

# Levelling up – getting it done

## REDUCING ECONOMIC AND SOCIAL DISPARITIES DEMANDS JOINED-UP GOVERNMENT

Talk of reducing regional disparities by levelling up has found its way, rightly, into conversations across Whitehall. But scratch the surface and it becomes evident that there is a need for a clear articulation of the disadvantages that the government is seeking to address: what, where and, importantly, who are the targets of policy efforts? Once the answers to those questions are clearer, the discussion can focus on the most appropriate policies.

Place-based policy is frequently used as a tool for reaching individuals in specific areas. Where remedies are directed at places rather than people, policymakers should be guided by three Cs: conditions, criteria and consequences. These should help to ensure individuals in the target area truly benefit from levelling-up initiatives. It is critical that efforts are coordinated across government for place-based efforts to be effective.

### 1. The what, the who and the where

#### Economic and social outcomes vary widely across the country

Levelling up is the new catch-all phrase for tackling regional disparities across the UK. But these differences vary significantly depending on the economic or social outcomes in question. Choosing which outcomes to target is vital for ensuring effective policy design. There are many potential contenders - and not all of them are correlated.

#### Health and deprivation

The ONS reports statistically significant and growing divergence in life expectancy across the country. In England, life expectancy for females at birth is 7.7 years higher for those born into the least deprived places than those born into the most deprived parts. For men the gap is 9.5 years. Furthermore, life expectancy has increased more in the well-off areas, amplifying the inequality of health outcomes across the country.

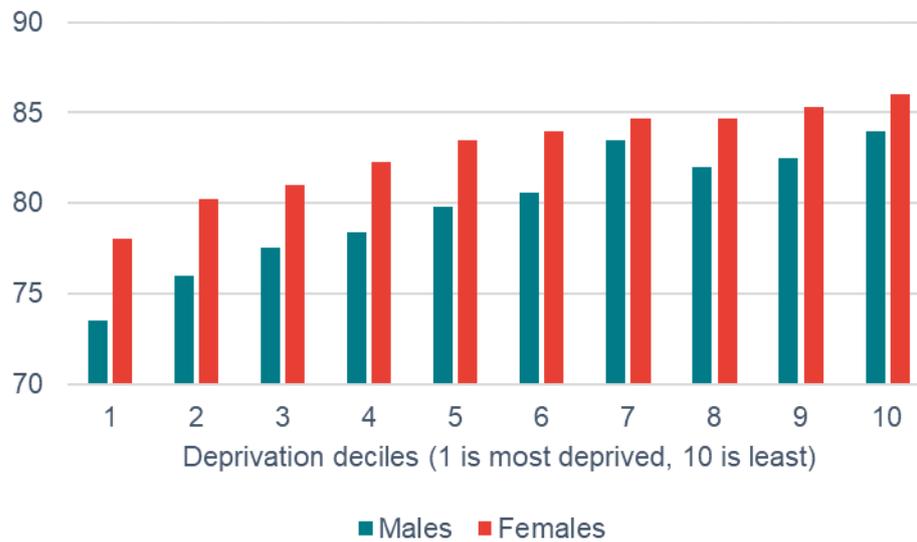
Deprivation also varies across the country and is higher, in general, in the North. However, there is substantial variation within regions, even within cities.<sup>1</sup>

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/835115/loD2019\\_Statistical\\_Release.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835115/loD2019_Statistical_Release.pdf)

**Figure 1** Life expectancy at birth by area deprivation deciles and sex, England, 2016-18



Source: *Health Equity in England – The Marmot Review 10 years on – Institute of Health Equity (2020)*

**Figure 2** Gain in life expectancy by sex, England, 2010-2012 to 2016-18



Source: *Health Equity in England – The Marmot Review 10 years on – Institute of Health Equity (2020)*

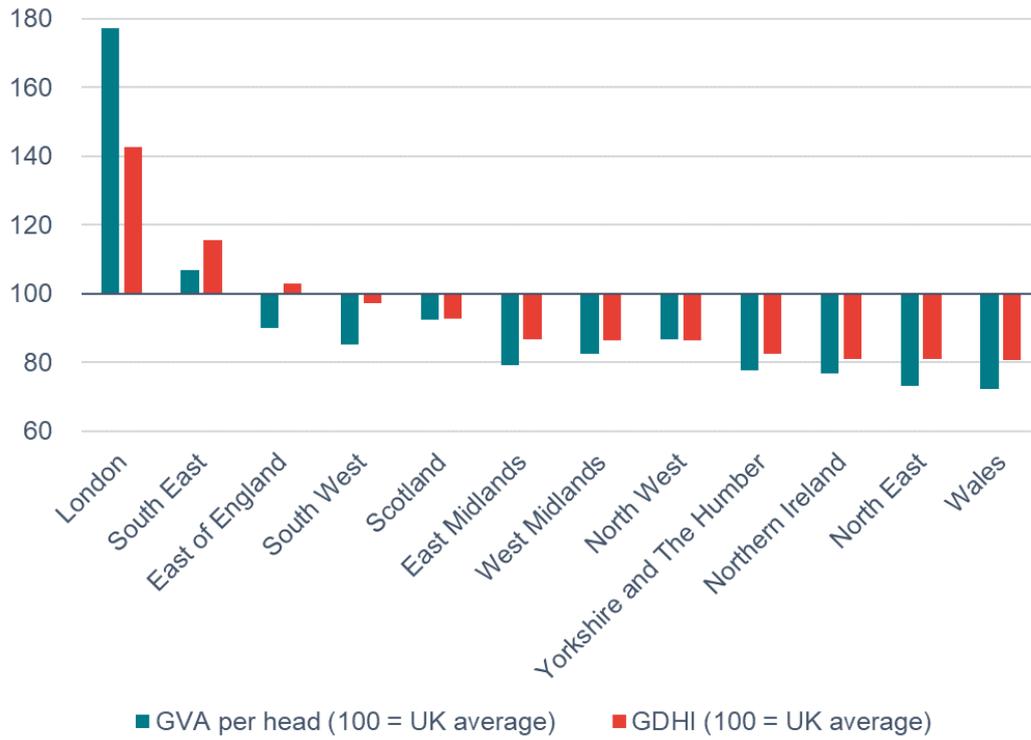
### Income and productivity

There are clear differences in productivity and income across the country. Both gauge prosperity but do so in different ways. Gross value added (GVA) per worker measures how much value is created by businesses in a particular area. Gross domestic household income (GDHI) determines the share of value created that accrues to households located in that area.

While the South of England performs better than other parts of the country on both counts, choosing one measure over the other leads to different policy solutions. One may

point to steps to increase commuting to centres of economic activity, whereas the other may favour policies to support local businesses.

**Figure 3 GVA and GDHI (2017) by region indexed to UK average**

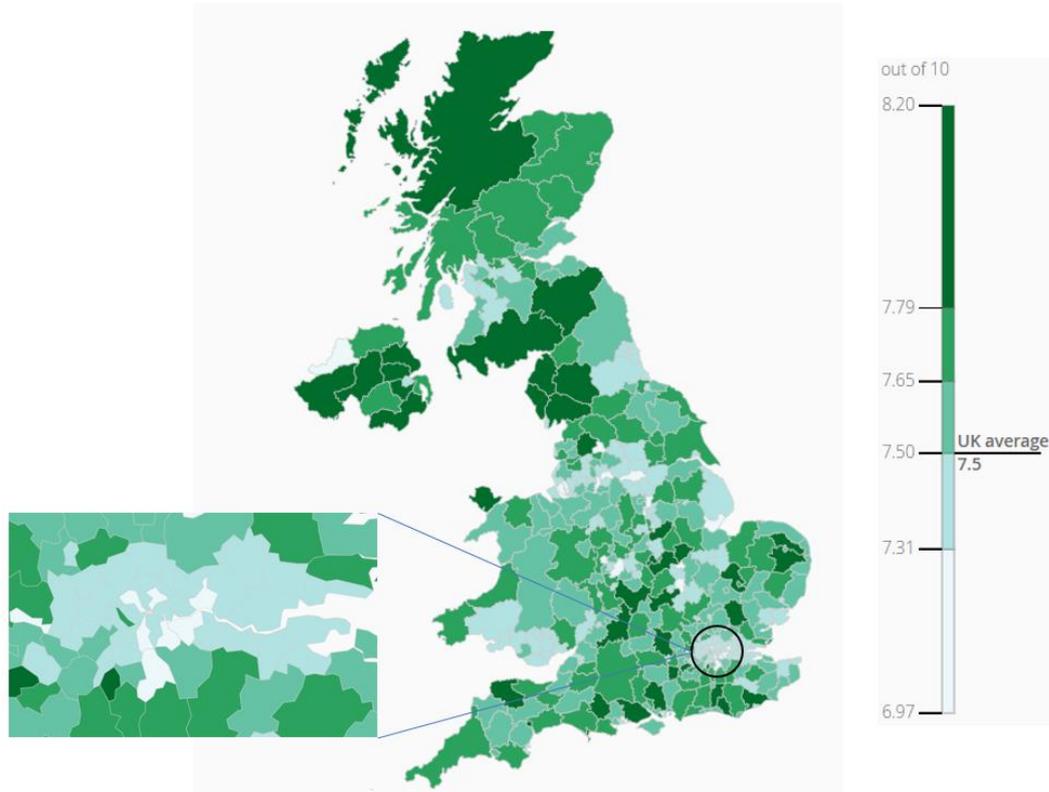


Source: ONS, Frontier Economics Analysis

Note: UK average is indexed at 100. A value of 180 means the value is 80% higher than the UK average

### Wellbeing

Statistics on wellbeing measures paint a different picture to many others. People who live in London, Manchester, Birmingham and other large cities report a consistently lower score (out of ten) when it comes to life satisfaction. On the face of it, higher incomes appear to be associated (at least to a degree) with lower wellbeing. Policies to target self-reported wellbeing would thus focus on large cities and other settings where it is lowest.

**Figure 4** Life satisfaction (1-10) score by local authority in 2015

Source: ONS - <https://www.ons.gov.uk/visualisations/nesscontent/dvc238/index.html>

### Is it places or people?

Going beyond the specific outcome to be “levelled up”, another question becomes particularly pertinent: is it the individuals within the area or the place itself which should be levelled up?

Ultimately, policy is about people. Targeting places is an indirect way of reaching individuals in a certain area. You can impact people by targeting places correctly. But there are policies which focus on people that may not involve addressing the unmovable factors in the places they live.

A focus on the individual, as suggested by Henry Overman from the well-respected What Works Centre for Local Economic Growth<sup>2</sup>, would imply policies that aim to improve the employment and wage prospects of people living in a particular area, regardless of whether their job is local or not. Commuting may be a more effective way of raising incomes than stimulating job creation directly.

There is an economic argument that the comparative advantages of some places naturally lead to geographical disparities in incomes. But, by means of effective transfer mechanisms between areas, the benefits of exploiting those advantages can be distributed in such a way that everyone is better off. The implication of the levelling-up agenda is that this argument is not borne out by reality: people don't readily move to access opportunities elsewhere while financial transfers fail to create the cultural and social 'glue' that is important in getting individuals and their new-found wealth to stay put.

<sup>2</sup> <https://whatworksgrowth.org/blog/lessons-on-how-to-help-left-behind-places/>

Policy needs to focus rigorously on the “how” to ensure the benefits from levelling up are truly realised in the target areas.

## 2. The how

The most important question for ministers and civil servants is how to design and implement policy that effectively targets the levelling-up outcome identified while limiting any negative consequences. Government has multiple levers it can pull to boost left-behind parts of the country. For example, it can:

- **Target more funding** at disadvantaged individuals regardless of area, e.g. increasing training grants for those out of work.
- **Redistribute day-to-day funding to improve public services in targeted areas**, e.g. health and schools.
- **Focus investment or specific funding** on target areas, e.g. building a rail link to a nearby centre of economic activity.
- Attempt to **shift or shape comparative advantage** of target areas e.g. setting up freeports in some coastal areas.
- **Relocate some government jobs to a left-behind part of the country**, e.g. the recently announced plan to shift 20,000 officials out of London.

### The three Cs for place-based policy – conditions, criteria and consequences

Where policymakers are targeting disadvantaged areas rather than individuals (options 2 to 5 above), they need to keep three things in mind. We call them the three Cs.

**Figure 5 The three Cs for ensuring local populations benefit**



We explore these three sets of criteria taking the government’s recent proposal to establish ten freeports as a concrete example of an area-based policy that could help disadvantaged parts of the UK. The freeports would be subject to little or no tax, essentially operating outside national borders. The government sees them as a catalyst for economic activity in the surrounding area, but the following points must be taken into consideration.

## Conditions for creating benefits for the local population

The stated aim of placing freeports in areas of high deprivation fits in with the levelling-up agenda to improve local people's lives by creating more or better jobs.

But government needs to be clear about the mechanisms at play. To have the expected impact, freeports would need to generate jobs for those living nearby. These jobs could be filled by the existing population, who would then capture the benefits of the freeport directly. Alternatively, the scheme could attract newcomers. In this case, for the benefits to flow to the local population, those new employees would need to relocate or spend some of their income in the area, providing a stimulus to other types of economic activity. If a freeport mainly attracts new employees who travel there for work and return home after their shift, it is hard to argue that the local area will benefit much from the initiative.

For the area around a freeport to reap its benefits, local people must possess the skills that the new jobs require. Without those skills or the potential to acquire them quickly, they will struggle to get hired. A **local area skills assessment** is thus critical to plan coordinated investment in training. This requires a joined-up approach across government.

If outsiders are required to fill skilled posts, the area needs to be able to attract those individuals. Housing along with local amenities and services will be key. Again, this requires a coordinated approach across government departments and **recognition and consistent action at local level**, e.g. in planning decisions.

## The criteria for selecting areas

Having specified the mechanism by which a policy is expected to bring about local benefits, the decision where to intervene must be based on the following criteria:

by how much could local residents benefit; and  
the extent to which the conditions for realising those benefits are in place.

An economic and social audit of the potential areas should be undertaken to assess the extent to which the policy plays to a locality's comparative advantages and whether it is well placed to capture the benefits of the proposed initiative.

The first criterion should aim to reflect both the comparative advantage of a particular place and the size of value at stake. Areas around the country enjoy natural or historic comparative advantages that should guide policy decisions. Rural, brownfield locations may offer abundant land at a low cost, suitable for businesses for which space is a key input, such as manufacturing or logistics. Alternatively, areas of natural beauty close to large cities may present perfect opportunities for commuters or for hi-tech service-based businesses that rely on deep pools of skilled labour. In the case of freeports, coastal spots with good links to major road networks or centres of demand may have a particular comparative advantage. In addition, there should be recognition of the potential value to be generated in the area if the policy can successfully benefit local people. For freeports, this might suggest favouring places where a lot of people are out of work or are in low-paid employment. This could be considered the "size of the prize" that could be unlocked if the policy is successful.

The second criterion refers back to the extent to which the conditions are in place for local benefits to be realised. In the case of freeports, it might make sense to target areas where the local population has transferable skills or could be trained to take up new jobs.

Where an influx of skilled labour is key, it may be appropriate to select areas with available housing and amenities likely to attract those workers.

There will be inevitable tensions in this process. Some areas may already meet the necessary conditions and so can realise the advertised benefits quickly. However, these may also be the parts of the country which are least disadvantaged in the first place and hence have less to gain from the intervention overall. Other, deprived areas may tick fewer of the relevant boxes but might benefit more if policy could be coordinated to overcome the other barriers. Policymakers may wish to select areas across this spectrum with differing starting conditions.

### The consequences for other areas

Not every area can expect to develop the next high-tech cluster or benefit from the relocation of a government department or, indeed, from a new freeport.

Localities that are not successful need to be given feedback about why they were not selected and what their application and local audit suggest could work for them. This feedback should reflect on the types of policy intervention that might be more appropriate and could provide links to relevant policies or departments. For example, some places may benefit from investment in their local environment (green spaces, cultural activities, etc) or housing to attract people who would commute to nearby centres of economic activity. Others may demonstrate a comparative advantage in being able to expand tourism or offer cheap land for manufacturing businesses. It is critical that the recommendations reflect local conditions. There is no one-size-fits-all here. If freeports are not the answer, then what is?

Finally, the government should ensure wherever possible that any policy intervention incorporates an evaluation of planned area-based initiatives. This is particularly important where measures target a spectrum of areas, giving scope to compare outcomes to understand policy effectiveness.

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