



## What does 'Levelling Up' mean for Wales?





## About the author

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# Introduction



## Introduction

The IWA has been an important voice throughout the key moments in Wales' recent economic history, from the post-industrial transition and the establishment of devolution onwards. Our work has been instrumental to the development of distinctive approaches to economic development, including the potential for smart technologies, the formulation of the South Wales Metro, and the exploration of the opportunities of green energy as an economic sector and the long-term value of strengthening the foundational economy.

The UK Government's 'levelling up' agenda represents a new chapter in this history. Depending on your political persuasion, it either represents an opportunity or a threat. At the very least, it has reintroduced questions into the devolution settlement that many people considered to have been answered long ago.

With 'levelling up' touching on many areas of policy and public life in Wales, we have spent time over the last nine months interrogating this new policy agenda, analysing the range of policy documents and speeches it has generated, reviewing evidence submitted to Committees in the UK's parliaments and assemblies and speaking to a range of people with experience of delivering economic development in Wales, from business and sector bodies to civil servants and elected representatives. This paper presents a summary of our conclusions.

There is no doubt that the UK Government is politically committed to its promises to 'level up' the UK, with a strong driving motivation that is rooted in fairness and in recognition of the fact that people and places do indeed feel left behind. When the Prime Minister says that "for too many people geography turns out to be destiny"<sup>1</sup> he speaks to a sentiment that many people across Welsh society will share.

Nonetheless, the approach that is being developed currently represents a significant break with previous experience, expertise and evidence.

Supporters of the UK Government may well argue that this break is justified, as established ways of doing things have not been working. Critics of the UK Government may argue that the true aims of 'levelling up' are in fact short-term and electoral, and will do nothing to help the places that have been left behind. But for those in between, including the people who will have to deliver on the politicians' promises – local government and civil society organisations – we have found more questions than answers.

An agenda that has been driven to date by bluster and boosterism cannot survive the impending challenges of funding, governance and accountability without bringing together partners. There is a strong political incentive for governments at both ends of the M4 to remain in perpetual conflict, but this may subside as the reality starts to bite and the people of Wales start to notice that programmes and investments that had become a recognisable feature of their lives start to disappear. A period of immense upheaval in our politics that has seen the establishment shaken to its core has resulted in some significant promises being made to voters – and who is to say how they might react if these promises are broken?



# Why 'levelling up'?



## Why 'levelling up'?

Policy attempts to address regional economic development are not new, dating back to at least the 1930s and the Special Assistance programme. Since that time, the UK Government, (and more recently devolved governments) have used a variety of measures to provide economic development advantages to the most lagging regions. These have included:

- Spatially-concentrated tax incentives, through programmes like Enterprise Zones and free ports;
- Direct investments in the firms and industries that are more important in lagging regions;
- Distribution of government functions and employment within lagging regions;
- The creation of different types of administrative and governance structures to manage resources and investment, such as Regional Development Agencies and City Deals.

It is therefore not unusual for a UK Government to commit to addressing regional disparities. 'Levelling up' is not a policy innovation but a continuation of a long-running thread in British politics.

However, there are three particular problems relevant to today's context that have a strong influence on how 'levelling up' is being developed. The success of the 'levelling up' agenda should ultimately be measured against how well it addresses these problems.

### Replacing European Structural Investments

The first of these, which has been the immediate catalyst for the development of the 'levelling up' agenda, is the need to replace a funding framework that has existed since the mid-1970s – European Structural Investments (ESI) including the European Regional Development Fund (ERDF), the European Social Fund (ESF) and a variety of other funds, including those such as the HORIZON programme that support Research and Innovation (R&I).

In the most recent programme, between 2014 and 2020, the UK as a whole was allocated around £9.4bn<sup>2</sup>, supplemented by an additional £7.2bn in domestic 'match funding'.

Two Nomenclature of Territorial Units for Statistics 2 (NUTS2) regions of the UK – Cornwall, and West Wales and the Valleys – were eligible for the highest amounts of ERDF support for successive seven-year programmes, as determined by their regional Gross Value Added per capita being less than 75% of the EU average at the start of each programming period. With current ESI programmes ending in January 2022, the 'levelling up' agenda is part of the policy response that will attempt to address this loss of funding, and as such, is linked to the Brexit process and its wider impacts on the UK economy and society.

### Winning the 'red wall'

A second prompt for the 'levelling up' agenda is the seismic change in electoral geography which sees the Conservative Party more reliant on the support of working class voters in many of the places described as having been 'left behind' (notably in England more than elsewhere in the UK).

Beyond the need to maintain this new electoral coalition, figures close to the UK Government have indicated that addressing regional disparities is seen as the single most important element of the government's programme and is the legacy that the Prime Minister would like to be remembered for.

### Social cohesion

A more fundamental problem that has come to a head in the last decade relates to the scale of the UK's regional imbalances and the direction of travel. Economists and commentators have noted that the UK stands out among the world's most developed economies for the scale of its regional inequalities, which grew rapidly throughout the 1980s and continued to grow at various rates since that time. London and the south east of England have been described as constituting a distinct economy that is effectively 'de-coupling' from the rest of the UK<sup>3</sup>. Numerous examples have been drawn upon to illustrate the scale of the challenge, but one of the most impactful is surely the observation that the UK's regional inequalities today match those of the newly-unified Germany in 1990.

This concentration of economic growth and productivity has had a number of impacts that point towards an uncertain future if not addressed:

- Growing population in the south east of England has created pressures on housing, infrastructure and public services that are prompting frustrations among residents<sup>4</sup> and which has the potential to see significant capital and potential productive resources being swallowed into housing costs<sup>5</sup>.
- Relative under-development of other regions of the UK has been described by the Industrial Strategy Council as suppressing aggregate productivity in the UK economy<sup>6</sup>.
- As many rural and formerly-industrial areas have seen their populations get older, the challenges of providing public services have increased<sup>7</sup>, with difficulties recruiting key public service workers<sup>8</sup> and cost implications for local authorities.
- Public spending in an unequal UK is reliant on redistribution between regions<sup>9</sup>, and is therefore vulnerable to political changes in particular regions.

3 McCann, P. (2019) Perceptions of Regional Inequality, UK2070 Commission

4 Booth, R. in The Guardian 27 Sep 2020

5 McCarthy, S., in City AM, 28 July 2019

6 Industrial Strategy Council, (2020) UK Regional Productivity Differences: An Evidence Review

7 Age UK, (2018) Rural Ageing (England)

8 Green, A., Bramley, G. Annibal, I. & Sellick, J. (2018) Rural Workforce Issues in Health and Care

9 Elliot, L. in The Guardian, 23 May 2017



Ultimately, regional inequalities at this scale are likely to undermine continued support for the UK as a political union, in Scotland (which, similarly to London and the south east, has been described as increasingly representing a distinct economy), in Northern Ireland (where the realities of Brexit are facilitating stronger economic links with Ireland), but also here in Wales. The period in which the UK's regional divergence accelerated – the 1980s – was also the period in which support for political devolution grew, derived from a crisis of political legitimacy<sup>10</sup> in which Welsh people felt that they were not important to the wider UK. If the UK continues down a path of 'de-coupling', many of the incentives for maintaining the union will cease to exist.

The 'levelling up' agenda therefore carries a significant burden, in that it has to address a complex series of underlying policy problems, with potentially serious consequences if it does not succeed.

# What will 'levelling up' look like?



## What will 'levelling up' look like?

The UK Government's approach to addressing regional inequalities has been criticised by political opposition, by academics and other commentators for lacking detail. We will address specific concerns about transparency and accountability later in this report, but we will use this section to provide a summary of our understanding of what that detail might be, based on policy announcements.

In 2017, the UK Government announced that a fund with the title UK Shared Prosperity Fund would be developed as a replacement for European structural investments.

The then-Minister for Housing, Communities and Local Government Robert Jenrick MP told the English Local Government Association in 2019 that 'levelling up' would see a greater role for local authorities, largely displacing the role of Local Enterprise Partnerships in England.

The 2020 Spending Review<sup>11</sup> outlined:

- £1.2 bn per year for the UK Shared Prosperity Fund (UKSPF) (the 2021 Budget statement revised this to £2.6bn in total between 2022-3 and 2024-5)
- 0.8 bn per year for Levelling Up Fund (the Levelling Up Fund prospectus revised this to £1.1bn in total between 2022-3 and 2024-5)
- Creation of the Community Renewal Fund as a pilot, to open for applications in 2021

Various announcements on the UK Shared Prosperity Fund (UKSPF) have outlined the following<sup>12</sup>:

- Bids to be submitted by local authorities, with input from regional bodies where they exist in England (Combined Authorities, Mayoral Authorities, Greater London Authority)
- Bids to require the support of a Member of the House of Commons, with each MP having one offer of support.
- List of priority areas and the commitment to share a methodological note.
- It was subsequently announced that the UKSPF would be informed by a pilot fund, the Community Renewal Fund (CRF) which would award funding in 2021.

11

HM Treasury, 2020 Spending Review

12

House of Commons Library, Research Briefing: The UK Shared Prosperity Fund

The Levelling Up Fund (LUF) prospectus<sup>13</sup> was published in 2021 and indicated the following:

- Funding will be awarded by MHLGC in collaboration with the Treasury
- Bids to require the support of a Member of the House of Commons, with each MP having one offer of support.

Following these announcements, the Welsh and Scottish Governments both communicated queries to the UK Government. Responses to these queries set out the UK Government's position on the role of the devolved administrations in 'levelling up', indicating that the Minister for Housing, Local Government and Communities would design and administer the UKSPF directly in all countries of the UK.

In parallel, the Welsh Government in 2020 set out an alternative approach to regional economic development in Wales through its Regional Investment Framework<sup>14</sup>. This Framework was designed on the assumption that the Welsh Government would control an allocation of the UKSPF for the whole of Wales. It also set out a distinct approach to regional economic development geography, with the creation of Corporate Joint Committees (CJCs) that would mirror the geography of Wales' four city and growth deal regions, and to which the Welsh Government would devolve some of its economic development capacity, as well as using these as the vehicles to deliver on the hypothetical Welsh allocation of the UKSPF.

In summer 2021, the MHCLG met with the local government leaders across the UK, including the WLGA, to engage with them on the potential development of bids for the CRF. It was anticipated that bids should be submitted to the Department during the summer, with the expressed ambition that money be spent by Christmas.

In September 2021, the UK Government saw a cabinet reshuffle, resulting in the replacement of Robert Jenrick MP as Minister for Housing, Local Government and Communities with Michael Gove MP, and the creation of a junior ministerial role within this department, assigned to Neil O'Brien MP. Subsequently, the Ministry was renamed the Department for Levelling Up, Housing and Communities.

Neil O'Brien MP's role was subsequently adapted to Parliamentary Under-Secretary for Levelling Up, the Union and the Constitution. One of the key responsibilities involved in this role is the development of a White Paper that will set out more detail about the 'levelling up' agenda. At the time of writing, this White Paper had not yet been published but was expected before the end of 2021.

In autumn 2021, the first projects received funding as part of both the Levelling Up Fund (LUF) and the Community Renewal Fund (CRF). The CRF fund is intended to be utilised as a pilot for the future rollout of the UKSPF.

13 HM Treasury, (2021) Levelling Up Fund: prospectus

14 Welsh Government, (2020) Regional investment in Wales: framework

# Key concerns and how they can be addressed

The remainder of this paper sets out the IWA's concerns about the current trajectory of the 'levelling up' agenda. These concerns address the potential impact on democracy as well as the economy, and are rooted in what we believe the evidence tells us about what works in economic development.





# 1 Funding to Wales





# 1 Funding to Wales

European structural investment in the UK formed part of the debates surrounding the 2016 referendum on EU membership, and throughout the subsequent 'Brexit' process.

Beginning in 2016 there have been repeated, high profile pronouncements from senior political figures about the potential funding that would be available to Wales after exiting the EU, including a commitment in the Conservative Party's 2019 General Election manifesto that funding would at a minimum match the size of ESI in each nation, with the Conservative Government subsequently reiterating its commitment to "at least matching EU receipts"<sup>15</sup>.

The UK received an estimated £2.1 billion per year from ESI in the period 2014-2021, with Wales receiving on average £400 million per year. How the UK Government intends to replace this is through a £1.5 billion per year investment in the UKSPF (although this has not yet been confirmed) and through an investment of £4.8 billion through the LUF between 2021-2 and 2024-5, or approximately £1.6 billion per year. While the total awarded in 2021-2 will be around £1.8 billion, it is possible that the total awarded in the following years will match and exceed the £2.1 billion that would have been received from ESI.

Waiting for the end of ESI programmes in 2021 and enabling a pilot for the UKSPF are both sensible decisions, but mean that it is difficult to get a clear sense of whether the investment over the next few years will be representative of a continued picture going beyond this Parliament. The fact that this funding is now tied to political timescales makes it difficult for the government to make commitments beyond that time. In this sense, we are already seeing a real difference from ESI, which was determined on seven-year timescales, and with programmes announced several years in advance.

In terms of funding to Wales, there has been a clear and significant decrease in funding in 2021-2, from £375 million the previous year under ESI to around £153 million (including £110 million from the LUF and £43 million from the CRF). This represents a cut of more than 50%.

The UK Government has argued that the CRF represents a pilot scheme, and that spending in Wales will increase over the rest of this Parliament to 2025. However, stakeholders that we spoke to are concerned that the uncertainty about funding this far into this Parliament makes this less likely, and also that this uncertainty makes it impossible to plan investments in the way that was possible under the ERDF's multi-annual frameworks. One stakeholder noted that the immediate fall in funding in 2021 will see projects facing a cliff-edge that will see staff begin to leave and existing provision come to an end. These projects include direct support for job seekers, community renewal and support for working parents. Even if similar provision is funded in future years, it will require programmes to start from scratch.

Looking at the longer term, there are concerns over whether the promise of 'not a penny less' to Wales can be met.

- With no equivalent to the role of the Welsh European Funding Office as a holder of a regional allocation, the spending of the CRF, UKSPF and LUF is determined by the quality of bids that local authorities submit. As we discuss later, not all local authorities have the same opportunities in developing their bids, with Welsh authorities at a disadvantage.
- Being awarded to lead authorities across the whole of the UK, it is not clear how relevant departments could allocate a fixed amount for a territory – like Wales – that is not recognised as having any administrative role in the fund.
- The Institute for Fiscal Studies<sup>16</sup>, an influential think tank, has concluded that the ESI funding available to West Wales and the Valleys and to Cornwall would be difficult to recreate within one country, partly because of the use of different administrative geographies and partly because of how criteria are likely to be defined. They anticipate that any continuation of this funding would likely be considered unfair if comparing metrics such as living standards with many regions of England.

While Wales' continued receipt of ESI has been used to make a variety of political arguments over the decades, the reality is that both UK and Welsh Governments have worked to maximise the allocation that would be available to Wales, both by defining regions in a way that captured the least productive parts of Wales and by awarding generous match funding, particularly over the last seven year programme. This was arguably easier to do when they were making those arguments collaboratively to a body outside of the UK rather than to HM Treasury or the Department for Levelling Up, Housing & Communities.

There are signs that Wales will continue to gain more from these new funds than the other nations and regions of the UK, as the announcements of the first round of the Levelling Up Fund<sup>17</sup> indicate a per head spend in Wales of £38.17 compared to £23.91 in England, £25.36 in Northern Ireland and £31.47 in Scotland.

One could therefore argue that Wales is in a good position, having received an enhanced share under ESI, and that it will receive more than any other part of the UK going forward. However, none of that changes the promise that was made to Welsh voters: not a penny less. The key comparison which will determine the success of 'levelling up' in Wales is not whether we get more than England, but whether we get more than we would have if we were still in the EU. While the UK Government has based its funding on the 2014-2020 programme, there has been strong indication that rising regional disparities in the UK would have led to an even larger allocation through ERDF in the 2021-2027 programme<sup>18</sup>.

16 Davenport, A., North, S. & Phillips, D. (2020) Sharing prosperity? Options and issues for the UK Shared Prosperity Fund

17 Institute for Fiscal Studies, (2021) Spending Review 2021 analysis

18 Shaw, J., (2021) Shared Prosperity Fund: what's next for the UK?

As to whether these new funds can do what ESI never managed to do and actually arrest the divergence between the UK's regional economies, it is worth bearing in mind the advice of the UK2070 Commission. The Commission concluded that the UK's historic challenge will require a long term programme of investment reaching approximately £10 billion per year<sup>19</sup>. Even in their busiest year, the combined 'levelling up' funds will reach nowhere near this level of investment. To put this figure in context, it represents around 0.5% of UK GDP and over ten years would cost the same as the original HS2 proposal.

It is therefore highly likely that, in terms of regional development funding, both Wales and the UK will be significantly worse off as a result of leaving the EU. This is an argument that the proponents of the 'levelling up' agenda look unlikely to win.

### **Recommendation – A standing commitment to regional development**

Between now and 2024, the UK Government should work to establish mechanisms through which regional development funding can become an established feature of government policy and investment beyond this Parliament. In the first instance, this should involve a Commission that draws in figures from across the political spectrum and from academia, the private sector and civil society. The UK 2070 Commission<sup>20</sup> has established a strong evidence base, and its role could be expanded to facilitate wider political buy-in to its findings and recommendations.

The task of making regional development a permanent feature of government could be achieved through legislation, modelled on the International Development (Official Development Assistance Target) Act 2015<sup>21</sup>, which creates a duty on each government to commit a fixed proportion of Gross National Income and establishes mechanisms for Parliament to scrutinise the UK Government's work against this target.

### **Recommendation – Taking account of funding over time**

The Senedd Finance Committee should begin the process of establishing an inquiry into the quantum of funding that has been made available to Wales as part of the CRF and UKSPF, and indicate what work will need to be done to monitor progress in future.

Any inquiry should seek evidence from local authorities, the Welsh Government, the Department for Levelling Up, Housing and Communities and the Treasury, and should aim to come to a clear conclusion as to how the quantum of funding that has been made available to Wales through these funds compares both to the funding made available through ESI and to various recommendations made by the UK2070 Commission and others.

19 Civil Service World, (2019) Kerslake: UK's regional inequalities require action on scale of German reunification

20 UK2070 Commission website (n.d.)

21 International Development (Official Development Assistance Target) Act 2015

## 2 The concept of the 'region'



## 2 The concept of the 'region'

In determining that 'levelling up' funds would be administered centrally by the UK Government, and be awarded to local authorities, the 'levelling up' agenda represents a significant break both with previous practice, and with much of the evidence, in relation to the geography of regional development.

Since the 1970s economic development policy has increasingly focused on the importance of regions for productivity, being described as the 'adequate' scale for the development and delivery of policy<sup>22</sup>. It has been argued that in some senses regions are a closer representation of real economic experiences than nation states<sup>23</sup>. While nation states set key policy in areas like welfare, monetary policy, general fiscal frameworks and foreign and trade policy, much of people's economic experience whether as a consumer or a worker is dictated by local conditions. In nation states with strong sub-national governance structures<sup>24</sup>, the region may also be an important determinant of taxation, skills policy and other areas of economic development.

Regions tend to have two important dimensions:

- Functional economic geography, meaning the organic connections that emerge between different places in day-to-day economic relationships.
- Politics, with the boundaries of a region being defined by the affiliation and the consent of the people living within those borders with that region.

Evidence suggests that regional development policy is most impactful where the regions being used meet both of these criteria. The UK is recognised as a relative outlier, as noted by the Industrial Strategy Council (p.4)<sup>25</sup>:

*The UK is one of the most inter-regionally unequal countries in the industrialised world. It is also one of the most politically and fiscally centralised large countries in the developed world.*

In fiscal terms, public spending in the UK's regions, including Wales, is determined by transfers from central government. It is important to note that these transfers are more a function of lower tax revenue in regions than of higher public spending. In terms of governance, despite a plethora of sub-national structures, regional bodies in the UK have tended to be developed in an *ad hoc* way, usually in response to particular funds or government programmes. For example:

- The creation of Regional Development Agencies to administer ERDF;
- The creation of Local Enterprise Partnerships; and
- The creation of city deal partnerships to administer city deal and growth deal funding.

22 Rodriguez-Pose, A., (2007), The Rise of the "City-region" Concept and its Development Policy Implications, European Planning Studies 16:8

23 Ohmae, K., (1995) The end of the nation state: The rise of regional economies, Simon & Schuster, London

24 OECD and United Cities and Local Government, (2017) Subnational Governments Around the World

25 Industrial Strategy Council, (2021) Devolution and Governance Structures in the UK

Many of these bodies have been criticised as lacking appropriate democratic mandates and accountability mechanisms<sup>26</sup>. In this sense, the funding-oriented approach to devolution in England contrasts with the politics-oriented approach that has informed devolution to Scotland, Wales and Northern Ireland since 1997. In each of these cases, devolution has been rooted in the consent of voters both through referenda and through regular elections, with well-defined legislative responsibilities and mechanisms for scrutiny and accountability. Funding mechanisms have played a very limited role in devolution to Wales, Scotland and Northern Ireland, with the Barnett formula preceding political devolution by around 20 years and remaining unchanged since. With the devolution of tax raising powers to Wales, one could argue that funding has adapted to the development of governance structures, rather than the other way around as has been the case in England.

Wales' position as both an economic and political region was strengthened by ESI. Despite the distinction between the West Wales and the Valleys and East Wales regions, much of Wales' ESI funding over time has been used to fund all-Wales activities. Perhaps the most prominent example of this is Business Wales, the one-stop business support service that offers information, advice and support to business owners and operates with a single national brand. Other all-Wales projects have also included:

- Research & Innovation, with £118m being awarded to and distributed within Wales through the HORIZON2020<sup>27</sup> programme and a further ring-fenced allocation through ERDF<sup>28</sup>;
- Support for job seekers through programmes delivered on an all-Wales basis such as Jobs Growth Wales<sup>29</sup>;
- Infrastructure projects that cross local authority boundaries, such as the dualling of the Heads of the Valleys Road<sup>30</sup>.

The replacement of European investment with the CRF, UKSPF and the LUF will severely impact the potential for these programmes to continue, as it will not be possible for any pan-Wales body to apply for funding.

This problem is replicated across the whole of the UK. Looking at the projects that have received funding in the first rounds of the CRF and LUF, there is clear evidence of an emphasis on local delivery and impact. The role of local authority and its partners as delivery bodies means that there is a strong emphasis on policy areas that have typically sat within their control. In an economic development context, this means that while there is very strong support for skills (and particularly adult learning, as evidenced through the commitment of around a fifth of the UKSPF

26 Beel, D., Jones, M. & Rees Jones, I. (2021) City Regions and Devolution in the UK: The Politics of Representation

27 Trade and Invest Wales, (2020) HORIZON2020: European research and innovation programme

28 Welsh European Funding Office, (2019) European Structural Fund Programmes 2014-2020  
A Summary of the ERDF and ESF Structural Fund Programmes in Wales

29 Ipsos MORI, Wavehill Consulting, WISERD (2014) Jobs Growth Wales: Interim evaluation report: Summary

30 The Construction Index, 11 December 2012



to the Multiply Programme<sup>31</sup>), there is relatively little investment in the kinds of projects that cross local authority boundaries, like rail infrastructure.

The 'levelling up' agenda therefore risks doing away with the concept of the region as an economic entity, and seeks to sideline the governance structures that have arisen out of the shared identity and wishes of the Welsh people.

### **Recommendation – An coordinating body for Wales**

Any future regional development funding in the UK needs to incorporate a formal role for the UK's devolved administrations, recognising their important role in aligning policy priorities, and in view of their strong mandates and relationships with key regional actors. Given the political sensitivity of the issue, this could be achieved through an arms length body, modelled on WEFO, that brings together representatives of the two governments, as well as local authorities, businesses and civil society partners. This body could work to create shared strategic priorities to inform project bids, allocate funding and commission appropriate monitoring and evaluation. This body could provide routine updates to both the Welsh Parliament and the House of Commons Welsh Affairs Select Committee.

# 3 Local government funding



### 3 Local government funding

The emphasis of the 'levelling up' agenda on localism can be seen in a positive light. Local government is well understood and well trusted by the public, and has strong expertise in local conditions and how policy can be best applied to meet them. Our work on the foundational economy in Wales has highlighted how local authorities experiment and innovate to build strong relationships within their supply chains in a way that benefits local economic development. However, there are two elements of the proposed approach to 'levelling up' which suggest that potential opportunities will be missed.

The first is the relationship of the various 'levelling up' funds to existing local government funding. If the UK Government is serious about wanting to boost 'local pride', this can only be done through well-resourced local government and health boards who hold appropriate policy making capacity. Polling by the Commission for Civil Society has shown public support for this idea<sup>32</sup>. However, local government budgets across the UK remain lower in real terms than they were ten years ago, despite significant demographic shifts that continue to raise demand for services. The Wales Fiscal Analysis unit<sup>33</sup> estimated before the October budget that spending pressures in 2022 would exceed local authorities' spending power by £178 million. The job of local government is getting harder and budgets are not growing in proportion.

Any attempt to address wide-ranging within-area inequalities has to start with a stable, multi-annual programme for local government finance, and not competitive, short-term grants administered by Whitehall departments. One of the most concerning elements of the 'levelling up' agenda, and one that has been raised with us by local authorities, is that many of the initiatives being funded address things like road improvements, community facilities and public spaces, which might normally be considered part of the day-to-day work (and funding) of local government.

We are mindful that the CRF is a pilot fund and also that it has been developed in a context of restrictions and significant economic and policy impacts from COVID-19. Nonetheless, the experiences of local authorities in Wales in applying for this fund raise serious questions about how impactful it is likely to be. While several authorities reported relatively strong engagement from the then-Minister for Housing Local Government and Communities, these channels of engagement were often used to prompt particular types of bids based on political priorities and on delivery timescales, with an emphasis on projects that could deliver visible impacts within the financial year.

32 Commission on Civil Society, (2020) Devolution looks like it will be the Government's chosen delivery device for Levelling Up

33 Wales Fiscal Analysis, (2021) Local government & the Welsh budget

This will not be unfamiliar to anyone who has worked in local government. The Welsh Government has faced deserved criticism from the OECD for its reliance on discretionary funding, rather than block funding, for schools, creating complex frameworks that leave local authorities and school leaders facing “excessive bureaucracy, inefficiency and sustainability constraints”<sup>34</sup>, as well as the pressure to spend within the year. Yet it seems that none of these lessons are being learned in the process of developing ‘levelling up’.

This is additionally frustrating for many stakeholders due to the contrast with ERDF and ESF, which both operated over multi-annual frameworks, with allocations resting with a regional body – the Welsh European Funding Office, within the Welsh Government – thereby allowing the development of clear priorities well in advance of the initial award to projects. This provided space for engagement with civil society partners to inform the overall design of programmes, as well as allowing these and other organisations to work on high quality bids. By contrast, local authorities reported that priorities had been shared through meetings with Ministers and their special advisors, and that there was very little opportunity to engage meaningfully with potential new delivery partners or with citizens.

### **Recommendation – A longer-term plan for local government finance**

Empowering local government to play a greater role in economic development can only be achieved in the short term by increasing the central grant, which currently does not meet spending pressures.

In the longer term, both the UK Parliament<sup>35</sup> and Welsh Government<sup>36</sup> have gathered expert evidence and undertaken widespread engagement with local authorities about potential structural reforms to local taxes and how they relate to local government finances. Both of these reviews have recognised that current council tax is regressive and that revaluation is needed to inform a more progressive distribution of the tax burden. These reviews have also concluded that any devolution of tax to local authorities could lead to budget shortfalls in less affluent areas with weaker tax bases.

There is a clear need for more evidence on potential alternatives, including in Wales a Land Value Tax<sup>37</sup> to replace local taxes, and investment is needed both to fill these evidence gaps and to build the infrastructure and local capacity needed to enable potential alternative forms of taxation at the local level.

34 OECD, (2014) Improving Schools in Wales

35 House of Commons Housing, Communities and Local Government Committee, (2021) 'Council finances unsustainable without reform, say MPs'

36 Welsh Government (2021) Reforming local government finance in Wales: summary of findings

37 Welsh Government (2020) Local land value tax: technical assessment

## 4 Local government structures



## 4 Local government structures

A second feature of the 'levelling up' agenda that creates difficulties for local government is the approach taken to collaborative structures. Local government reform has been a priority of every Welsh Government since devolution, and extensive efforts by Ministers, councillors, officials and frontline workers have resulted in a broad compromise – the post-1996 basis of 22 local authorities, with a series of structures to facilitate collaboration, including Regional Education Consortia, Public Service Boards, City and Growth Deal Partnerships and the new Corporate Joint Committees.

These structures and the relationships that underpin them are far from perfect, but a 'levelling up' agenda that concentrates strategy and policy design in Whitehall is likely to undermine them. Local authority leaders that we spoke to have noted that their applications to the CRF have focused strongly on within-area projects, demonstrating that projects are already starting to mirror this new, smaller geography for economic development. One Welsh authority told us that the competitive nature of the CRF meant that they were more guarded in discussions as part of their relevant 'deal' partnership, being wary of sharing information that might become relevant to their bid in the fear that it might be used by a neighbouring authority for a competing project, despite this information being relevant to the work of the deal partnership.

Frustratingly, it seems that the Department for Levelling Up, Housing and Communities has recognised this risk and attempted to mitigate it, but only in respect of local authorities in England. A wide range of English regional bodies are identified as 'lead authorities', helping to provide strategic oversight and aid collaboration between local areas. These are set out for the CRF as follows:

- Mayoral Combined Authorities, where they exist in England
- The Greater London Authority
- County Councils
- Unitary authorities elsewhere in England and in Scotland and Wales.

Subsequently added to this list have been new 'county deals', in which rural authorities that are less likely to sit within England's city-centric structures are invited to collaborate 'across larger, strategic geographies', with the recognition by Local Government Minister Luke Hall that many of these authorities are 'too small to sustain devolution on their own'<sup>38</sup>. Leaders of councils in the proposed county deal in Hampshire have indicated that the Government will enable funding to be given to the deal as a single pot, rather than being ring-fenced<sup>39</sup>, essentially devolving a greater amount of policy making capacity to the county deal.

38 Luke Hall MP, in Hill, J., Local Government Chronicle, 4 August 2021

39 Southern Daily Echo, 21 October 2021



This jars with the messages that have been given to the devolved administrations from UK Government ministers. The Secretary of State for Wales Simon Hart MP has forcefully argued that the decision to fund local authorities in Wales directly is purposeful, representing 'true devolution', while criticising the Welsh Government for its alleged centralising tendencies<sup>40</sup>.

There is evidently confusion within the UK Government about what 'true devolution' means, and where powers should sit, but the practical outcome is that county deals with no democratic mandate will be given greater say and greater control over the 'levelling up' funds than a Welsh Government whose existence is rooted in consent. This is a fundamental inconsistency. While Winchester (population 116,595) is considered too small to sustain devolution, Blaenau Gwent (population 69,713) is unable to submit bids in collaboration with the Welsh Government with whom it has a history of partnership working on economic development, or with the Cardiff Capital Region of which it is a founding member, or its proposed CJC.

There are legitimate reasons to argue that both MPs and local authorities should play a greater role in economic development. This is a debate worth having, but it is not possible in an environment of mistrust.

### **Recommendation – Establishing clear principles for devolution and subsidiarity**

In the short term, the UK Government must publish a detailed rationale for its decisions about the roles of various authorities in the 'levelling up' agenda. This rationale should inform, in time, a statement on the principle of subsidiarity and how it will be applied consistently across the UK's nations, regions and localities.

In the longer term the clear inconsistencies in how sub-national bodies are established, managed and referred to within government programmes such as 'levelling up' need to be addressed. This requires the development of a written framework that both describes the mandate of these bodies, secures their responsibilities and funding, and protects them against undue interference from the UK Government. We believe that this will be best achieved through a UK-wide constitutional convention.

## 5 Balancing productivity and local pride



## 5 Balancing productivity and local pride

In the words of one senior Conservative MP, the term 'levelling up' means 'whatever anyone wants it to mean'<sup>41</sup>. This lack of clarity has resulted in discussions of a broad set of policy challenges that could form part of the 'levelling up' agenda, which can be grouped into two main categories:

- 1 **Productivity** – There is a problem of regional economic inequality in the UK, comprising the differences in Gross Value Added (a key measure of regional productivity and economic growth). The differences in GVA per capita between regions in the UK are among the highest in the OECD, and some experts consider the UK to be the most spatially unequal of the world's rich countries. The 'Levelling Up' agenda could therefore seek to address and mitigate this problem by improving the economic development of the UK's lower performing regions, including Wales, by focusing on skills, innovation, business support and networks.
- 2 **'Local pride'** – There is a problem of spatial grievance that is impacting the UK's politics, culture and society. This has been expressed by scholars as the 'revenge of places that don't matter'<sup>42</sup>, and has been associated with the Brexit vote. Commentators on both the right and the left have emphasised that this feeling goes beyond GVA per capita and reflects anxieties about local institutions, community life and citizen's power and engagement. Crucially, these kinds of grievances are specific to localities, and are often targeted as much towards other places within their region, particularly core cities, as towards London and the south east of England.

There has been strong indication, both from the Prime Minister, the Business, Economy Infrastructure and Skills Committee of the House of Commons in July 2021<sup>43</sup>, the Parliamentary Under-Secretary of State for Levelling Up, The Union and Constitution Neil O'Brien MP (who is leading the development of the Levelling Up White Paper) and numerous think tanks such as the [Legatum Institute](#), Social Market Foundation and the Institute for Fiscal Studies, that this second category of 'within-area' inequalities will form a significant part of the 'levelling up' agenda.

It is easy to see why politicians would prefer 'levelling up' to be about small geographies and about local pride. First, any 'levelling up' of productivity will not be delivered in five years and so will not have an electoral pay-off for the party in government. Second, 'levelling up' productivity would most likely have to see some resources leaving London and the south east of England – something that would create problems for the [Conservative Party's traditional base](#) and which clearly worries some Conservative MPs. Third, as highlighted above, based on experiences

41 Financial Times, 15 July 2021

42 Rodríguez-Pose, Andrés (2017) The revenge of the places that don't matter (and what to do about it). *Cambridge Journal of Regions, Economy and Society*, 11 (1)

43 Business, Energy and Industrial Strategy Committee, (2021) Post-pandemic economic growth: Levelling up

elsewhere we can estimate that the costs of a meaningful 'levelling up' of productivity in the UK could run from the UK2070 Commission's recommendation for £10bn per year into the trillions, which, given the state of the public finances, would require levels of borrowing or taxation that would be anathema to the current Chancellor's instincts.

A 'local pride' approach, by contrast, gives MPs and Ministers the chance to be seen to deliver something tangible within an electoral cycle. The Levelling Up Fund explicitly targets 'visible impacts', and Welsh local authorities have highlighted to us that officials have encouraged them to put forward bids that can be delivered quickly and visibly. Perhaps more cynically, this approach also benefits more affluent areas that saw relatively little ESI.

Comparing 'levelling up' with the wider package of ESI, it seems to align more closely with ESF than ERDF. ESF projects were targeted at social inclusion, often working to support people who were furthest from the labour market to build skills and competences in preparation for work, but also being used to enhance community infrastructure and public spaces. In relation to ERDF, both its aims and its eligibility criteria were directly informed by the GVA per capita of a region. This provided a degree of transparency about allocation and provided a strong framework for influencing project design – namely, a focus on productivity enhancement, such as business support, infrastructure and skills.

But where this distinction could be made clear through the allocation of two separate funds under ESI, the various 'levelling up' funds are less distinguishable from one another in terms of their aims. The LUF and CRF both highlight the importance of 'community' in their relevant prospectus.

The concepts of community and local pride are nonetheless hard to define in terms of their impact on policy, and even harder to translate into criteria against which bids can be assessed and progress measured. Here, there are notable lessons from the Welsh experience that could have been used to inform 'levelling up'. As the Welsh Government has found when trying to put the meat on the bones of its well-being of future generations agenda, basing policy on complex ideas requires new metrics and structures for delivery. It has taken six years for the Welsh Government to finalise appropriate indicators<sup>44</sup>, let alone identify meaningful impacts (and compared to 'local pride', well-being has a relatively rich research and policy literature to support it).

Concepts like well-being or local pride stretch across different government department siloes and therefore require new governance structures (like Public Service Boards and a Future Generations Commissioner) and a strong element of trust between levels of government and with civil society organisations. This has been a relative strength in Wales, with both the WCVA and the Wales Co-operative Centre playing key roles in the delivery of European-funded programmes, and with strong third sector engagement with Public Services Boards. But without this hard-won trust, big programmes that target high-level concepts can easily result in programme-bending, creating significant governance and accountability challenges as a wide range of public bodies fight with each other for a single pot of money.

If 'levelling up' is to be about 'local pride' *without* a targeted programme for regional productivity, we can assume that many of the investments that might be captured in such a programme will be delivered through pre-existing government departments and programmes. In the UK, this type of investment is typically done in a way that is place-blind<sup>45</sup>, awarding money based on its aggregate impact on the UK economy. Looking at the experience of R&I<sup>46</sup>, business investment<sup>47</sup> and transport<sup>48</sup>, we can reasonably assume that this would see continued emphasis on London and the south east of England.

But more importantly, there is a risk that attempts to boost local pride will fail on their own terms without addressing productivity. Productivity has a direct influence on local pride in that there is a strong correlation between earnings and the vibrancy of local high streets and community infrastructure<sup>49</sup>. Community engagement and volunteering, particularly the formal volunteering required for management of community assets<sup>50</sup>, is strongest in affluent areas and among high earners – something the UK Government has recognised in setting up its Community Ownership Fund. Focus groups that have targeted 'left behind' places<sup>51</sup> have highlighted the centrality of the economy to local pride, and the frustration that older residents feel when younger generations move away from the area.

None of the things that make people proud of where they live can be improved without a plan for productivity. Any investments in community assets, though welcome, will be reduced to sticking plasters if nothing is done about the fundamental problem of regional economic imbalances.

- 45 McCann, P. (2019) UK Research and Innovation: A Place-Based Shift?, UKRI
- 46 Centre for Cities, (2021) The big questions we need to answer to encourage innovation outside the 'Golden Triangle'
- 47 Nation.cymru, 10 February 2021
- 48 BBC News, 4 December 2019
- 49 Mason, D. (2021) High streets, town centres and growth, What Works Centre for Local Economic Growth briefing
- 50 Williams, C.C., (2004) Informal Volunteering: Some Lessons from the United Kingdom, Journal of Policy Analysis and Management Vol. 23, No. 3
- 51 Mattinson, D., (2020) Beyond the Red Wall: Why Labour Lost, How the Conservatives Won and What Will Happen Next?, Biteback Publishing

### **Recommendation – An expert commission on regional development**

The UK Government's approach compares unfavourably with ERDF, which created clear funding criteria that was linked to key metrics, provided a theoretical framework to guide partners in designing potential programmes, and facilitated robust evaluations that over time have contributed to a wealth of evidence to inform regional development practice. As much as possible, this needs to be replicated within the UK, through:

- Policy statements that set out concisely the aims of the 'levelling up' agenda
- The various research outputs, methodological notes and other forms of evidence that are being used to inform the design of the Community Renewal, Shared Prosperity and Levelling Up Funds.

The UK Government needs to deepen engagement with expert groups outside of government in the ongoing development of 'levelling up'. There is strong suggestion that 'levelling up' is being driven by various factions within the Conservative Party, such as the Northern Research Group of MPs, while businesses, civil society organisations, academics and the public remain on the outside. Future engagement should make use of existing expert groups working on regional development – for example, through the Productivity Institute and the UK 2070 Commission. Relevant minutes of these discussions should be placed in the public domain to enable civil society organisations to engage with the aims of 'levelling up'.

While most attention is being paid to the CRF and LUF, the potential impacts of further-centralisation of R&I are going unnoticed. Building on evidence being generated across the UK, the UK Government needs to seriously consider mechanisms for devolving decisions about R&I to sub-national bodies, including the Welsh Government, and should remove London-weighting. Allocations to regions based on a mixture of population and research capacity are likely to see less concentration while maintaining rigour in bids and projects.



## 6 Accountability



## 6 Accountability

As well as having ramifications for the constitutional nature of the relationship between the governments of the UK, the way that 'levelling up' is being pursued is likely to have ramifications for the way that scrutiny works both in Westminster and in the Senedd.

Public trust in politicians and turnout at different elections across the UK are low. This is not a healthy state of affairs for a democracy. A significant driver of low trust is confusion about where powers lie. The public see the economy as one of the most important political issues, but they don't understand who controls it<sup>52</sup>, struggling to scrutinise policy decisions and relying on interlopers to make sense of macroeconomic concepts.

Devolution has not helped this problem, not because of the settlement itself, but because of the way our political culture has failed to adapt, particularly among the two largest parties. Welsh Labour have been too keen to use arguments about funding and powers to evade scrutiny of the performance of public services, and have not used their lengthy period in government to set out a truly transformative strategy for economic development. The Welsh Conservatives seem to want the penny and the bun, wanting economic development to rest in Whitehall while at the same time blaming Welsh Labour for economic performance.

Even before 'levelling up', this argument was a stretch. The Welsh Government has no influence over monetary policy or welfare policy and has only limited influence of its own fiscal position, based on its borrowing capacity and recently-acquired tax-varying powers. Economic development represents approximately 6% of the Welsh Government's total budget – a lower proportion than many city governments across Europe. Based on assumptions about an overall decrease in funding to Wales after the loss of ESI, this is expected to fall<sup>53</sup>.

This set of circumstances now creates a strange dynamic within the Senedd. The largest opposition party is also in government at the UK level, in a way that impacts the Welsh economy arguably more than the Welsh Government does. Looking at how various 'levelling up' announcements have been addressed in plenary sessions, the level of debate does not inspire confidence that hard questions about Wales' economic future can get a fair hearing.

Where a stronger argument could be made about the Welsh Government's influence is in relation to some of the longer term determinants of productivity, notably skills and certain aspects of infrastructure. But the 'levelling up' agenda as it is being pursued will further blur the lines of accountability here as well. Approximately a fifth of the UKSPF will be used to fund the Multiply Programme, an adult learning initiative focused on numeracy skills. This will likely be delivered through a mix of an online platform and Further Education provision, meaning that colleges in Wales will now receive money from both governments. As a result, the Welsh Government can now argue that it is not wholly responsible for the skills of the Welsh population.

52 Norrish, A., (2017) 'What's the economy?': Exploring how people feel about economics and why we need to improve it, Ecnmy

53 OECD, (2020) The Future of Regional Development and Public Investment in Wales, United Kingdom

To date, positions on 'levelling up' have generally followed political party alignments, with the Welsh Conservatives welcoming funding announcements and Welsh Labour, Plaid Cymru and to a lesser extent the Welsh Liberal Democrats challenging funding cuts. But if we imagine an alternate May 2021 election in which the Welsh Conservatives were able to form a government, they would now be in the same position of struggling to deliver on their manifesto commitments in the face of significant changes to powers and funding. We welcomed the party's commitment to creating an economic development agency<sup>54</sup>, incorporating the functions of Business Wales and the Development Bank of Wales, but the party's colleagues in London have made it almost impossible to deliver.

There is therefore a risk that the current dynamics in the Senedd could weaken scrutiny on both governments, with growing uncertainty about responsibilities and elected members relying more and more on party slogans and mantras, rather than engaging in the substance of regional development policy.

One mantra in particular is worth highlighting for its constitutional implications. When the present UK Government is criticised for breaking with conventions or procedures, Ministers are quick to invoke the 'will of the people', hoping that the public are more likely to welcome new investments than to care about the constitutional consequences of where they came from. But in doing so, they are in fact weakening the constitution further, fulfilling what constitutional scholars feared through the Brexit process by invoking an authority that is uncoded but can be drawn upon to break free of the restraints of Parliament.

The UK's system of checks and balances is remarkably weak for a mature democracy, and has historically relied on the good behaviour of its leaders. The UK Government is setting precedents that future governments will be able to follow – and Ministers should really ask themselves if they would be happy with these kinds of actions if they found themselves in opposition.

### Recommendation – Inter-parliamentary relations

Holding the UK's governments to account requires a strengthening of its Parliaments, but also of its inter-parliamentary relations. Our 2020 'Missing Links' report<sup>55</sup> highlighted that, despite the maturation of the devolution settlement and a growing interest in intergovernmental relations, Parliaments rely on *ad hoc* or informal collaborations to provide scrutiny. Formalising these processes requires written agreements on a framework for inter-parliamentary oversight, as well as a strengthening of mechanisms through which devolved legislatures can hold the UK Government to account, such as the Legislative Consent Motion.

Both the Labour and Conservative Parties can lead on this agenda, as both find themselves currently in government and in opposition. This can involve building relationships between committees at the two Parliaments, but in a softer sense, should also include a more sensitive approach to debates where responsibility is shared between governments.

# Conclusions



## Conclusions

This report has set out the IWA's concerns about the UK Government's 'Levelling up' agenda and what it might mean for Wales.

The purpose of our work on this topic is to inform future debates. These will clearly touch on governance and the impact on the constitution, and it is essential that these future debates are taken seriously by figures across the political spectrum. Whether or not the median voter expresses anxiety about who provides funding is irrelevant – it is the job of our elected representatives to safeguard the system of checks and balances that shape our governance, and which are in place first and foremost to protect us all from governments that would seek to act against the public interest. In this, politicians should remember that their jobs is not just to win elections, but to protect us against overreach.

At the same time, everyone involved in the Welsh economy needs to look forward rather than backwards. European investment is now in the past, and while we need to make sure that Wales doesn't lose out, the Welsh Government and others need to encourage constructively with the different apparatus and funding frameworks that are available for regional policy in the UK.

We would like to thank the people who have given us their time to speak candidly about their experiences. Overall, we found a strong commitment to the principle that the UK's regional disparities are unsustainable. Criticisms of the UK Government's approach to 'levelling up' stemmed not from any kind of self-interest or political affiliation, but from practical and theoretical concerns about whether or not it will work.

Despite our criticisms of 'levelling up', we remain convinced that there is an opportunity to reconfigure regional development in a way that could solve the long-standing challenges of making the UK function as an economy and as a nation state. Failure to do so will result in the end of the Union as we know it now.



