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STRONG ECONOMIES, BETTER PLACES

Local and regional development
policies for a Labour government

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This report

This report has been commissioned by the Labour Party from a group of independent academics to assist in policy development. The authors are solely responsible for the views expressed in the report, which do not necessarily reflect the views of the Party and should not be read as a statement of Party policy.

The report draws on the authors' substantial and wide-ranging expertise, accumulated over several decades, on urban and regional economic development in the UK and elsewhere. It also draws on the authors many years' experience working with local authorities and other partners in promoting jobs, growth and access to opportunities for disadvantaged groups and communities.

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Foreword

For some the term ‘industrial strategy’ strikes up a vision of days gone by, of factories, chimneys and hard hats, of protectionism and ‘picking winners’ but it has become increasingly realised that a 21st century industrial strategy will be key to addressing the economic challenges facing 21st century Britain.

The structure of the UK economy has changed significantly over recent decades. For the most part policy-makers have assumed that the best way to secure a successful economy is to leave the market to its own devices. This neoliberal consensus has dictated economic policy for much of the past forty years. While it is beyond dispute that this approach helped lead to periods of growth, it has also allowed long term social and economic problems to accumulate.

In the UK the top 1% own 24%^[1] of wealth, the top 5th of earners receive forty percent of income and an average employee would have to work 160 years to earn a FTSE 100 boss's yearly pay^[2]. According to the Trade Union Congress nearly four million people face insecurity at work^[3] and court cases against Uber and Deliveroo have shown that a growing gig economy left to its own devices will only breed new kinds of exploitative working practices.

Similarly the long term decline in the UK's manufacturing base alongside our over reliance on the financial sector has allowed the talents and resources of large swaths of the country to go to waste. In the early 1980s 26% of jobs were in manufacturing compared to only 8.1% now and manufacturing now accounts for only 10% of our Gross Value Added. As a result, post-industrial Northern and coastal towns have seen their communities decimated.

The UK is now the most regionally unequal country in the European Union. We are home to the richest region in Northern Europe, London, but we also have six of the ten poorest. Leaving the European Union risks exacerbating these inequalities. As this report highlights European Structural Funds have been integral to the success of our regions; between 2014 and 2020 the UK will receive £9 billion with Wales benefitting from over £2 billion due to its ‘less developed’ status.

It is clear that now is the time, as we leave the EU and the failure of the free-market experiment is laid bare, for a radical and responsible industrial strategy which will transform the economy and create the good jobs of the future. This report will help develop Labour's industrial strategy and ensure prosperity in every region of the UK.

Rebecca Long Bailey MP

Shadow Secretary of State for Business, Energy and Industrial Strategy

^[1] <http://www.independent.co.uk/news/uk/home-news/britain-richest-people-own-uk-wealth-inequality-credit-suisse-oxfam-a7432076.html>

^[2] https://www.cipd.co.uk/knowledge/strategy/reward/executive-pay-ftse-100?utm_medium=vanity&utm_source=various&utm_content=execpay&utm_campaign=res_misc

^[3] <https://www.tuc.org.uk/workplace-issues/employment-rights/gig-trade-unions-tackling-insecure-work>

Recommendations

National Investment Bank

- ***Allocate proportionately more of the funding available to the National Investment Bank to support the UK's less prosperous local economies***
- ***Concentrate the Bank's lending on businesses that sell to outside the local area, and especially those that export from the UK, to help minimise the displacement of activity from other local businesses***

National Transformation Fund

- ***Use the National Transformation Fund to support a range of local projects that promote regional and local development***
- ***Integrate the relevant parts of the National Productivity Investment Fund, the Transforming Cities Fund and the Local Growth Fund into the new National Transformation Fund***
- ***Revise the Treasury's assessment criteria for transport projects to give more weight to regional and local economic development***

A successor to the EU Structural Funds

- ***Implement a replacement for the EU Structural Funds but be prepared to modify the details inherited from the Conservatives – and perhaps re-brand the revised Fund to give it a new identity***
- ***Commit to a replacement for the EU Structural Funds worth at least £1.5bn a year, which allowing for inflation would match the funding presently coming from the EU***
- ***Manage the replacement funding to Scotland, Wales and Northern Ireland outside the Barnett formula, in the same way as EU funds are managed at present***
- ***Operate the replacement for the EU funds on the basis of multiannual financial allocations in order to create certainty, foster stability and allow the proper planning of ambitious longer-term projects***
- ***Deliver a replacement for the EU funds that provides more efficient, more flexible support, with greater opportunity to tailor local spending to local priorities within the framework of national and local plans***

- ***Allocate the new Fund between England, Scotland, Wales and Northern Ireland on the same basis as the present-day division of EU funding – the recent shifts in relative prosperity do not for the moment justify a change***
- ***Deploy the funding within England to target less prosperous regions and local economies, using local data and transparent allocation criteria***

State Aid rules

- ***Commit to making greater use of the EU State Aid rules, so long as they apply, to deliver support for a wide range of activity to support businesses, especially in less prosperous areas***
- ***Exploit any post-Brexit flexibility to set UK State Aid rules that are better aligned to an active Industrial Strategy and to the promotion of a better balance of growth and jobs across the country***

Assisted Area map

- ***Welcome the opportunity that an Assisted Area map provides to target investment support at firms in less prosperous parts of the country***
- ***Re-introduce a budget line in England to provide financial support for investment by firms in the Assisted Areas***

Enterprise Zones

- ***Replace the present Enterprise Zones with a smaller number of ‘Business Investment Zones’ with an enhanced package of incentives***

Business rates

- ***Avoid being seduced into thinking that lowering business rates can be an important tool of economic development***

Industrial Strategy Challenge Fund

- ***Deliver support for R&D to a wider range of sectors in a wider range of locations across the country***
- ***Move away from predominantly supporting research to a greater emphasis on product development, dissemination, good practice and the commercialisation of ideas***

Skills

- ***Supplement national support for training and skills by earmarking a substantial proportion of the replacement for the EU Structural Funds for skills development in less prosperous local economies***
- ***Review the Apprenticeship Levy, particularly with reference to its role in skills development across regions and local areas***

Public procurement

- ***Use public procurement as a tool to support British industry and promote jobs and training in the regions***

Public sector jobs

- ***Initiate a review of the scope for public sector employment to better contribute to reducing economic disparities, whether through decentralisation or devolution.***

Energy-intensive industries

- ***Sustain the international competitiveness of the UK's energy-intensive industries by lowering their electricity bills whilst maintaining interventions to deliver a low carbon future***

Trade defence instruments

- ***Welcome free trade but ensure that outside the EU the UK is, if necessary, able to deploy a full set of trade defence instruments to combat unfair competition***

Central government

- ***Retain ultimate, central government responsibility for promoting prosperity in all parts of the UK and for narrowing the gaps across the country***
- ***Establish a high-level Council for Regional Development to oversee and coordinate programmes and policies***

The devolved administrations

- ***Welcome the important and independent role that the devolved administrations play in regional and local development, and ensure that supportive policies are in place at the UK level***

Local Enterprise Partnerships

- ***Retain Local Enterprise Partnerships but be prepared to modify their structures and raise their effectiveness***
- ***Make LEPs more clearly and directly accountable to the local authorities within their areas, including combined authorities in the places where these have been established***
- ***Engage a range of social partners on LEP boards to improve accountability and bring to bear their expertise***

Devolution in England

- ***Discontinue the current deal-based approach to devolution to English local authorities in favour of more straightforward centre-local funding models based on the assessment of need***

Regions

- ***Re-establish government offices in the English regions to help co-ordinate the work of the LEPs and strengthen central-local relations***
- ***Replace the present Northern Powerhouse and Midlands Engine with cross-boundary frameworks for collaboration between central and local government***

1. PURPOSE OF THE REPORT

Britain is a profoundly unequal society, divided by class, gender and race. But it is also a country divided by *geography*. People's life chances vary enormously according to where they happen to live. In some places life can be comfortable; in others it is a seemingly unending struggle to get by.

Many of the differences across the country are rooted in the strength of the local economy. Over the years, the changing structure of the UK economy has concentrated businesses and jobs in some parts of the country but destroyed the economic base of others. Some of the changes were always going to be hard to avoid but a large part reflects failure and mismanagement. In particular, the erosion of Britain's industrial base, which has gone further and faster than in just about any other country, has destroyed the economic foundations of many communities, leaving them struggling to find a new role in the world. This has fuelled feelings of political alienation and, many would argue, lies behind the support for Brexit in so many disadvantaged communities.

This report looks at what a Labour government needs to do to heal the economic divides across the country. It takes as its starting point the aspirations and commitments in Labour's 2017 general election manifesto, which did so much to galvanise support for a radical rethink of the way Britain is heading, but sets out to fill in some of the important gaps on regional and local economic development. The report has been commissioned by the Labour leadership but it is the independent work of a group of academics drawing on experience, knowledge and many years of research on Britain's urban and regional problems.

Section 2 of the report provides a short overview of the disparities across the country that so disfigure contemporary Britain. The 'North-South divide' is familiar to most people but as we explain, the divisions are more complex. Section 3 looks at the tools a Labour government could deploy to help spread growth and prosperity across the country. 'Regional policy' would be the conventional term for what we talk about here but the focus is on interventions at several levels, not just regions. Section 4 considers the institutional structures that a Labour government needs to put in place to deliver these interventions, across the UK as a whole and in England in particular, where the present arrangements are a mess.

A Labour government will not start with a blank sheet of paper. Rather, it will inherit an array of policies and programmes from its Conservative predecessor. Some of these are best discarded, others modified. The proposals set out here are, we think, a good starting point.

2. BRITAIN'S REGIONAL PROBLEM

Britain's regional problem has long been characterised as a 'North-South divide' dating back at least to the 1920s. There is real substance to this view, especially in the long decline of the industries that once underpinned so many communities in the North, Scotland and Wales. However, the contemporary regional problem is more complex.

Unemployment

Conservative ministers like to believe that during the recovery from the 2008 financial crisis Britain's unemployment problem has largely been solved. What is true is that the national headline total is down on levels during the recession, and down on the levels of the 1980s and early 1990s, and the official figures point to a narrowing of the differences across the country¹. Employment is also up, though so too is the size of the UK workforce. Even so, at almost 1.4 million on the government's preferred measure² unemployment has certainly not disappeared.

This is particularly the case in the less prosperous parts of the country. Whereas in local authority districts across much of southern England the official unemployment rate is now below 4 per cent, and in some places as low as 2 per cent, in other parts of the country the rate is much higher – often between 5 and 8 per cent and higher still in the worst affected local authorities (see Figure 1 in the appendix).

But the official figures provide only a partial view. One of the long-term consequences of job destruction in so many areas is that men and women with health problems or disabilities have been pushed out of the labour market and parked on incapacity benefits³. The number of working-age claimants on incapacity benefits rose from around 750,000 at the end of the 1970s to 2.5 million at the start of the 2000s and has barely fallen since, despite the best efforts of successive governments. There are presently three times as many men and

¹ This is a regular feature of recovery from recession, the reason being that in the places where unemployment started quite low it is hard to bring down the figure much further.

² The International Labour Organisation (ILO) definition of unemployment, which counts those available for work and looking for work and is wider than the 'claimant count' (those claiming unemployment benefits) which currently stands at around 700,000.

³ These days Employment and Support Allowance or, as the changeover takes place, Universal Credit on the grounds of sickness or disability.

women of working age out-of-work on incapacity benefits as on unemployment benefits and just about all of them are excluded from the government's wider measures of unemployment.

The men and women on incapacity benefits are disproportionately concentrated in Britain's weaker local economies, where they can sometimes account for 10 per cent of all adults of working age. In these places, where employers can be choosy about who they take on, ill health or disability can be a key factor in determining who finds and keeps employment. The health problems are real and the benefit claims therefore legitimate, but comparisons with the most prosperous parts of the country, where the incapacity claimant rate is far lower, suggest that a significant proportion of claimants would have been in work in a genuinely fully employed economy. In effect, in weaker local economies much of the unemployment has become hidden, and so too has the scale of the labour market divide across the country.

Successive reports from Sheffield Hallam University have adjusted for this distortion to local unemployment figures. In assessing the scale of 'hidden unemployment' on incapacity benefits, the Sheffield Hallam figures take account of not only what has been shown to be possible in the parts of the country where there is effectively full employment but also the underlying differences in health between different parts of the country. The most recent figures, for 2017⁴, confirm that unemployment is down since the recession but still point to a real level of unemployment of around 2.3 million. This includes 750,000 of the nearly 2.5 million adults of working age out of the labour market on incapacity benefits. The Sheffield Hallam figures provide an alternative set of unemployment figures for every district in Britain and expose the extent to which hidden unemployment is concentrated in places where official unemployment rates are already highest (Figure 2 in the appendix).

Whereas at one time the hidden unemployment on incapacity benefits was dominated by ex-miners, ex-steelworkers and other redundant workers from heavy industry, these have mostly passed out of the figures into retirement. These days it is the generation behind them, in much the same places, that make up the big numbers and they include almost as many women as men⁵.

High unemployment remains a defining feature of the older industrial areas of northern and western Britain. Places such as the Welsh Valleys, the Glasgow area, Merseyside and the industrial North East stand out. The 'real rate of unemployment' here typically remains in excess of 8 per cent and in some cases above 10 per cent of the entire working age population.

Britain's older industrial areas are joined by a number of coastal districts – places such as Blackpool, Great Yarmouth, Thanet, Hastings and Torbay – and some inner urban areas. Parts of London have high unemployment, though not as high as older industrial Britain, but London's unemployment tends to be concentrated in particular boroughs where it reflects residential segregation between the richer and poorer areas of the city.

⁴ C Beatty, S Fothergill and T Gore (2017) *The Real Level of Unemployment 2017*, CRESR, Sheffield Hallam University. See also C Beatty and S Fothergill (2005) 'The diversion from 'unemployment' to 'sickness' across British regions and districts', *Regional Studies*, vol. 39, pp. 837-854.

⁵ C Beatty, S Fothergill, D Houston, R Powell and P Sissons (2009) *Women on Incapacity Benefits*, CRESR, Sheffield Hallam University and Dept. of Geography, University of Dundee.

On the other hand, even on the 'real unemployment' measure there is little to suggest that unemployment is more than a marginal issue in large parts of southern and eastern England outside London. Some parts of northern England, such as rural North Yorkshire, also fall into this category.

In summary, the long-standing divides in unemployment across the country are as prominent as ever.

Output

It is generally best to look at differences in economic output at the sub-regional scale so that the concentrations of businesses in city centres and on business parks (and the associated commuting flows) don't distort the picture. The sub-regional pattern of output per head (Table 1 in the appendix) is in several respects the converse of the pattern of unemployment, with prosperous areas in southern England mostly leading the way, but the differences between the highest and lowest areas are strikingly large.

London has an output per head that is nearly 170 per cent of the UK average. The Thames Valley Berkshire LEP⁶ area comes in at 150 per cent, and the Aberdeen area in Scotland, the home of the North Sea oil industry, at 135 per cent. By contrast, the Black Country LEP area in the West Midlands reaches only 66 per cent of the UK average. South West Wales, which includes large parts of the Valleys, also reaches only 66 per cent of the UK average.

To put these figures another way, the output per head in the most productive parts of the UK is between two and three times higher than in the least productive areas. This does not mean, of course, that workers in some parts of the country are lazier than in others. Rather, it reflects the number and type of jobs in each area.

There is little evidence of convergence. Between 2010 and 2016 the UK economy grew by around 12 per cent in real terms, finally making good the losses during the recession and then advancing a little. In London the growth in output was 20 per cent, and all the English sub-regions that started with a GVA per head above the UK average grew by more than 10 per cent. By contrast, output in Tees Valley and in the Liverpool City Region grew by only 1 per cent.

Over the same 2010-16 period, London topped the league in terms of the growth in employment (up 18 per cent), followed by Hertfordshire (up 17 per cent) and the South East Midlands (up nearly 15 per cent). At the other end of the spectrum, employment *fell* in Tees Valley and the Black Country, though thankfully not by much.

⁶ Local Enterprise Partnership

Job quality

It isn't just that there are fewer jobs in the less prosperous parts of the country and that output per head is less. The quality of the jobs is poorer.

One of the indicators is the share of employment in managerial and professional occupations (Figure 3 in the appendix). London and parts of southern England have a concentration of this type of employment – often it accounts for more than 35 per cent of all jobs. Edinburgh matches these levels, but elsewhere the proportion of managerial and professional jobs is lower. The pattern is not a simple North-South divide, nor one of older industrial areas versus the rest. The places with the very lowest proportion of these higher-grade jobs are mostly rural though there are also several rural areas that do not conform to this general pattern.

Low pay is another indicator of job quality and one that has attracted increasing attention as the UK economy has moved out of recession. Unlike in previous recoveries, real wages have stagnated and so too has UK productivity. The replacement for too many of the good jobs that have disappeared has been low-paid insecure work, some of it on zero-hours contracts. Even 'self-employment' has too often become a mechanism for unscrupulous employers to duck their responsibilities⁷.

It is hard to get a reliable local or regional picture of this rising insecurity but the TUC⁸ has documented some of the disturbing national consequences:

- On average, the self-employed presently earn only 60 per cent of the median annual earnings – down from 70 per cent ten years ago
- For those on zero hours contracts, median hourly pay is only two-thirds of that for all employees
- Median hourly pay for agency staff is worth just 80 per cent of the employee average
- Median hourly pay for casual and seasonal work is just 60 per cent of the employee average

The TUC analysis shows that low paid employment is found mainly in construction, administration, transport and storage, wholesale and the retail trade. Zero hours contracts are most likely to be found in accommodation and food, health and social work. Those employed on temporary basis are often found in education, health and social work, accommodation and food, wholesale, retail and manufacturing.

The distribution of median earnings across the country (Figure 4) shows a clustering of the highest earnings in districts in and around London. In fact, the vast majority of Britain away

⁷ See M Taylor (2017) *Good Work: the Taylor review of modern working practices*, BEIS, London.

⁸ TUC (2016) *Living on the Edge: the rise of job insecurity in modern Britain*, TUC, London.

from this corner of the country has average earnings below the national average. The very lowest earnings are in a number of remoter rural areas, including Cornwall and West Wales, in a number of seaside towns, and in some older industrial areas beyond the big cities. This is a pattern that has long persisted. It is difficult to track the recent changes at the district-level⁹ but the long-term trend has been for the UK regions to grow further apart.

Low pay is particularly widespread in occupations that require few formal qualifications. According to the Resolution Foundation¹⁰, those earning less than the Living Wage include 62 per cent in 'elementary occupations', 59 per cent in 'sales and customer service' and 40 per cent in 'caring'.

Industry

Manufacturing occupies an important place in regional and local economies because it mostly brings in new money to an area which then recirculates, via supply chains and employees' spending, to support other jobs in the local economy. Manufacturing is not unique in this respect because other activities that serve markets beyond the immediate locality – tourism, universities, call centres, warehousing, national and international banking and much more – also drive local economies in this way. But manufacturing remains a large part of the 'economic base' of many areas.

Manufacturing is also important because over many decades it has offered scope via mechanisation for delivering the increases in productivity that help underpin rising living standards. Some sectors of manufacturing also provide higher-wage employment.

The industrial job losses that have scarred the UK economy so badly have been concentrated in specific parts of the country. Indeed, the root cause of the unemployment and low pay in so many cities, towns and communities in the North, the Midlands, Scotland and Wales can be traced back to this job destruction. They have lost the mines, factories and docks that once underpinned their whole economies and it has been an uphill struggle to build a new economic base. London and most of the South, by contrast, escaped more lightly and have been the favoured location for growing sectors such as financial services.

Yet despite all the industrial job losses, manufacturing remains concentrated in many of its traditional locations (Figure 5). The biggest single cluster of manufacturing jobs is in Birmingham but there are also substantial numbers in South and West Yorkshire, in the North East and North West, on Humberside, in South Wales and in Central Scotland.

Manufacturing industries vary in both scale and location. To illustrate this point, Figures 6-11 in the appendix show the location of jobs in six specific sectors – food & drink production, chemicals, pharmaceuticals, steel, the motor industry and aerospace. Whereas the food &

⁹ Local data from the government's Annual Survey of Hours and Earnings (ASHE) is affected by sampling error which makes comparisons over time problematic.

¹⁰ Resolution Foundation (2016) *Low Pay Britain 2016*, Resolution Foundation, London

drink industry is a large employer and widely dispersed across the country, chemicals, pharmaceuticals and steel employ smaller numbers and in fewer locations. The motor and aerospace industries are also concentrated in a handful of locations but in several of these the number of jobs is large. In the motor industry, for example, there are major clusters in the West Midlands, the North West and North East. In aerospace, Rolls Royce in Derby, Airbus in North Wales and Bristol, and BAE Systems in Lancashire are especially prominent.

The supply chains of each of these industries will of course extend widely, including to smaller local firms but also across the rest of the country and, particularly in the motor and aerospace industries, into component suppliers elsewhere in the EU. Several of the big UK plants are themselves suppliers of major components (e.g. engines, wings) for final assembly in the EU.

By contrast to the location of manufacturing production, the location of research and development establishments (Figure 12)¹¹ shows a very different geography with Cambridge, Oxford and a swathe of places in and around London dominating the picture.

What the location of manufacturing underlines is that a successful industrial strategy should be a win-win strategy:

- A resurgence of manufacturing industry is what the UK economy needs to move away from an over-dependence on financial services, to reduce the trade deficit by selling more to the rest of the world, to end the UK's debt-driven model of economic growth and to lay the foundations for rising living standards.
- A resurgence of manufacturing would also be of direct benefit to many of the places in the Midlands, North, Scotland and Wales where the need for more and better jobs is greatest.

It is already evident that UK industry, and in particular manufacturing, will undergo considerable change in the next decade or so as robotics, artificial intelligence and machine learning technologies become pervasive. Whilst these developments are forecast to increase GDP they are also technologies that are likely to lead to further job losses, including in many already disadvantaged parts of the UK. Regional and local development policies need to respond to these challenges.

Successful policies for industry and jobs in the regions can help UK businesses compete in world markets. In part this is about addressing poor productivity but it is also about competing on quality and design. Different sectors will contribute towards these goals in different ways, depending on their strengths and capabilities, and the re-shoring of production from abroad may become increasingly viable as wage costs rise in China and elsewhere.

Successful policies for industry and jobs can also improve the quality of life and well-being of millions of people in places across the UK that in recent decades have too often been left behind.

¹¹ Excludes universities and R&D on production sites

3. TOOLS FOR LOCAL AND REGIONAL GROWTH

Delivering growth and jobs in less prosperous parts of the country requires action across a broad front. There has never been a single 'silver bullet' that will deliver local and regional economic development; rather, the UK's long experience demonstrates that success requires a toolkit of policies targeting different elements of the overall jigsaw. It is the combined effect of several interventions, working together in tandem, that nearly always produces the best results.

In simple terms, local and regional economic development requires infrastructure – good transport connections, sites and premises, utilities and broadband. It requires business investment and enterprise, encouraged where necessary by public financial support. It requires a skilled workforce to take advantage of emerging opportunities. And it requires a supportive business environment. None of these in isolation is enough and, frankly, under the present Conservative government elements of the package have simply been missing.

What successful local and regional development also requires is the right national context. It is easier to deliver new and better jobs in less prosperous parts of the country when the UK economy as a whole is growing. This requires an exchange rate that enables British businesses to compete effectively in domestic and international markets, interest rates that make borrowing affordable and foster investment, and a measured approach to deficit reduction. The right regulatory and taxation regimes need to be in place and – a very immediate issue – a Brexit settlement that does not disrupt trade with the EU.

These national issues matter greatly to the regions and local economies. The specific purpose of the present report, however, is to set out the ways Labour can deliver a better distribution of jobs and prosperity across the country. We therefore make the assumption that a Labour government will put in place the right framework for national economic growth, and that these policies will be set out in full elsewhere. We also make the assumption that Labour will come forward elsewhere with proposals on fair pay, taxation and employment rights. Here we focus on the tools that Labour needs to deploy in order to narrow the disturbing gaps in growth and well-being between places.

We begin by considering two of the firm commitments in Labour's 2017 election manifesto – a National Investment Bank and a National Transformation Fund. We then move on to look at other tools for regional and local development that have a role to play in delivering Labour's aspirations.

National Investment Bank

The establishment of National Investment Bank and its associated regional development banks is a Labour policy commitment.

The new Bank is intended to address the failure of the UK banking system to provide longer-term funding for businesses, especially small and medium-sized enterprises. The Bank is expected to offer loans and also to support innovative forms of technology and business organisation.

The aspiration is that after ten years the Bank might have a balance sheet of approximately £250bn, funded by borrowing guaranteed by the UK government¹². The government guarantee enables cheaper borrowing, which can then be passed on to businesses as a lower rate of interest.

The role of the Bank is not only to help promote national economic growth but also to help deliver growth that is better distributed across the country¹³. Along with other initiatives, the Bank therefore has an important role to play in regional and local economic development and this needs to be built into its structures from the outset.

Labour's proposal is that alongside the Bank's head office there will be a network of twelve regional investment banks – one in each of the English regions and (in collaboration with the devolved administrations) in Scotland, Wales and Northern Ireland.

To help rebalance the economy across the regions, a Labour government needs to:

- ***Allocate proportionately more of the funding available to the National Investment Bank to support the UK's less prosperous local economies***

This can best be achieved by taking advantage of the new Bank's regional structure to earmark funding – or more precisely, to set lending targets – for each region.

The intention is that in the first year £20bn might be raised to fund the bank¹⁴. The regions and nations of the UK vary in population as well as prosperity but if the share of funding based on population were to be adjusted by the ratio of national to regional GVA per head¹⁵ - i.e. to increase the funding where GVA per head is low, so as to encourage investment and growth in these parts of the country – the shares of the £20bn would be as follows:

¹² Labour (2017) *A National Investment Bank for Britain: putting dynamism into our industrial strategy*, report to the Shadow Chancellor and Shadow Business Secretary, Labour Party, London.

¹³ Labour (2017) *Richer Britain, Richer Lives: Labour's Industrial Strategy*, Labour Party, London.

¹⁴ Labour (2017) *A National Investment Bank for Britain*, op. cit.

¹⁵ The formula here is: Region's share of UK population x (UK GVA per head / Region's GVA per head). 2016 data. The calculation includes a small flat-rate percentage adjustment to reconcile the resulting UK total with the £20bn total to be allocated.

| | Funding (£m) | Funding per capita (UK=100) |
|--------------------|--------------|-----------------------------|
| Wales | 1,300 | 135 |
| North East | 1,100 | 129 |
| Northern Ireland | 700 | 127 |
| Yorkshire & Humber | 1,900 | 116 |
| West Midlands | 2,000 | 113 |
| East Midlands | 1,600 | 111 |
| North West | 2,400 | 109 |
| South West | 1,800 | 105 |
| Scotland | 1,700 | 102 |
| East | 1,800 | 99 |
| South East | 2,300 | 84 |
| London | 1,400 | 54 |
| | ----- | |
| UK | 20,000 | 100 |

It is important that the new Bank's lending is managed so that it does not simply displace large amounts of lending by the commercial banks. Otherwise the impact on local and regional economies will be blunted. It is also important that the Bank's lending is targeted at the businesses that have the greatest potential to drive forward local and regional economies. With this in mind, Labour should:

- ***Concentrate the Bank's lending on businesses that sell to outside the local area, and especially those that export from the UK, to help minimise the displacement of activity from other local businesses***

Of course, this would not preclude investment in businesses that displace imports into an area (and into the UK) which have the potential to make an equally positive contribution to overall growth. Most manufacturing firms should be able to meet these criteria but so too will a great many service-sector firms that look beyond purely local markets.

National Transformation Fund

The National Transformation Fund is another Labour policy commitment¹⁶. The intention is that £250bn will be invested over ten years to upgrade the infrastructure that underpins the UK economy. The aim is to use infrastructure investment to boost the economy by speeding the movement of people, goods and information, but because just about all infrastructure investments have a specific location the Fund's spending can be expected to have important regional and local impacts as well.

¹⁶ Labour (2017) *Creating an Economy That Works for All*, Labour Party, London.

The Labour manifesto for the 2017 general election gave a commitment to support a number of infrastructure projects¹⁷. Some of these projects (Tyne & Wear metro rolling stock, East-West rail in the Midlands and Eastern England, and HS2 links) have recently been adopted by government and are likely to be underway by the time of the next election¹⁸. At around £70bn in total, the completion of HS2 will also remain a major claim on infrastructure spending for some years to come. Labour will need to take stock of existing commitments on entering government and identify further investments on the basis of the available funding and the potential benefit to local and regional economies and the UK as a whole. Beyond existing commitments, a Labour government should therefore:

- ***Use the National Transformation Fund to support a range of local projects that promote regional and local development***

There is generally no shortage of such projects but there is potential overlap with existing government programmes notably:

National Productivity Investment Fund

This bundles together a number of programmes targeted at housing, transport, digital communications and R&D and in theory should be worth £7bn a year by 2022-23¹⁹.

Transforming Cities Fund

This is a budget line established in the 2017 Autumn Budget to accelerate capital investment in intra-city transport connections. A total of £1.7bn over four years has been allocated to this new sub-part of the National Productivity Investment Fund.

Local Growth Fund

This currently provides a total of more than £3bn in funding to Local Enterprise Partnerships in England, mainly towards the cost of transport and property schemes, allocated through a bidding process.

Bearing in mind the overlap between existing budget lines and the proposed National Transformation Fund, Labour should:

- ***Integrate the relevant parts of the National Productivity Investment Fund, the Transforming Cities Fund and the Local Growth Fund into the new National Transformation Fund***

In England, the funding allocation for schemes needs to combine local discretion with the national priorities identified by Highways England and Network Rail. In practice, this means that whilst some funding might be devolved, for example to combined authorities, other elements would be retained by central government. Labour should however:

¹⁷ Labour Party (2017) *Richer Britain, Richer Lives: Labour's Industrial Strategy*, Labour Party, London.

¹⁸ HM Treasury (2017) *Autumn Budget 2017*, HM Treasury, London.

¹⁹ *Autumn Budget 2017*, Table 2.1

- ***Revise the Treasury's assessment criteria for transport projects to give more weight to regional and local economic development***

At present, the Treasury's project evaluation criteria give the greatest weight to time savings arising from reduced congestion and value the time of highly-paid workers most. This has the effect of prioritising transport investment in and around London, where congestion combines with high wages, fuelling a seemingly never-ending spiral of growth and still further spending in this corner of the country²⁰. The entirely reasonable alternative would be to tilt infrastructure spending towards places where it unlocks new opportunities for development.

In Scotland, Wales and Northern Ireland, transport is a devolved matter. The devolved administrations' share of the National Transformation Fund would therefore be allocated through the Barnett formula.

A successor to the EU Structural Funds

Assuming Brexit goes ahead, the UK will eventually stop being a recipient of EU Structural Funds. The disappearance of the EU Funds opens up a huge gap in regional and local economic development across the UK.

As part of the 'divorce bill' agreed between the UK government and EU in December 2017 the UK will continue to contribute to the Funds as normal up to the end of 2020, when the EU's present spending round comes to an end, even if Brexit happens as planned in March 2019, and the UK will continue to draw on the Funds as normal until then, including for projects that run on until 2023. In July 2018 the Treasury underwrote this arrangement in the event of a no-deal Brexit. But crucially beyond the end of 2020, in all circumstances, there will be no commitment of new EU monies.

The UK has been a recipient of the European Regional Development Fund (ERDF) and European Social Fund (ESF) since the 1970s. Indeed, the ERDF was established as part of the UK's accession negotiations. In 1988, the ERDF and ESF were brought together to form the Structural Funds and their share of the EU budget was increased to around one third, which has remained broadly the same to the present day.

The Structural Funds are based around four principles:

- *Programming*: funds are delivered through multi-annual programmes
- *Partnership*: programmes are agreed by economic and social partners in a region, along with the national government and European Commission

²⁰ See Industrial Strategy Commission (2017) *Final Report of the Industrial Strategy Commission*, Manchester and Sheffield Universities.

- *Additionality*: EU funding should be additional to national expenditure
- *Concentration*: funding is allocated to local areas against defined criteria, such as GVA per head and unemployment

The devolved administrations, local authorities, and economic and social partners such as business groups, universities, FE colleges and the voluntary sector have been active users of the Structural Funds. Recent innovative examples include the establishment of revolving loan funds (through what is known as the JESSICA programme) and the introduction of community economic development. The Structural Funds require matching finance from the public, and where appropriate, private sectors. Structural Fund programmes focus on:

- Business support (advice, workforce development, finance)
- Research, technological development and innovation
- Infrastructure investment (transportation, ICT and environmental)
- Skills and training, typically for groups such as young people, the long-term unemployed or disadvantaged groups
- Community economic development
- Place-based development such as the remediation of contaminated land or development of urban centres.

Structural Funds programmes have been subject to extensive monitoring and evaluation, though establishing ‘what would have happened in the absence of EU funding’ is neither easy nor precise. A study on the impact of ERDF spending in the UK over the 2007-13 programming period²¹ put the direct job creation at over 150,000, of which nearly 30,000 were in SMEs and nearly 4,000 in research. A parallel evaluation²² of the 2007-13 ESF programme in England identified around two million people who had taken part in ESF-funded activities and more than 250,000 who had been helped in gaining basic skills.

Nevertheless, the implementation of the Structural Funds in the UK, and especially in England, has been beset with challenges not always experienced to the same extent elsewhere in the EU. This is for a range of reasons including institutional upheaval and under-investment in institutional capacity²³.

²¹ European Commission (2016) *Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF): Task 3 United Kingdom Task Report*, European Commission, Brussels.

²² ICF (2016) *England ESF Programme 2007–2013 Evidence synthesis*, DWP, London.

²³ See J Bachtler and I Begg (2017) ‘Cohesion policy after Brexit: the economic, social and institutional challenges’, *Journal of Social Policy*.

EU Structural Funds allocation to the UK regions, 2014-20, €m

| | | | |
|----------------------------------|-------|--------------------------|---------|
| Black Country | 176.6 | North Eastern | 537.4 |
| Buckinghamshire Thames Valley | 13.8 | Northamptonshire | 54.8 |
| Cheshire & Warrington | 141.6 | Oxfordshire | 19.3 |
| Coast to Capital | 67.0 | Sheffield City Region | 207.2 |
| Cornwall | 590.4 | Solent | 42.9 |
| Coventry & Warwickshire | 135.5 | South East | 185.1 |
| Cumbria | 91.0 | South East Midlands | 87.9 |
| D2N2 | 244.0 | Stoke & Staffordshire | 160.9 |
| Dorset | 47.1 | Swindon & Wiltshire | 43.4 |
| Enterprise M3 | 45.5 | Tees Valley | 201.7 |
| Gloucestershire | 38.1 | Thames Valley Berkshire | 28.5 |
| Greater Birmingham & Solihull | 254.8 | The Marches | 113.3 |
| Greater Cambridge & Peterborough | 75.2 | West of England | 68.3 |
| Greater Lincolnshire | 133.0 | Worcestershire | 67.8 |
| Greater Manchester | 413.8 | York & North Yorkshire | 97.1 |
| Heart of the South West | 117.8 | | |
| Hertfordshire | 69.2 | East Wales | 406.6 |
| Humber | 102.0 | West Wales & the Valleys | 2.005.9 |
| Lancashire | 265.2 | | |
| Leeds City Region | 389.5 | Highlands & Islands | 193.0 |
| Leicester & Leicestershire | 125.7 | Rest of Scotland | 701.6 |
| Liverpool City Region | 220.9 | | |
| London | 745.4 | Northern Ireland | 513.4 |
| New Anglia | 94.1 | | |

Source: HM Government

In the present 2014-20 spending round the UK is set to receive a total of £9bn (at the current exchange rate) from the Structural Funds, or around £1.3bn a year. Wales receives £2.1bn – a reflection of the top-priority status of West Wales & the Valleys – whilst £800m is earmarked for Scotland and £500m for Northern Ireland. Almost £6bn is due to come to England.

EU funding has always been strongly targeted at less prosperous regions, not just across Europe as a whole but also within the UK. In the current 2014-20 spending round, Cornwall as well as West Wales & the Valleys has top-priority 'less developed' region status because both areas started with a GDP per head below 75 per cent of the EU average. They receive more than £1,000 a head over the programme period. The Highlands & Islands receive

£400 a head on the basis of low population density and Northern Ireland's funding, nearly £300 a head, is boosted to support the peace process.

For the rest of the UK, the EU allocated two pots of money – one for areas with between 75 and 90 per cent of EU average GDP per head ('transition regions') and a less generous pot for areas above the 90 per cent threshold ('more developed regions')

In England, the Conservative-led coalition government chose to allocate the EU funding to Local Enterprise Partnerships (LEPs), who manage the selection of projects within the framework of EU guidelines and national and local plans. The LEPs covering older industrial areas in the North and Midlands, many of which qualified as 'transition regions', generally receive more per head than more prosperous parts of the South. Tees Valley, for example, receives £300 per head, compared to £90 per head in London and £30 per head in Oxfordshire, Buckinghamshire Thames Valley and Solent. However, in the present round there were also errors that distorted the funding allocation²⁴.

It is still too early to assess the impact of the present round of EU funding, especially at the regional or local scale. At the end of 2017, only around half the money due to the UK had been committed and, because spending lags behind commitments, only around 10 per cent of the money had actually been spent²⁵. This schedule is normal. There is, however, no obvious reason why the final impact of the current round of EU spending should be less than in earlier rounds, or to suppose that the impact across the country will be other than broadly proportional to the size of the financial allocation.

The key question is what, if anything, will replace the EU funds. Money apart, there are certainly important aspects of the funds that are worth maintaining, such as support for innovation and technological development, entrepreneurship, skills and employment, social inclusion and local carbon agendas. Additionally, the delivery of policies at the lowest most appropriate tier of government, something long associated with the EU funds, is well worth retaining.

The Conservative manifesto for the 2017 General Election promised to replace the EU Structural Funds by a new UK Shared Prosperity Fund. The intention is that the new Fund will use the Structural Fund money coming back to the UK "to reduce inequalities between communities across our four nations". The intention is also that the new Fund will be "cheap to administer, low in bureaucracy and targeted where it is needed most". The likelihood is that a Labour government will inherit the UK Shared Prosperity Fund or, at the very least, advanced plans for its implementation.

It would make sense for a Labour government to keep the new Fund. The devolved administrations have been explicit in calling for a follow-on to EU funding of at least the same magnitude and this aspiration is shared by local authorities in much of England. Furthermore, starting again from scratch with something different would almost certainly lead to an unwelcome hiatus in funding. Labour should therefore:

²⁴ The Liverpool and Sheffield city regions received less than they might reasonably have expected owing to a flaw in the way the Department for Business determined the allocations.

²⁵ European Commission figures.

- ***Implement a replacement for the EU Structural Funds but be prepared to modify the details inherited from the Conservatives – and perhaps re-brand the revised Fund to give it a new identity***

Importantly, the Conservative manifesto made no commitment about the scale of the new Fund. This is in marked contrast to the promise to farmers that they will receive not a penny less when the UK leaves the EU. With UK regional and local divides as wide as ever, there is no obvious reason why spending on regional and local economic development should be reduced following Brexit. Labour should therefore:

- ***Commit to a replacement for the EU Structural Funds worth at least £1.5bn a year, which allowing for inflation would match the funding presently coming from the EU***

This would not be new money that the Chancellor would have to find. This is money that pre-Brexit would have been paid to the EU and then returned to the UK. In its supporting documentation for the Chancellor's 2018 *Spring Statement*, the Office for Budget Responsibility identifies more than £13bn a year that will eventually no longer be paid over to the EU, beginning with £3bn in 2020-21 and rising steeply thereafter as spending commitments tail off²⁶. Labour should:

- ***Manage the replacement funding to Scotland, Wales and Northern Ireland outside the Barnett formula, in the same way as EU funds are managed at present***

Managing the replacement funding outside the Barnett formula ensures that Wales, in particular, receives a significantly higher share of the pot, reflecting its needs, than if the formula had applied. Labour should also:

- ***Operate the replacement for the EU funds on the basis of multiannual financial allocations in order to create certainty, foster stability and allow the proper planning of ambitious longer-term projects***

It would be wrong, however, to replicate the many faults in EU funding. The present rules and regulations are overly restrictive, the implementation bureaucratic and the auditing pedantic. Brexit offers the opportunity to organise things differently. For example, the artificial division between ERDF and ESF funding streams reflects organisational structures in Brussels rather than realities on-the-ground and the thematic constraints on spending have become too narrow. Labour should:

- ***Deliver a replacement for the EU funds that provides more efficient, more flexible support, with greater opportunity to tailor local spending to local priorities within the framework of national and local plans***

²⁶ Office for Budget Responsibility (2018) *Economic and Fiscal Outlook, March 2018*, OBR, London.

The allocation of the new Fund across the country is a huge issue. There are two big fears. One is that the Conservative government will shift resources away from the less prosperous parts of the country (mainly in the Midlands, the North, Scotland and Wales) towards southern England. The other is that it will impose a centrally-managed bidding process that would be vastly wasteful of time and energy and could result in a similar shift in resources as well as open the door to favouritism.

Labour needs to ensure that the replacement for the EU Structural Funds is a tool for narrowing the gaps in prosperity between different parts of the country. It also needs to respect the role of the devolved administrations in setting their own priorities. Labour should therefore:

- ***Allocate the new Fund between England, Scotland, Wales and Northern Ireland on the same basis as the present-day division of EU funding – the recent shifts in relative prosperity do not for the moment justify a change***
- ***Deploy the funding within England to target less prosperous regions and local economies, using local data and transparent allocation criteria***

State Aid rules

EU State Aid rules presently set limits on the extent to which public sector financial support can be offered to private sector businesses. The State Aid rules are central to the architecture the EU has established to deliver fair competition across Europe and in principle they are something the UK has always welcomed.

Nevertheless, State Aid is not something that should be seen as universally ‘bad’ and indeed this has never been the view of the UK or the European Union. State Aid can help deliver desirable outcomes by incentivising certain behaviours or actions by private sector companies. Acceptable forms of State Aid are mostly about encouraging investment in plant and machinery, skills, R&D and environmental measures. By contrast, straightforward operating subsidies or bail-outs for bankrupt firms are generally undesirable and are something the rules nearly always prohibit.

In the context of regional and local development, State Aid can be an important tool in encouraging firms to invest in less prosperous areas. Indeed, financial support of this kind is arguably the single most direct way of promoting jobs and growth in the regions. State Aid has often been central in delivering inward investment, particularly in manufacturing.

The extent to which the UK will have to continue to live within EU State Aid rules beyond Brexit is a matter for negotiation and one that is unlikely to be settled before the UK’s trading relationship with the EU is finalised. A transition period through to the end of 2020, when the existing EU rules would continue to apply, has provisionally been agreed. Beyond 2020, it is likely that in order to maintain easy access to the Single Market the UK will have to continue

to accept the EU State Aid rules, in whole or in part, even if it has no future input into framing them. A 'harder' Brexit would leave the UK with a freer hand to set its own rules.

Taking the continuation of the EU rules first, the striking thing is how little the UK presently makes use of the existing opportunities to support business. As a recent Select Committee report²⁷ noted, EU data makes it clear that many other economies in Europe spend a considerably higher proportion of their GDP on State Aid than the UK does. In 2015, for example, France spent almost twice as much as a proportion of GDP, and Germany three and a half times as much²⁸. This is not because the State Aid rules applying to the UK are any more restrictive.

The aid allowed under the present EU rules²⁹ that is of most value to Labour in pursuing its regional and industrial strategy covers:

- *Regional investment aid* – up to 30 per cent (depending on the area) of the capital cost of projects, with additional top-ups for small and medium-sized enterprises (SMEs).
- *Aid to SMEs* – up to 20 per cent of investment costs and 50 per cent of consultancy costs.
- *Aid for research and development cost* – up to 50 per cent of the eligible costs of industrial research for example.
- *Training aid* – up to 50 per cent of eligible costs, with additional premiums for disabled or disadvantaged workers and for SMEs.
- *Aid for environmental protection* – up to 40 per cent of eligible costs, again with top ups for SMEs.

If these EU rules (or an up-dated version) continue to apply to the UK beyond Brexit, a Labour government should:

- ***Commit to making greater use of the EU State Aid rules, so long as they apply, to deliver support for a wide range of activity to support businesses, especially in less prosperous areas***

If the EU State Aid rules no longer apply the UK will need to design a State Aid regime of its own and the present government has earmarked the Competition and Markets Authority to take on this responsibility. The alternative would be an unseemly free-for-all by businesses to attract attention and press their case for financial support. If the UK has to design its own regime the ultimate constraint will be World Trade Organisation (WTO) rules. These lack the detail that underpins the EU rules. Broadly, outright subsidies to exports or to use domestic

²⁷ Business, Energy and Industrial Strategy Committee (2017) *Industrial Strategy: first review*, Second report of session 2016-17, House of Commons, London.

²⁸ European Commission, *State Aid Scoreboard 2016*

²⁹ European Commission, *General Block Exemption – Regulations declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty*, Official Journal of the European Union, 26 June 2014.

goods instead of imports are prohibited. All other subsidies are not prohibited but are 'actionable' – they can be challenged by other WTO countries if they hurt their domestic producers. In effect, under WTO rules the limit on most State Aid is what the UK thinks it can get away with.

It is unlikely that a Labour government would want to subsidise private industry on a scale that would risk retribution through WTO channels but there are a number of ways in which the current rules on regional aid set by the EU should be reformed if they became a solely UK responsibility, for example:

- The aid intensity ceilings should be re-set at levels that are sufficiently high to make a difference to company decisions. The present 10 per cent ceiling for regional investment aid to larger companies (250+ employees worldwide) in most UK Assisted Areas is simply too low.
- For larger firms there needs to be the flexibility to support re-investment in existing plants, which in most Assisted Areas is prohibited under the present EU rules.
- The coverage of the Assisted Area map (see below) should reflect economic disadvantage in the UK – the present population coverage, dictated by EU rules, is too low and the map needs to be rooted in realities on the ground, not shoe-horned by EU rules into artificial units of 100,000 people.

A Labour government should therefore:

- ***Exploit any post-Brexit flexibility to set UK State Aid rules that are better aligned to an active Industrial Strategy and to the promotion of a better balance of growth and jobs across the country***

State Aid might be funded from a range of budget lines, depending on the purpose and form of the assistance. Historically, the UK's Department for Business and the devolved administrations have run schemes but the new National Investment Bank might consider discounted loans and there may be scope for the new National Infrastructure Fund to play a role as well.

There remains the question of who should authorise payments, whether under the EU rules or a new UK variety. This is important because Labour should aim to offer financial support only when it makes a difference to firms' decisions. It should not subsidise projects that would have gone ahead anyway. Over the years the UK has accumulated substantial experience in making these difficult judgements but it is a specialist task and the expertise is concentrated in a handful of organisations – essentially the Department for Business and the equivalent sections of the devolved administrations or their development agencies. Prudent management of public funds would suggest that final decision making needs to remain in these hands.

Assisted Area map

The Assisted Area map is a key tool of UK regional policy, though one badly neglected by the present Conservative government.

The Assisted Area map defines the areas where financial support can be given to private sector investment projects that create or protect jobs. The present map is an offshoot of the EU State Aid rules but the UK map has a long history, extending back well before EU membership. Over the years, the map has set the framework within which successive programmes of business support have been delivered – Regional Development Grants, Regional Selective Assistance, Selective Finance for Industry in England, Grants for Business Investment and the Regional Growth Fund.

The evidence is that these programmes have delivered countless thousands of additional jobs³⁰. They have been particularly helpful in delivering inward investment, including by companies from abroad. Indeed, at a time when Brexit is creating uncertainty for many businesses the ability to offer financial support of this kind to encourage firms to retain and expand production in the UK should be of particular value.

The current UK Assisted Area map runs until the end of 2020. In total, around a quarter of the UK population is covered by the map, which identifies two categories of Assisted Area:

Category 'a' areas

These cover West Wales & the Valleys and Cornwall (the same areas prioritised by EU funds) plus Tees Valley & Durham, which was added in 2017. The maximum aid allowed to larger firms in these areas is 30 per cent of the investment cost. The aid ceiling for SMEs is up to 50 per cent.

Category 'c' areas

These cover large parts of Britain outside the most prosperous parts of the country, especially in the Midlands, the North and Scotland, including the whole of Highlands & Islands which qualifies because of its low population density. The 'c' areas, though mostly small on the map, cover many key industrial areas. The maximum aid intensity for large firms in these areas is 10 per cent³¹, but the ceiling is again up to 20 per cent higher for SMEs.

³⁰ See for example M Hart et al (2008) *Evaluation of Regional Selective Assistance (RSA) and its successor Selective Finance for Investment in England (SFIE)*, BERR occasional paper no 2, London.

³¹ 15 per cent in Highlands & Islands.

UK ASSISTED AREA MAP TO 2020



MAP KEY

- 'a' areas
- sparsely populated 'c' areas
- other 'c' areas

Source: HM Government

In England, the Assisted Area map has largely fallen into disuse since 2015, even though it remains in force and allows business support in the places where it is needed most. The last major scheme to take advantage of the map was the Regional Growth Fund, which in its final two rounds allocated £300m a year to businesses, primarily in the Assisted Areas because that is where the State Aid rules allow aid to larger firms and higher aid intensities. The Regional Growth Fund, which operated through a competitive bidding process, provided investment aid to firms to support projects that would not otherwise have gone ahead, including for example a number of projects in the motor industry where the alternative was often investment at sites outside the UK. The National Audit Office estimated that by 2014 the Regional Growth Fund was set to create or protect 44,000 jobs³². In 2015 the Regional Growth Fund was discontinued without a replacement.

The Welsh Government continues to take advantage of the higher aid intensity ceiling in West Wales & the Valleys through the provision of grants and loans to companies. The Scottish Government continues to use the Assisted Area map to provide investment aid to companies (Regional Selective Assistance) currently worth around £20m a year, down from around £50m a year since 2014 when the EU rules were tightened.

The effect, for the moment, is to disadvantage England's less prosperous areas as a location for new investment, not just in relation to Scotland and Wales but also in relation to other EU countries, including Germany and France and just about all of central and eastern Europe, where governments continue to take advantage of the State Aid rules and Assisted Area status to promote investment and jobs in their less prosperous regions.

If EU State Aid rules continue to apply to the UK after Brexit these will continue to include an Assisted Area map. In the absence of the EU rules, the UK will have the scope to define its own map on the basis of its own criteria. Either way, Labour should:

- ***Welcome the opportunity that an Assisted Area map provides to target investment support at firms in less prosperous parts of the country***

For a Labour government committed not only to promoting an industrial revival but also to rebalancing away from an over-dependence on London and the South East, making full use of the Assisted Area map should be a priority. Labour should therefore:

- ***Re-introduce a budget line in England to provide financial support for investment by firms in the Assisted Areas***

The new budget line could be established as a component of the new National Transformation Fund. The scale of funding depends in part on scope for intervention provided by the post-2020 State Aid rules. At £300m a year it would match the average pre-2015 funding, though that was in a period when the EU rules were less restrictive. At £500m a year it would account for just 2 per cent of the proposed new Fund.

³² National Audit Office (2014) *Progress Report on Regional Growth Fund*, NAO, London.

Enterprise Zones

Enterprise Zones were first introduced to Britain in the early 1980s. They have had a mixed record. However, implemented properly Enterprise Zones can be an important tool in promoting jobs in some of the most disadvantaged communities. EZ status is useful because it targets specific development sites in specific places.

A Labour government will inherit the new generation of Enterprise Zones established since 2010.

The hard-won lesson of the Enterprise Zone initiative is that simply drawing lines on maps doesn't work. EZ status can help bring in jobs but only once the basic infrastructure – roads, utilities, cleared sites – is all in place. This is what happened in the Dearne Valley EZ for example, designated in 1994 in the heart of the former South Yorkshire coalfield after substantial preparatory work by the local authorities, where nearly 7,000 new jobs had been created by 2007³³.

The problem with the new generation of Enterprise Zones³⁴ is that the investment incentives are a shadow of those previously available. The old, pre-2010 package comprised:

- A ten-year rate-free holiday for businesses
- 100% capital allowances for investment in buildings
- Relaxed planning controls

In practice, the relaxed planning controls meant little in most EZs, which actually required clear zoning in advance. The capital allowances however were a powerful incentive to developers, and the rate-free holiday was an attractive marketing tool.

The new, post-2010 EZs benefit from a much weaker package:

- A rate-free holiday for just three years, capped at £55,000 per business per year
- Relaxed planning
- A commitment to high-speed broadband

It would be fair to describe the new generation of EZs as not much more than a marketing badge. Nevertheless, having a tool that can zoom-in on specific places where development is needed most is a useful addition to powers, such as those provided by the Assisted Area map, which apply across much wider areas. An effective, locally-focussed package can be especially helpful in responding to the consequences of a major factory closure, for example, or to entrenched difficulties in the hardest-to-help locations.

³³ Centre for Regional Economic and Social Research (2009) *Enterprise Zones Monitoring Report*, CLG, London.

³⁴ For full details of the new Enterprise Zones see House of Commons (2016) *Enterprise Zones*, briefing paper 5942, House of Commons, London.

A Labour government needs to keep its options open, for example in being able to respond to major unexpected job losses, which are something no government can hope to avoid. The present Enterprise Zone package, however, is weak and discredited. Labour should therefore:

- ***Replace the present Enterprise Zones with a smaller number of 'Business Investment Zones' with an enhanced package of incentives***

The new Business Investment Zones need to offer the key incentive missing from the present EZ package – capital allowances for investment in buildings. This incentive triggers investment in new industrial and commercial floorspace, which in turn attracts firms looking to expand and creates jobs in the area. In the Assisted Areas in particular, capital allowances should normally be wholly compatible with State Aid rules.

The location of Business Investment Zones needs to be determined carefully. They need to be located where they are accessible to disadvantaged communities, including by public transport, and it is important to avoid firms engaging in short-distance 'boundary hopping' so that the jobs created are generally additional to the local area.

Business rates

Conservative governments have traditionally viewed business rates as a tax that damages growth and which should therefore be reduced, even though business rates currently raise around £30bn a year to help fund public services, only fractionally less than Council Tax³⁵. Furthermore, since the Thatcher years local authorities have not been trusted to set their own business rate so what was once an independent funding stream has effectively been nationalised. The present Conservative plan is that local authorities in England should be allowed to retain the money they collect in business rates but they will be given only the most circumscribed powers to levy an increase, and only if they have an elected mayor.

There is much muddled thinking about the impact of business rates. This is because the businesses that pay the bills are not necessarily the ones on which the financial burden ultimately falls. In practice, the level of property taxes like business rates interacts with the level of rents landlords are able to charge. The higher the business rate, the lower the rent a property will command. Conversely, the lower the business rate, the higher the rent the landlord is able to get away with.

This matters because with most businesses occupying rented property the real burden of business rates actually ends up falling on the owners of land and property. For example, when a ten-year rate-free holiday was granted to firms in the original Enterprise Zones the effect was to push up rents in the Zones³⁶.

³⁵ *Autumn Budget 2017*, Table C.5

³⁶ PA Cambridge Economic Consultants (1995) *Final Evaluation of Enterprise Zones*, HMSO, London.

Similarly, a study of the impact of business rates on the location of employment³⁷, commissioned by government at the time when local authorities still had the power to vary the business rate, found no evidence of a relationship between the level of business rates and the growth of local employment. That this study drew on statistics for every local authority in England and Wales and paid particularly detailed attention to the manufacturing sector adds weight to its findings.

That the burden of business rates ultimately falls on landowners rather than occupiers casts a very different light on policy options. It suggests, for example, that the Conservative faith in cutting business rates to promote growth is ill-founded: the real winners are likely to be landlords who will charge higher rents. Likewise, it suggests that the fear of restoring local authority control over the level of business rates – the arrangement that prevailed prior to 1990 – is unreasonable.

With pilot schemes already underway, a Labour government will inherit elements of the Conservatives' 'business rates retention' even if the scheme has not been fully rolled out.

If the impact of business rates falls on landowners rather than businesses, as the evidence would suggest, Labour should:

- ***Avoid being seduced into thinking that lowering business rates can be an important tool of economic development***

Industrial Strategy Challenge Fund

The biggest tranche of new money earmarked to support the Conservative government's industrial policy is for the Industrial Strategy Challenge Fund. In April 2017 the Business Secretary announced £1bn in funding, to be spent by 2020-21³⁸, targeted at research and development in six sectors:

- Healthcare and medicine
- Robotics and artificial intelligence
- Batteries for clean and flexible energy storage
- Self-driving vehicles
- Manufacturing and materials for the future
- Satellites and space technology

³⁷ P Crawford, S Fothergill and S Monk (1985) *The Effect of Business Rates on the Location of Employment*, Department of Land Economy, Cambridge, report to the Department of the Environment.

³⁸ Department for Business, Energy and Industrial Strategy (2017) *Business Secretary announces Industrial Challenge Fund investments*, press release 21 April.

The White Paper on Industrial Strategy³⁹ allocated a further £725m to be distributed to ‘clean growth’, ‘AI and data’ and ‘ageing society’.

This additional support for R&D should help move closer to Labour’s aspiration that 3 per cent of GDP is spent on R&D by 2030⁴⁰, though in itself the present Industrial Strategy Challenge Fund is worth only just over 0.02 per cent of GDP, illustrating the immense scale of the challenge.

The problems with the Fund run deeper however. As a recent report⁴¹ on its first stage demonstrated, the focus is actually on an exceptionally narrow group of industries at the very leading edge of technology, accounting for at best little more than 1 per cent of the whole economy (by employment) and 10 per cent of UK manufacturing. Furthermore, the report highlighted the risk that the focus on high-end research will mean that in the first instance much of the funding will end up in laboratories in and around Oxford, Cambridge and London, thereby actually widening regional divides.

A Labour government will inherit the Industrial Strategy Challenge Fund. It should honour existing contracts but needs to re-think the scale, purpose, organisation and focus of what follows next. Labour should:

- ***Deliver support for R&D to a wider range of sectors in a wider range of locations across the country***

Much of what remains of UK manufacturing is actually ‘high tech’ – it has had to be in order to survive in a globalised economy. There needs to be public sector support for R&D in a wide range of industries currently ignored by the Industrial Strategy Challenge Fund – sectors such as steel, chemicals, aerospace, rail engineering, food & drink manufacturing, oil & gas, defence equipment and more.

Many of these are important employers away from London and the South East and strengthening their performance would contribute to rebalancing the economy across the country. Indeed, there is more than a whiff of ‘picking winners’ – an approach much discredited by experience – in the Conservatives’ narrow sectoral focus.

The other step Labour should take is to:

- ***Move away from predominantly supporting research to a greater emphasis on product development, dissemination, good practice and the commercialisation of ideas***

³⁹ HM Government (2017) *Industrial Strategy: Building a Britain fit for the future*, HM Government, London.

⁴⁰ Labour Party (2017) *Richer Britain, Richer Lives: Labour’s Industrial Strategy*, Labour Party, London.

⁴¹ S Fothergill, T Gore and P Wells (2017) *Industrial Strategy and the Regions: the shortcomings of a narrow sectoral focus*, CRESR, Sheffield Hallam University.

The UK's long-standing problem is not so much in developing new scientific and technical ideas as in applying them in the real world of production. It is a false assumption that where new ideas are first developed will be where down-stream production will necessarily take place⁴². In reality, new ideas – and often the people who develop them – circulate widely around the world.

What British industry needs most is help in applying existing best practice in product design, manufacture, marketing and distribution. This sort of activity is less glamorous but likely to deliver greater returns across a wider range of sectors and places.

Input measures such as R&D spending are useful indicators for international comparison but they can mask how effectively innovation actually works, and whether public funding crowds-out private investment or levers-in investment from a range of sources. In the UK, the criticism of innovation is rarely the quality or the amount (though there can always be improvements) but the limited impact of these inputs on the wider economy. In particular, a pressing need is to address the long tail of firms that lag behind international comparators in terms of productivity.

A practical way in which all this could be achieved is by re-focussing the Industrial Strategy Challenge Fund as existing spending commitments come to an end. This provides the opportunity to:

- Extend eligibility to a much wider range of sectors, including the whole of manufacturing
- Refocus away from primary research to a more inclusive approach embracing product development and the application of existing ideas and technology
- Encourage the involvement of businesses beyond those that have traditionally engaged in significant R&D

To help promote the engagement of firms that have hitherto shied away from R&D, advice and financial support to work up proposals could also be made available through the new UK Shared Prosperity Fund (or its Labour successor).

Within limits, aid to businesses for R&D would normally be compatible with State Aid rules.

⁴² See D Egerton (2006) *The Shock of the Old: technology and global history since 1900*, Profile Books, London.

Skills

The strongest local economies usually have a highly trained workforce. Conversely, the places that lag behind generally have fewer graduates and fewer high-skill workers. But to blame slow growth and unemployment on the quality of the local workforce is to confuse cause and effect. In practice, high-skill workers tend to be the most mobile, moving to where suitable jobs are available. London's economy sucks in graduates from across Britain and the globe; in many rural, seaside and older industrial areas, high achievers at school move away to university and then never return.

Investment in training and skills is a national priority that a Labour government would undoubtedly pursue in all parts of the country. There is a good case, however, for boosting the effort in less prosperous local economies because once an area's workforce has been stripped of many of the most able and qualified it can become difficult for employers that rely on high-skill workers. New investors are put off and existing businesses find it harder to expand because of local skill shortages.

The European Social Fund (ESF) has for many years provided this additional targeted support for training in UK areas with higher unemployment. Brexit means that beyond 2020 ESF funding will disappear. This is a major loss that has the potential to cause huge damage to skills providers and Further Education colleges, especially in the least prosperous parts of the UK. A Labour government should therefore:

- ***Supplement national support for training and skills by earmarking a substantial proportion of the replacement for the EU Structural Funds for skills development in less prosperous local economies***

This was also one of the strong recommendations of a recent Select Committee inquiry⁴³.

The most significant recent change in the skills landscape has been the introduction in 2017 of the Apprenticeship Levy, paid at the rate of 0.5 per cent on payrolls over £3m a year. In England⁴⁴, employers can draw on funds in their account to pay for training. The early evidence⁴⁵ is that the Levy is seen by many employers as a tax rather than a fund to invest in skills and it may be a cause of a fall in the number of new apprenticeship starts. There are also concerns that the quality of much of the apprenticeship offer falls short of what is really required. In view of the inauspicious start and the skills needs in less prosperous parts of the country, Labour would be well advised to:

- ***Review the Apprenticeship Levy, particularly with reference to its role in skills development across regions and local areas***

⁴³ Work and Pensions Committee (2018) *European Social Fund*, Eighth report of session 2017-19, House of Commons, London.

⁴⁴ Apprenticeships are a devolved matter in Scotland, Wales and Northern Ireland.

⁴⁵ *Guardian*, 25 January 2018.

Public procurement

Labour has already set out its intention to use public procurement as a tool to reshape the economy by requiring any company bidding for a public sector contract to recognise trade unions and collective bargaining, move towards a narrower wage gap, pay suppliers promptly, maintain high environmental standards, provide training, be tax compliant and deliver equal opportunities⁴⁶.

Public sector procurement also has an important role in fostering industry in the regions. Plenty of UK firms have the capacity to supply UK needs but too often the contracts seem to go elsewhere. Government procurement plays a key role in many sectors including pharmaceuticals, infrastructure, railway rolling stock and defence equipment. Industries such as these make up a significant part of the UK's industrial capability and skills base, often at the highest end of technology and in parts of the country where they are a vital part of the local economy.

Orders should not necessarily be earmarked for specific firms – this is anyway difficult under competition law – but it is possible to introduce a range of requirements into contracts to support local suppliers and jobs and capitalise on local potential, for example by fostering clusters of specialist expertise. In addition, through collaboration and dialogue it is possible to ensure that the timing, scale and specification of big public sector contracts allow UK suppliers to be prime candidates. Labour should:

- ***Use public procurement as a tool to support British industry and promote jobs and training in the regions***

Public sector jobs

The relocation of public sector jobs from London and the South East has traditionally been one of the cheapest and often most durable ways to increase employment opportunities in the regions. It also eases pressure on London's overloaded infrastructure. However, the size of the public sector workforce both in London and outside is greatly diminished since 2010 and the implementation of austerity. The scope for further relocation may be limited.

Nevertheless, public sector employment can make a major contribution to local economies. There is little evidence that such employment 'crowds out' private investment and most public sector jobs – in schools, hospitals, the police and local authorities for example – are tied to the location of population. An end to austerity and to the squeeze on public sector services and employment would therefore be of benefit to all local economies.

⁴⁶ Labour Party (2017) *Richer Britain, Richer Lives: Labour's Industrial Strategy*, Labour Party, London.

There are two further avenues for a Labour government to consider. First, if new central government activities are established, either in departments or agencies, they may not need to be located in London. Second, a fresh approach to devolution may mean that certain functions are simply better undertaken regionally or locally. There are plenty of examples of where development away from London has been managed well in the past, bringing cost savings and efficiency gains as well as benefits to local economies.

It is almost a decade since the last review of the scope for public sector relocation⁴⁷. Much has changed since then, not least in the pervasive spread of new technology but also the reduction in the size of the state, nationally and locally. There is an opportunity to take stock once more. Labour should:

- ***Initiate a review of the scope for public sector employment to better contribute to reducing economic disparities, whether through decentralisation or devolution.***

Energy-intensive industries

Some manufacturing industries are unavoidably energy-intensive – steel, ceramics, aluminium, cement and heavy chemicals for example. Many of these industries are located in less prosperous parts of the UK where they are often major employers. Data processing ‘farms’, too, are energy-intensive.

Carbon taxes and other green charges on electricity are a useful tool to incentivise the move towards a low-carbon future but their applicability to energy-intensive industries does not always make sense. By increasing UK costs, the likelihood is that production and jobs will simply be diverted abroad with no net reduction in global emissions. The UK needs to honour its commitments under the Paris Accord to reduce carbon emissions but it also needs to be smart and targeted in the ways it does so. A low-carbon future should not mean, for some important UK industries, a no-production future.

The Conservative government has exempted energy-intensive industries from some green charges but not offset the UK’s higher wholesale price of electricity that results from other measures such as the carbon price floor (or ‘carbon tax’ as it is generally better known). As a result, UK energy-intensive industries continue to operate at a disadvantage relative to their competitors in the rest of Europe and elsewhere.

To help protect key industrial jobs in the regions, Labour should:

⁴⁷ I Smith (2010) *Relocation: transforming where and how government works*, HM Treasury, London.

- ***Sustain the international competitiveness of the UK's energy-intensive industries by lowering their electricity bills whilst maintaining interventions to deliver a low carbon future***

The most immediate way in which this could be achieved is by extending the existing exemption from green charges to include the proportion of wholesale electricity costs attributable to the carbon tax levied on electricity producers. As with the existing exemptions, the cost of this further measure would be spread across all other electricity consumers.

Trade defence instruments

Free trade has brought the benefits of cheaper goods and services, to Britain and to the rest of the world. But there also need to be limits to free trade. Competition is welcome, but it must be fair.

This matters a great deal to jobs in the regions. The UK's steel crisis, for example, was triggered by a vast surplus of Chinese steel, much of it dumped on world markets at below production costs. The surplus has not gone away and, worryingly, steel could be only the first industry to feel the effects of market distortions if the Chinese economy were to slow down. More generally, British manufacturing should not be allowed to suffer as a result of unfair competition from countries that fail to respect workers' rights, health and safety or environmental protection.

When the UK leaves the European Union it will need to develop trade defence instruments of its own and the Conservative government has promised a new Trade Remedies Authority to take over this responsibility. Worryingly, however, there is a strand of thinking among some supporters of Brexit that it should be the trigger to abandon many of the regulations that have hitherto protected standards and employment rights in the UK. This would be an unacceptable race to the bottom.

To ensure a level playing field for industry in the regions, Labour should:

- ***Welcome free trade but ensure that outside the EU the UK is, if necessary, able to deploy a full set of trade defence instruments to combat unfair competition***

4. INSTITUTIONAL STRUCTURES

The current institutional structures for delivering local and regional growth across the UK are complex. The arrangements in England are different from those in Scotland, Wales and Northern Ireland and in all parts of the UK there is an unresolved tension between what should be decided and delivered locally and what should remain the responsibility of central government.

A Labour government could spend much of its first term introducing a whole new set of structures. This would be a mistake. Whilst there is certainly scope for modifications to existing arrangements it is probably more important to get on delivering growth and jobs across the country. As the National Audit Office noted⁴⁸, the Conservative's abolition of Labour's Regional Development Agencies introduced at least a two-year hiatus in spending on local and regional development in England. This is an experience not to be repeated.

Most left-leaning governments in OECD countries are now moving towards economic development models that emphasise inclusive, smart and sustainable growth within a strong institutional framework based on cooperation between government and social and economic partners. Some have pursued such approaches through national strategies whilst others have taken more local and place-based approaches. However, the central state plays a key role not just in terms of finance and regulation but also in ensuring there is not unnecessary duplication.

There are pointers here for Labour. A key feature of all these approaches is that they are long-term, with institutions remaining in place across electoral cycles. Excessive institutional change has arguably hampered and wasted resources in the UK.

The main alternative to the inclusive, smart, sustainable growth model of development is one based on competition and consumer spending, focussing on labour market deregulation and cuts to corporate taxation. Within this model, cities and regions are expected to compete for public funding and private investment. In many respects this has been the strategy in the UK (or perhaps more specifically in England) since 2010. We take it as given that a Labour government would want to move away from this particular approach.

⁴⁸ National Audit Office (2013) *Funding and Structures for Local Economic Growth*, NAO, London.

Central government

There is a key and indeed unavoidable role for central government – i.e. Westminster and Whitehall – in setting the framework for local, regional and national development across the UK. At the core this is about:

- *Making choices* about which parts of the UK should be prioritised for assistance and support
- *Allocating resources* across the UK between competing claims
- *Overseeing the actions* of local, regional and national players to avoid wasteful duplication and 'bidding wars' and ensure fair competition.

In addition, there are policy fields well beyond economic development – health, social care, education, housing and welfare policies for example – that have overlapping impacts on national, regional and local development⁴⁹. These links and impacts are important. They point to how a wide range of policies help build a prosperous, inclusive and sustainable Britain. Key policies that are UK government responsibilities and have major regional and local impacts include fiscal and monetary and policy and, of course, the UK's future trading relationship with the rest of Europe.

With all these considerations in mind, a Labour government should:

- ***Retain ultimate, central government responsibility for promoting prosperity in all parts of the UK and for narrowing the gaps across the country***

Regional policy and devolution are different things. In England, central government should not abdicate responsibility for regional development or expect this responsibility to be devolved in its entirety to local players. It should instead work closely with regional and local players to deliver national goals.

In practice, however, the responsibility for national, regional and local development is presently fragmented across UK government departments, notably the Departments for Business and for Communities but also the Treasury. The devolved administrations have important roles in their areas of responsibility but there is presently no formal role at the UK scale for local authorities, the business community or trade unions. To introduce much-needed coherence to central government policy-making in regional and local economic development, Labour should therefore:

- ***Establish a high-level Council for Regional Development to oversee and coordinate programmes and policies***

⁴⁹ See for example C Beatty and S Fothergill (2016) *The Uneven Impact of Welfare Reform: the financial losses to places and people*, CRESR, Sheffield Hallam University.

The Council would include not only central government departments but also representatives of the devolved administrations, local authorities and social and economic partners.

The use of evidence and analysis to inform policy-making on regional and local economic development has faltered in recent years. Instead, there has been an almost ideological faith in the benefits of 'agglomeration' – the clustering of businesses, particularly but not exclusively in cities, where they are supposed to benefit from proximity to each other. In practice, this dominant view has underpinned a policy emphasis on the UK's big cities and downplayed the importance, diversity and history of place. More and more towns and communities are feeling 'left behind' as a result. Increasingly, they are expected to benefit primarily from trickle-down from the big cities – which can only work of course if there is a city nearby.

The establishment of a new Council for Regional Development would provide the opportunity to take a careful, evidence-based look at the claims about agglomeration and trickle-down and to develop a more inclusive and broad-based approach to local and regional growth.

The devolved administrations

Arrangements to support regional economic development differ across the four nations of the UK. Regional policy and industrial strategy are, to a significant extent, competences that are now devolved and a Labour government in Westminster would therefore have limited powers to intervene in Scotland, Wales and Northern Ireland.

The devolved nations have institutional arrangements for economic development that build on structures in place prior to devolution but which have evolved. Alongside greater devolved oversight there has been an increasing focus on nation-wide policies rather than on regional or sub-national initiatives.

In **Scotland**, the principal economic development agencies are accountable to the Scottish Government and Parliament and work within the framework of a national economic development strategy. Engagement with local authorities and other stakeholders is provided through various networks and local/community planning bodies. Since 2011 the SNP government has refocused the activities of Scottish Enterprise much more on sector growth although most Scottish local authorities retain a role in local economic development.

In **Wales**, the Welsh Government has established a national framework for economic development with a strong focus on inclusive growth. The current plan is to bring a stronger place-based approach to economic development based on three broad regions (North Wales, Mid and South West Wales, and South East Wales). The plan covers sectoral, environmental and skills policies. There is also support for a national Development Bank for Wales.

In **Northern Ireland** economic strategy differs from the approaches taken in Scotland and Wales in that whilst it is focused on growth it seeks to use a tighter set of instruments to achieve this, with a strong focus on a core of highly skilled jobs in technologically advanced export sectors. The Northern Ireland Executive has also sought new powers, and in particular powers to lower the rate of Corporation Tax, which is seen as essential in competing for investment against the Republic of Ireland.

In many respects, the approaches to regional and local development in Scotland, Wales and Northern Ireland mirror the strategies common in smaller EU states. They place a strong emphasis on cross-sector partnership, long term, multi-annual planning and funding, and on smart, inclusive and sustainable growth. Labour should:

- ***Welcome the important and independent role that the devolved administrations play in regional and local development, and ensure that supportive policies are in place at the UK level***

Local Enterprise Partnerships

In England the present government's policy agenda has moved in a different direction.

The direction of travel was first laid out in the 2010 Local Growth White Paper⁵⁰. The aspiration of the Conservative-led coalition was to rebalance the UK economy away from a perceived over-reliance on financial services and on public sector employment. The Regional Development Agencies in England were abolished and replaced by Local Enterprise Partnerships (LEPs).

The geographical coverage of each of the LEPs was left up to local partners to determine, subject to sign-off by central government. A total of 39 LEPs emerged, now reduced to 38 by a merger. Smaller than the RDAs they replaced, many of the LEPs cover 'city regions' or 'functional economic areas', but there are also points of overlap – 29 local authorities, mainly district councils but also some unitary authorities, presently sit in two LEP areas.

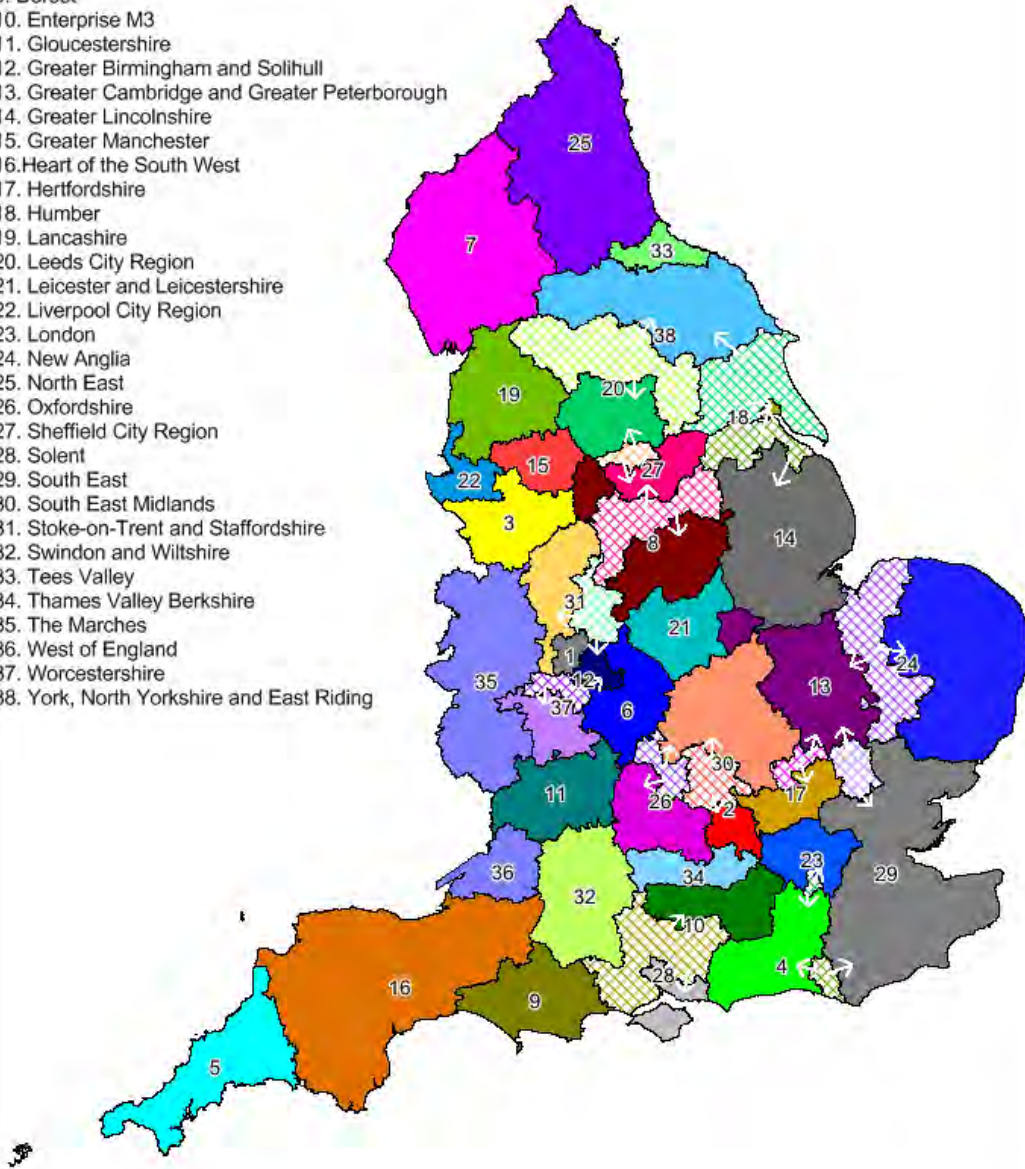
LEPs are in theory private sector led institutions, chaired by a local business person. Funding for their core functions was initially intended to come from local authorities though government funding was eventually made available as local authorities in most cases were unable to commit significant resources given the funding cuts they faced. LEPs are intended to be the main bodies coordinating, though rarely delivering, local and regional economic development. From 2014 onwards each LEP was given an allocation from the EU Structural Funds and, also from 2014, from the government's Local Growth Fund, mainly towards the cost of infrastructure projects.

⁵⁰ Department for Business, Innovation and Skills (2010) *Local Growth: realising every place's potential*, BIS, London.

LOCAL ENTERPRISE PARTNERSHIP AREAS IN ENGLAND

KEY

1. Black Country
2. Buckinghamshire Thames Valley
3. Cheshire and Warrington
4. Coast to Capital
5. Cornwall and Isles of Scilly
6. Coventry and Warwickshire
7. Cumbria
8. Derbyshire and Nottinghamshire
9. Dorset
10. Enterprise M3
11. Gloucestershire
12. Greater Birmingham and Solihull
13. Greater Cambridge and Greater Peterborough
14. Greater Lincolnshire
15. Greater Manchester
16. Heart of the South West
17. Hertfordshire
18. Humber
19. Lancashire
20. Leeds City Region
21. Leicester and Leicestershire
22. Liverpool City Region
23. London
24. New Anglia
25. North East
26. Oxfordshire
27. Sheffield City Region
28. Solent
29. South East
30. South East Midlands
31. Stoke-on-Trent and Staffordshire
32. Swindon and Wiltshire
33. Tees Valley
34. Thames Valley Berkshire
35. The Marches
36. West of England
37. Worcestershire
38. York, North Yorkshire and East Riding



More recently, the 2017 White Paper on Industrial Strategy gave LEPs a central role in developing Local Industrial Strategies, either in collaboration with Mayoral Combined Authorities or, elsewhere in England, as the lead body.

After a slow start, LEPs have therefore become an important part of the institutional architecture of regional and local development in England and one that a Labour government will inherit. That said, LEPs still vary widely in operational capability and in the extent to which they are embedded in local decision-making structures. In July 2018 the government announced plans aimed at strengthening LEPs' capabilities and performance, including a review of boundaries intended to remove overlaps⁵¹

There are two alternative approaches a Labour government might wish to take in improving the effectiveness and accountability of LEPs:

- An 'incremental' approach that builds on existing structures and makes modest changes to the relationship between LEPs and local stakeholders.
- A 'transformative' approach that establishes a full coverage of strategic authorities across England to which LEPs would be directly accountable.

An **incremental approach** would see LEPs retained in their current form but would revise their governance to better engage social partners on LEP boards, including trade unions, health trusts, educational institutions and the voluntary and community sector as well as local authorities. Whilst individuals from the private sector have given freely of their time and made valuable contributions in many LEP areas there is a concern that the interests they represent can be too narrow and result in poor decision making. In particular, the prominence of the local property sector in the affairs of some LEPs can mean that economic development in some parts of England has become focussed on a narrow set of activities around land assembly and development. The inclusion of social partners would address concerns expressed by the TUC⁵² and would bring in a broader range of expertise.

Under an incremental approach, Local Industrial Strategies would continue to be led by LEPs where combined authorities are not in place. Assuming the current review of LEP boundaries results in acceptable revisions the boundary issue would not need to be revisited, though this would remain an option.

A **transformative approach** would involve completing the devolution project by ensuring that combined authorities or equivalent structures cover the whole of England. This would guarantee that all areas have an institution able to assume devolved funding, powers and responsibilities with the democratic accountability and institutional capacity that LEPs currently lack. The new institutions would most commonly be a formal collaboration of local authorities across an area. It might be a combined authority, an elected assembly, a unitary county council or a county/district partnership.

⁵¹ Ministry of Housing Communities and Local Government (2018) *Strengthened Local Enterprise Partnerships*, MHCLG, London.

⁵² TUC (2017) *Great jobs in great places*, TUC, London.

Within this transformative framework, LEPs then would be brought under the appropriate strategic authority to ensure that their primary functions around economic development are aligned with the strategic authority's wider goals. This would formalise current arrangements where LEPs are already heavily reliant on constituent local authorities for staffing and expertise⁵³. Once areas established strategic authorities they would assume full responsibility for developing Local Industrial Strategies.

A transformative approach of this kind would probably require primary legislation and would need to be aligned with any wider plans for local government in England. It would however create a stronger basis for economic development in the regions.

Labour needs to weigh up the merits of these different approaches to the future of LEPs, which clearly interact with policymaking on the future of English local government. Whatever the approach, however, Labour should aim to:

- ***Retain Local Enterprise Partnerships but be prepared to modify their structures and raise their effectiveness***
- ***Make LEPs more clearly and directly accountable to the local authorities within their areas, including combined authorities in the places where these have been established***
- ***Engage a range of social partners on LEP boards to improve accountability and bring to bear their expertise***

Devolution in England

In England, local and regional economic development has been further complicated by the uneven pace of devolution. There have been a number of City Deals covering funding in areas such as social care, skills development and transport. More recently, additional funding under Devolution Deals has been linked to the establishment of combined authorities with elected mayors.

Conservative ministers have been keen to argue that the devolution of funding to local authorities, especially at the city-region level, will lead to faster growth and more jobs. Local authorities, which have just about all faced huge cuts in mainstream funding, have generally accepted this argument in order to claw back at least some monies and taken the view that they can do a better job than Whitehall.

In practice, if the money is not 'new' but merely a transfer from an existing central government budget line – which is the case with City Deals, for example, and also applies to the Local Growth Fund – the real economic benefits of devolution are likely to be marginal.

⁵³ See National Audit Office (2016) *Local Enterprise Partnerships*. NAO: London.

Local control enables greater sensitivity to local circumstances but not necessarily a great deal more. The Devolution Deals resulting in the establishment of combined authorities with elected mayors do appear to be backed by new money but in all cases the scale of the new money falls far short of what has already been withdrawn by cuts in mainstream funding.

This deal-based approach to devolution in England has actually hampered a more wide-ranging review of the powers of local government, which are limited compared to countries such as the United States or Germany where there are higher levels of fiscal decentralisation. The instruments at the disposal of English local authorities, for example to issue bonds or secure loans, remain extremely limited, something that has impacted particularly badly on the ability to build affordable housing. Indeed, the Conservative-led governments since 2010 have never commissioned a systematic evaluation of the economic benefits of the devolved arrangements they have introduced.

A serious flaw in the present deal-based approach to devolution is that it has been offered to only a minority of authorities covering only around a third of the English population. Indeed, the model appears to work best where there are established city-regions with a history of collaboration. Furthermore, areas without combined authorities and elected mayors may now find it difficult to secure new funding or powers. The earmarking of half the Transforming Cities Fund for six combined authorities with elected mayors, leaving the rest of England to submit bids for shares of a diminished pot, is a case in point⁵⁴.

In operating a deal-based approach the Conservative government has claimed that it is responding to the variable capacity of areas to assume devolved powers and funding. This masks what in effect has become a system of ministerial patronage. It is probably incumbent on Labour to honour the existing Devolution Deals where local authority partners wish them to remain in place but, looking ahead, a better approach would be for Labour to:

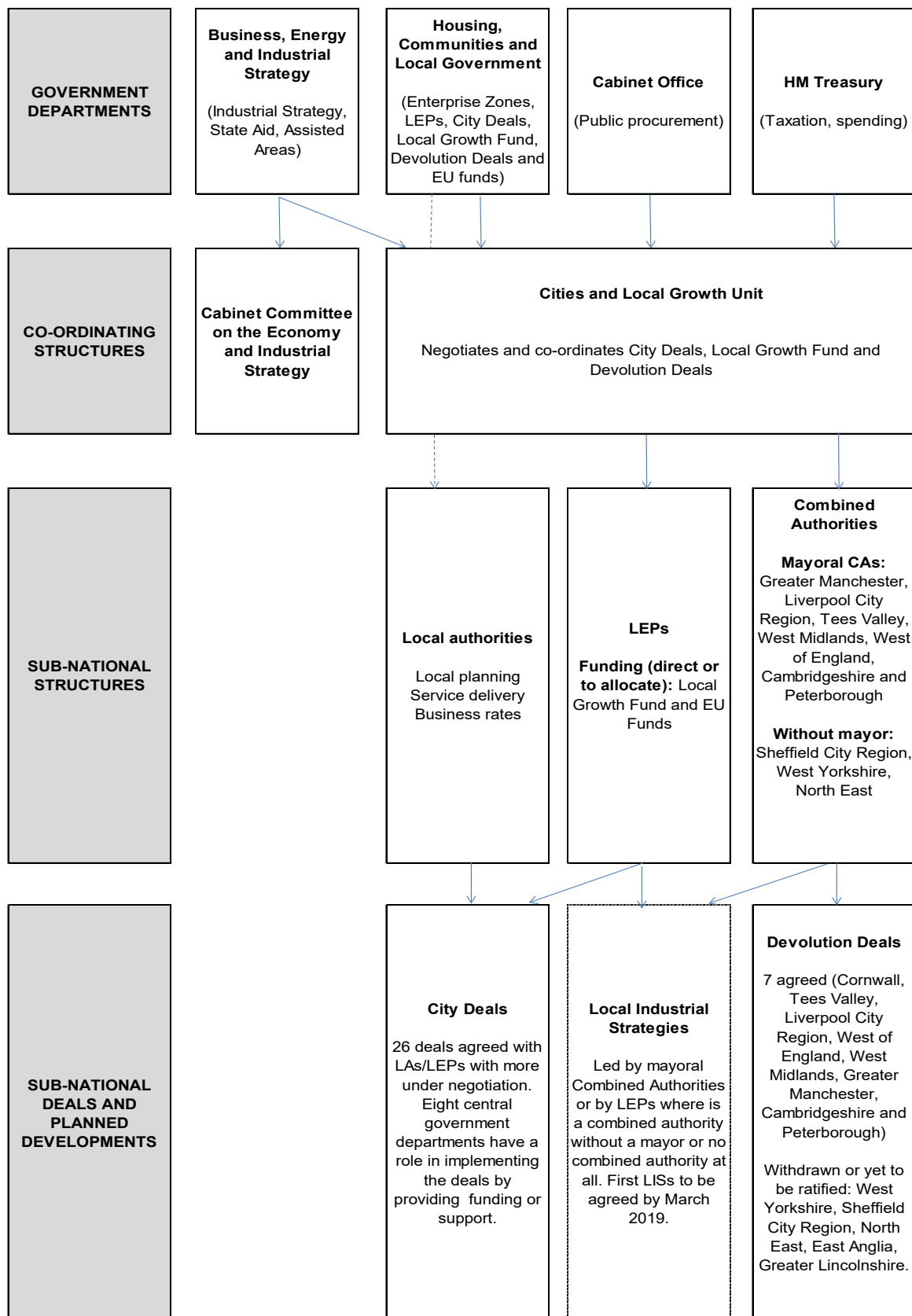
- ***Discontinue the current deal-based approach to devolution to English local authorities in favour of more straightforward centre-local funding models based on the assessment of need***

A common view is that devolution to London and Greater Manchester has been welcome and successful because of long-standing working relationships across borough boundaries. For similar reasons, devolution to a number of other areas with strong city-regions, such as Birmingham, Liverpool and Tees Valley looks likely to take root.

However, where local areas are more polycentric, with multiple and often rival urban centres, it is harder for the current Conservative model to apply. Moreover, some of the UK's strongest local economies with growing pressures on housing and infrastructure (in parts of the South) and many of the most peripheral areas in need of growth (seaside towns for example) are hard to shoe-horn into city-region frameworks and, indeed, have been left largely untouched to date by devolution plans. These areas would benefit from a more straightforward centre-local funding model and a more consistent application of devolution to combined authorities or equivalent structures.

⁵⁴ *Autumn Budget 2017*, HM Treasury, London.

DEVOLVED ARRANGEMENTS IN ENGLAND (as at spring 2018)



Regions

In England at present, there is an institutional vacuum between Local Enterprise Partnerships at the city-region level and central government in London. This makes it difficult to knit together funding streams that operate at different geographical scales and to integrate the policies and priorities of neighbouring LEPs. It raises the possibility of wasteful duplication and overlap where LEPs pursue similar but not always compatible agendas. And it runs the risk of detaching central government too far from problems and opportunities on the ground.

Indeed, with just eight Regional Development Agencies outside London a regular criticism used to be that they too often pursued the same 'industrial cluster' strategies. With 38 separate LEPs (give or take a few following the present review of boundaries) the problem is multiplied. Not everywhere can expect to be a world-leading hub of biotechnology or artificial intelligence, or whatever else may be the most glamorous sector of the moment. Better to recognise that public investment needs to build on each area's distinctive strengths.

Labour needs to be cautious about creating new structures, but it also needs to recognise that the Conservative cull of regional institutions in the early 2010s was rooted in antipathy towards regional governance rather than an assessment of need. Labour should:

- ***Re-establish government offices in the English regions to help co-ordinate the work of the LEPs and strengthen central-local relations***

In particular, government offices in the English regions need to take a cross-regional perspective and deliver coordination between regional or local interventions, on the one hand, and wider policy areas such as education, skills, transport, housing and national infrastructure provision.

The Conservative government's Northern Powerhouse provides belated recognition, perhaps, that local economies do operate across LEP boundaries. But the Northern Powerhouse itself has never been properly defined – is it just Manchester, or Manchester plus Leeds and a couple of other cities, or the whole of northern England? Actions and spending plans point to just the big cities, but this is something Conservative minister deny.

More recently, the Northern Powerhouse initiative has become entangled with devolution to combined authorities with elected mayors. It has also become a convenient label to be applied to infrastructure investments in the North that would probably have happened anyway. And to deflect criticism that the North is getting special treatment, the Conservative government subsequently established a Midlands Engine.

Increasingly, the Northern Powerhouse and Midlands Engine look at best to be window-dressing and at worst a framework to encourage local authority compliance with a Conservative agenda on local governance. Labour should:

- ***Replace the present Northern Powerhouse and Midlands Engine with cross-boundary frameworks for collaboration between central and local government***

Collaboration is likely to work best on issues such as investments in transport that span regional and LEP boundaries.

5. CONCLUDING REMARKS

In government, Labour has the chance to make a big difference to Britain's fractured economy and to narrow the differences in prosperity between regions and local areas across the country. In doing so it can restore hope to communities that presently feel left behind and ease the pressure on the most congested parts of London and the South East where the growth of the economy and population is outstripping the ability of infrastructure and the housing market to cope. A better distribution of economic activity can be of benefit to the whole country.

That said, Labour should not expect rapid change overnight. Reversing the polarisation that has taken decades to develop is a task that needs to be sustained for years across more than one parliament. But there should never be any doubt that change is possible. Indeed, the long history of UK regional policy shows that in the absence of substantial regeneration efforts over the years the economies in much of the North, Scotland, Wales and Northern Ireland would be in a far, far worse state than at present. Regional and local economic development policies do work – they just take time.

Nevertheless, such a major overhaul of Britain's regional and local geography will not be brought about merely by lofty aspirations and intentions. What a Labour government needs is a suite of policies that it can begin to introduce early in its first term. Existing commitments, in the 2017 election manifesto, are a good starting point. The proposals here, in this report, add important practical detail.

Appendix

List of maps and tables (in order referenced in the text)

Figure 1: ILO unemployment by district, June 2017

Figure 2: Estimated real unemployment by district, Spring 2017

Table 1: Output and employment by LEP area and sub-region

Figure 3: Share of jobs in managerial and professional occupations, by district, 2017

Figure 4: Gross weekly earnings of full-time workers, by district, 2014-16

Figure 5: Employment in all manufacturing, by district, 2016

Figure 6: Employment in food and drink production, by district, 2016

Figure 7: Employment in chemicals production, by district, 2016

Figure 8: Employment in pharmaceuticals production, by district 2016

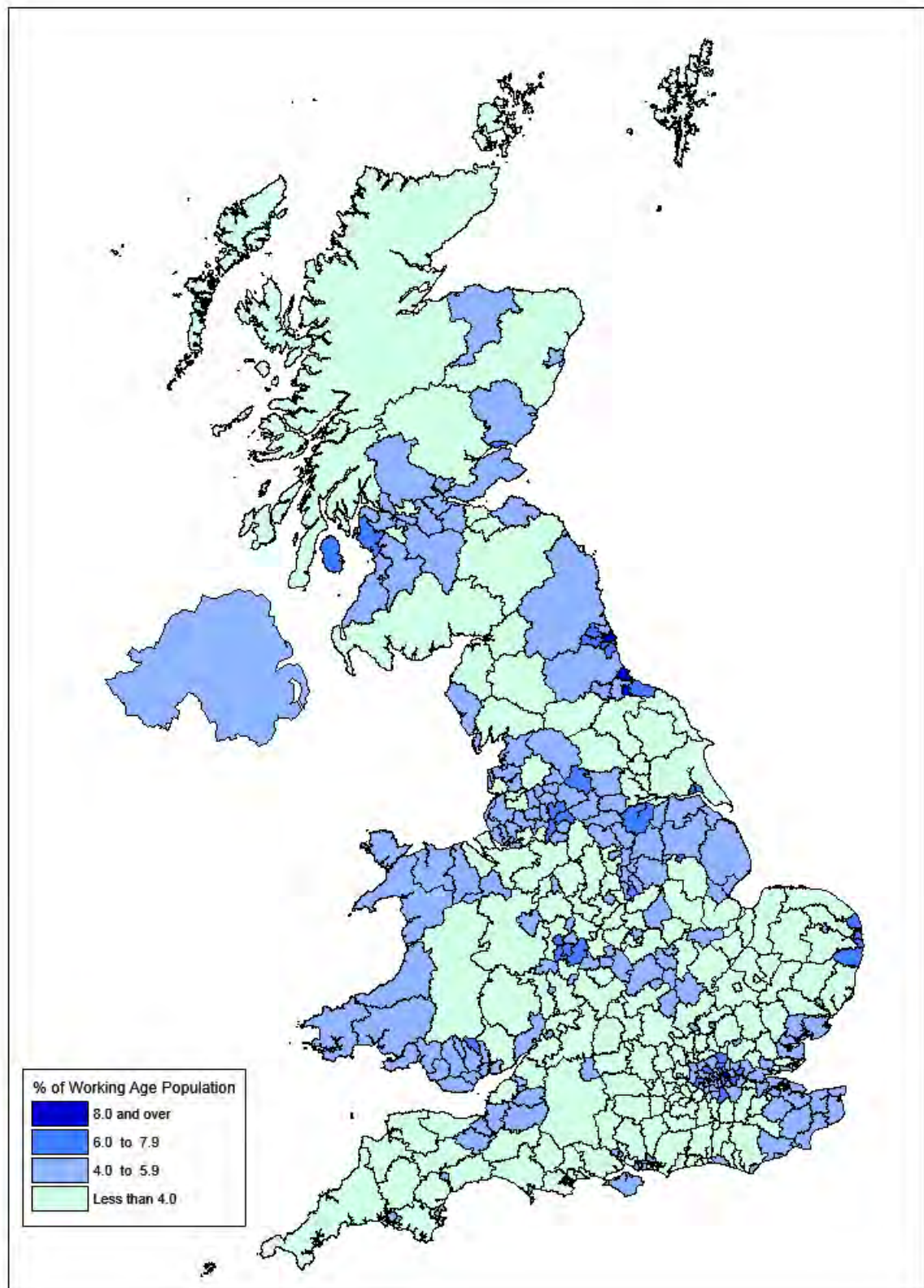
Figure 9: Employment in the iron and steel industry, by district, 2016

Figure 10: Employment in motor vehicles production, by district, 2016

Figure 11: Employment in the aerospace industry, by district, 2016

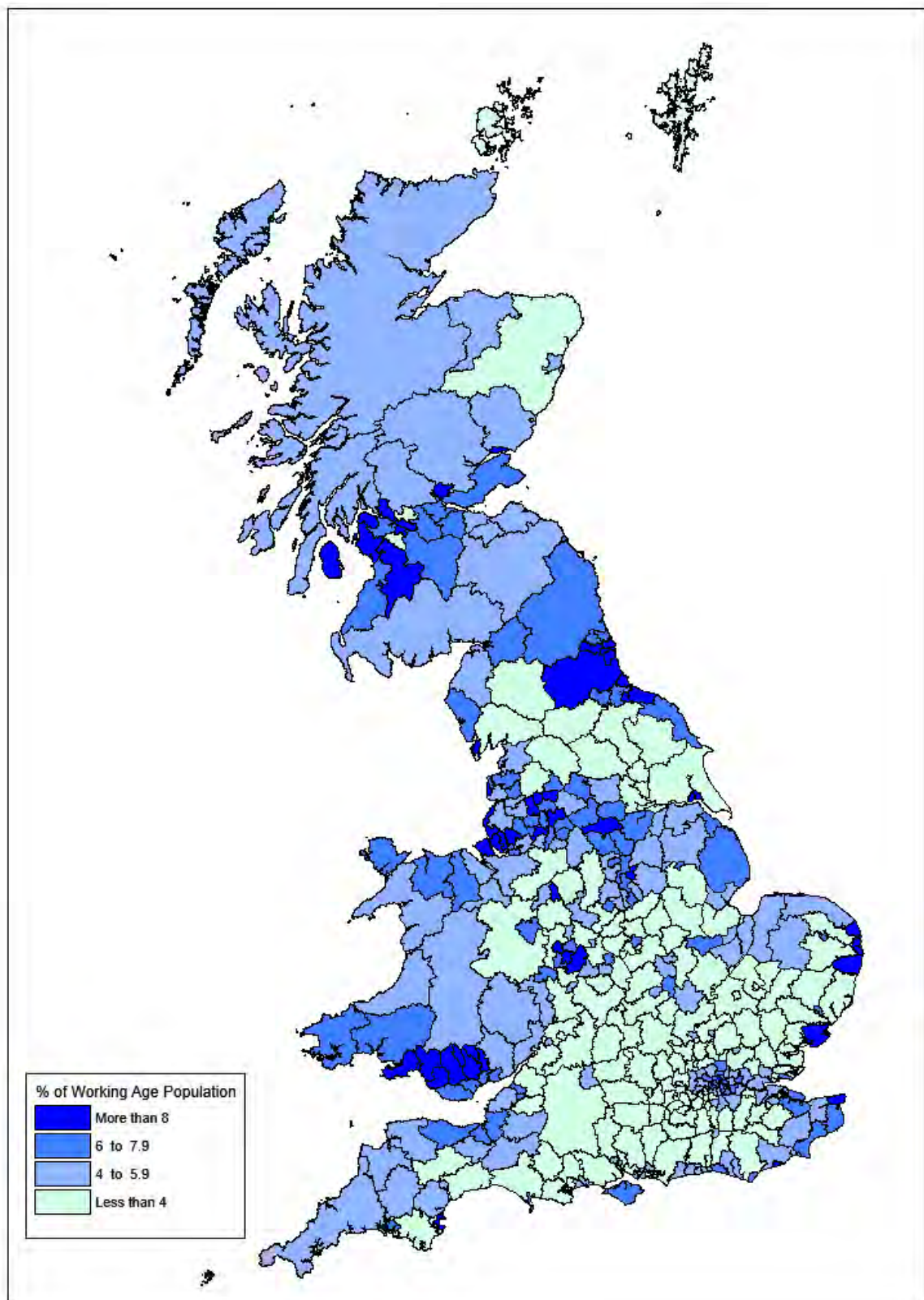
Figure 12: Employment in R&D establishments, by district, 2016

Figure 1: ILO unemployment by district, June 2017



Source: ONS Labour Force Survey

Figure 2: Estimated real unemployment by district, Spring 2017



Source: Sheffield Hallam estimates based on ONS and DWP data

Table 1: Output and employment by LEP area and sub-region

| | GVA per head | Increase in GVA* | Increase in employment |
|---------------------------------------|---------------------|-------------------------|-------------------------------|
| | 2016 | 2010-16 | 2010-16 |
| | UK=100 | % | % |
| London | 169.4 | 19.9 | 18.3 |
| Thames Valley Berkshire | 150.8 | 10.1 | 9.8 |
| Oxfordshire | 124.5 | 19.0 | 12.7 |
| Enterprise M3 | 121.4 | 11.4 | 6.2 |
| Cheshire & Warrington | 116.2 | 11.8 | 13.3 |
| Hertfordshire | 115.0 | 15.1 | 17.4 |
| Buckinghamshire Thames Valley | 111.3 | 14.3 | 9.6 |
| West of England | 109.2 | 10.7 | 5.4 |
| South East Midlands | 108.1 | 16.2 | 14.5 |
| Coventry & Warwickshire | 105.0 | 28.4 | 11.2 |
| Greater Cambridge & Gr. Peterborough | 102.4 | 13.9 | 12.3 |
| Solent | 98.9 | 7.1 | 4.4 |
| Gloucestershire | 97.5 | 12.1 | 3.6 |
| Swindon & Wiltshire | 95.0 | 8.5 | 9.8 |
| Cumbria | 91.9 | 11.7 | 4.9 |
| Coast to Capital | 90.7 | 8.7 | 6.8 |
| Greater Birmingham & Solihull | 85.1 | 16.2 | 11.8 |
| Leicester & Leicestershire | 85.1 | 10.1 | 9.3 |
| Greater Manchester | 85.0 | 9.2 | 8.4 |
| Worcestershire | 83.9 | 22.1 | 7.8 |
| Dorset | 82.7 | 11.0 | 7.1 |
| New Anglia | 82.0 | 9.4 | 7.5 |
| York, North Yorkshire & East Riding | 81.8 | 5.2 | 5.4 |
| Leeds City Region | 80.8 | 9.5 | 6.0 |
| Derby, Derbyshire, Nottingham & Notts | 80.0 | 13.2 | 6.4 |
| South East | 79.8 | 10.7 | 7.7 |
| Lancashire | 79.8 | 11.6 | 3.9 |
| The Marches | 78.4 | 9.5 | 4.0 |
| Humber | 78.3 | 4.6 | 2.9 |
| Heart of the South West | 78.3 | 9.5 | 2.4 |
| Greater Lincolnshire | 74.7 | 5.9 | 3.2 |
| Liverpool City Region | 74.5 | 1.2 | 4.5 |
| North East | 73.9 | 9.7 | 3.1 |
| Stoke on Trent & Staffordshire | 73.7 | 10.2 | 7.6 |
| Tees Valley | 72.2 | 0.7 | - 0.7 |
| Sheffield City Region | 71.3 | 12.3 | 5.6 |
| Cornwall & Isles of Scilly | 68.6 | 11.5 | 3.1 |
| Black Country | 66.1 | 7.2 | - 0.7 |

(continued....)

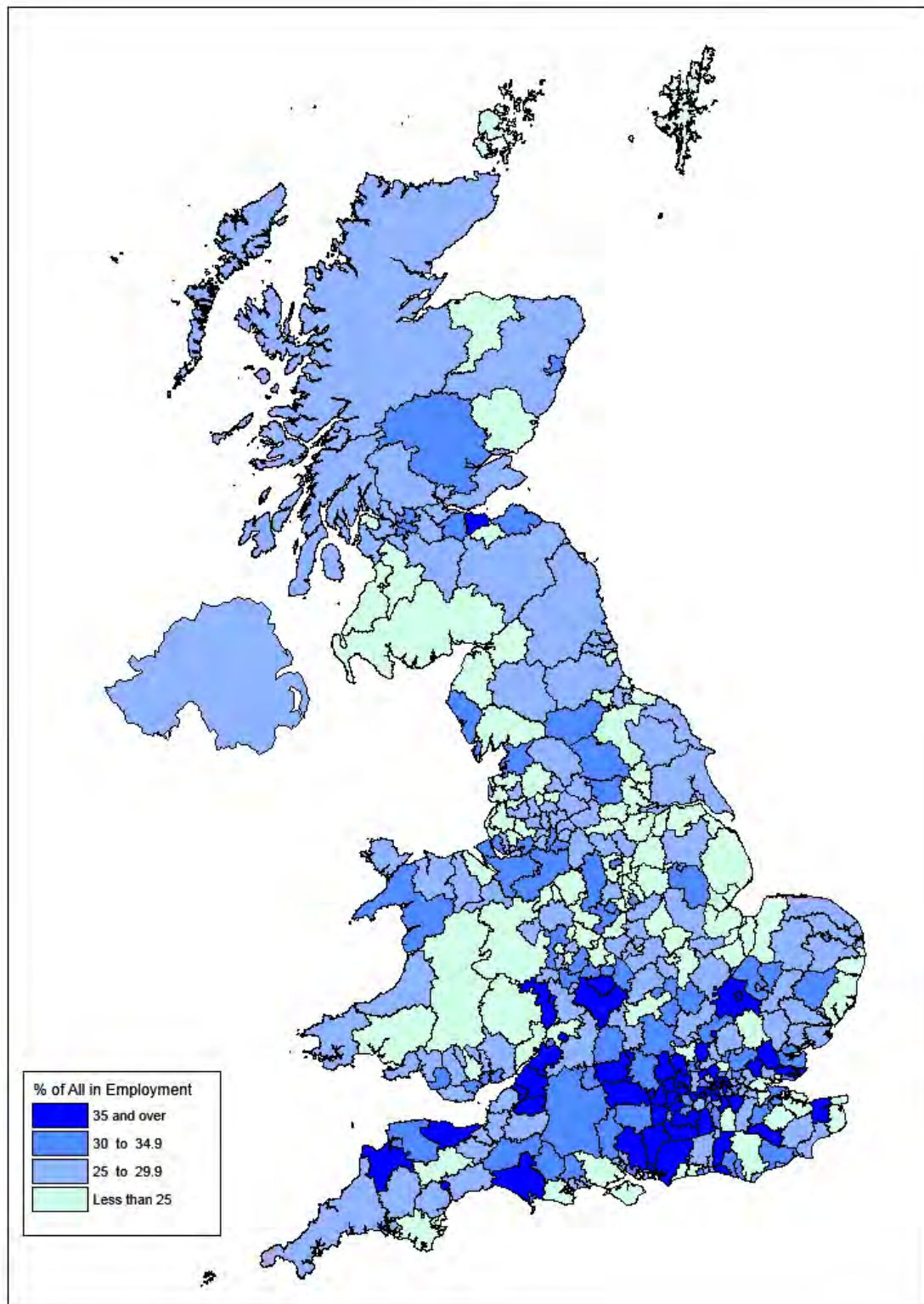
Table 1 (continued)

| | GVA per head | Increase in GVA* | Increase in employment |
|----------------------------|---------------------|-------------------------|-------------------------------|
| | 2016 | 2010-16 | 2010-16 |
| | UK=100 | % | % |
| Aberdeen & Aberdeenshire | 134.6 | 7.8 | 5.4 |
| Edinburgh City Region | 95.6 | 9.9 | 9.2 |
| Glasgow City Region | 90.8 | 11.3 | 6.1 |
| Highlands & Islands | 87.8 | 11.6 | 5.4 |
| Dundee-Perth City Region | 86.8 | 11.7 | 2.5 |
| South West Scotland | 70.2 | 8.4 | 3.4 |
| South East Wales | 77.1 | 12.1 | 4.7 |
| North Wales | 77.1 | 14.1 | 8.1 |
| South West Wales | 66.4 | 12.7 | 4.2 |
| Northern Ireland | 76.9 | 10.3 | n.a. |
| United Kingdom (GB) | 100.0 | 12.1 | (8.5) |

*Adjusted for inflation

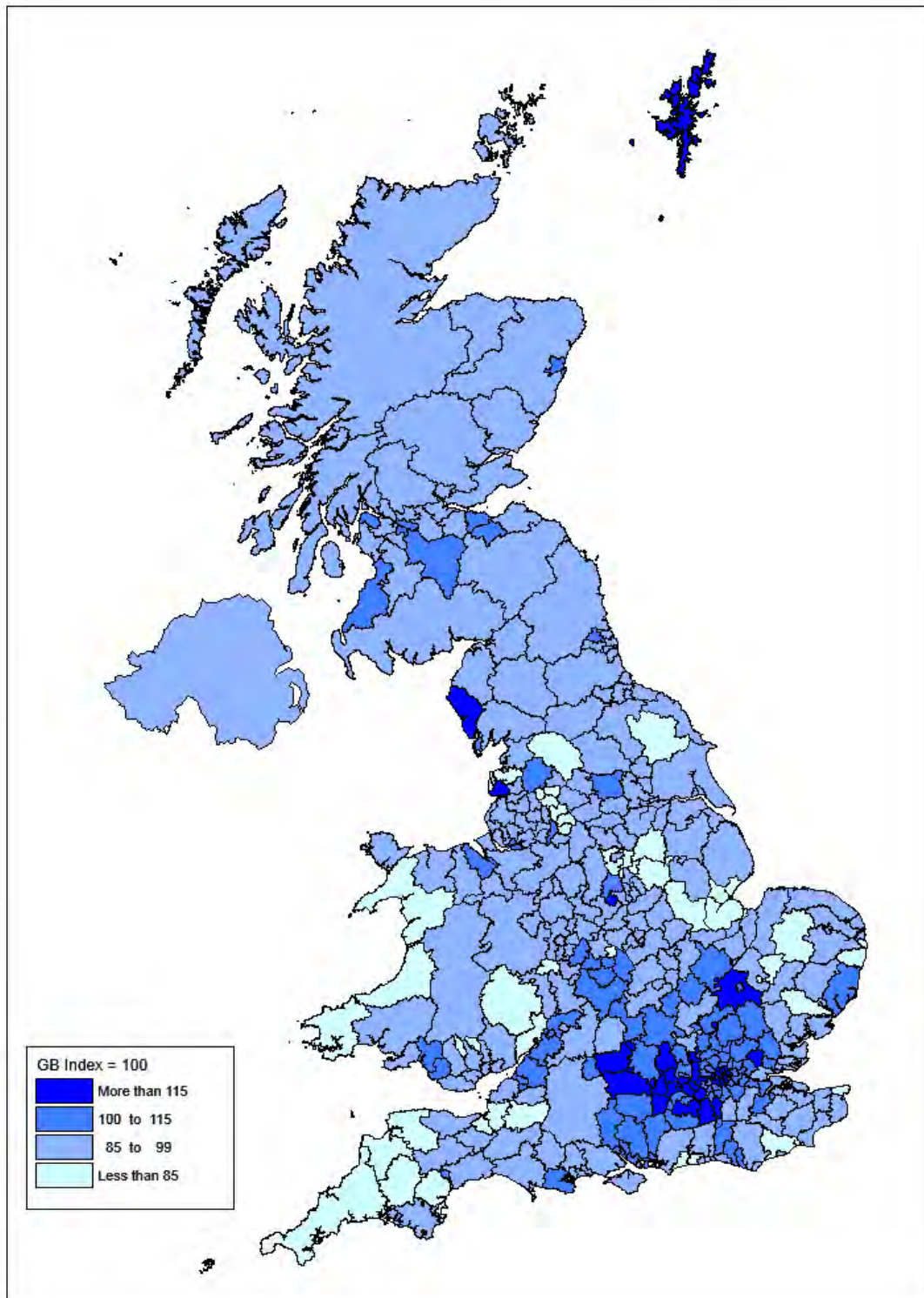
Sources: ONS, Business Register and Employment Survey

Figure 3: Share of jobs in managerial and professional occupations, by district, 2017



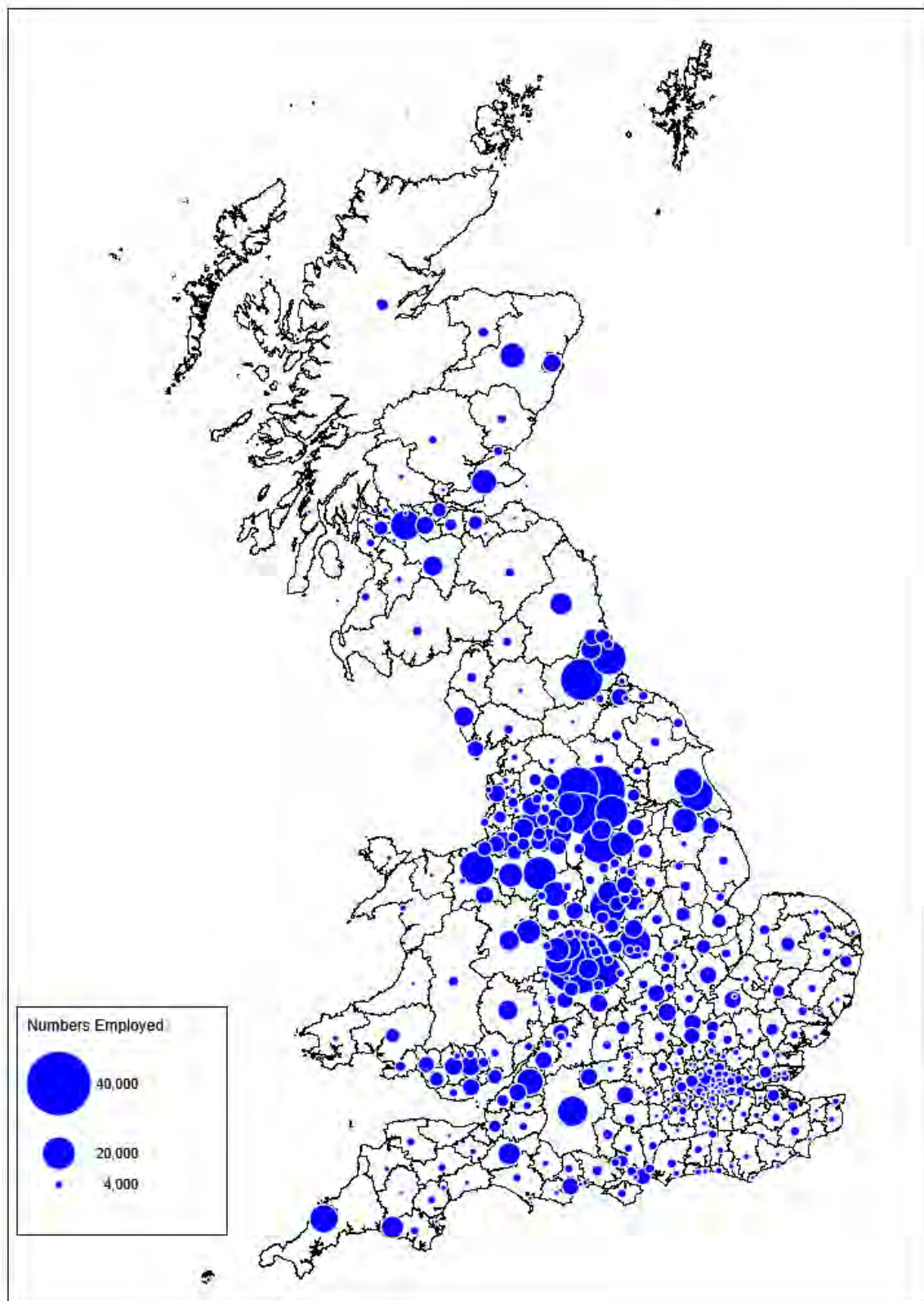
Source: ONS Labour Force Survey

Figure 4: Gross weekly earnings of full-time workers, by district, 2014-16



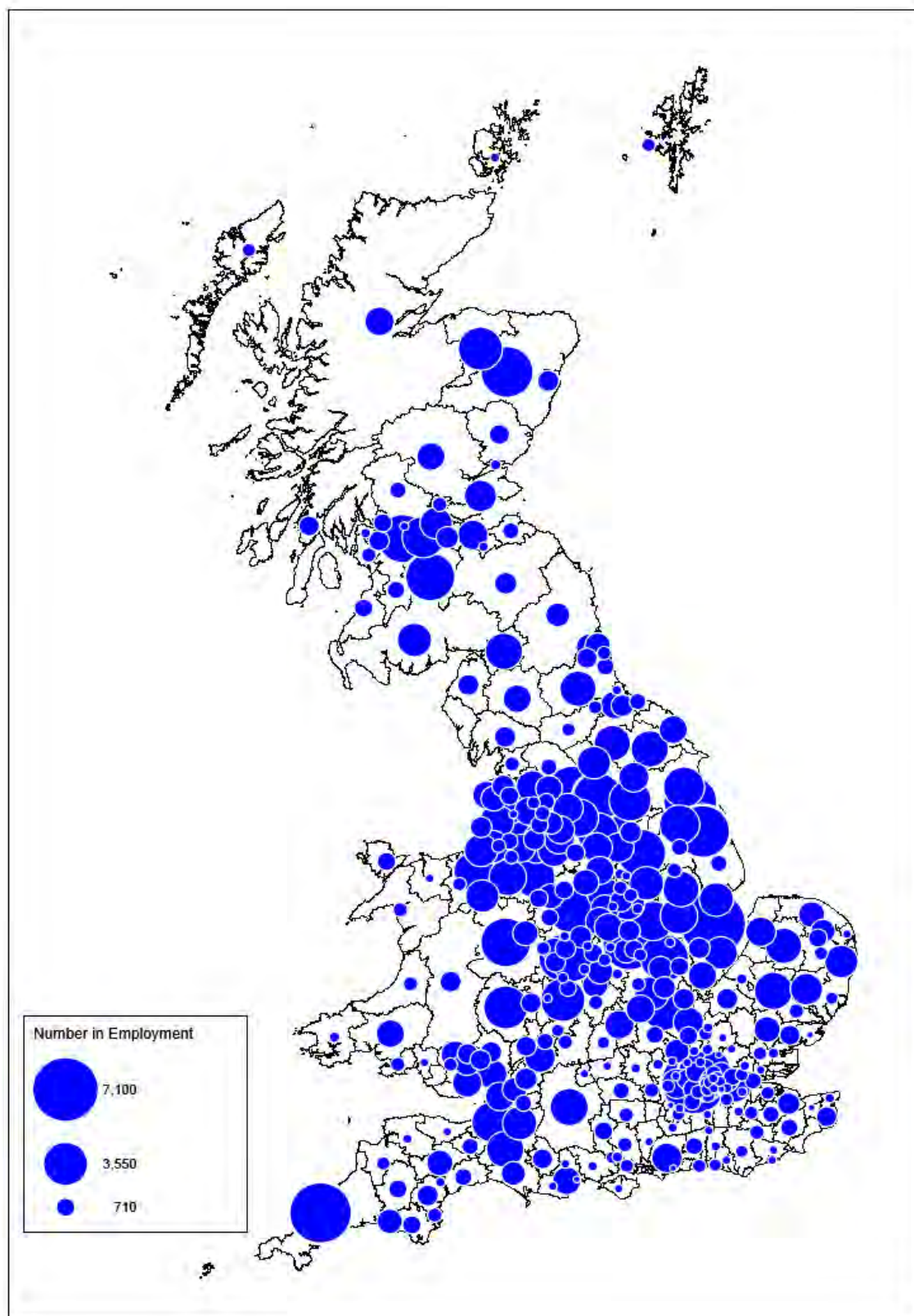
Source: ONS Annual Survey of Hours and Earnings

Figure 5: Employment in all manufacturing, by district, 2016



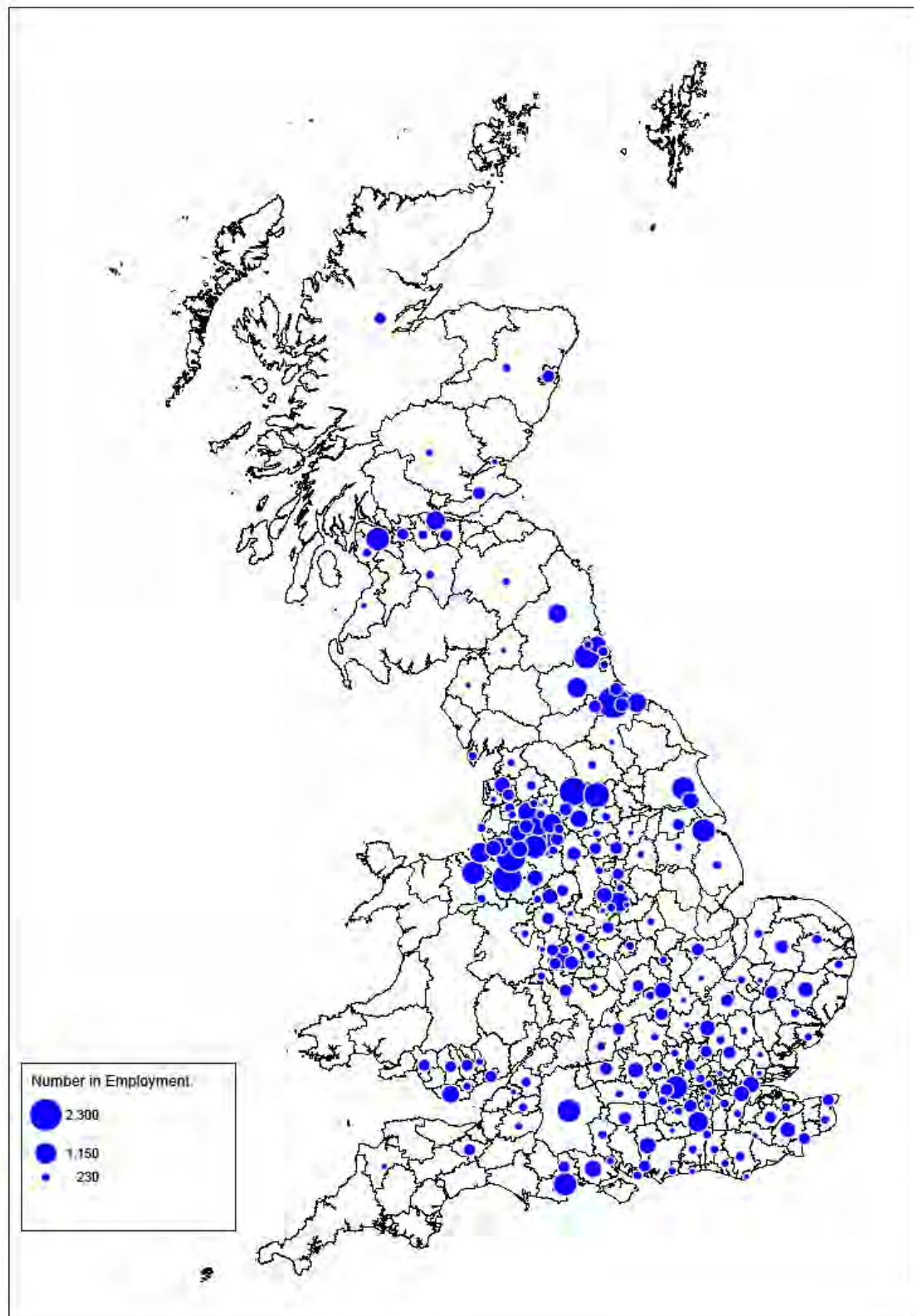
Source: ONS Business Register and Employment Survey

Figure 6: Employment in food and drink production, by district, 2016



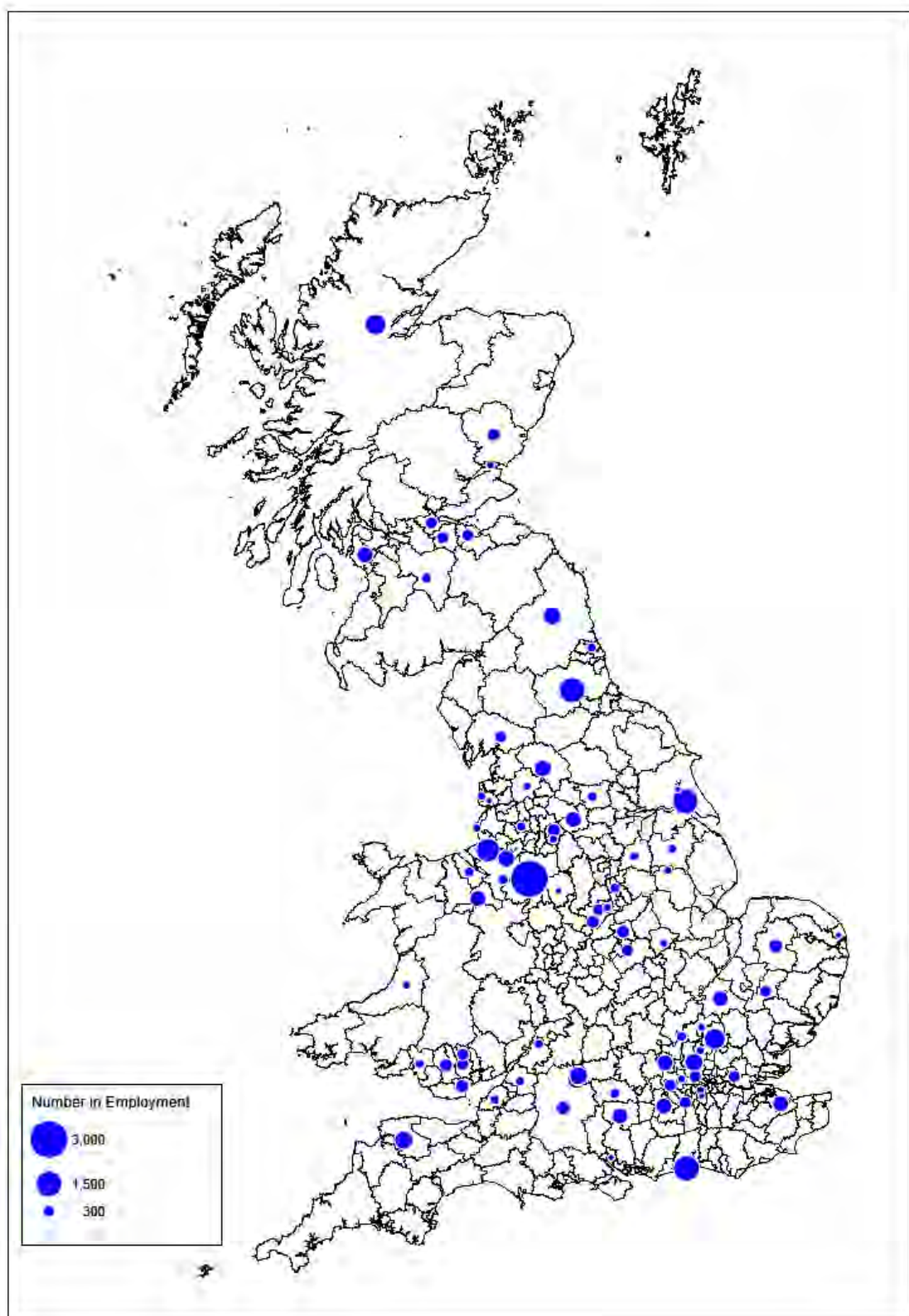
Source: ONS Business Register and Employment Survey

Figure 7: Employment in chemicals production, by district, 2016



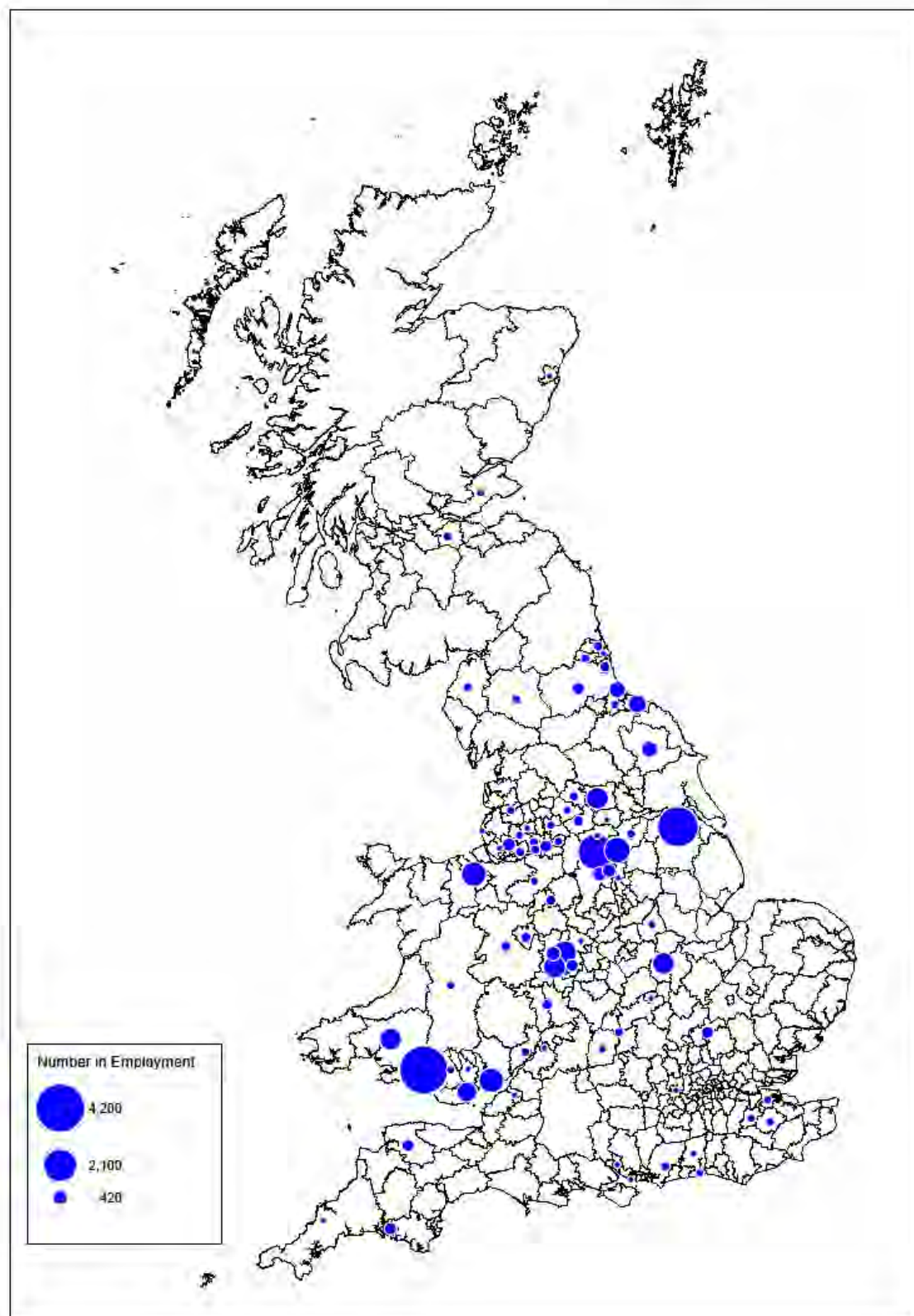
Source: ONS Business Register and Employment Survey

Figure 8: Employment in pharmaceuticals production, by district, 2016



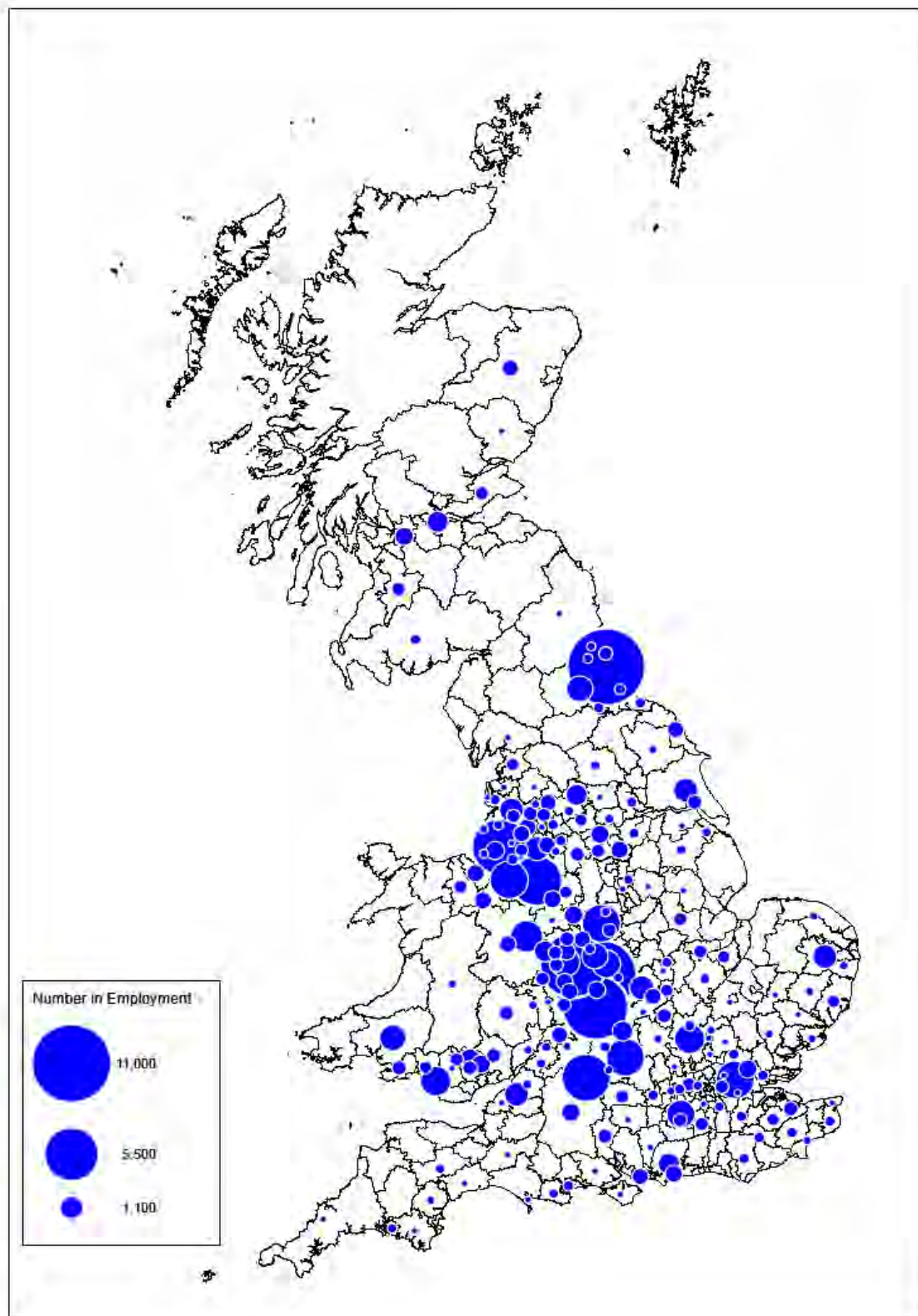
Source: ONS Business Register and Employment Survey

Figure 9: Employment in the iron and steel industry, by district, 2016



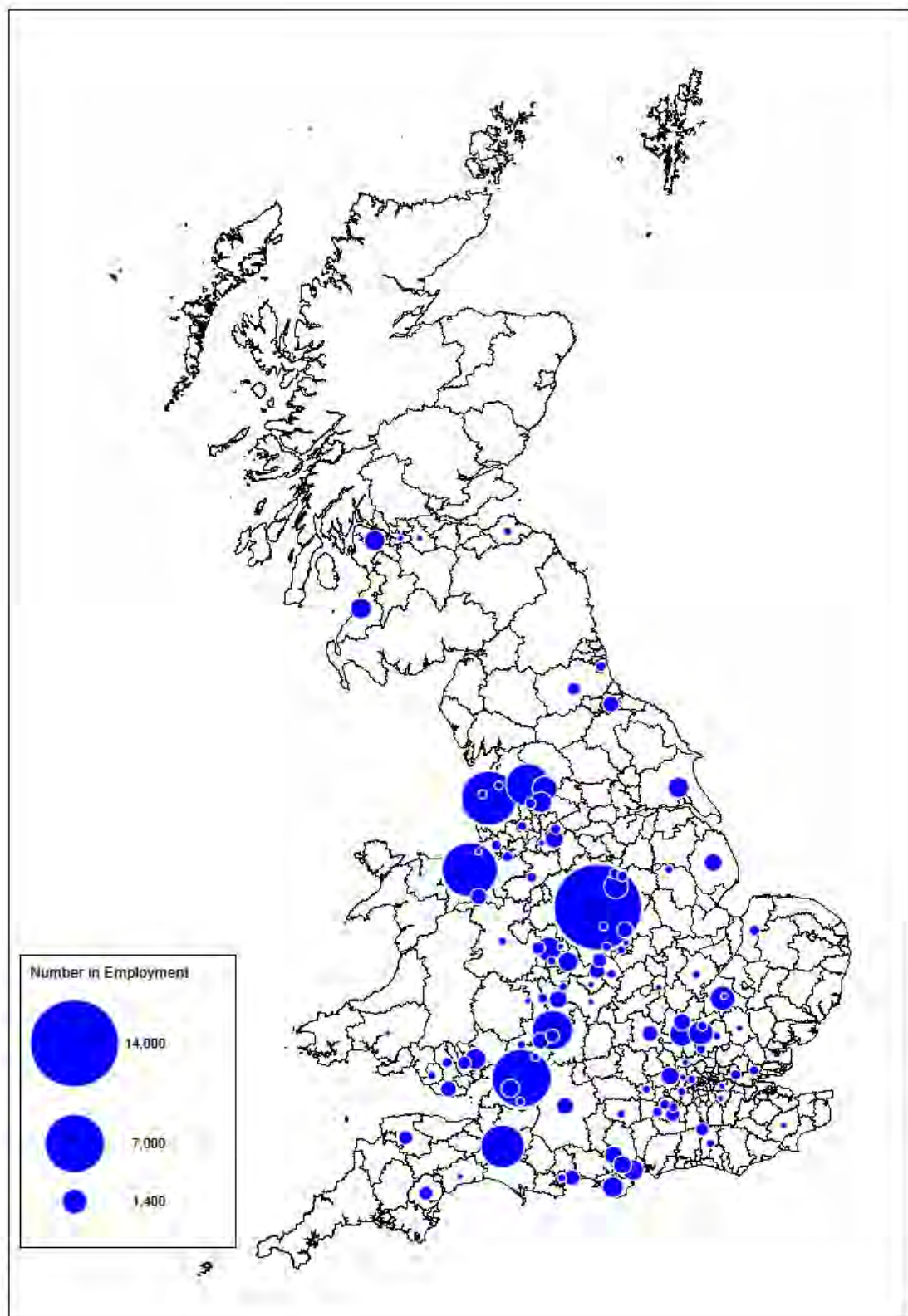
Source: ONS Business Register and Employment Survey

Figure 10: Employment in motor vehicles production, by district, 2016



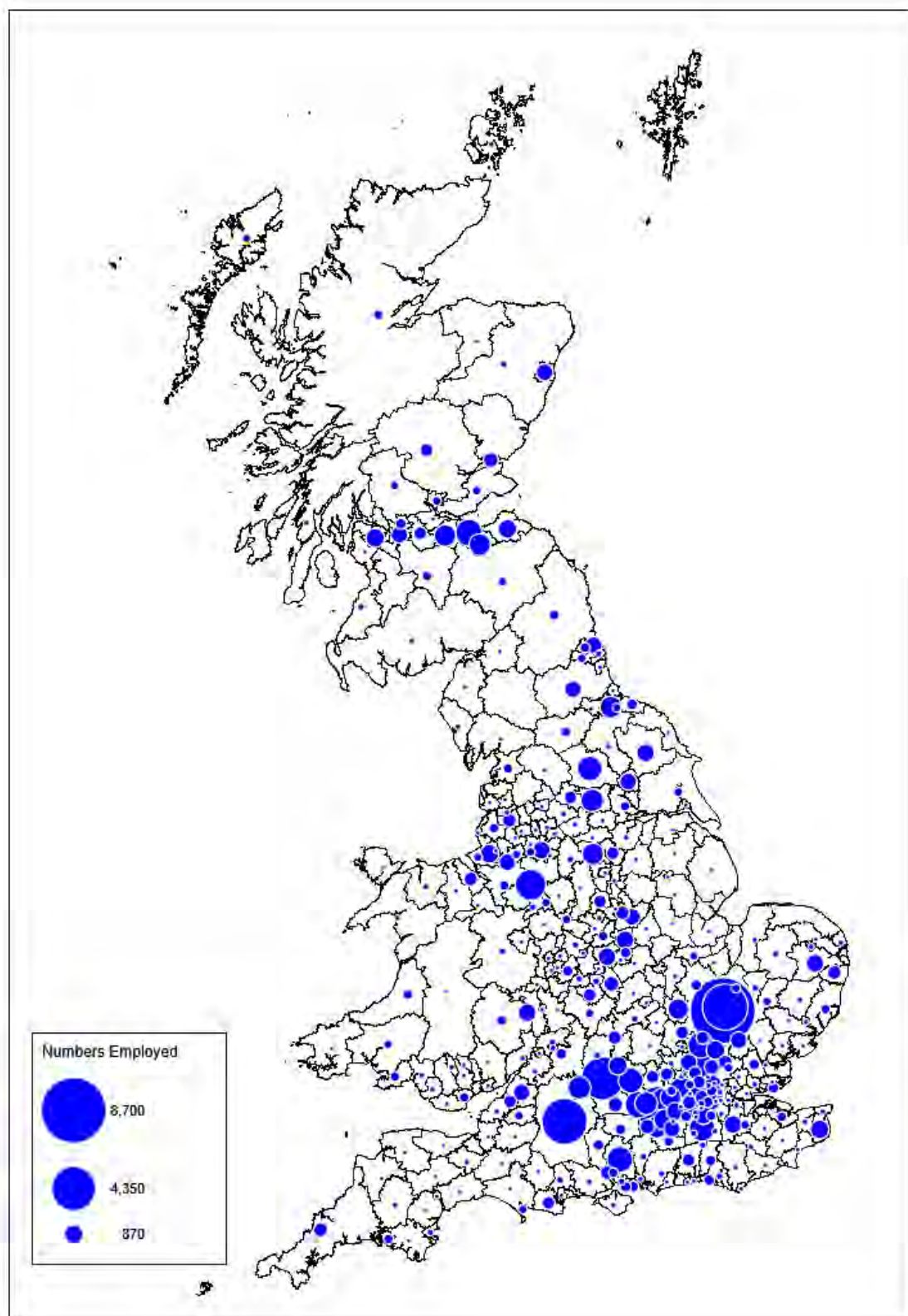
Source: ONS Business Register and Employment Survey

Figure 11: Employment in the aerospace industry, by district, 2016



Source: ONS Business Register and Employment Survey

Figure 12: Employment in R&D establishments, by district, 2016



Source: ONS Business Register and Employment Survey

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