagreement is the division of responsibility between the regional level and the local level. Both sides will put forward a strong case that they should have control over at least what they already have – and the result could be overlap and confusion. We think many of the arguments put forward for retaining existing regional and local responsibilities are unclear and self-interested.

Our view is that **economic strategy should be set and implemented at the regional level.**

This should include powers over key economic policies, such as transport, business support, innovation, and skills. However, this should be informed by officer and councillor knowledge and expertise currently held at unitary, borough, or district level. At this lower level, powers should be retained in relation to neighbourhood planning, culture and leisure, and social support and care services. Again, there needs to be some consultation between the two levels across all policy areas.

Regional and Local Relations in the Ruhr Valley – A key feature of the Ruhr Valley economic restructuring was the creation of strong partnerships between local and regional governments where regional and local needs were aligned using place-based policies. This helped in attracting funds in order to address regional problems and also led to the creation of a shared funding pot to achieve common goals and objectives.

Who needs to deliver this change?

It is widely agreed that England has reached the limit of a bottom-up approach to devolution. Back-and-forth negotiations are hugely inefficient and exclude some areas that are most in need of devolved powers and resources. There now needs to be a clear framework, especially on boundaries and decision rights, where the UK government and Whitehall commit to a stable, long-term arrangement. Local and regional authorities do need the opportunity to be involved, and local and regional leaders could be brought together at a national level for consultation. However, the framework ultimately needs to be decided at the centre. The relationship between the local and regional level needs clarity and certainty, rather than a day-to-day negotiation of roles and remits.

When should this change be enacted?

The rationalisation of subnational borders must be started quickly. It is essential to ensure that regional inequality is not further entrenched by the deal-based devolution process. Within the year, the government should establish a commission to decide the UK's subnational borders at the regional level, and border disputes should be flagged. This process should sit alongside the clear separation of local and regional decision rights, led by the centre but in consultation with the local and regional institutions. The rationalisation of borders and the clear separation of decision rights are necessarily part of the same process.

How will we know when the change has been delivered?

There will always be scope for different nations, regions and local areas to have different ways of working. Indeed, this is very valuable. However, the rationalisation of the UK's multi-level system requires equivalent tiers of government with equivalent powers across the country. A full political map of the country should be clear at the local and the regional level. For example, at the regional level, some areas may be governed by a county council and some by a combined authority; these two institutions will have different ways of working, but the borders between these areas need to be free from gaps and overlaps, and the separation between the regional and local levels should be clear and consistent.

German Regional Governance – The federal state of North Rhine-Westphalia has a geographically and politically decentralised structure. Its ministry shares a similar status to the national government and coordinates the entire regional policymaking process, implementation and communication. Municipalities and districts located in the Ruhr Valley cooperate in the ‘Regionalverband Ruhr’ (RVR), or regional association Ruhr, to have their common interests represented by a regional authority. This allows the regional government to lead strategy, while allowing for the representation of local areas.

Developing subnational institutions

What needs to change?

With regards to capabilities in subnational institutions, it is of central importance to make local and regional authorities attractive places to work for competent and talented people. This primarily requires the job roles to be attached to adequate powers and resources. Institutional budgets are much more important than individual salaries. Similarly, institutions with high profiles and public recognition will attract more talent. The creation of mayoral combined authorities and the empowerment of county councils will be crucial in this regard.

A virtuous circle can be created where stronger institutions attract capable people, who make their institutions more successful. For too long, the UK government has been waiting for this virtuous circle to start by itself. It needs to be initiated from the centre through a reorganisation of institutional structures and the devolution of power and resources. Long-term funding is needed to allow for the build-up of capabilities over time, especially for the strengthening of policy evaluation and analytical capacity.

Emscher River Revitalisation – An important lesson from Germany’s success story is the strategic planning of the Emscher river region by “revitalisation from within” and through inward investment (Cooke, 1999; Taylor, 2015). In order to kickstart this “revitalisation from within”, regions need investment in their personnel and capabilities.

Capabilities could be further enhanced by two-way secondments between central and local government. A similar policy could require that central government officials gain experience at the local or regional level before advancing beyond a certain career level. These policies could be complemented by established systems for cross-regional policy sharing and collaboration.

The organisational structures of local and regional institutions are also crucial. It is clear that the LEP model is not fit for the purpose of regional governance. In England, **the borders of LEPs should be aligned with combined authorities or county councils as appropriate, and they should be preserved as advisory boards to provide insights to democratically elected policymakers.**

There is widespread support for an elected figurehead in each region. There are numerous benefits to this approach. Regional mayors can be held to account for regional outcomes, they can engage the public, and they can simplify communication with other tiers of government. **All regional authorities (be they combined authorities or county councils) should be given a referendum on the creation of a regional mayor.**

Who needs to deliver this change?

While the selection of competent personnel may seem to be the remit of local and regional institutions, individual capabilities largely depend on the wider organisation of subnational governance. It is possible to create a virtuous circle where local and regional authorities become exciting and dynamic places to work, which attract talented individuals who then further improve

the institutions, attracting more talented people. This virtuous circle needs to be instigated by the UK government, primarily through investment. The UK government also needs to lead on the repositioning of LEPs and the holding of referendums on mayors in each region.

When should this change be enacted?

Capabilities in local authorities and regional institutions will develop over time, but the policies to instigate this development can be rolled out relatively quickly. The virtuous circle outlined above will also be the indirect consequence of the wider reforms to funding and governance outlined earlier in this Chapter. Changes to organisational structures, and especially to LEPs, should be a priority of the Levelling Up White Paper. Transitions from one institution to another may take time, but the process and plan for the future should be established within the year.

How will we know when the change has been delivered?

It is very difficult to quantitatively measure individual capabilities, and there is no maximum or optimum level. Therefore, the best way of gauging individual capabilities is to speak to people on the ground. This could take the form of interviews or surveys, but must include a range of internal and external perspectives. With regard to organisational structures, the reforms will be complete when all LEPs have an advisory function alongside a regional body (county council or combined authority), and when all regions have decided whether to install an elected mayor.

Building stakeholder relations

What needs to change?

Partnerships with businesses will be best supported through the implementation of recommendations already made in this chapter. This includes: **reforming LEPs, fixing the funding system, and clarifying the separation of the local and regional level. Strengthening local and regional institutions is essential to delivering place-based economic growth**, precisely because subnational institutions are best placed to forge partnerships with the private and third sectors.

Ruhr Valley Industrial Partnerships – In the Ruhr Valley, interpersonal relationships have been instrumental in paving the way for innovative production between spatially proximate firms that are dependent upon each other to grow and regenerate. Such a process required firms to adopt collaborative links where strong interdependencies promoted growth and economic restructuring in a region in order to promote regional competitiveness (Cooke, 1999; Barnes et al, 1999; Taylor, 2015). This was instigated by the strengthening of regional institutions.

Partnerships with educational institutions will also be significantly improved by a simpler, more stable, and better funded system of subnational governance. However, there is also scope to consider reforms to the education system itself. Many of our interviewees complained about the difficulties of dealing with the Department for Education in particular, and yet education and skills are among the most important issues for local and regional development.

On accountability, there is a need for structural changes that would increase the visibility and salience of local activity and therefore enhance democracy. An unambiguous and undivided responsibility for key policy areas at the regional level will enhance public accountability. **A greater use of directly elected mayors will ensure that local politicians are accountable to voters**, removing the need for excessive Whitehall target-setting. A greater use of the London model will ensure that mayors are backed and scrutinised by an assembly. Stronger scrutiny committees could also improve accountability at the regional level, and regional select committees at Whitehall, led by local and regional officials, would allow local authorities to hold Whitehall departments to account.

With regards to improving public engagement, **there is a need for more direct public consultation and effective communication at the local level.** This will come with improved accountability and settled governance structures, but there is also scope for a **publicly-available and accessible dashboard of performance indicators.** This dashboard could be linked to the objectives set in funding negotiations (as proposed above). Indicators should be comparable across regions, giving voters the data they need to make informed decisions.

Who needs to deliver this change?

Again, the UK government needs to lead most of these reforms, as it is they who hold the statutory power and sit in a position of leadership. The UK government has already begun to build the brand of Levelling Up, but it now needs to flesh this out so that it engages people as active local citizens, rather than merely engaging them as voters. There is also an important role for local and regional institutions, who need to make institutional partnerships, democratic accountability, and public engagement key priorities in the coming years. By doing so, they will be able to draw more local stakeholders into the delivery of place-based strategies.

International Example – Similar instances were seen in the Emscher river valley restoration programme where the stakeholders were the co-designers of the restructuring programme. These included the government agencies, local citizens, firms, architects, and interest groups who helped in leveraging additional funds from private sources.

When should this change be enacted?

A number of different proposals have been made in this section, and these changes should not necessarily be enacted together. As outlined in previous sections, reforms to LEPs and the creation of mayors may take time but should be planned and instigated in the months immediately after the Levelling Up White Paper is published. Proposals for dashboards of performance indicators should be developed alongside reforms to the funding system before the end of the parliament. The creation of other accountability mechanisms, such as London-style assemblies, regional scrutiny committees, and locally-led select committees, will take more time, but consultation and planning should be underway before the end of the parliament. Reforms to the education system are clearly a longer-term project over the next decade, and could be delivered through cross-party collaboration.

How will we know when the change has been delivered?

Regional performance dashboards will be delivered when they are publicly available in all places, with comparable measures and regularly updated statistics. London-style assemblies, regional scrutiny committees, and locally-led select committees may not all be delivered for all regions, but a full consultation should be completed. Finally, as stated above, reforms to LEPs will be delivered when all LEPs have advisory functions alongside a single regional body (e.g. county council or combined authority). Reforms to mayors will be delivered when all regions have gone through a consultation process on their governance structures.

Enabling the delivery of levelling up

This report has already explained the problems with subnational governance will prevent levelling up. This chapter has outlined a range of policy recommendations to solve those problems. This final section completes the case by explaining precisely how the levelling up agenda is enabled by these recommendations.

How our policy recommendations will enable the delivery of levelling up

| | |
|--|--|
| <p>Levelling up is place-based</p> | <p>A funding formula will provide the stability for place-based policymaking and allow resources to be targeted at the places that need them most.</p> <p>Giving places clear local and regional boundaries will allow place-based identity to become a powerful force in delivering change.</p> <p>Focusing on the improvement of capabilities in local and regional institutions will allow places to take a greater lead on policymaking.</p> <p>Strong partnerships and public engagement will allow local and regional authorities to unite their area around a positive plan for the future.</p> |
| <p>Levelling up is multi-level</p> | <p>Multi-level governance will be more efficient if local and regional institutions receive separate funding from within the same formula.</p> <p>Effective multi-level governance can be delivered by rationalising regional borders and by clarifying the roles of the local and regional levels.</p> <p>The understanding and communication between levels of government will be greatly improved if officials have experience at each level.</p> <p>Each tier of government needs a foundation of democratic accountability to give it legitimacy and public visibility.</p> |
| <p>Levelling up is cross-sector</p> | <p>By receiving funding via a block formula, national and subnational policymakers can avoid traditional policy silos.</p> <p>If the roles of local authorities and regional institutions are distinguished, both can explore new approaches to cross-sector policymaking.</p> <p>Well-funded teams of capable people will be able to utilise knowledge across the full range of policy sectors.</p> <p>Working in partnership with businesses and educational institutions is essential for implementing cross-sector policymaking.</p> |
| <p>Levelling up is strategic</p> | <p>The long-term allocation of block funding will give policymakers the freedom and stability to make and implement transformative strategy.</p> <p>Giving strategic oversight to regional institutions means that strategies will be place-based while also covering functional economic areas.</p> <p>Capable people with experience of multiple tiers of government will be well-placed to form ambitious and deliverable strategies.</p> <p>Regional strategy needs to be developed with input from businesses and educational institutions, and with input from voters via the ballot box.</p> |
| <p>Levelling up is long-term</p> | <p>Long-term policymaking can be enabled by a rolling 5-year funding formula for local and regional institutions.</p> <p>The establishment of settled borders and a settled separation of powers between the local and regional levels will provide long-term stability.</p> <p>Settled regional institutions (mayoral combined authorities or county councils) will have the certainty to plan and deliver over the long-term.</p> <p>The delivery of long-term transformations will depend on the engagement of the public and their mobilisation behind a clear vision of local change.</p> |



Chapter 7: Conclusion

To level up is to reduce inequality between places, while maintaining outcomes in all places. The delivery of this objective can only be achieved with policymaking that is place-based, multi-level, cross-sector, strategic, and long-term. The key challenge for the levelling up agenda is to create the conditions for this kind of policymaking *before* investing the vast resources that are undoubtedly needed to tackle place-based inequalities. It is the challenge of how to fix the pipes before turning on the taps. This report has explained that the delivery of levelling up is currently blocked by problems with subnational governance. These include problems with the funding system, multi-level governance, subnational institutions, and stakeholder relations. The report has also offered solutions to each problem, explaining how these solutions create the conditions for the delivery of levelling up.

Two of these solutions in particular are of paramount importance to the levelling up agenda, so much so that they should be the first steps taken towards the broader goal of tackling place-based inequalities. **The first is to fix the failing system of funding to local and regional institutions.** This primarily involves the creation of a rolling funding formula backed by negotiated objectives rather than overly prescriptive red tape. **The second is to repair the broken structures of multi-level governance.** This entails the rationalisation of local and regional boundaries, and a clear separation of powers between the local and regional levels. **The delivery of these two reforms should not just be seen as preparatory work for levelling up, but should be seen as the first phase of the levelling up agenda itself.** These reforms provide the foundation that will give structure to more targeted and specific policies. Furthermore, they will in themselves represent tangible products of the levelling up agenda, which is essential given that meaningful change to place-based inequalities is likely to be a slow process.

This chapter begins by summarising the problems and solutions outlined in previous chapters. It then proposes a timetable for the key reforms, helping to clarify the possible content of the levelling up agenda. The report then concludes with a series of tests that the Levelling Up White Paper needs to meet if it is to deliver on the promises of the levelling up agenda.

Problems

The delivery of levelling up will necessarily be place-based, multi-level, cross-sector, strategic, and long-term. Currently, all of these aspects are blocked by the problems in the UK's system of subnational governance. This report has identified the following problems:

Problems with the funding system (see Chapter 2)

- Short-termism is hard-wired into the current funding system
- Funding is fragmented and inflexible
- The competitive bidding system is divisive and highly inefficient

Problems with multi-level governance (see Chapter 3)

- Deal-based devolution is destabilising and is accelerating place-based inequality
- Relations between levels of government are convoluted and lacking in trust
- The separation between the regional and local level is ill-defined

Problems with subnational institutions (see Chapter 4)

- Overstretched and ineffective institutions are not attracting enough talent
- There is insufficient funding of local and regional capabilities
- There is a confusing patchwork of overlapping institutional forms

Problems with stakeholder relations (see Chapter 5)

- The lack of institutional stability and capacity undermines partnership-building
- Regional institutions are largely invisible to the public
- A democratic deficit at the regional level has led to a lack of accountability

Solutions

In order to overcome these problems and to enable successful implementation of the levelling up agenda, this report has proposed a number of practical solutions:

Fixing the funding system

- Create a rolling 5-year funding formula for local and regional bodies
- Funding should be allocated in order to target place-based inequalities, rather than on the basis of institutional performance
- Accountability of funding should be based on strategic negotiations to ensure that local and regional objectives align with national objectives

Repairing multi-level governance

- Rationalise the existing multi-tier system of subnational governance, making as few changes to existing borders as possible
- The regional level should consist of a complete map of cities and counties, governed by mayoral combined authorities or county councils, or Corporate Joint Committees in Wales
- Create a clear separation of the roles of local and regional bodies, with economic strategy led by the regional tier

Developing subnational institutions

- Local and regional institutions with long-term stability, sufficient budgets and enhanced powers will attract talented and capable people, creating a virtuous circle
- Capabilities could be further improved by two-way secondments and a requirement for senior civil servants to have served at the local and/or regional level
- All English regions should be governed by a mayoral combined authority or a county council, or a Corporate Joint Committee in Wales; and all English regions should have a referendum on installing a mayor

Building stakeholder relations

- Stable, well-organised, and well-funded subnational governance will enable stronger and more effective partnerships with businesses and educational institutions
- Accountability can be strengthened with elected mayors and London-style assemblies, and with the creation of place-based scrutiny committees at regional and national levels
- Linking these reforms together under the Levelling Up brand will engage the public, while the creation of place-based performance indicators will retain engagement

A timetable for levelling up

The above reforms to subnational governance need a clear branding to communicate the scale of the change to the public. This branding should create high expectations and ensure voter engagement. There are historical equivalents of policies and institutions that won public support and became unassailable: Lloyd George's Old Age Pension, Aneurin Bevan's National Health Service. Levelling Up could have the same lasting legacy, but to do so it needs to build from a clear and stable foundation centred on fixing subnational funding and subnational governance. This foundation must be created in the first year following the publication of the Levelling Up White Paper. Other reforms can then follow in the years after.

In the first year

- Settle the map of local and regional governance
- Ensure that each local authority district is within a combined authority, county council, or (in Wales) a Corporate Joint Committee
- Reposition LEPs as advisory bodies within combined authorities or county councils
- Clarify and standardise the separation of powers between the local and regional level
- Establish a rolling 5-year funding formula for local and regional authorities
- Negotiate 5-year objectives with each regional authority

In the second year

- Allow each region to make a choice about whether to install an elected mayor
- Allow each English region to make a choice between county council or combined authority (if there remains a difference between the two)
- Establish publicly accessible dashboards of performance indicators for each authority

In the third year

- Trial and roll out two-way secondments between different tiers of government
- Consult on making multi-level experience a prerequisite for civil servant progression
- Consult and begin planning for the roll-out of London-style assemblies
- Create scrutiny committees of stakeholders, politicians, and civil servants for each region

In the longer term

- Create place-specific select committees at Whitehall for each region
- Consider how to reform education and skills to enable place-based skills policy

Expectations of the Levelling Up White Paper

Given the problems and recommendations outlined in this report, it is appropriate to conclude with a series of expectations for the Levelling Up White Paper. If these expectations are met, then there is a good chance that the levelling up agenda will reduce place-based inequalities and improve productivity, inclusivity, and sustainability across the country. However, if the White Paper fails to meet these tests, there is very little chance that the levelling up agenda will deliver any substantially positive outcomes.

Tests for the Levelling Up White Paper:

- Does it continue the commitment to tackling place-based inequalities?
- Does it define what will count as a 'place'?
- Does it define which 'inequalities' it will seek to tackle?
- Does it seek to deliver policies across multiple levels of government?
- Does it seek to deliver cross-sector policymaking?
- Does it acknowledge the inevitable need for a long-term strategy?
- Does it attempt to fix the subnational funding system?
- Does it attempt to repair the structures of multi-level governance?
- Does it attempt to reform and develop subnational institutions?
- Does it attempt to strengthen place-based stakeholder partnerships?
- Does it attempt to strengthen democratic accountability at the local and regional levels?
- Does it attempt to strengthen public engagement at the local and regional levels?



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