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Spring Conference

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Levelling Up: the White Paper and beyond



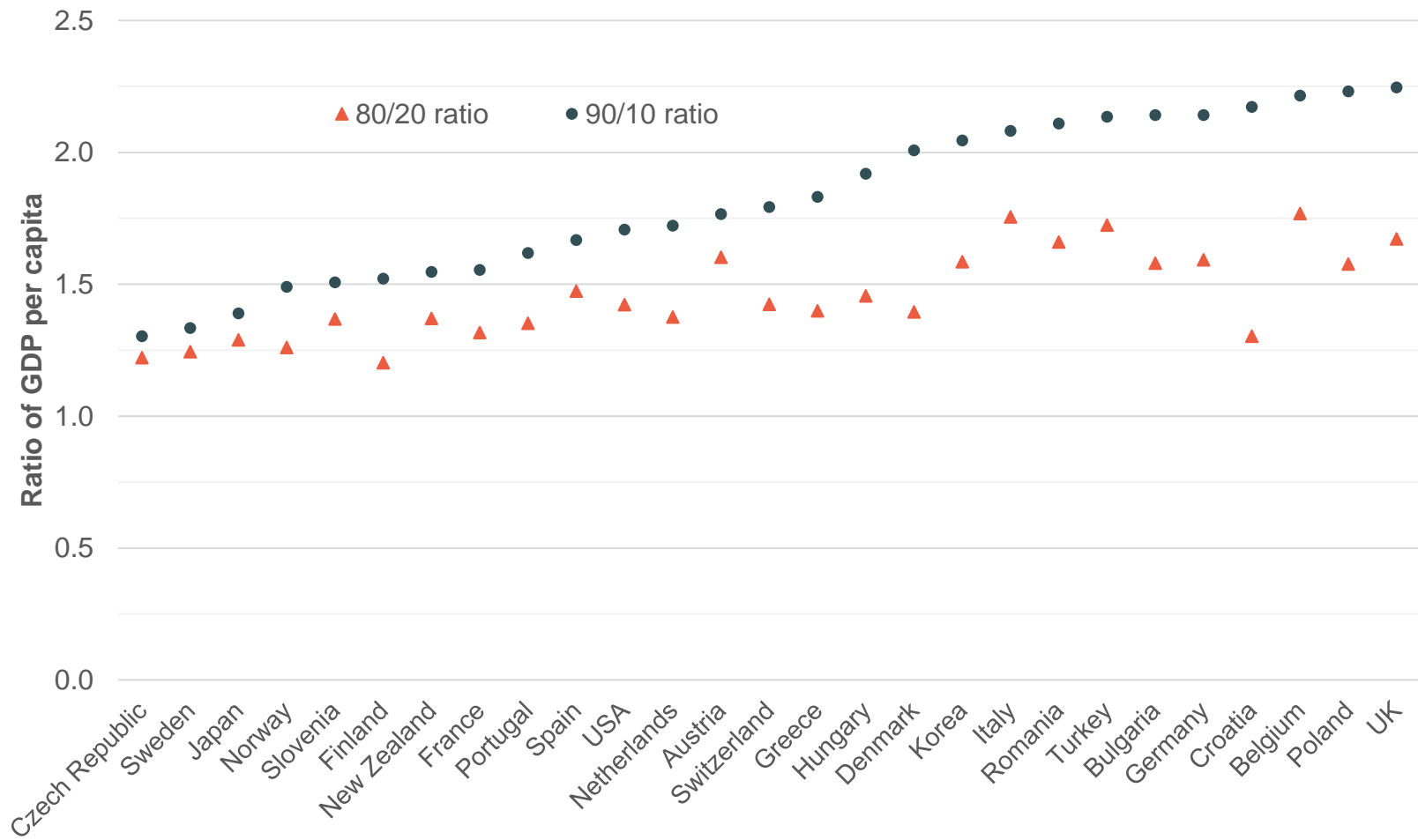
Economic
and Social
Research Council

Today's talk



- 1) Levelling up: context and definitions
- 2) An assessment of the Levelling Up White Paper
- 3) An assessment of the UK Shared Prosperity Fund
- 4) Working from home – what does it mean for levelling up?

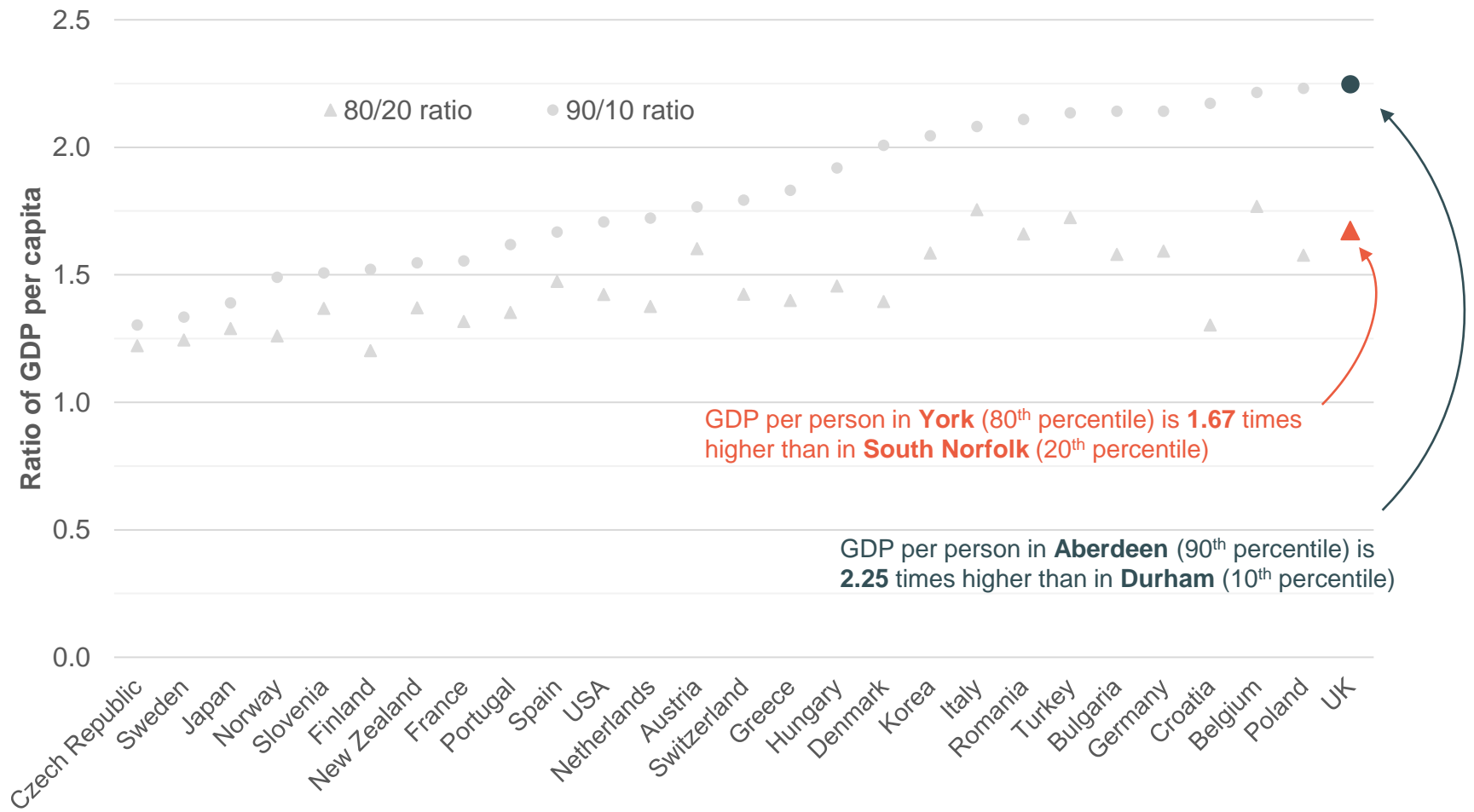
The UK is among the most geographically unequal developed countries



Note: Figures denote the ratio between GDP per capita in the 80th percentile ranked region and the 20th percentile ranked region (80:20), and the ratio between GDP per capita in the 90th percentile ranked region and the 10th percentile ranked region (90:10). Region defined as OECD 'small' (TL3) regions.

Source: Author's calculations using OECD Stat Regional GDP

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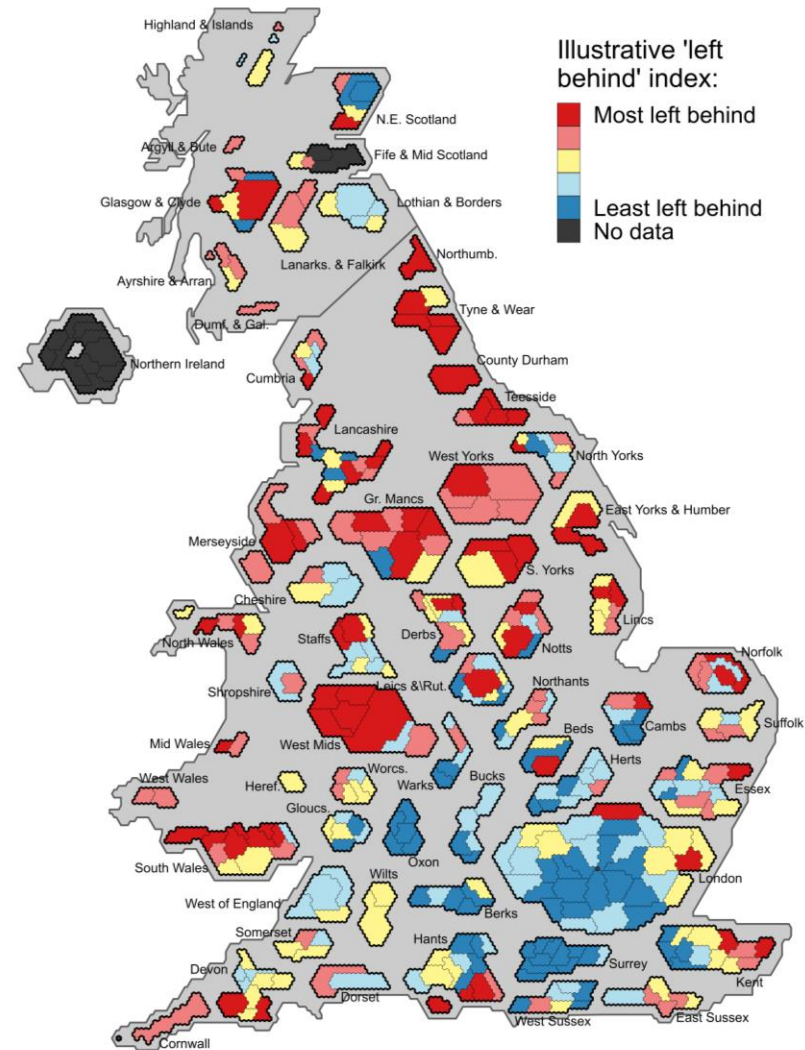
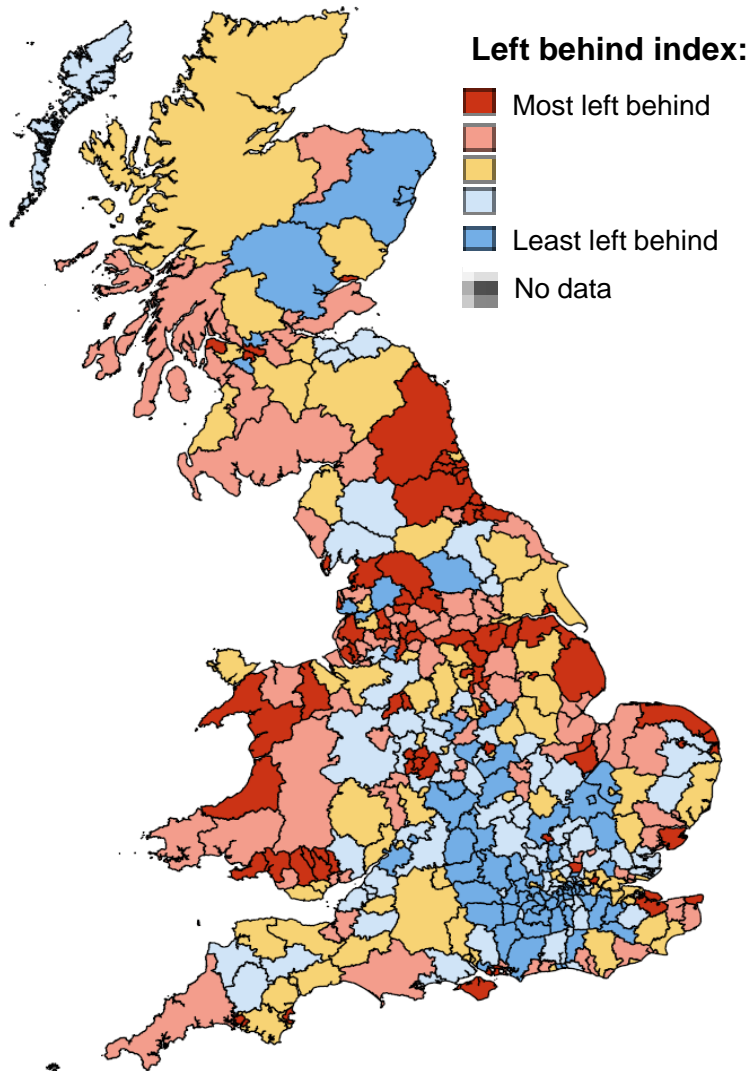
Source: Author's calculations using OECD Stat Regional GDP

Where might be in need of 'levelling up'?



- An important question with no simple answer – we had a go at answering back in 2020
- We combined information on four important (economic) dimensions:
 - **Pay** (median weekly pay for employees)
 - **Employment** (% of working-age population in employment)
 - **Skills and education** (% with a degree or equivalent)
 - **Health** (% of working-age population receiving ESA/UC equivalent)
- Used to construct an illustrative 'left-behind index' for each LA

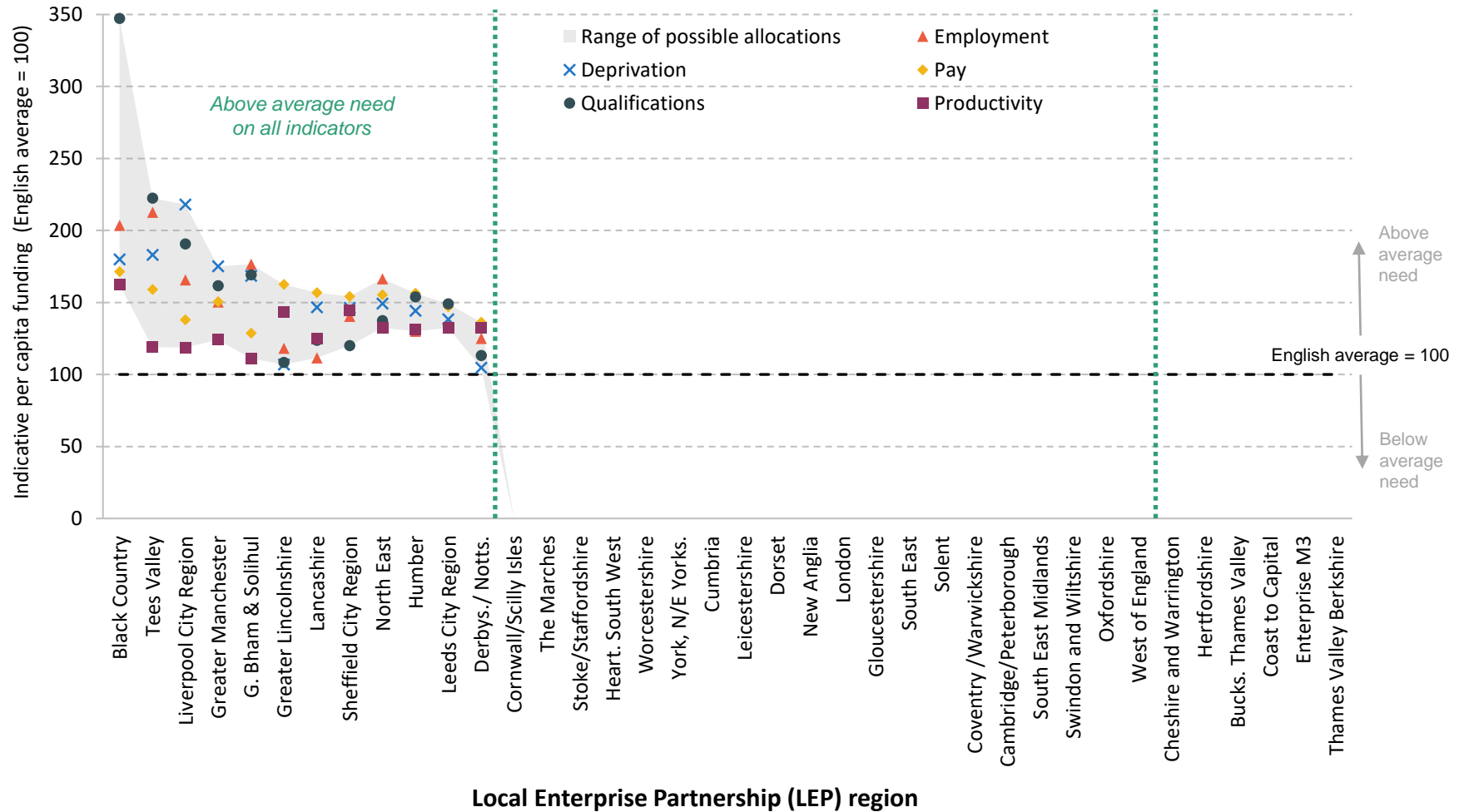
Where might be in need of 'levelling up'?



Source: A. Davenport and B. Zaranko, 'Levelling up: where and how?', IFS Green Budget 2020, <https://www.ifs.org.uk/publications/15055>
Cartogram for right-hand map from @carlbaker / House of Commons Library, created using R code from @VictimOfMaths.

A lot depends on how you measure it

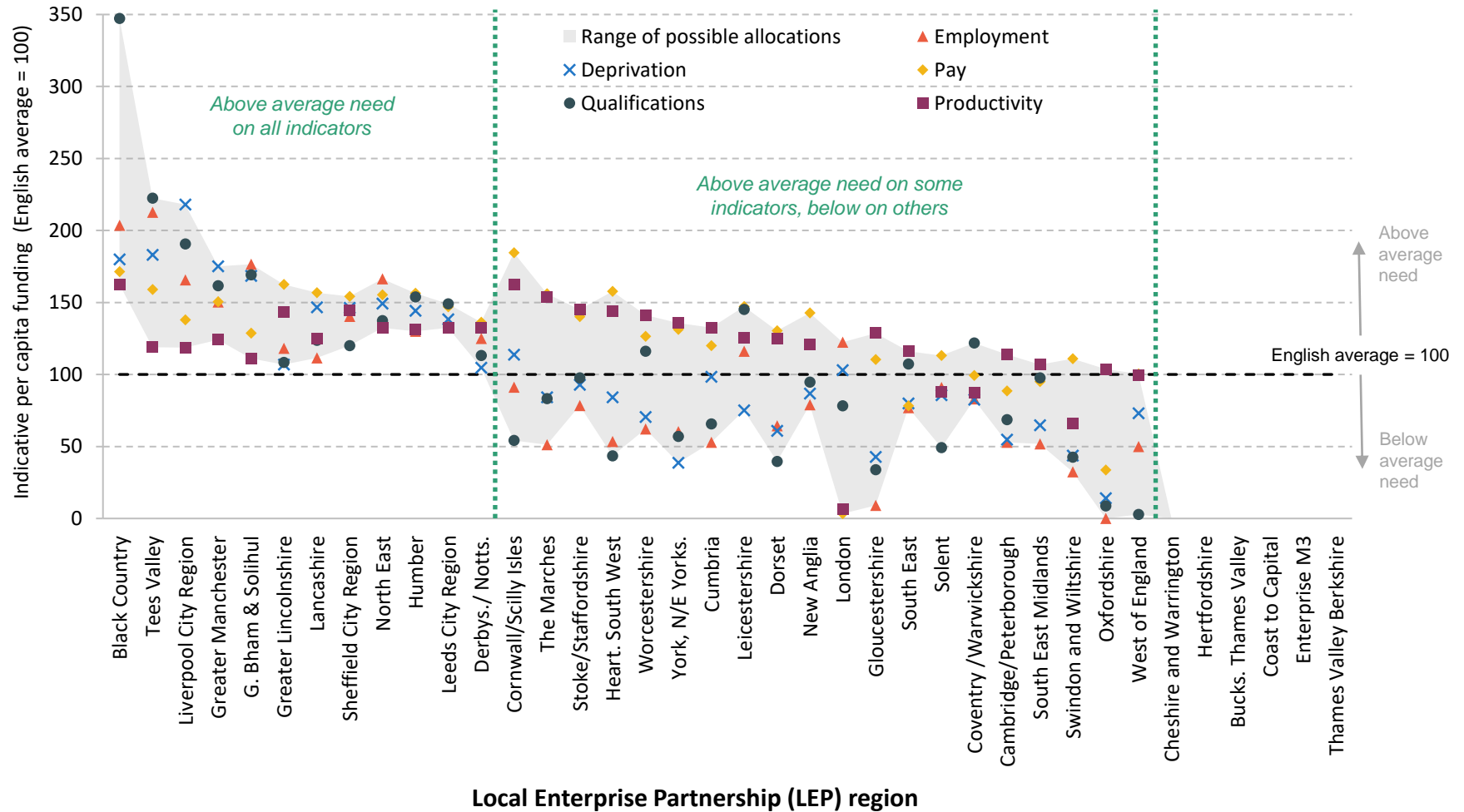
Indicative relative per capita UKSPF funding under different funding formulae



Source: A. Davenport, S. North and D. Phillips, 'Sharing prosperity? Options and issues for the UK Shared Prosperity Fund', <https://ifs.org.uk/publications/14936>

A lot depends on how you measure it

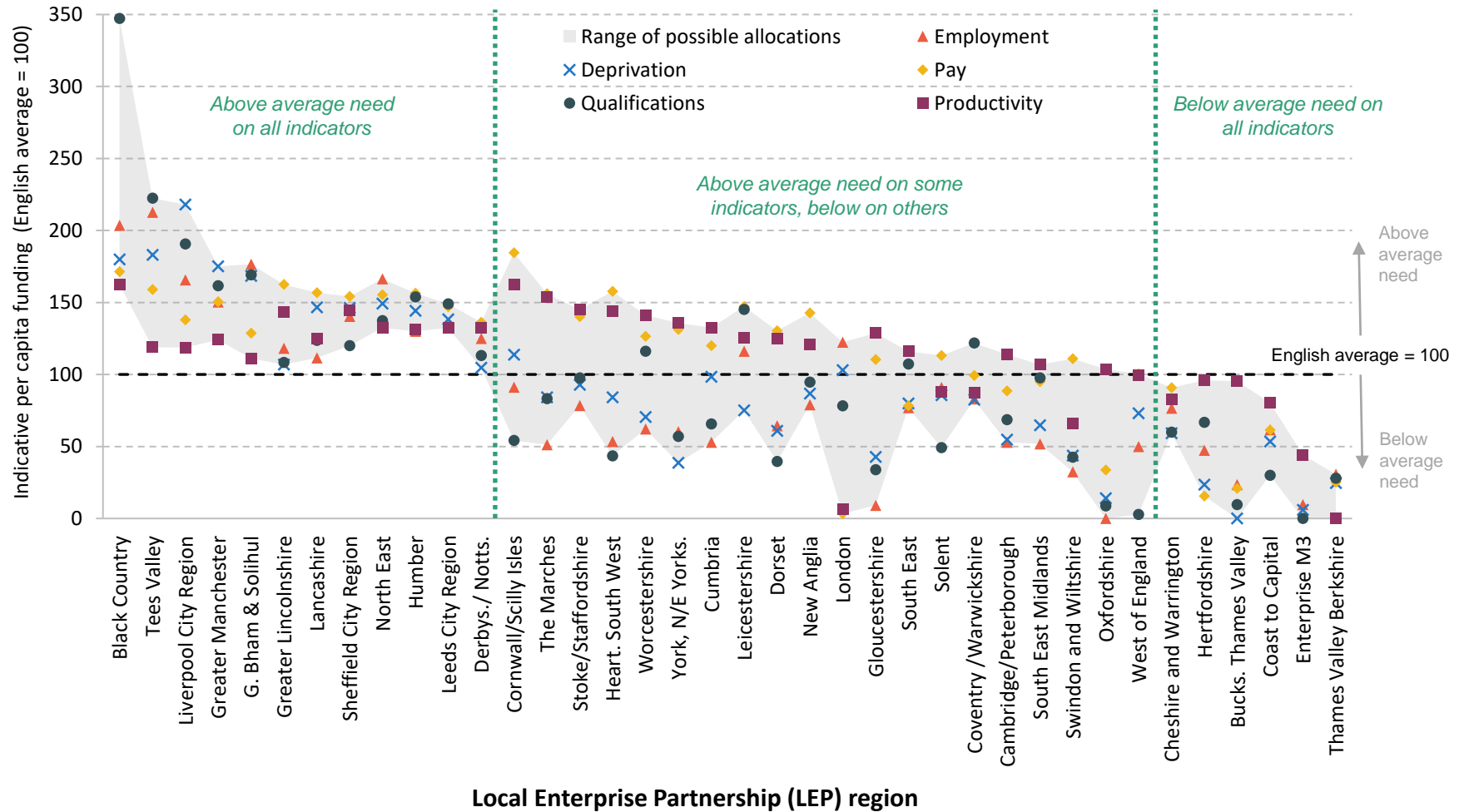
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The White Paper

- A 332 page behemoth organised around:
 - A framework of 6 capitals:
 - physical, intangible, human, financial, social, institutional
 - With 4 overarching objectives:
 - boost productivity, pay, jobs and living standards by growing the private sector
 - spread opportunities and improve public services
 - restore a sense of community, local pride and belonging
 - empower local leaders and communities
 - **(with a particular focus on the worst-performing areas)**
 - And 12 medium-term missions



The 12 missions

- 1) Pay, employment and productivity
- 2) Investment in Research and Development
- 3) Transport connectivity
- 4) Digital connectivity
- 5) Primary school education
- 6) Skills training
- 7) Healthy life expectancy
- 8) Wellbeing
- 9) Pride of place
- 10) First-time buyers and quality of rental homes
- 11) Crime
- 12) Devolution deals for every part of England that wants one

I won't cover everything today – I'll dig down into a few and give an overall assessment

Pay, employment and productivity



Mission 1: *“By 2030, pay, employment and productivity will have risen in every area of the UK, with each containing a globally competitive city, with the gap between the top performing and other areas closing.”*

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 - Though it's unclear how convergence will be measured
 - And gaps within regions are often bigger than those between regions

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- The focus on ‘globally competitive cities’ is certainly ambitious

A globally competitive city in every region?

- Huge gaps in productivity between UK cities, e.g.
 - Preston, the most productive city in the North West, is **nearly 30% less** productive than London
 - Sunderland, the most productive city in the North East, is **20% less** productive than London

- UK cities punch below their weight internationally
 - The Centre for Cities define a ‘globally competitive city’ as being large (>950,000 people) and with productivity in the top 30% of cities globally
 - UK has nine cities with over 950,000 people
 - London, Manchester, Birmingham, Glasgow, Leeds, Bristol, Liverpool, Newcastle, Sheffield
 - But only one globally competitive city (London)

Globally competitive cities: a long way to go

Table 2: The UK has as many globally competitive cities as some of its smaller neighbours

Country	Globally competitive cities
Netherlands (3)	Amsterdam, Rotterdam, The Hague
Belgium (2)	Brussels, Antwerp
Sweden (2)	Stockholm, Gothenburg
Spain (2)	Madrid, Bilbao
United Kingdom (1)	London
Austria (1)	Vienna
Czech Republic (1)	Prague
Denmark (1)	Copenhagen
Finland (1)	Helsinki
Ireland (1)	Dublin

Table 3: The UK has fewer competitive cities than any of the other G7 nations

Country	Globally competitive cities	Large cities	Share of large cities that are globally competitive
United States	26	53	49%
Japan	10	14	71%
Germany	8	15	53%
France	5	8	63%
Italy	3	5	60%
Canada	2	6	33%
United Kingdom	1	9	11%

Source: G. Rodrigues, 'Can the UK have a globally competitive city in every region by 2030?', Centre for Cities, <https://www.centreforcities.org/blog/can-the-uk-have-a-globally-competitive-city-in-every-region-by-2030/>

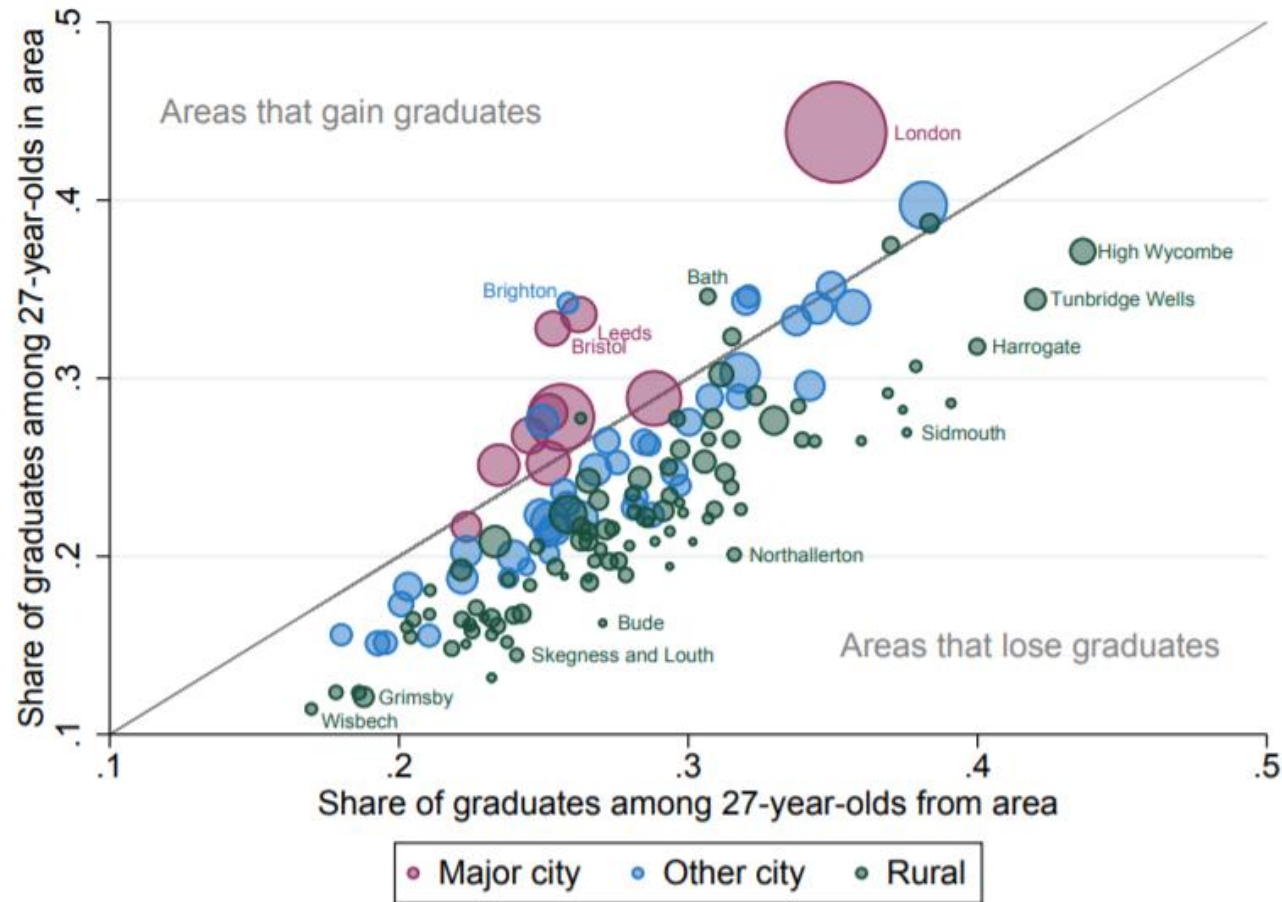
Education



- Differences in education and skills across areas underpin inequalities in income, wealth, health and much else besides

Large differences in educational attainment, compounded by migration

Graduate share by place of origin v. place of residence

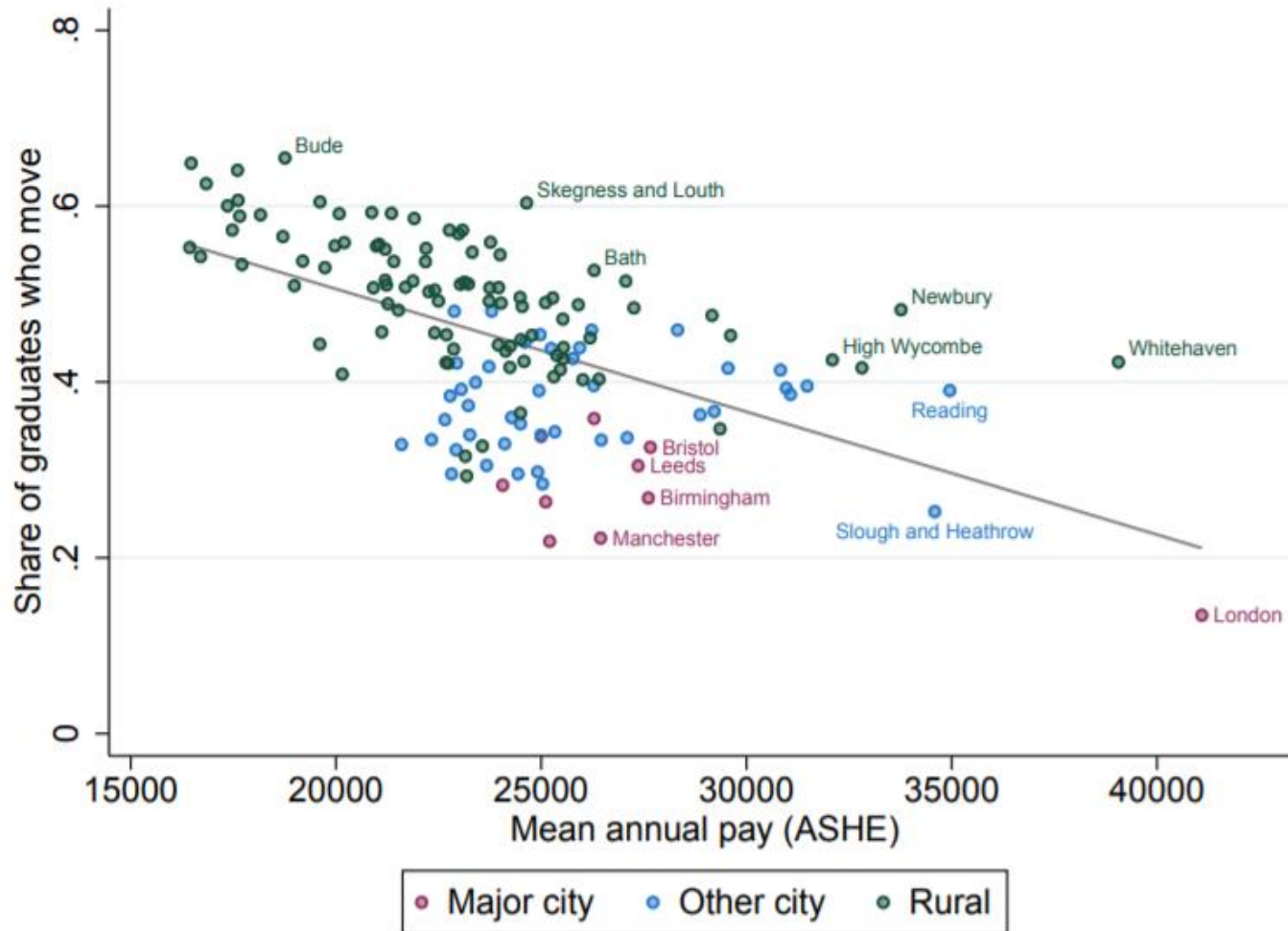


Source: Britton, van der Erve, Waltmann and Xu (2021)

Notes: 2002-2005 GCSE cohorts in England. Cities refer to Primary Urban Areas defined by Centre for Cities.

Graduates from poorer areas leave... IFS

Share of graduates who leave by average pay in home Travel to Work Area (TTWA)

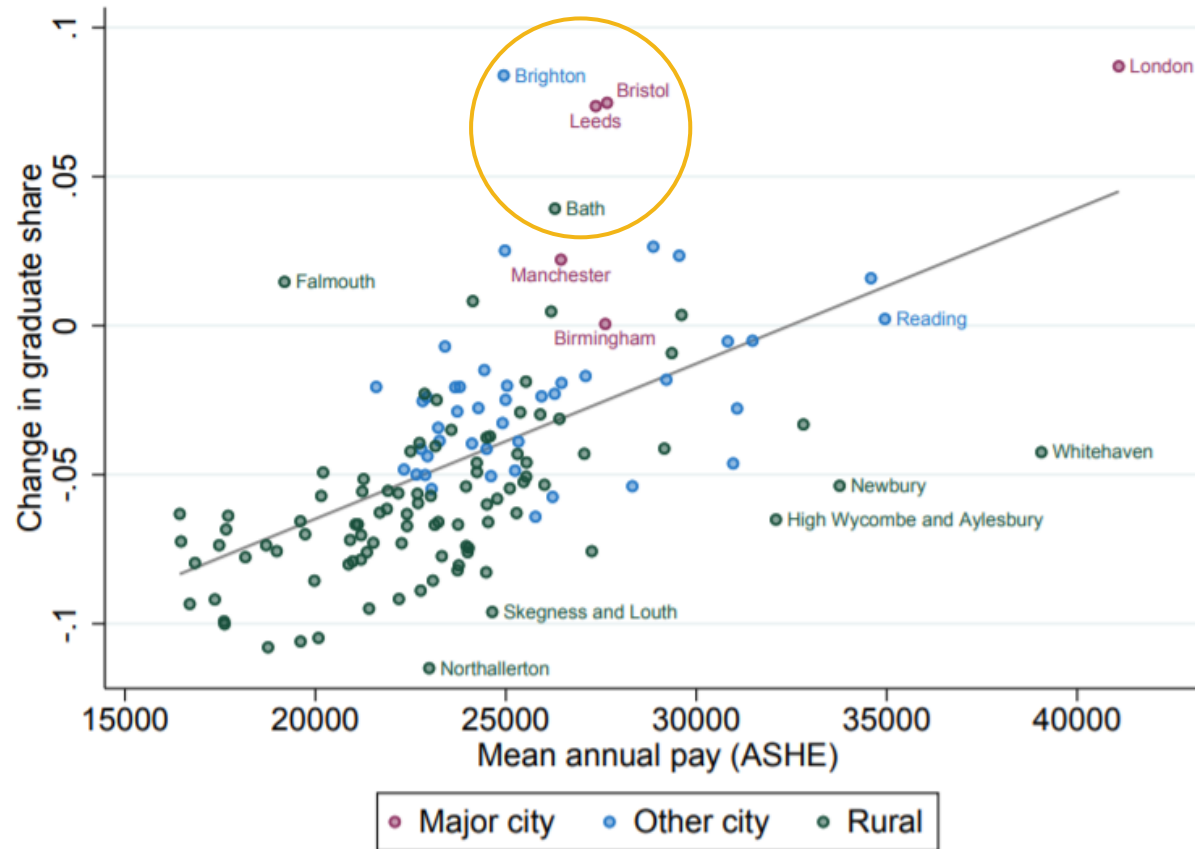


Source: Britton, van der Erve, Waltmann and Xu (2021)

Notes: 2002-2005 GCSE cohorts in England. Cities refer to Primary Urban Areas defined by Centre for Cities.

...for areas with high wages (and amenities)

Net graduate gain by average Travel to Work Area pay



Source: Britton, van der Erve, Waltmann and Xu (2021)

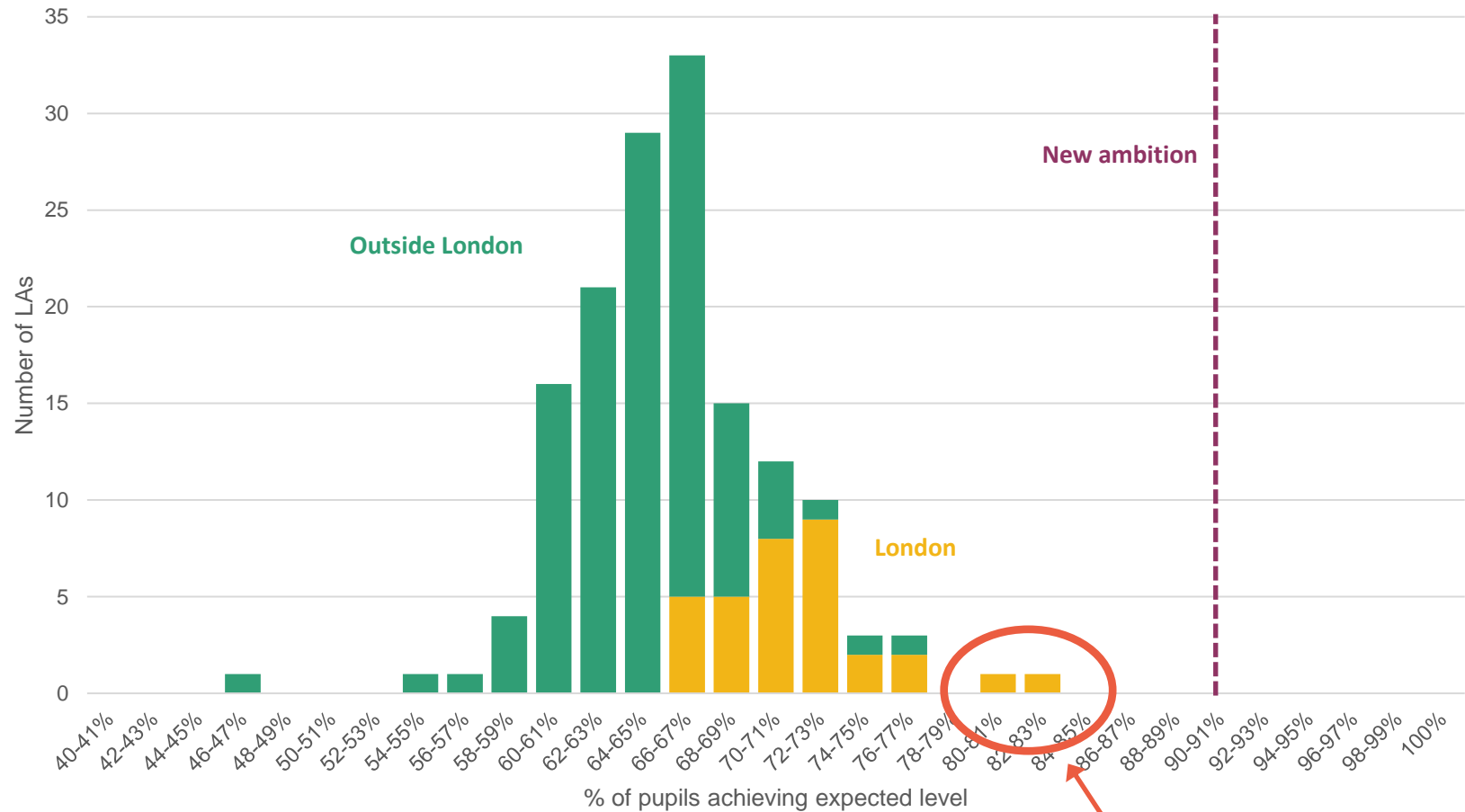
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- Differences in education and skills across areas underpin inequalities in income, wealth, health and much else besides
- The Levelling Up White Paper focused on primary education
- **Mission 5:** *“By 2030, the number of primary school children achieving the expected standard in reading, writing and maths will have significantly increased. In England, this will mean 90% of children will achieve the expected standard, and the percentage of children meeting the expected standard in the worst performing areas will have increased by over a third”*

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- Achieving this would be a major achievement with huge benefits
 - Equivalent figure for 2019 was 65% – likely to have fallen during Covid
 - Will require enormous improvement in all parts of the country

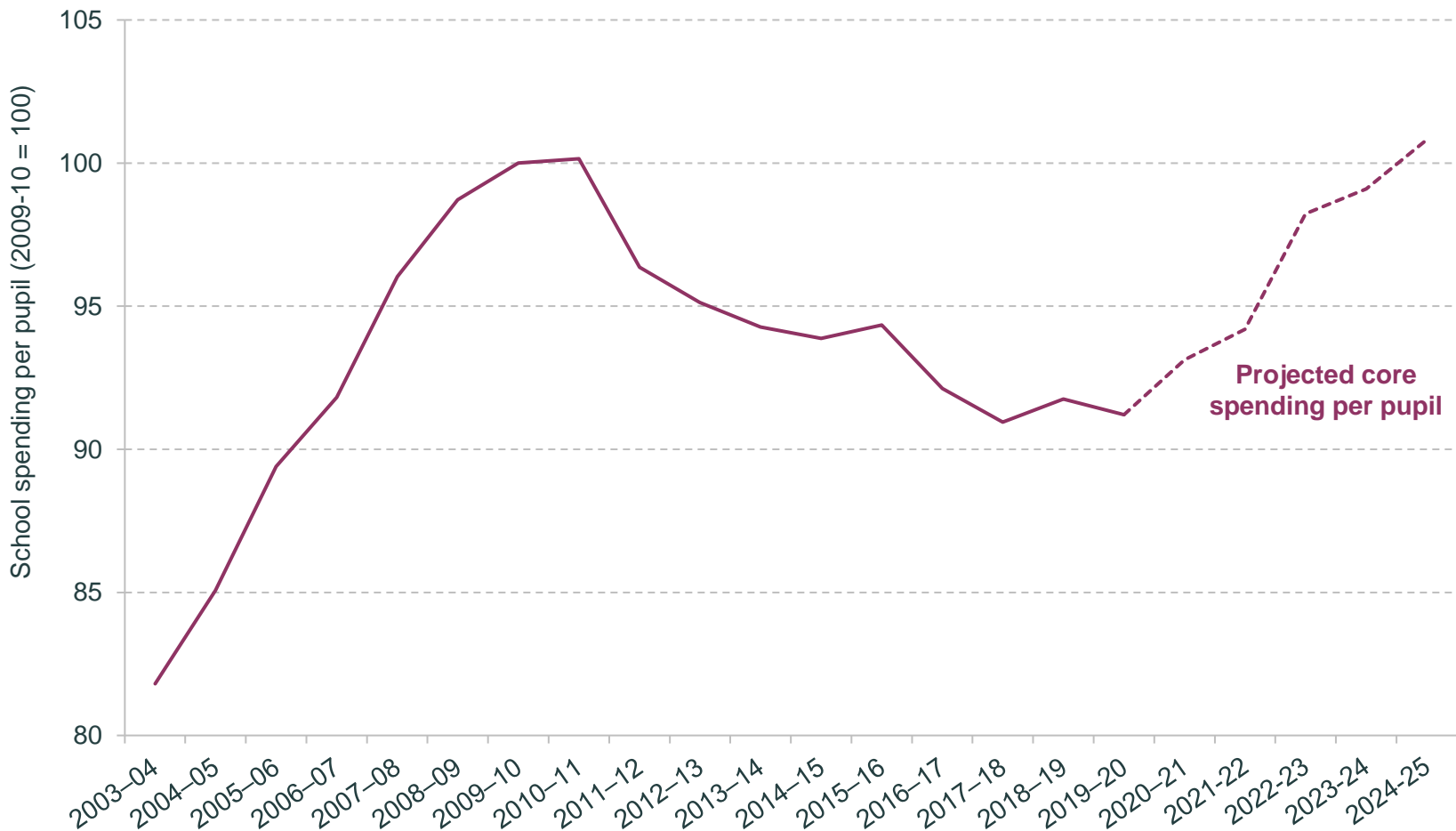
The government is aiming to 'level up' primary schools everywhere

Share of primary school leavers meeting the expected level in reading, writing and mathematics, by local authority, 2019



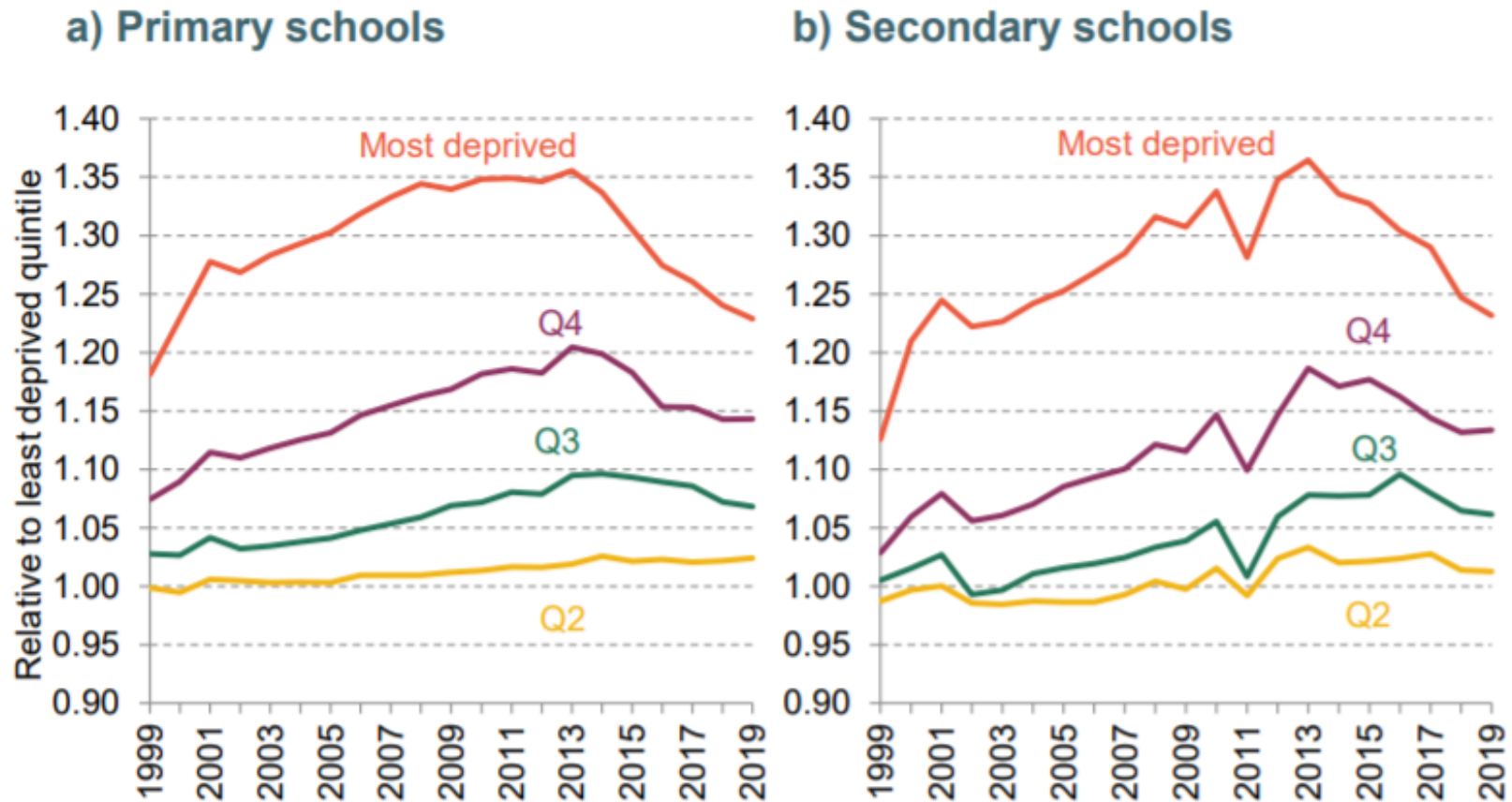
Schools funding will still be below 2010 levels until (at least) 2024

School spending per pupil in England (2009–10 = 100)



Note: Excludes the effect of higher funding to cover increased employer pension contributions and the health and social care levy. GDP Deflator smoothed between 2019-20 and 2022-23. Source: Spending Review 2021 and Sibietta (2021), <https://ifs.org.uk/publications/15588>.

Schools in poorer areas have experienced the biggest cuts



Source: Luke Sibeta, 'School spending in England: trends over time and future outlook', IFS briefing note, September 2021.

A welcome focus on skills

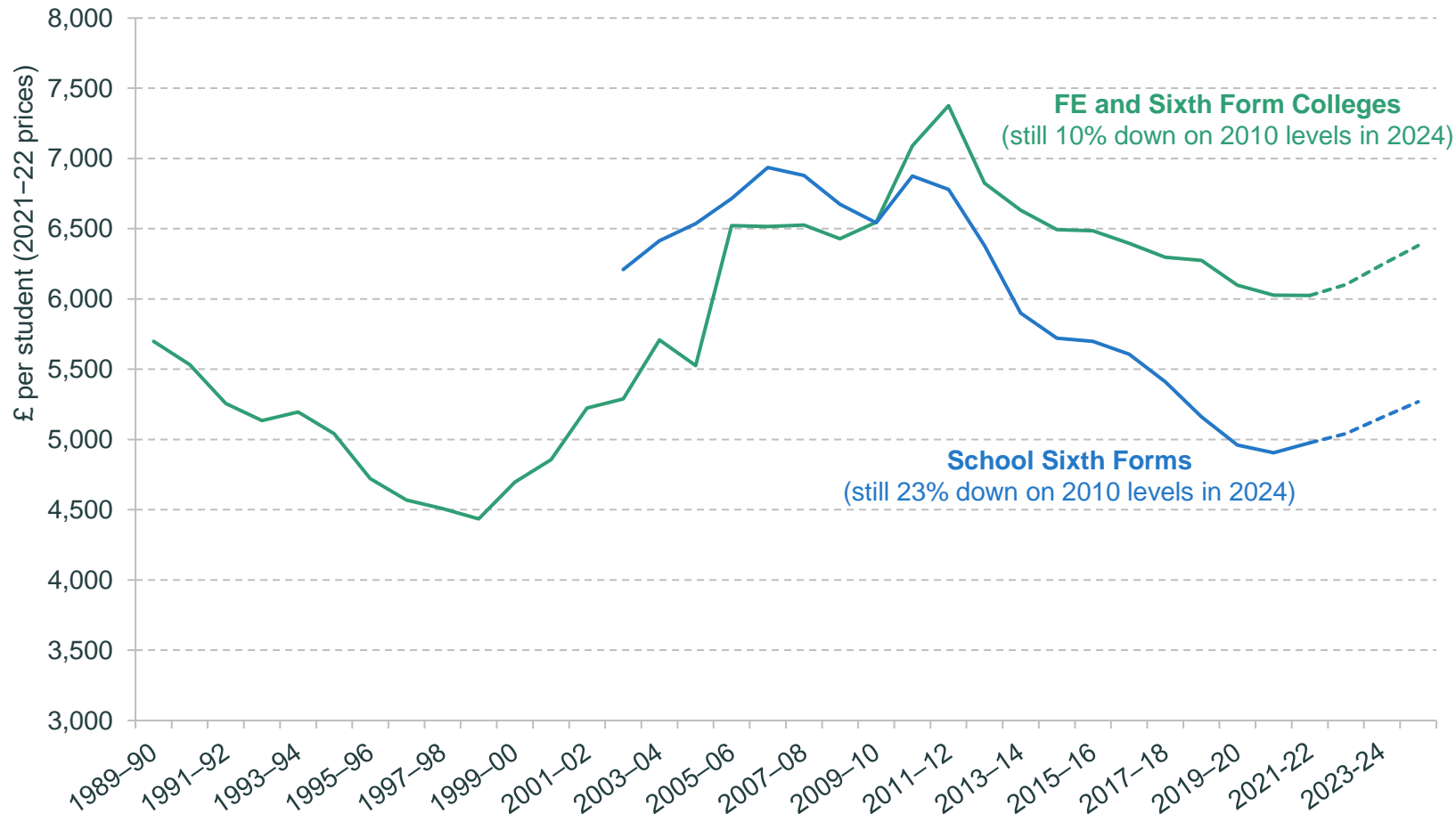
- **Mission 5:** *“By 2030, the number of people successfully completing high-quality skills training will have significantly increased in every area of the UK. In England, this will lead to 200,000 more people successfully completing high-quality skills training annually, driven by 80,000 more people completing courses in the lowest skilled areas”*

A welcome focus on skills

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- An extra 200,000 would be a **10% increase** on 2019 levels
- But the number of learners taking skills-based courses **fell by 42%** between 2010 and 2019
 - Achieving a 10% boost would only partially reverse this
 - (though quality matters as much as – or more than – quantity)
- Further education funding still well below 2010 levels

Cuts to further education and sixth form colleges will be only partially reversed

Spending per student 16-19 (2021-22 prices)



Sources and notes: Spending Review 2021, and Sibieta and Tahir (2021), Further education and sixth form spending in England, Institute for Fiscal Studies
GDP Deflator smoothed between 2019-20 and 2022-23

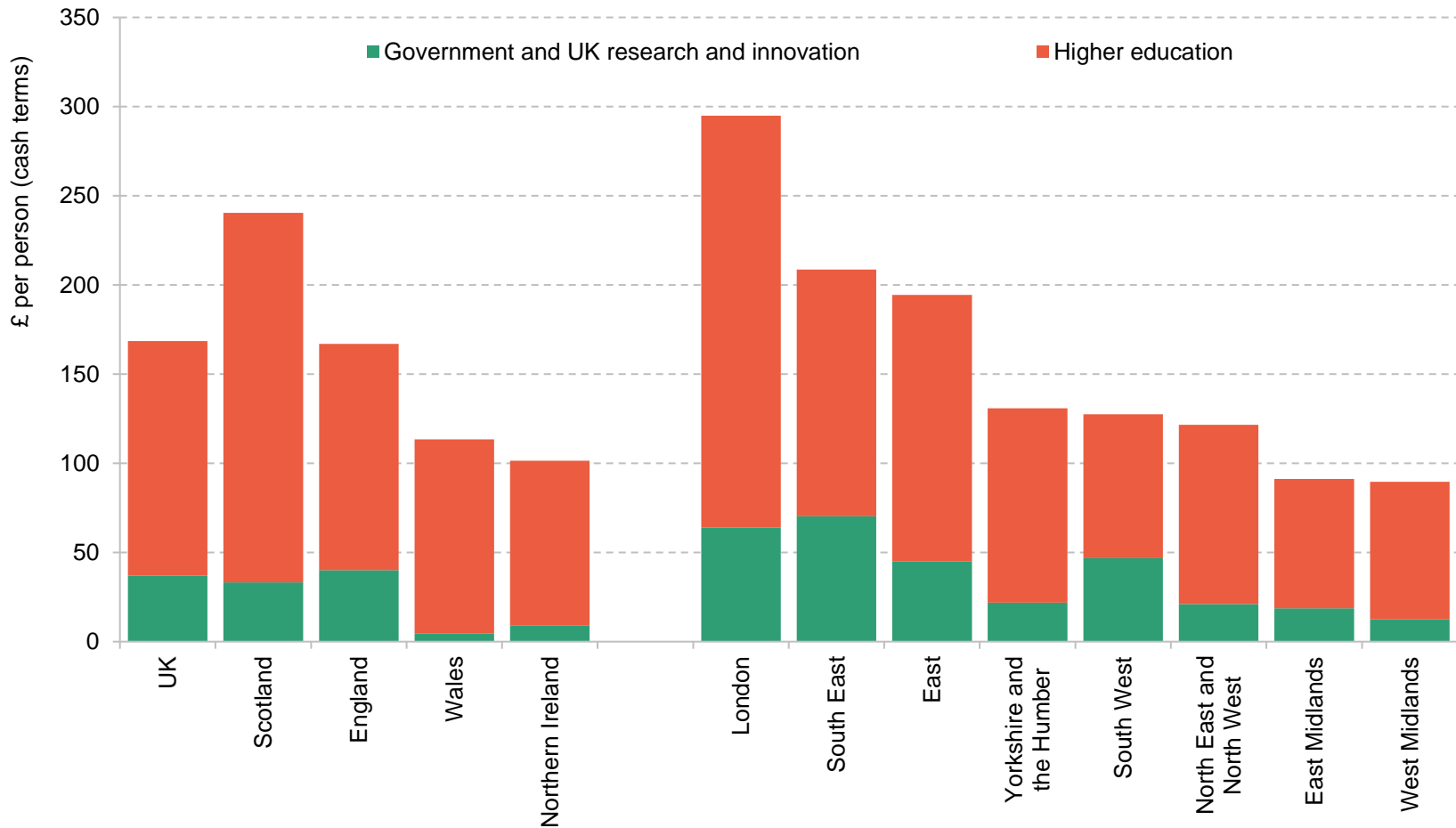
Other missions



- **Mission 2:** *“By 2030, domestic public investment in R&D outside the Greater South East will increase by at least 40%, and over the Spending Review period by at least one third”*
 - Total R&D funding was already planned to grow by 35% over the Spending Review period – this needn’t alter the regional distribution

R&D funding is currently skewed to London, the South East and East

Public sector Research and Development spending per person, 2018



Source: A. Davenport and B. Zaranko, 'Levelling up: where and how?', IFS Green Budget 2020, <https://www.ifs.org.uk/publications/15055>

Other missions

- **Mission 2:** *“By 2030, domestic public investment in R&D outside the Greater South East will increase by at least 40%, and over the Spending Review period by at least one third”*
- Various other sensible and ambitious (though sometimes vague) targets, e.g.
 - **Mission 3:** *“By 2030, local **public transport connectivity** across the country will be significantly closer to the standards of London, with improved services, simpler fares and integrated ticketing”*
 - **Mission 4:** *“By 2030, the UK will have **nationwide gigabit capable broadband and 4G coverage**, with 5G coverage for the majority of the population”*
 - **Mission 7:** *“By 2030, the gap in **healthy life expectancy (HLE)** between local areas where it is highest and lowest will have narrowed, and by 2035 HLE will rise by five years”*

An assessment (1)

The positives

- It's a serious piece of policy work that recognises the scale and complexity of the challenge ahead
- Recognition of the need for policy longevity and stability
- Includes welcome clarity about objectives and measuring success
 - The missions and ambitions are, broadly speaking, sensible ones
- Sensible focus on both absolute and relative progress
 - i.e. improve wellbeing in every region *and* narrow the gaps between regions

An assessment (2)

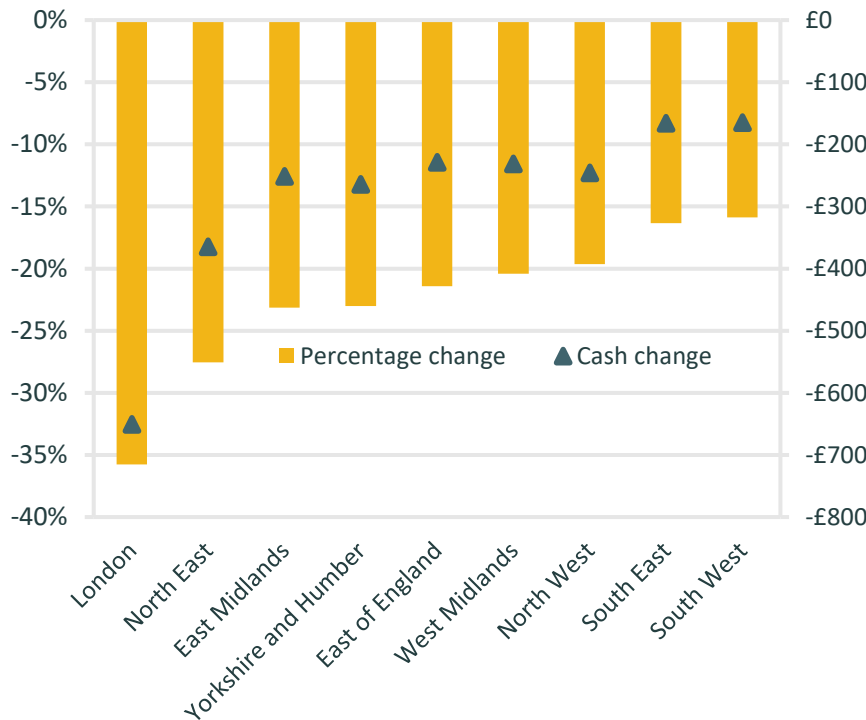
The negatives

- In some places it's overly ambitious; in others, not ambitious enough
 - e.g. the wildly ambitious target for 90% of primary school children
 - vs. the eminently achievable goal of having pay increase in all regions by 2030
- Little detail on how these targets will actually be achieved
 - Should be thought of as a blueprint rather than a fully fledged plan for delivery
 - Some obvious policy levers (e.g. tax policy, schools funding) not discussed
- No real sense of prioritisation – there's something for everyone
 - Ambition, focus and resources could be spread a little thin
- Parts of the White Paper sit awkwardly with deliberate policy decisions of the past decade
 - e.g. cuts in funding for local government, with biggest cuts for the poorest councils

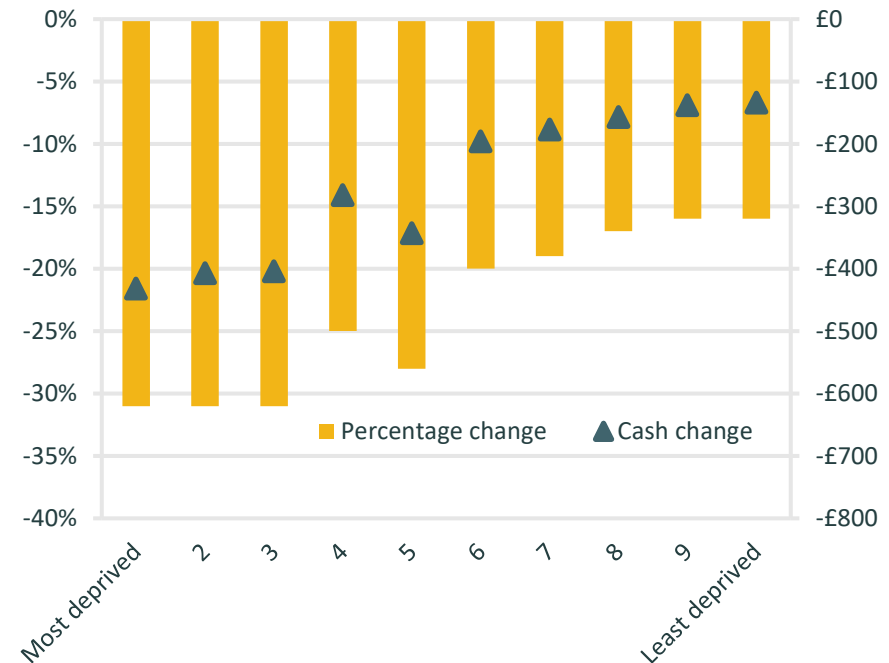
Council spending per person fell by 28% from 2010 to 2020 in the North East, compared with 16% in the South East



Change in net service spending per person between 2009–10 and 2019–20, by region



Change in net spending per person between 2009–10 and 2019–20, by decile of deprivation

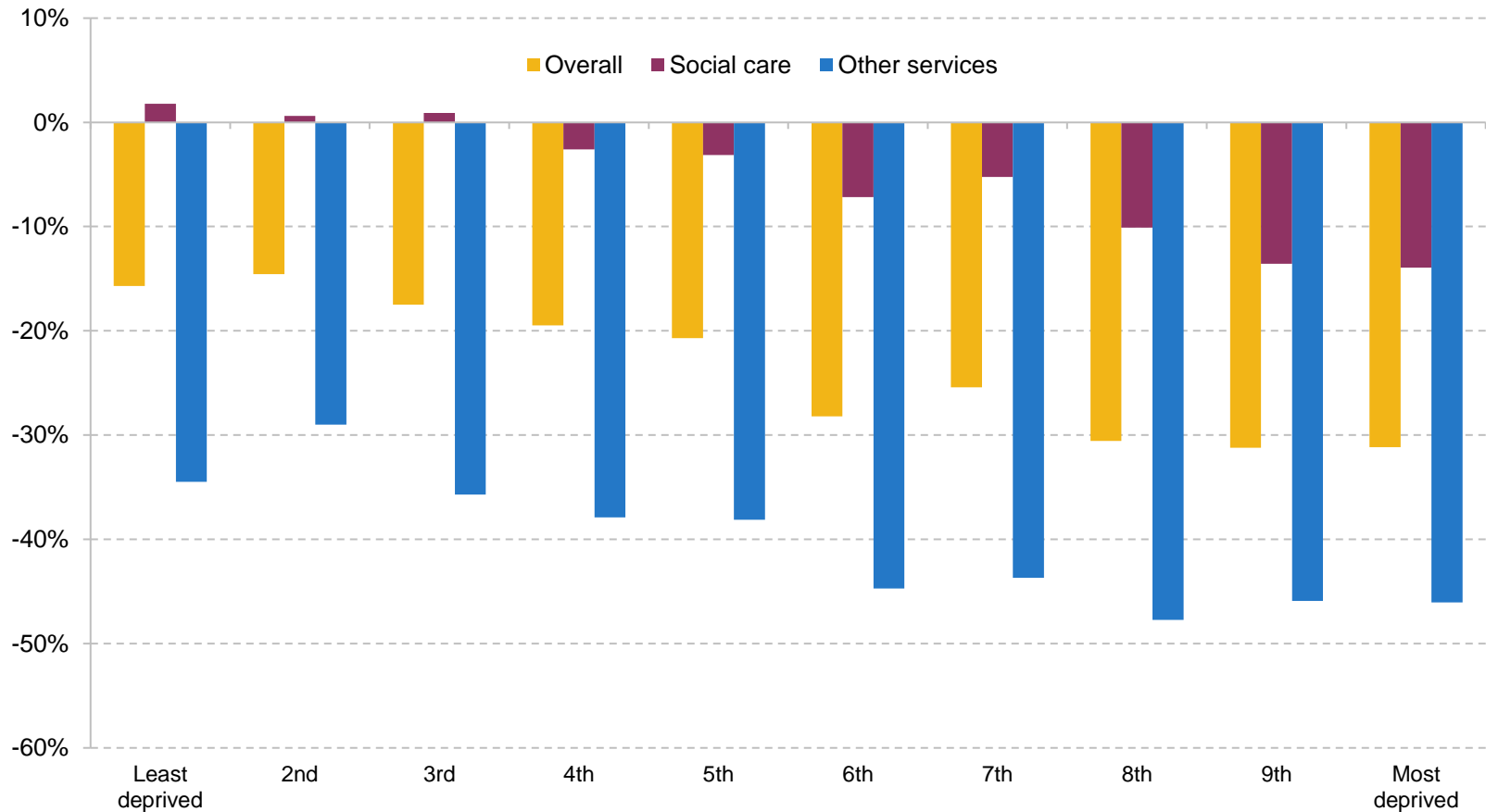


Source: Harris et al, 'English local government funding: trends and challenges in 2019 and beyond', Nov 2019.

Cuts were larger for councils serving more deprived areas – 31% (£432) for the most deprived tenth, compared to 16% (£134) for the least deprived tenth.

... and non-social care services were cut by even more

Real-terms change in net expenditure per person, 2009-10 to 2019-20



Source: Harris et al, 'English local government funding: trends and challenges in 2019 and beyond', Nov 2019.

Beyond the White Paper

- The White Paper notes that *“past policy initiatives have not been sufficient to arrest the rise in geographic disparities over the second half of the 20th century in the UK”*
- For this time to be different, **this level of focus needs to be developed, backed up by funding, and sustained over decades**
 - The question is ... will it?
 - Lots of competing policy priorities, and difficult choices required



The new UK Shared Prosperity Fund

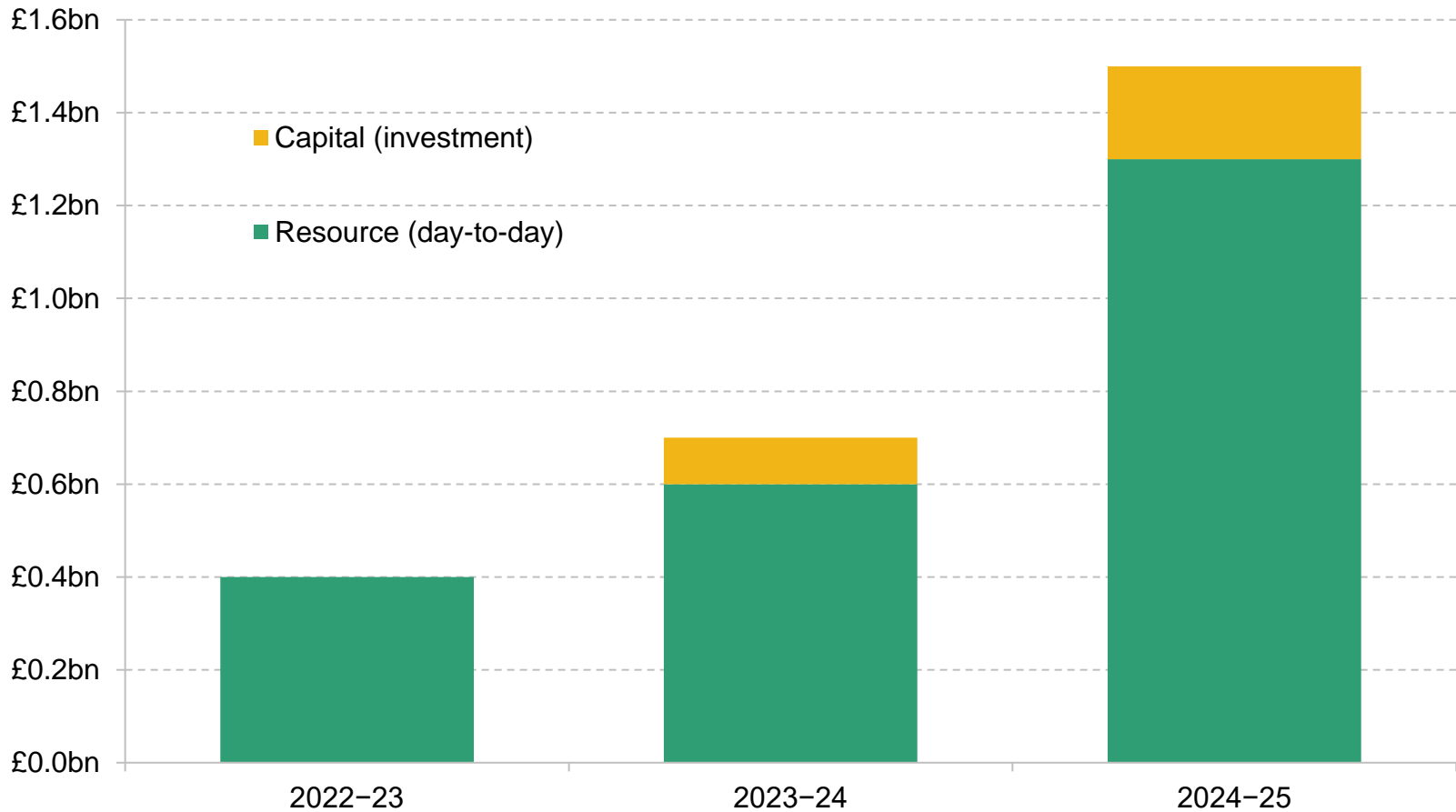
The UK Shared Prosperity Fund



- Announced in 2017 to replace EU regional development funding
 - Size of the UKSPF announced in October 2021

UKSPF eventually to be worth £1.5bn per year

Planned spending via UK Shared Prosperity Fund, 2022–23 to 2024–25



The UK Shared Prosperity Fund

- Announced in 2017 to replace EU regional development funding
 - Size of the UKSPF announced in October 2021
 - Design of the UKSPF announced in April 2022
- With newfound post-Brexit freedoms, how will UKSPF funding be allocated between different parts of the UK?
- **The answer:** in much the same way as EU development funding was allocated prior to Brexit...

Perpetuating EU allocations

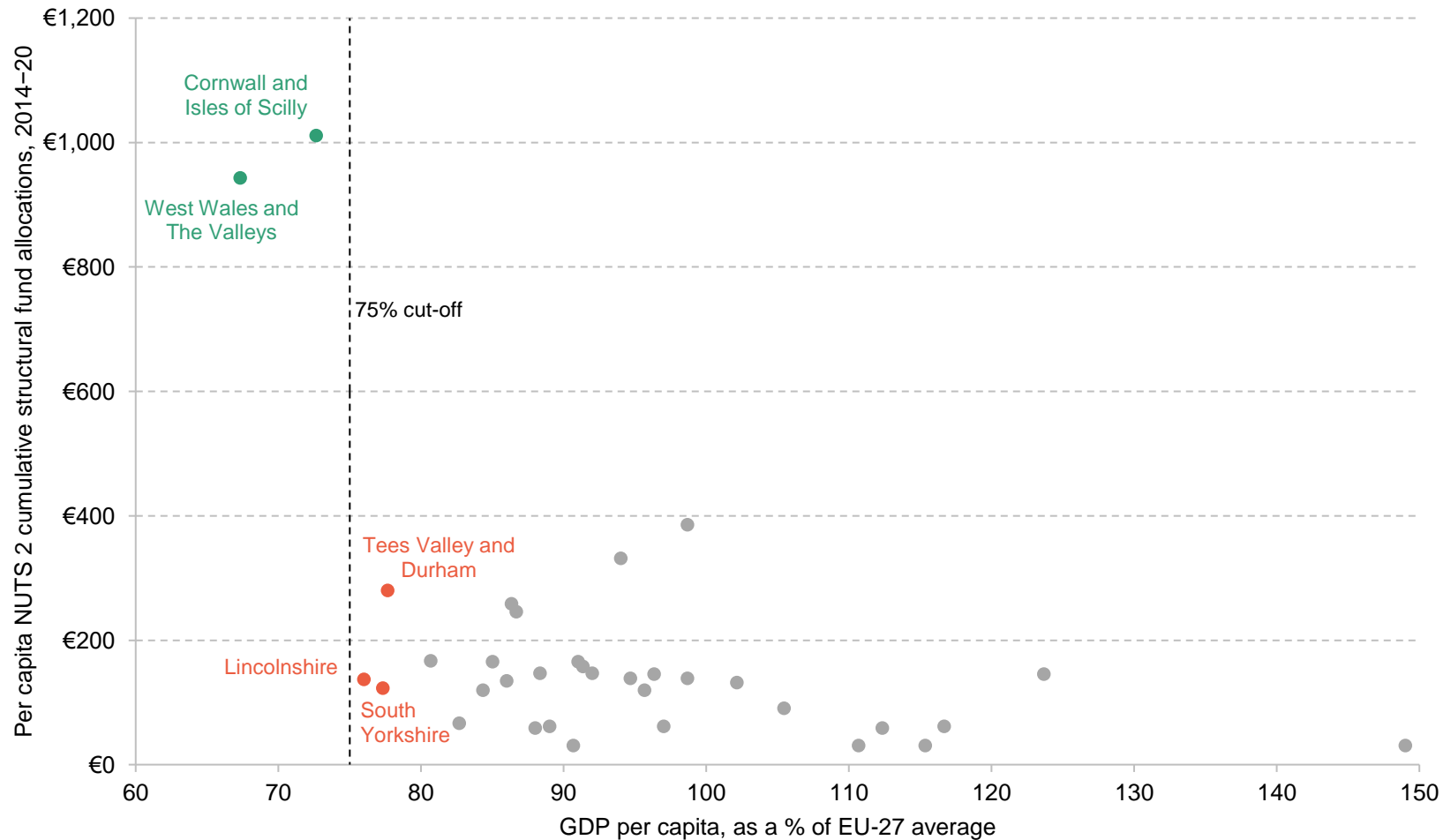
- Each Local Enterprise Partnership (LEP) in England will (by 2024/25) receive as much as it used to receive from the EU
 - within each LEP, a broader index of need is used to allocate to individual LAs

Some problems with this approach:

- It replicates the worst features of the previous EU regime

The EU regional funding formulae contained arbitrary cut-offs

UK regional GDP per capita and EU structural fund allocation, 2014–20



Source: A. Davenport, S. North and D. Phillips, 'Sharing prosperity? Options and issues for the UK Shared Prosperity Fund', <https://ifs.org.uk/publications/14936>

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- It replicates the worst features of the previous EU regime
 - Bakes in the arbitrary cliff edge used by the EU: good news for Cornwall and West Wales; bad news for other poor regions of the UK
- Doesn't account for changes in population since EU allocations set
 - Cumbria's population grew by 0.3% 2013 to 2020; population of Coventry & Warwickshire grew by almost 10% - the UKSPF ignores this

A missed chance to take advantage of a genuine Brexit opportunity

But at least they've got the branding sorted

7.7 Branding and publicity

Lead local authorities and project deliverers must ensure that the appropriate UK government logos are used prominently in all communications materials and public facing documents relating to funded activity – including print and publications, through to digital and electronic materials.

The following logos must also be used when communicating in English and Welsh respectively:

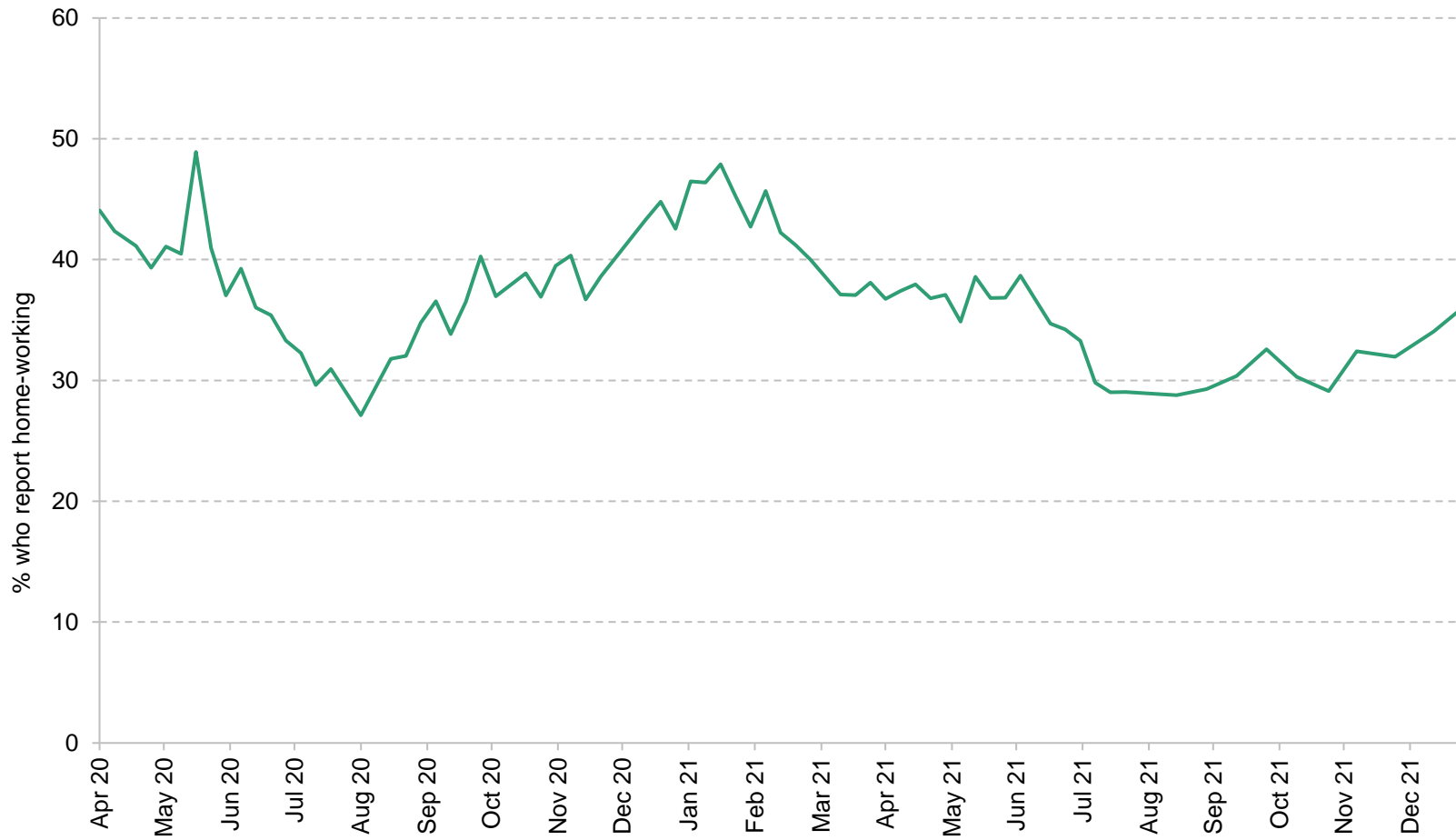




A few thoughts on working from home and what it means for levelling up

We're unlikely to revert to previous working patterns

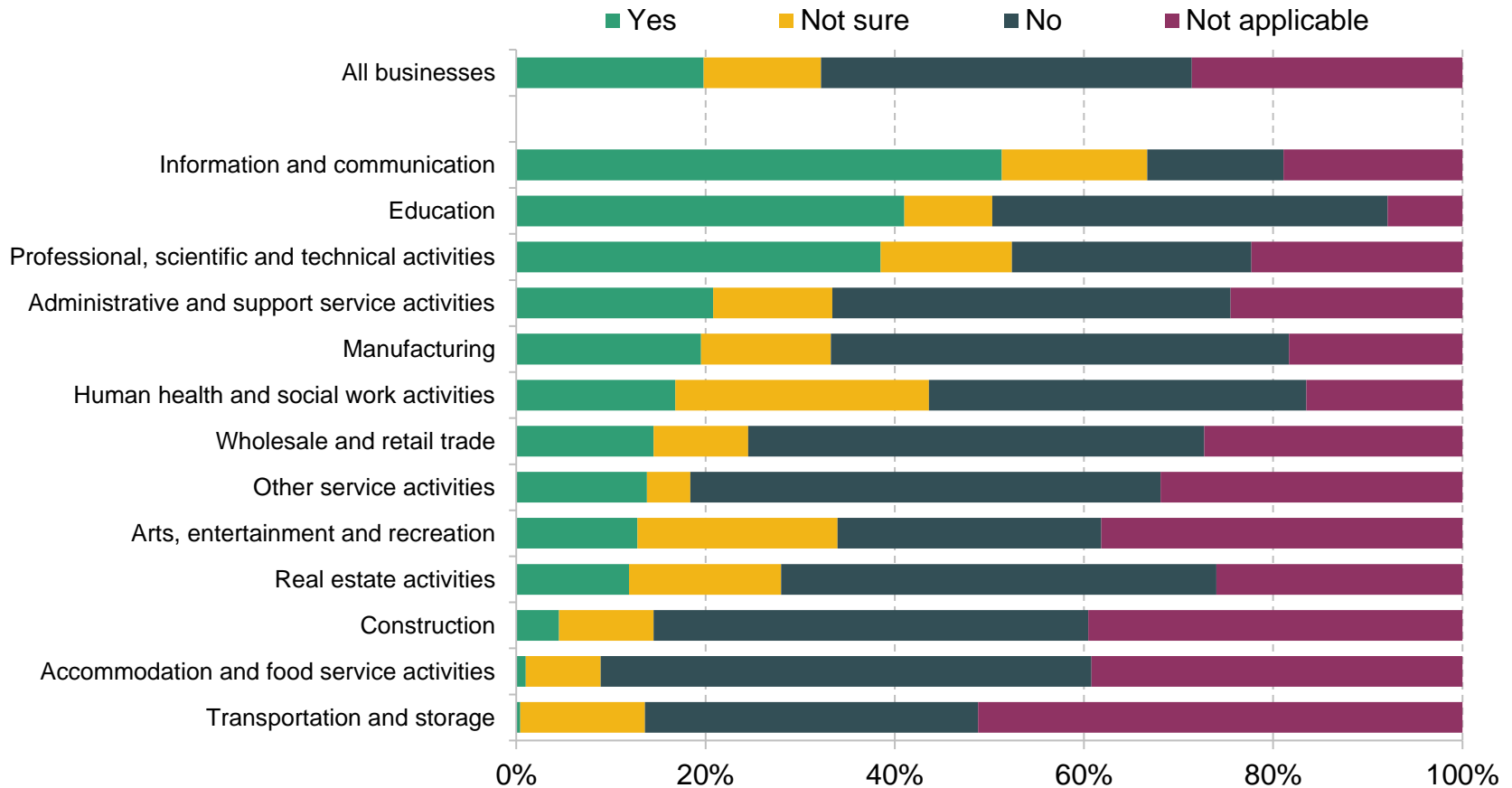
Percentage of adults who report working from home, Great Britain



Source: ONS, Opinions and Lifestyle Survey.

A sizeable chunk of businesses (in some industries) expect to use more homeworking

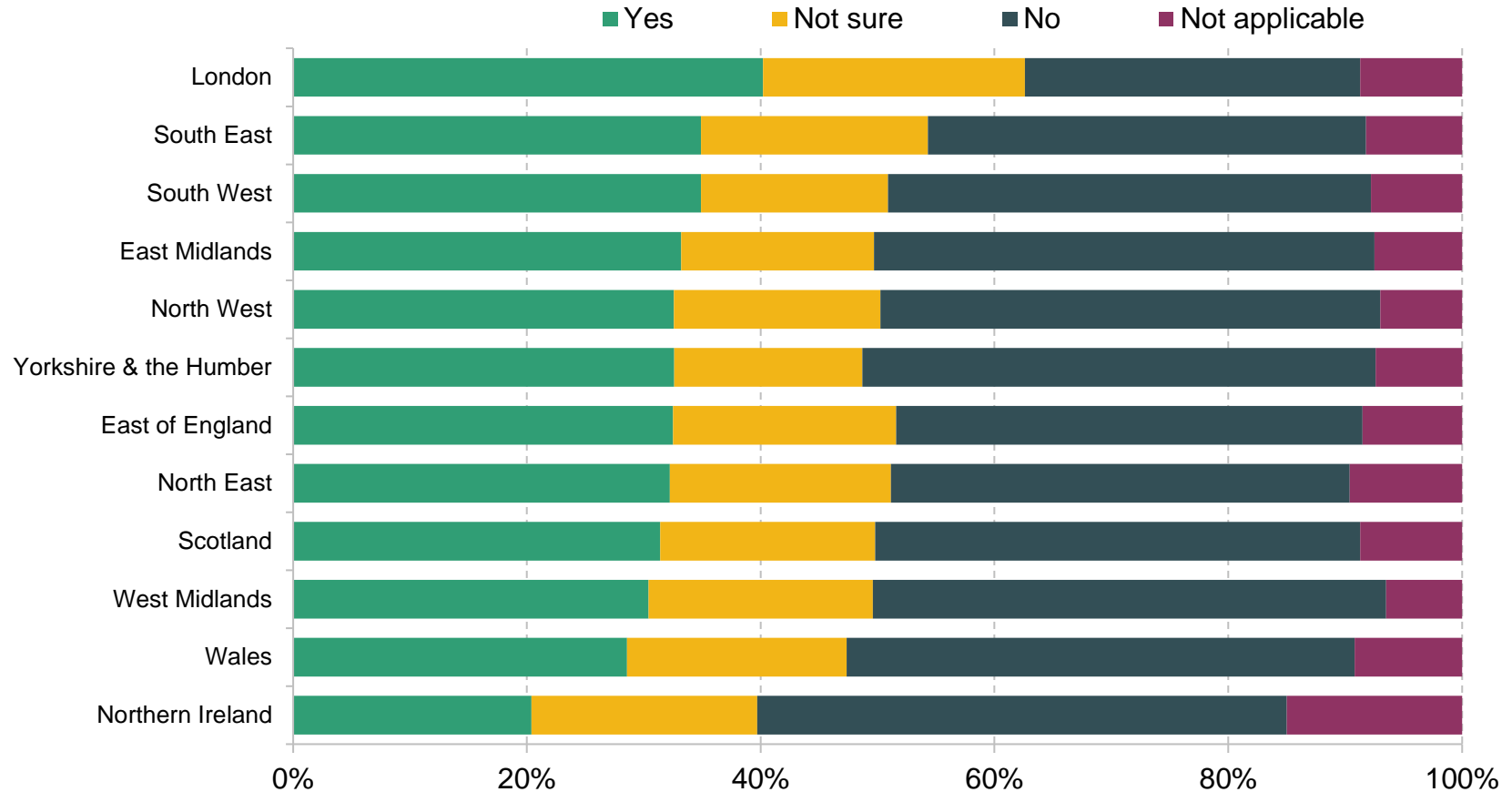
Question: Is your business using, or intending to use increased homeworking as a permanent business model going forward? (21 Mar to 3 Apr 2022)



Source: ONS, Business insights and impact on the UK economy, 7 April 2022.

With geographic differences – London likely to be most affected

Question: Is your business using, or intending to use increased homeworking as a permanent business model going forward? (21 Mar to 3 Apr 2022)

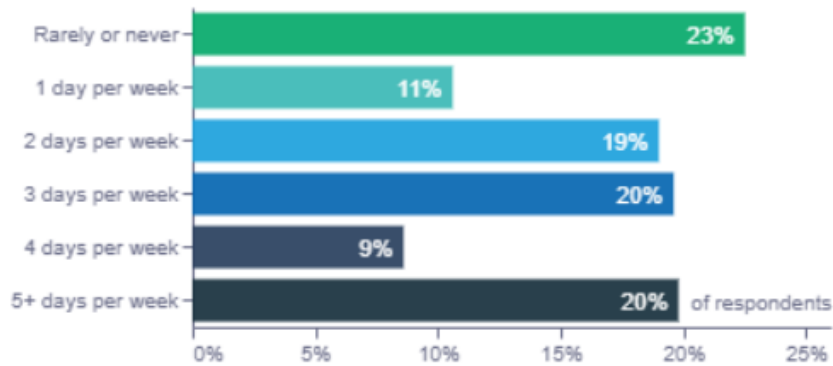


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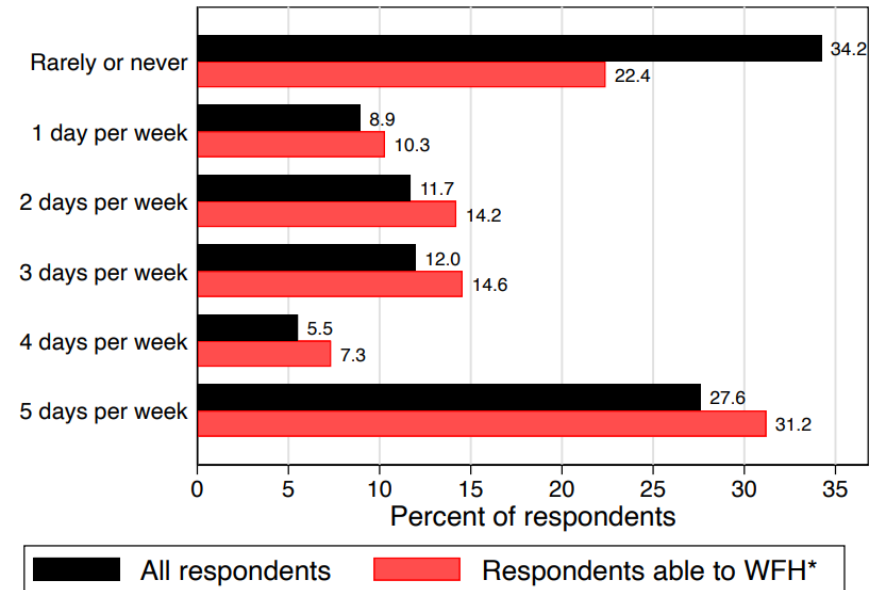
For those using homeworking, a hybrid model seems most likely

How often would you like to have paid workdays at home?

a) UK



b) US



*64% of the full sample meets this criterion

Note: Data are from two surveys of 5,000 UK residents carried out by Prolific in March and April 2021 on behalf of the University of Nottingham and Stanford University, reweighted the sample of respondents to match the Labour Force Survey figures by age, gender and education. Source: P. Mizen, N. Bloom, S. Taneja, 'What is the future of commuting to work?', Economics Observatory, May 2021.

Note: US data are based on a survey of more than 30,000 Americans. Source: J.M. Barrera, B. Bloom, S. J. Davis, 'Why Working From Home Will Stick', BFI Working Paper, April 2021.

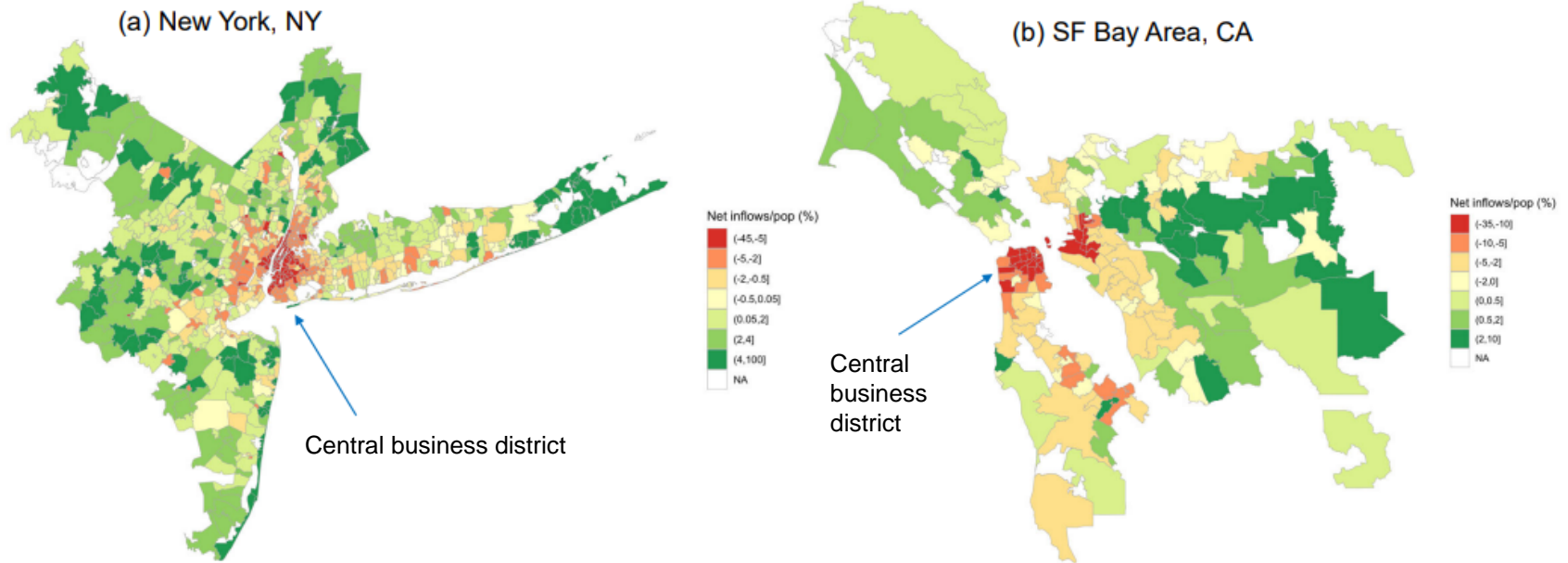
What would a hybrid model mean for cities and levelling up?

- Potentially huge implications – far too much to cover today

- Three major trends that need reckoning with:
 - 1) The ‘race for space’ – people who can WFH seeking larger living spaces outside of city centres
 - but not too far away – most still need to commute 2 or 3 days a week

The doughnut effect (in the USA)

Figure 3: Change of address flows occur from the city center to the suburbs



Notes: Both panels display heat maps of the cumulative net inflows (moves in – moves out) from Feb 2020-Feb 2021 as a percent of population (2015-19 5-yr ACS) at the zipcode level. The left panel shows the New York-Newark-Jersey City, NY-NJ-PA MSA and the right panel shows San Francisco-Oakland-Hayward MSA. Data on flows are calculated using USPS National change of address dataset. We multiply the number of household moves by the average household size from the Census Bureau, 2.5, and add the number of individual moves to calculate total population flows. Sources: USPS, Census Bureau.

Source: N. Bloom, A. Ramani, 'The donut effect of Covid-19 on cities', CEP Discussion Paper, September 2021.

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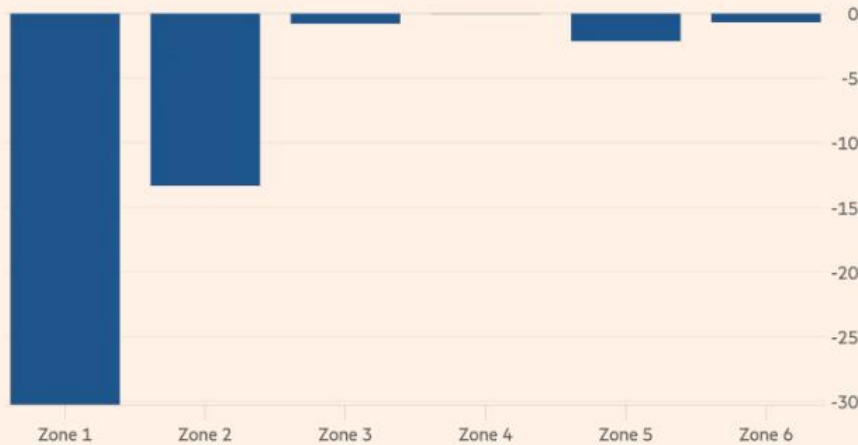
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 - 2) A shift in demand and spending away from city centres to smaller towns and suburbs
 - major implications for commercial real estate

Smaller towns and suburbs have fared better than city centres

Outer London recovers as the middle struggles

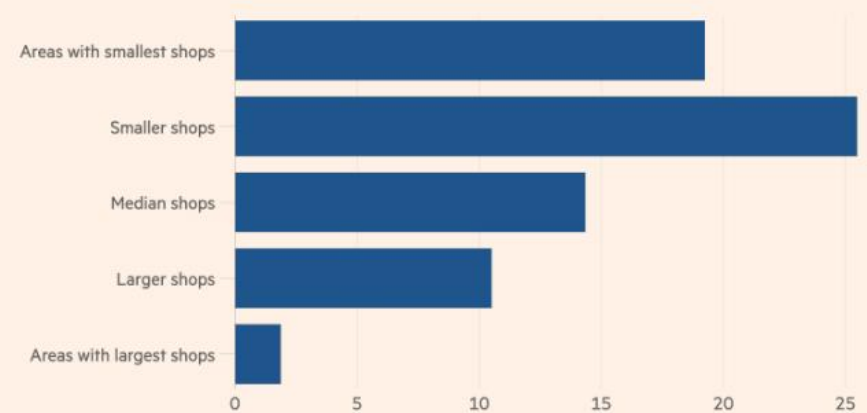
Difference in in-person spending between Jan 2022 and Jan 2020 (%)



Source: SIB
© FT

Areas with smaller shops outperforming pre-pandemic sales

Local high streets now outperforming larger shopping areas



Shops identified via Ordnance Survey as being in high street cluster. Area estimated by using building footprint.
© FT

Source: Financial Times, 'UK high streets bounce back from Covid curbs as London falters', 27 February 2022.

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 - major implications for commercial real estate

 - 3) Reduced commuting
 - lower ticket fares for public transport providers



Summing up

Summing up

- The White Paper recognises the scale of the levelling up challenge
 - A serious and thoughtful piece of policy work
 - A broadly sensible set of targets, but little prioritisation
 - With little new funding, resources could be spread thinly
- The new UK Shared Prosperity Fund is a missed opportunity to reap a dividend from Brexit and improve policy
- A shift to more hybrid working may do little to ‘level up’ the UK, but will reshape our cities and create a new set of policy challenges

Thank you for listening!

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