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Rebalancing UK regional and industrial policy post-Brexit and post-Covid-19: lessons learned and priorities for the future

Philip McCann^a, Raquel Ortega-Argilés^b , Deniz Sevinc^c  and Magda Cepeda-Zorrilla^d 

ABSTRACT

In this paper, we examine the challenges and opportunities facing the UK's industrial and regional policy in the context of the policy decisions made over recent decades. We argue that the overly centralized and sectoral logic of the UK governance systems has led to a lack of clarity in thinking through place-based issues. This, in turn, has resulted in policy ambiguity, confusion and contradictions, and successfully moving industrial policy and regional policy forward post-Brexit can only take place if conceptual and operational clarity is brought to these matters.

KEYWORDS

UK; Brexit; industrial policy; rebalancing; Levelling Up

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INTRODUCTION


The UK finds itself at a critical crossroads regarding the future of industrial policy and regional development. Recent years have led to growing awareness in the UK media and political circles of the scale of the UK's interregional inequalities in comparison with competitor countries. It is nowadays increasingly accepted that the UK exhibits amongst the highest interregional productivity inequalities of any major industrialized country, inequalities which are also reflected in a whole host of geographical inequalities in other social (Social Mobility Commission (SMC), 2020a), health (Bennett et al., 2015; GBD, 2016; Marmot et al., 2020), and prosperity and quality-of-life indicators (Veneri & Murtin, 2019). This growing awareness has arisen both because of political shocks, including the UK's 2016 EU Referendum vote to Leave the EU as well as the political geography of the General Election results in December 2019, along with detailed analysis (Carrascal-Incera et al., 2020; Davenport & Zaranko, 2020; McCann, 2016, 2020a). From 2016


onwards, these regional issues started to enter UK media and political debates due to the geography of the pro-Brexit vote (Los et al., 2017). However, still, it took several years before the empirical evidence on regional issues became translated into mainstream policy debates (Berry & King, 2021; Blagden et al., 2021; O'Brien, 2020; Raikes, 2019, 2020; Raikes et al., 2019) and government narratives. In particular, regional issues were almost entirely sidelined by the Theresa May Conservative government between 2016 and 2019, whereas the new Boris Johnson Conservative administration emphasized these issues, promoting the so-called 'Levelling Up' agenda. This raises the question as to what role do new approaches to industrial policy play in the UK's interregional Levelling Up agenda?


When discussing the interfaces between modern industrial policy and regional policy it is first essential to point out that industrial policy was eschewed by UK governments since the early 1980s. In particular, top-down sectoral support was largely abandoned in favour of horizontal reforms liberalizing markets and improving


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regulatory approaches to competition. Space-blind thinking has dominated UK policymaking ever since. However, in very recent years industrial policy once again reappeared in policy debates, and part of these debates have arisen because of a growing awareness of the extent to which in the UK regional productivity problems are fundamentally national productivity problems (McCann, 2016). Recent research has shown that not only does the UK display some of the highest interregional productivity disparities in the Organisation for Economic Co-operation and Development (OECD) (Carrascal-Incera et al., 2020; Davenport & Zaranko, 2020; McCann, 2016, 2020a), but that such disparities offer no national growth advantages whatsoever (Carrascal-Incera et al., 2020). These insights have led to a realization that the UK's regional productivity inequalities are a fundamental component of the UK's national productivity challenges (McCann, 2016), particularly in the aftermath of the 2008 global financial crisis (McCann, 2020b), and that the UK's highly centralized governance systems are almost certainly themselves part of the UK's productivity and growth problems. Indeed, the UK is an international outlier in terms of the unfortunate combination of very high levels of interregional inequality and only very modest national growth. This is manifested in a growing 'geography of discontent' (McCann, 2018), the political shocks of which are crucially associated with Brexit, and these have subsequently led to the reshaping of many political narratives, including demands for governance reforms centred on more devolved decision-making.

In the UK, these regional productivity observations have posed a fundamental challenge to the longstanding notion that horizontal framework policies and space-blind thinking are an appropriate economic policy. Contrary to earlier space-blind thinking (World Bank, 2009), interregional inequalities are not necessarily advantageous for growth, exactly as place-based approaches have always contended (Barca et al., 2012) and that governance questions are also central to understanding how regions grow. In particular, more devolved subnational governance systems are generally associated with higher productivity cities (Jong et al., 2021), more interregionally balanced growth, less dominance by any particular region or city, and with no overall national loss of efficiency (Carrascal-Incera et al., 2020). The evidence suggests that many UK economic policy settings have been inappropriate for many years, and it is this rethinking which has given rise to industrial policy debates.

As part of the post EU Referendum policy rethinking process, for the first time in decades the UK launched a formal industrial strategy (HM Government (HMG), 2017) to promote both national and regional (Airey & Booth-Smith, 2018) growth and development. This appeared to represent a major shift in national economic policy thinking towards a strategic approach to economic development, which for four decades have been largely eschewed by the central government. A key part of the strategy was to 'take back control' at the local and regional levels (Airey & Booth-Smith, 2018), and although the

2017 Industrial Strategy has been replaced by a new 2021 Plan for Growth, many of these key features remain. Yet, in spite of these aspirations, the interface between industrial policy and regional development in the UK remains largely unclear, largely because of a four-decade-long lack of experience of thinking about these issues seriously. This is primarily apparent in the case of England where Westminster and Whitehall have decision-making primacy, and to a much lesser extent in the devolved administrations. This lack of clarity reflects uncertainties regarding how place-based policy connects with industrial policy. These uncertainties and ambiguities, in turn, are largely a result of the fact that the UK's institutional and governance systems are ill-equipped to address the questions (McCann, 2016), and therefore what policy options are available is constrained in comparison with many other countries. Modern industrial policies focusing on local innovation and entrepreneurship (McCann & Ortega-Argilés, 2013, 2016) tend to be very bottom up in nature, but this also requires appropriate subnational institutional settings which are largely absent in the UK. As such, whatever the economic or political motivations for the government's 2017 Industrial Strategy, and its subsequent Levelling Up agenda (Tomaney & Pike, 2020) and 2021 Plan for Growth, a clear understanding of the interface between industrial and regional policy agendas, the nature of the policy objectives, and how these all relate to the institutional and governance set-up mediating these policy agendas is essential. As we will argue in this paper, for much of the last decade the UK has been characterized by a serious lack of clarity on many of these issues, and improving the UK's approach to both industrial policy and regional development will therefore require much greater consideration of how the various policy objectives and governance challenges are intertwined.

In this paper we therefore examine the challenges and opportunities facing the UK industrial and regional policy in the context of the policy decisions made over recent decades. Moreover, the contemporaneous shocks associated with Brexit and Covid-19 are likely to be unprecedented in nature, scale and temporal structure, and are likely to exacerbate the regional inequalities. We argue that a long-standing lack of clarity in thinking through place-based issues has resulted in policy ambiguity, confusion and contradictions, and moving forward post-Brexit and post-Covid-19 can only take place if conceptual and operational clarity is brought to these matters. We focus mainly on England, where the lack of clarity and shifting thinking is most obvious, although many lessons are still relevant for other parts of the UK. However, detailed evidence and analysis before both shocks provide a framework as to how we might consider these issues.

The rest of the paper is organized as follows. In the next section we discuss a decade of evidence regarding the effects of the 2010–11 reforms to UK regional policy. On this basis, we assess the current Levelling Up challenges in the context of Brexit and Covid-19, and this informs our analysis of what is required from a Shared Prosperity Fund (SPF) replacement for EU regional policy.

ASSESSING THE PERFORMANCE OF THE 2010 REFORMS: A DECADE OF EVIDENCE

Over the last 40 years, the UK regional policy arena has been characterized by institutional instability and frequent changes in the logic and direction of policy (see Appendix A in the supplemental data online), the most important of which for today's policy landscape were the 2010–11 reforms. The 2010–11 policy reforms to regional and economic development instituted by the Coalition (HMG, 2010) marked a major shift away from the previous broader regional thinking to a more localism-inspired framing of economic development policies, and also a shift away from public- to private-led actions. Key to these shifts were the abolition of regional development agencies (RDAs) and the establishment of local enterprise partnerships (LEPs), and also the creation of city-region deals. However, the early years of the localism reforms between 2010 and 2014 were characterized by a lack of clarity and coordination between initiatives, poor monitoring and institutional arrangements for delivery (House of Commons (HoC), 2014).

During the first three years of the coalition government, the 2010 White Paper's lack of clarity regarding the role of LEPs and the teething problems of the Regional Growth Fund (HMG, 2015), alongside the governance recentralization and sectoral rehousing of many of the policy remits previously held by RDAs at the regional level, led to a sidelining of many of the regional issues. Between 2010 and 2015, only £1.5 billion of policy funding had been directed via LEPs (National Audit Office (NAO), 2016a).

The 2010–11 reforms also laid the groundwork for 'city deals' (HMG, 2011), which have since become a key element of the interface between regional and industrial policy in the UK. The 2011 Localism Act¹ provided for the delegation and transfer of functions to certain permitted authorities (HoC, 2017). The first combined authority template was established in Manchester in 2011 with the purpose of joint working on economic regeneration and transport projects across 10 district councils (NAO, 2017a). However, the start of a tentative shift away again from such top-down and centralized thinking occurred in response to a series of high-level reports (Heseltine, 2012; Hunt, 2013; Institute for Public Policy Research North (IPPR), 2012), and the regional dimension of rebalancing started to re-emerge in policy-thinking from 2013 onwards. Under the personal influence on the then Chancellor of the Exchequer George Osborne of both Lord Michael Heseltine and former chief economist of Goldman Sachs Lord Jim O'Neill, a broader vision building on the Manchester model began to emerge about how economic development policies and systems could be better linked to more meaningful functional economic geographies (McCann, 2016). In 2015, the Coalition government began to promote both the Northern Powerhouse programme and the first city-region devolution 'deals', the results of a negotiation between local

governments and HM Treasury. The year 2017 saw the first six elections of city-region mayors (NAO, 2017a, 2017b). The Midlands Engine agenda began in 2016. These represented a new approach to regional development, with a strong emphasis on the local development of local institutions capable of devolved decision-making in spatial contexts that had a realistic meaning in terms of economic geography.

There is a clear purpose to the establishment of these city-region combined authorities (NAO, 2017a), with decision-making and institutional set-ups more clearly linked to functional economic geographies than in previous arrangements. OECD-wide evidence finds that cities with high levels of devolution and low levels of horizontal fragmentation combined with a high quality of government exhibit higher productivity levels (Jong et al., 2021), and those areas with a history of working together have typically found it easier to organize these new bodies (NAO, 2017a). City-region combined authorities also offer possibilities for much clearer accountability and greater local voice (NAO, 2017a). However, the capacity, powers and resources available to UK city-regions are still very limited, especially in the context of the challenges they are designed to address (Heseltine, 2019). Moreover, the links between decision-making and oversights and economic outcomes have been somewhat mixed and inconclusive. The central–local arrangements differ markedly between places, and some places have not been able to bring local authorities together to establish combined authorities (NAO, 2017a, 2017b). Yet, the legislation provided for central–local bargaining relationships that were inherently unequal and largely at the discretion of the minister, and also the mechanisms by which city-region combined authorities were to work alongside with LEPs remained almost entirely unclear. Some combined authorities do not align with LEPs either geographically or legally. There is also lack of geographical coherence between most combined authorities and other service providers, making further devolution problematic, and especially pre-Covid-19 there was also a lack of public awareness of combined authorities (NAO, 2017a). Many of these issues are still not resolved.

By 2014, the Coalition government also announced a new £12 billion Local Growth Fund (LGF) for the period 2015–16 to 2020–21 (NAO, 2016a). By January 2015, some £7.3 billion-worth of Growth Deals were agreed with the 39 LEPs in England, with funding allocated on the basis of the quality of the LEPs' multi-year economic strategies (NAO, 2016a), and by 2019, £9.1 billion of LGFs had been allocated across England's 38 LEPs. As of 2019, the 11 LEPs in Northern England had been awarded £3.4 billion out of the total of £9.1 billion of LGFs awarded, with transport investments accounting for most of the projects (NAO, 2019).

Unfortunately, many of these initiatives were largely stalled between 2017 and 2019 as the May government was preoccupied with Brexit negotiations, and the momentum towards city-region deals has only very

recently been revitalized. At present, there are now 10 city-region deals in England,² of which nine have directly elected mayors and one which does not; six city-region deals in Scotland plus six regional growth deals;³ two city-region deals in Wales;⁴ and one in Northern Ireland.⁵ These delays have unfortunately meant that the many of fledgeling city-region combined authorities were only coming into being just as Brexit and Covid-19 appeared on the horizon.

It is far too early to comment on the performance of the recently instituted city-regions. However, a decade on, it is fair to say that LEPs are not widely seen as having been a resounding success (Pike et al., 2015). As of 2016, it was still not clear what the role of LEPs was in the broader devolution landscape, and they had still not established any track record of delivery. These deficiencies were exacerbated by the fact that LEPs are reliant on their local authorities whose own policy-related finances were heavily under pressure (NAO, 2016a). Besides, there was a lack of clarity at the outset regarding what exactly were the quantifiable outcomes or objectives of the local growth deals, and the deal-making process underpinning the allocation of LGFs itself relied on internal processes that most LEPs did not have in place (NAO, 2016a). By 2018, many aspects about the roles of LEPs were being clarified by the Ministry of Housing, Communities and Local Government (MHCLG). LEPs were required by the MHCLG to register as legal entities, to publish agreements regarding their remits and roles, to improve financial and operational transparency, and to commit to higher standards of appointments and activities in public office (NAO, 2019). In recent years, there has been an improvement in many of these areas (NAO, 2019), and new data and indicators are being produced to help LEPs develop meaningful strategies, the progress of which can be monitored (Department for Business, Energy and Industrial Strategy (BEIS), 2020a, 2020b, 2020c).

Even with evidence on existing improvements, however, there is still a long way to go for LEPs in terms of the required quality of governance needed to carry out their roles (HoC, 2019a) effectively. These difficulties are further hampered by the fact that most LEPs are still very small, with the median number of full-time equivalent (FTE) staff being only eight people, although they range in size from zero to 80 FTEs (NAO, 2016b). Many LEPs have very few resources, very limited capabilities, serious information shortages (NAO, 2016a) and their relationships with the local authorities in their localities vary significantly, depending on their individual geographies and overlapping jurisdictions (Pike et al., 2015). As of 2016, 37 local authorities were covered by more than one LEP, while in 2018, some 20 LEPs still had overlapping boundaries. By March 2019, 11 LEPs had agreed to resolve their overlapping boundary problems, whereas for the remaining nine LEPs finding any such resolution is still very difficult. In addition, because LEPs are non-statutory bodies, apart from withholding funds, the central government does not have the power to intervene in the way it does with local authorities (NAO, 2019).

As such, although progress towards improvements has been made, there still remain various institutional and spatial governance challenges facing many LEPs regarding institutional fragmentation, top-down centralization and lack of clarity about what is optimal in terms of the links between local geography and institutions. Moreover, this is a more general problem relating to central–local governance and accountability (HoC, 2019b).

On top of these longstanding governance and efficacy challenges, two major changes in the roles played by LEPs in terms of both industrial policy and rebalancing were ushered in due to the UK's 2016 decision to leave the EU. First, as we have already seen, 2017 saw the launch of a White Paper on the new UK Industrial Strategy (HMG, 2017), specifically designed to help British industry forge a new future after leaving the EU (p. 5). As part of the nationwide agenda, LEPs were charged with designing and delivering 'local industrial strategies', and LEPs' future funding post-2021 would be contingent on the quality of these activities (NAO, 2019). In addition, while LEPs had some say regarding how £5.3 billion of EU regional funds were spent between 2014 and 2020 (NAO, 2019), exiting the EU meant that from 2021 onward UK regions will lose access to EU Cohesion Policy regional development funds. However, bodies such as city-region combined authorities and LEPs have played no real role in the UK–EU negotiations (Billing et al., 2019), or in understanding the local implications of the withdrawal of EU regional funds. As yet, the nature, structure or logic of their replacement, a new Shared Prosperity Fund (SPF), is unknown, so at present it is not possible to comment on the precise role that city-regions combined authorities and LEPs will play in the new regional economic development landscape post-2021. All that can be said at this point is that after a decade since their establishment, LEPs have continued to struggle to perform effectively in the UK economic development landscape, and adding additional responsibilities is risky.

As well as these uncertainties and ambiguities regarding the relationship between regional development, industrial policy and the institutional challenges in the context of Brexit and Covid-19, there is also now the problem of shifting domestic political and policy narratives. In particular, the UK economic development and industrial policy landscape has become even more muddled and muddled in recent years due to the appearance of the 'cities versus towns' narrative. A powerful UK policy narrative has emerged due to the borrowing of insights from the North American arena (*The Economist*, 2017a, 2017b) and mixing of these with domestic media debates (Goodhart, 2017; Sandbu, 2020; *The Spectator*, 2016) and insights derived from psephology.⁶ This has led to a widely held notion that the UK is characterized by a cities versus towns split, whereby the benefits of modern economic growth primarily accrue to so-called 'metropolitan elites' in cities, while local citizens in smaller towns and rural areas are increasingly left behind.

In the UK, this narrative has become politically very persuasive, even though in economic terms the detailed

evidence demonstrates that it is basically incorrect (ONS, 2017, 2019). The prosperity of towns of different types is heavily contingent on the overall fortunes of the regions in which they are located, as is also the case with cities. More prosperous regions are populated by many relatively prosperous towns, while less prosperous regions are populated by large numbers of low prosperity and declining towns (ONS, 2020). Obviously, there are both inland and coastal towns facing severe economic difficulties associated with deindustrialization and declining tourism activity. However, as a whole, across the UK there are numerous towns, villages, hamlets and rural areas, and especially in the South of England, which on many social and economic indicators, including gross domestic product (GDP) per capita, are more prosperous than many of the UK's large cities and urban areas (Agrawal & Phillips, 2020; ONS, 2017; Tanner et al., 2020; SMC, 2020a, 2020b). Although during the last two decades employment growth in the major cities has outperformed the country as a whole and their own regional hinterlands (Champion & Townsend, 2020), many of these jobs are still low productivity and low-wage jobs, with only two urban areas and no metropolitan areas outside of the wider South East of England and Scotland displaying productivity levels above the UK average after four decades of urban policy (McCann, 2016). Indeed, many of the most prosperous places in the UK's economically weaker Midland and Northern regions are towns. This is not surprising because for a long time it has been the underperformance of the UK's large cities outside of the wider London hinterland regions of Southern England that explains most of the UK's weak prosperity and regional inequalities (Martin et al., 2018; McCann, 2016). Across the OECD, prosperous large cities drive regional economies (OECD, 2020a), including the prosperity of their hinterland towns, peri-urban and rural areas, but in the weaker regions of the UK, this has not happened for more than four decades, whereas this has happened in the UK's more prosperous regions (McCann, 2016). It is this regional partitioning of the performance of large urban areas that so heavily accounts for both the UK's interregional inequalities and also many aspects of the UK's national productivity puzzle (McCann, 2020b).

Yet, this recent cities versus towns narrative has been sufficiently persuasive to engender high-profile policy actions. In July 2019, a new £3.6 billion Towns Fund for England was established (MHCLG, 2020), incorporating and building on the £1.6 billion Stronger Towns Fund which had been previously announced in March 2019 (NAO, 2020a, 2020b). This was to be something of a competitive process in which certain towns were selected according to various criteria to move ahead with developing strategic investment plans for underpinning Town Deals. If the aim of the Levelling Up agenda is to rebalance the economy spatially (Martin et al., 2016), then on the basis of the published evidence (NAO, 2020a, 2020b) it is very difficult to see how the portfolio of selected towns fits into the overall Levelling Up agenda, or even how the Towns Deals themselves are supposed

to achieve these aims, given the fact that the policy's stated objectives are so amorphous and the competitive selection mechanism so opaque.

Meanwhile, the approaches to the Industrial Strategy and industrial policy development in the three devolved administrations have been rather different to each other, and to varying degrees they have also been very different from the published UK Industrial Strategy and policy approaches in English regions.

In Scotland, the institutional structure underlying regional economic development is moving in an almost opposite direction to what has been observed in England since 2010. The previously autonomous local enterprise companies (LECs) have been absorbed entirely within the three RDAs, namely Scottish Enterprise, Highlands and Islands Enterprise, and the fledgling South of Scotland Enterprise established in 2020. The umbrella economic policy framing is *Growing the Economy*⁷ and this links policy agendas relating to infrastructure, climate change, capital expenditure, enterprise and skills. Scotland's Economic Strategy⁸ was published in 2015. Initially there was optimism in various quarters about the opportunities associated with the 2017 Industrial Strategy,⁹ although subsequently the focus has been on the National Performance Framework.¹⁰ In particular parts of Scotland there have been differentiated emphases, such as on the economic development opportunities associated with artificial intelligence (AI) and big data¹¹ as well as inclusive growth challenges (Houston et al., 2021). In general, however, the UK Industrial Strategy appears to have had relatively limited traction in Scotland, and there is no LEP structure on which to base local industrial policies.

In Wales the UK Industrial Strategy has had limited salience (Henley, 2021) and instead Wales has embarked on the design of a National Development Framework (Welsh Government, 2019). There is no LEP structure in Wales (OECD, 2020b) and discussions about economic policy are framed within the umbrella agenda set out under the auspices of the Future Generations Commissioner for Wales.¹² The *Future Generations Report 2020* published in May 2020 (Future Generations Commissioner for Wales (FGCW), 2020) has at its heart a focus on how the actions of public bodies can enhance long-term well-being, and Welsh devolved governance competences take their lead from this approach. Initially in 2017, there was optimism in Wales regarding local opportunities associated with the Industrial Strategy and especially related to university research funding,¹³ but subsequently priorities appear to have shifted. Many of the elements of the 2017 UK Industrial Strategy were not devolved competences in Wales, so they did not fall under the remit of the Welsh government, and the LEP structure, which was central to the delivery of Local Industrial Strategies in England, does not exist in Wales (Henley, 2021). As such, the ability of Wales to implement a distinctively local approach to industrial policy is severely limited.

In the case of Northern Ireland, the hiatus due to the suspension of the devolved government institutions between January 2017 and January 2020 followed by the

Covid-19 pandemic has meant that progress has been much slower than might have been expected. There is no LEP structure and the industrial policy framework has not been formally updated since 2012.¹⁴ The consultation process on the new policy framework Economy 2030 was initiated in January 2017¹⁵ but is still currently going through a consultation process.¹⁶ In other words, and for different reasons in each case, the evidence suggests that the salience of the 2017 UK Industrial Strategy in the three devolved administrations was relatively limited, and approaches to local and regional development are diverging on many levels. This disconnection is likely to weaken the overall agenda both practically and politically.

Although there had been steady progress towards achieving the various goals of the UK National Industrial Strategy (Industrial Strategy Council (ISC), 2020; Houses of Parliament, 2017), in February 2021 it was announced that the UK Industrial Strategy would be scrapped, along with the ISC. In March 2021 a new policy *Our Plan for Growth: Build Back Better* (HM Treasury (HMT), 2021) was announced along with outlines for new funding streams relating to local and regional development, namely the Levelling Up Fund and the Community Renewal Fund (see Appendix A in the supplemental data online). The new plan, which is based on the three 'pillars' of infrastructure, skills and innovation, states explicitly that:

In pursuing economic growth, this government will do things differently: Our most important mission is to unite and level up the country: tackling geographic disparities; supporting struggling towns to regenerate; ensuring every region and nation of the UK has at least one globally competitive city; and above all, strengthening the Union.

(HMT, 2021, pp. 9, 27)

This suggests that geography and regional development will now play a more central and cross-cutting role in the national growth agenda than in the previous 2017 Industrial Strategy. This increased cross-cutting role, along with the transition to net zero and the Green Industrial Revolution Agenda, is supported by the establishment of a new National Infrastructure Bank, a National Infrastructure Strategy, a Towns Fund and a High Street Fund, a network of Freeports, as well as the regional relocation of many key civil services roles. However, LEPs are not referred to in any of the Levelling Up-related documents published by the government in March 2021 at the time of the Budget (see Appendix A in the supplemental data online), so until the details of the SPF are outlined, along with the publication of the Levelling Up White Paper, it is hard to assess the extent of any institutional or governance changes at the local or regional levels. This is a critical issue because the UK industrial and regional policy arena has been characterized by enormous churn over recent decades (Cook et al., 2020; Institute for Government (IFG), 2017), and institutional instability has weakened the efficacy of any policy approach.

In general, these insights arise from the more fundamental fact that in terms of addressing regional development challenges with a new model of industrial policy, the problem the UK faces today is that the governance systems are ill-equipped and ill-designed for such a role, and these institutional problems pervade almost every area of regional development policy. There was ambiguity and uncertainty regarding the role played by the 2017 UK Industrial Strategy in fostering Levelling Up. At the same time, the situation is further confused by the narratives swirling around politics which are at best only weakly related to the evidence and in some cases in direct contradiction to the evidence. As such, both the Towns Fund and the purported Levelling Up benefits of Brexit are just two examples of a more general problem.

As well as being overly centralized and top-down in thinking, the UK local and regional development arena is also characterized by fragmentation, overlapping and often conflicting jurisdictions and policy remits between both sectors and places, and a lack of appropriate institutions and governance settings to deliver genuinely place-based regional development policies. This is reflected in a widespread lack of clarity regarding the intended policy objectives, policy outcomes, appropriate and effective institutional and governance systems, as well as intended policy design and delivery mechanisms, all of which are currently endemic in the UK regional development arena.

CURRENT CHALLENGES: THE REGIONAL IMPLICATIONS OF BREXIT AND COVID-19

The institutional ambiguities and uncertainties regarding the appropriate design and delivery of industrial policies that can foster Levelling Up, allied with the profound dysfunctionality of the UK governance systems regarding regional development, are now all to be tested in a manner for which there is simply no precedent. The UK faces the prospect of both Brexit and coronavirus shocks taking place simultaneously. These shocks are likely to be unprecedented in terms of the scale and longevity of their impacts, while at the same time they are also very different to each other. However, they do share some common features as far as UK regional implications are concerned, in particular their potential for widening interregional inequalities (McCann & Ortega-Argilés, 2021).

Even without Covid-19, Brexit was almost certainly going to widen the gaps between the more and less prosperous UK regions. The UK's weaker regions are more adversely exposed to Brexit in terms of the trade-related effects on their local GDP and wage incomes (Chen et al., 2018; Los et al., 2017) and their competitiveness (Thissen et al., 2021). Indeed, there are now more than a dozen different pieces of analysis that come to similar conclusions, including the UK government's own analyses (Billing et al., 2019; HMG, 2018). Brexit itself will work directly against Levelling Up because the scale of the adverse impacts in the UK's weaker regions are typically 60–90% higher than in the more prosperous regions

(Chen et al., 2018). Moreover, the economic shocks associated with Brexit, many of which will be slow-burning and long-lasting (McCann, 2020c), are also greater on the poorer parts of each region relative to the more prosperous parts of each region. In other words, Brexit will lead to both increased *inter-* and *intra-*regional disparities (Thissen et al., 2021), and as such will work against Leveling Up on every level.

In addition, as well as these enormous Brexit-related trade shocks, the poorer regions of the UK will also suffer disproportionately from the withdrawal of EU regional funding after Brexit, which when including financing from the European Investment Bank (EIB), typically amounted something to over €11 billion per annum (Ayes & Brien, 2017; Billing et al., 2019; Brien, 2018) and over €14 billion per annum if we include funding from the Common Agricultural Policy (CAP) (Ayers & Brien, 2018). The UK's weaker regions, and especially urban areas in the UK's weaker regions, gained disproportionately from EU regional funding, and these same regions are now largely the same regions which are the most vulnerable to Brexit itself.

On top of the issues discussed above, we now have to face the long-term implications of the Covid-19 pandemic. The impacts of Covid-19 on the UK are not only likely to be amongst the most severe in the industrialized world, but also Covid-19 is likely to further widen UK interregional disparities for a variety of reasons, including industrial structure, deprivation and the geography of capital shocks (McCann & Ortega-Argilés, 2021). As such, the Covid-19 shocks are likely to exacerbate the trends and realities described so far. However, the main difference between all the issues discussed above and Covid-19 is that the latter is an externally generated shock. In contrast, all the governance, regional development, industrial policy and EU-related shocks are explicitly the result of decisions made within the UK. That is not to say that the UK's response to Covid-19 is unrelated to these internal decisions over recent decades. Indeed, the poor performance of the UK's response may in part be related to its overly top-down institutional structure, as well as its highly unbalanced regional economic features, although these are issues beyond the scope of this paper.

The combined shocks associated with Brexit and the Covid-19 pandemic are likely to lead to a period of profound uncertainty and change during the 2020s, resulting in years of economic, social and political instability, and ongoing processes of policy and governance negotiation and renegotiation. The success of the UK Covid-19 vaccination programme may tempt the government to advocate even greater governance centralization, although the overall UK Covid-19 death rates ought to caution against such approaches. The most profound shock is likely to be associated with the growing pressure for Scottish Independence (Brown, 2021). Brexit always posed a profound risk to the unity of the UK (McCann, 2016) and the combination of Brexit plus Covid-19 is likely to have enhanced the pressure for Scottish Independence (Deerin, 2021; Massie, 2020) and possibly also in Northern Ireland.

Greater governance decentralization may go some way to alleviating these pressures. Yet, given that the devolved administrations are already somewhat disconnected from the industrial policy approaches advocated by Westminster, it may be the case that Scottish Independence has little or no effects on these issues. However, the reality is likely that a break-up of the UK would have profound and yet unknown consequences for all forms of UK economic policy, including industrial and regional policies.

FUTURE CHALLENGES AND OPPORTUNITIES: DEVOLUTION AND A 'SHARED PROSPERITY FUND'

For four decades, the UK has overwhelmingly been top-down, sectoral and space-blind in terms of governance and industrial policy (McCann, 2016). As such, how to galvanize the performance of the UK's cities in a manner which also fosters development across their wider urban and rural hinterlands has not been sufficiently considered or acted upon. The result is that while much of the language embedded in official documents over the last decade has begun to use the terminology of place-based thinking, in reality, the underlying logic of the post-2010 move away from regionalism to localism is still far closer to space-blind and top-down thinking than place-based thinking (Bailey & Hildreth, 2015). Indeed, it is only in the last five years that we have started to see any tentative shifts away to more genuinely place-based institutional approaches associated with city-region combined authorities along with more place-based approaches to infrastructure provision (HMT, 2020a) and evaluation (HMT, 2020b), which will also need to be extended to research-related investments (Forth & Jones, 2020).

A long-awaited White Paper on Devolution and Local Recovery was originally expected in the summer of 2020, but this was pushed back to autumn 2020 and then into 2021 (*Local Government Chronicle*, 2020), ostensibly due to the impacts of Covid-19. Some clues as to the direction of travel were provided by the Spending Review Speech by Rishi Sunak, the Chancellor of the Exchequer, on 25 November 2020, in which a new £4 billion 'Levelling Up Fund' was announced along with the creation of a new National Infrastructure Bank headquartered in the North of England. Access to the fund is to be based on a competitive bidding process in which local authorities can bid for local project funding from a pot to be jointly managed by 'by HM Treasury, the Department for Transport and the Ministry of Housing, Communities and Local Government – taking a new, holistic, place-based approach to the needs of local areas' (Sunak, 2020). Given the experience of the 2010 reforms and many of the subsequent policy initiatives, it is hard to see how such a top-down, centrally managed and centrally determined funding schemes such as these can in any way address the UK's interregional challenges without fundamental governance reforms. Otherwise, there is a real danger that we are simply repeating previous mistakes of trying to orchestrate place-based development via

top-down centrally designed policy architectures and systems (Fothergill et al., 2019).

The international evidence (Carrascal-Incera et al., 2020; McCann, 2016, 2020a) suggests that the UK must move towards a much more devolved governance set-up if it wishes to Level Up. However, it is also important to be cognizant of the scale of what is required. Comparisons with Germany demonstrate that the funding required (Fischer, 2020; UK2070, 2020) is orders of magnitude beyond the figures currently being mooted in the UK (Sunak, 2020), and also the scale of the required governance reforms are almost unprecedented within the OECD. Unfortunately, the results of the 2010 reforms meant that by 2012 the levels of UK devolved subnational and substate governance had declined sharply to levels only marginally higher than those which prevailed in 1995. In other words, almost all the increases in devolved governance since 1999 were reversed overnight (Hooghe & Marks, 2020).¹⁷ Indeed, even today, allowing for the three devolved administrations in Scotland, Wales and Northern Ireland plus the new city-region combined authorities, the UK still only enjoys levels of subnational and substate regional governance autonomy which are lower than at any year between 1950 and 1973. The present levels of regional authority and autonomy are akin to those for the period 1974–85, when there were no devolved administrations or city-region combined authorities, and also lower than under the 1997–2010 Labour government. Today the UK's levels of subnational and substate governance autonomy are no more than one-quarter of those in Germany, and only half of those currently even enjoyed by France and Japan, the two other large and formerly highly centralized OECD nations (Hooghe & Marks, 2020). Indeed, the UK's levels of subnational and substate governance autonomy are currently akin to countries such as Slovakia, Portugal and Romania (Hooghe & Marks, 2020), or even Albania and Moldova on other indices (OECD, 2019). Typically, and not surprisingly and with good reason, governance in larger countries tends to be more devolved than in smaller countries. In contrast, the ratio of the national population to the levels of subnational devolution in the UK is higher than for any other developed economy. Even city-region combined authorities have only minimal resources and also limited discretion (Sandford, 2020c), and of themselves, these bodies are unlikely to provide solutions to the problem of many so-called 'left-behind' places (Tomaney & Pike, 2020). Many of these places are beyond the primary commuting hinterlands of cities, and finding ways to both better link them to cities as part of a broader programme of reinvigorating their local economies calls for a wider regional approach to policy.

However, while there is a need for much greater strides to be made towards devolution, devolution itself is complex and needs to be undertaken carefully. In particular, devolution will in the medium and long terms require a fundamental reform of the underlying post-Barnett-post-Brexit interregional fiscal stabilizer systems (Bell et al., 2020; McCann, 2016). At present subnational

governance authorities are largely unable to directly access the international financial markets in a manner possible in many other OECD countries and face severe restrictions on how capital can be accessed (Sandford, 2020a). Most local government borrowing has traditionally been via the Public Works Loan Board (PWLB), a lending facility operated by the UK Debt Management Office (DMO) on behalf of HM Treasury. Since 2014, this has been facilitated also via the recently formed UK Municipal Bonds Agency,¹⁸ and the city-region combined authorities will be little different.¹⁹ A few years ago it was mooted that the PWLB might be dissolved and its activities were taken over by HM Treasury (Brady, 2018), although since then there has been an ongoing reconsideration of its long-term role and also the reasons for borrowing by local authorities which are allowed (HMT, 2020c, 2020d). The devolved administrations have been granted greater, but slightly different, borrowing powers, although as a whole UK subnational public debt is only 40% of the OECD average and two-thirds of the average for unitary states (Organisation for Economic Co-operation and Development/United Cities and Local Government (OECD/UCLG), 2019). More generally, however, the combined effects of Brexit and Covid-19 on national and local public finances, as well as the asymmetric regional shocks they will engender, may well enhance the need for a complete overhaul of the subnational financial system (Sandford, 2020b). This overhaul will also need to be considered in the context of the operation of the UK's private sector banking system, the structure of which poorly serves the UK's regional economies (Mayer et al., 2021). The efficacy of any national investment bank (Calvert Jump & Naqvi, 2019; Davies & Christie-Miller, 2020) will depend heavily on the interface it provides between the UK's private and public financial systems, both of which are currently poorly designed to address the UK's interregional inequalities, and would need to be constructed based on lessons learned from the experiences of both the British Business Bank (NAO, 2020c) as well as the EIB (IfG, 2020). There is now increasing awareness of the extent to which our current institutional structures across many different arenas including the tax system (Blagden et al., 2021) have facilitated the spatial concentration of growth-enhancing public investments (O'Brien & Miscampbell, 2021), finance for innovation (Fraser et al., 2021), and whether a new national development bank (Davies & Christie-Miller, 2020) can help to address the skewed geographical distribution of angel and venture capital remains to be seen. Moreover, whether a fundamental reform of the post-Barnett-post-Brexit interregional fiscal stabilizer systems, which facilitates devolution, actually materializes is another issue. As yet there is little indication of this, at least until the long-awaited Levelling Up White Paper is finally published.

The final challenge to be faced is regarding the replacement for European regional development funds provided to weaker UK regions as part of EU Cohesion Policy. This is due to be replaced by an SPF, and although

as yet we know almost nothing of the nature, logic or workings of this policy (Brien, 2019; LGA, 2019), all the issues discussed above are just as relevant for the replacement of EU regional policy funding. In particular, one of the unfortunate by-products of the abolition of the RDAs by the 2010 Coalition government was the centralization into Whitehall of the management of all European regional funds allocated within England. This decision at a stroke made England by far the most centralized and top-down part of the whole EU regional funding arena covering some 500 million people. Out of the more than 250 NUTS-2 regional managing authorities for the EU Cohesion Policy funding programmes (McCann, 2015), England was more than five times the size of the next largest managing authority (Billing et al., 2021). A top-down centralization of this form and magnitude went both conceptually and operationally entirely against all of the post-2014 place-based reforms to EU Cohesion Policy originally set in train by the Barca (2009) report (Billing et al., 2021) and in the opposite direction to almost every other EU member state. The subsidiarity principles of devolved shared management were almost entirely overturned within the UK, in many ways returning the application of EU regional funds within the UK policy to something like a pre-1989 logic (McCann, 2015). Moreover, this top-down centralization engendered localized institutional fragmentation which worked directly against a serious place-based approach to local and regional economic development and largely undermined the ability to coordinate policy across places, such as intra-regionally between cities and hinterlands, intra-regionally between cities, interregionally between cities, and interregionally between regions was almost entirely lost.

In order to begin to counter these effects, it will be necessary not to make the same mistakes as in the past. The devolved administrations argue that the devolved management of EU Cohesion Policy they continued to enjoy post-2010 should not be reversed in an SPF, and the arguments in this paper suggest that this principle of devolved management applies across all UK regions. Devolution is a means to acquire the tools and capabilities needed to foster local development. In the UK it is still necessary to consider the optimal scale and format of devolution. OECD-wide evidence on these matters suggests that subnational devolved governance on a region-wide scale of the order of 2.53–5.0 million people is meaningful (McCann, 2016). Proposals have already been put forward regarding how devolution allied to industrial policy might proceed (Raikes, 2019, 2020), although the precise format of devolution which would best dovetail industrial and regional policies in an already-unbalanced economy would still require careful consideration.

Given all these considerations, in order for Levelling Up to work, the literature on the effectiveness of EU Cohesion Policy (McCann, 2015) plus all the UK-specific institutional and policy evidence discussed here, and in Appendix A in the supplemental data online, implies:

- For the SPF, it is essential first to clearly articulate the SPF design principles, rather than merely the scale of funding streams (Davenport et al., 2020). These principles need to clarify the right scale, the inbuilt flexibility concerning different places, and the basis for policy and institutional stability in the long term. Accountability and policy design needs to be with respect to long-term outcomes, not outputs, and policy design needs to be innovative and entrepreneurial in nature, underpinned by clear financial and legal stability mechanisms.
- Building local institutional capacity should be a core element of the SPF, and the necessary funding for this should be part of the SPF, over and above the funding for specific actions and interventions. Moreover, capacity-building must also be embedded on programme-level actions, and not just on an ad hoc project-by-project level basis.
- Shared management principles aimed at fostering enhanced multilevel governance must be prioritized in all areas developing place-based competences, including city-region combined authorities, areas leading local growth deals and regional growth deals as well as in rural regions. It is critical to move away from a situation where very small numbers of people in and around Westminster and Whitehall are making the majority of the key critical decisions. Central government should provide some clear overarching principles and objectives, but no more than this.
- The subsidiarity principles enshrined in EU regional policies along with the notion of ‘take back control’ should together imply that SPF decision-making needs to be pushed down to the lowest levels which are meaningful and possible, given the agglomeration-scale issues also inherent in these matters. These principles must take priority over any nationally competitive bidding approaches.
- Given the highly centralized and locally fragmented nature of the UK’s governance systems, maximum flexibility should be built into the SPF funding schemes so that local managing authorities are able to play cross-sectoral coordinating and enabling roles, building complementarities across initiatives in pursuit of locally agreed objectives. In particular, combined authority city-region ‘deals’ must be given significant leeway to combine the use of different funding sources into integrated cross-sectoral programmes, as befits their local challenges and opportunities. The SPF must also be able act as a glue which can help to coordinate and leverage other actions and investments and match funding streams.
- There need to be substantive pan-regional institutional arrangements that allow different LEPs and city-region combined authorities to work together on areas of common interest. The pan-region coordination possibilities associated with the pre-2010 former RDA model need to be built back into the new regional development policy system, while also enhancing the greater levels of local granularity and private sector leadership and engagement associated with the LEP-type system.

- The SPF must be sufficiently flexible that the general design and delivery principles are equally applicable in all types of regions, including primarily rural regions, peri-urban regions, urban regions and metropolitan regions. The basis of the overall regional funding allocation in SPF needs to be clear and funding needs to be more flexible than what was possible under EU regional policy compliance regime on all dimensions.

The withdrawal of EU Cohesion Policy throws a spotlight on the Levelling Up challenges facing the UK regions post-Brexit, made even more acute in the light of Brexit and Covid-19. However, these seven principles are not just a question of the post-EU funding SPF specifics. More generally, they reflect the broader challenges facing UK regions due to the top-down centralization and largely anti-place-based logic underpinning the UK's 2010–11 regional development reforms. The SPF has to be able to respond to the challenges facing less prosperous cities (CFT, 2019), deindustrializing communities (Industrial Communities Alliance (ICA), 2018, 2020) and rural regions (Britain's Leading Edge (BLE), 2020). More than a decade on, the UK is still living, and struggling, with the consequences of the political decisions taken with almost a total absence of any serious structured thinking around the long-term economic consequences of those political choices being made. The advent of both Brexit and Covid-19 only heightens the urgency for a newly designed and devolved regional development policy schema.

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NOTES

1. See <https://www.legislation.gov.uk/ukpga/2011/20/part/1/chapter/4/enacted>.
2. See <https://www.local.gov.uk/topics/devolution/devolution-online-hub/devolution-explained/devolution-deals>.
3. See <https://www.gov.scot/policies/cities-regions/city-region-deals/>.
4. See <https://houseofcommons.shorthandstories.com/welsh-affairs-committee-growth-city-deals/>.
5. See <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2020/economy/3220.pdf>.
6. Centre for Towns: <https://www.centrefortowns.org/>.
7. See <https://www.gov.scot/policies/economic-growth/latest/>.

8. See <https://www.gov.scot/publications/scotlands-economic-strategy/>.
9. See <https://www.gov.scot/publications/uk-government-green-paper-building-our-industrial-strategy/>; <https://www.universities-scotland.ac.uk/opportunities-industrial-strategy/>.
10. See <https://nationalperformance.gov.scot/>.
11. See <https://www.bt.com/bt-plc/assets/documents/about-bt/bt-uk-and-worldwide/bt-in-the-uk-and-ireland/research-and-reports/world-leading-ai-and-data-strategy-for-an-inclusive-scotland.pdf>.
12. See <https://www.futuregenerations.wales/>; and <https://www.futuregenerations2020.wales/english>.
13. See <https://www.gov.uk/government/news/wales-to-get-boost-from-uk-governments-modern-industrial-strategy>; and <https://www.gov.uk/government/news/budget-2018-and-industrial-strategy-priorities-for-wales>.
14. See <https://www.economy-ni.gov.uk/articles/economic-strategy>.
15. See <https://www.economy-ni.gov.uk/consultations/industrial-strategy>.
16. See <https://www.economy-ni.gov.uk/sites/default/files/consultations/economy/industrial-strategy-ni-consultation-document.pdf>.
17. See <http://garymarks.web.unc.edu/data/regional-authority/>.
18. See <https://ukmba.org/ukmba-intro/>.
19. Statutory Instruments, 2018, No. 565 Local Government, England, The Combined Authorities (Borrowing) Regulations 2018 Made, 3 May 2018; <https://www.legislation.gov.uk/uksi/2018/565/made>.

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