FAIRER AND STRONGER
REBALANCING THE UK ECONOMY

THE FIRST REPORT OF THE UK2070 COMMISSION

EXECUTIVE SUMMARY

MAY 2019
Purpose of the Commission

There are deep-rooted inequalities across the UK. These are not inevitable. However, we lack the long-term thinking and spatial economic plan needed to tackle them. The UK2070 Commission will seek to fill this gap through a national inquiry and debate on the nature of the problems and set out the actions needed to address them.
Message from the Chair

The UK2070 Commission is an independent inquiry into the deep-rooted spatial inequalities in the United Kingdom. There has been a debate about these inequalities and how best to tackle them for as long as I have been involved in public service. The uncomfortable reality is that despite the government initiatives that have been taken, the economic disparities, particularly between London and the wider south east and the rest of the UK have grown.

If you remain in any doubt on this, our website carries a piece by Professor Philip McCann. It compares the UK to 30 other OECD countries across 28 different indicators and demonstrates that the UK is one of the most regionally unbalanced countries in the industrialised world.

The impact of these acute and growing economic spatial disparities is threefold:

• First, it means that we are not taking full advantage of the economic potential that all parts of the UK have to offer.

• Second, it creates an imbalance of wealth and opportunity that in turn creates division.

• Third, it creates enormous pressures in terms of population growth, housing affordability and an overloaded infrastructure in the economically high performing parts of the country (with big costs for both individuals and government).

In short, nobody wins.

There is therefore a compelling case for continuing to explore these disparities and how they might be reduced. This case is made even stronger by the potential impact of Brexit, which most economic commentators expect to widen our economic divisions, especially if it happens without an agreed deal with the European Union.

Our report is consciously long game in its thinking. We want to look back fifty years and forward fifty years – hence the title UK2070. This will allow us to look at past and potential patterns of investment over a long period. A longer view is also vital if we want to provide a proper context for investment in major infrastructure, whether road, rail, ports, airports or ICT. We have of course made recommendations with a shorter-term impact. However, it has taken a while for the UK to get where it is and it will take a while to get out of it.

We have also consciously chosen the scope of our Commission to include Scotland, Wales and Northern Ireland rather than just England. This is so that the whole of the UK can build on and learn from their work in developing economic spatial strategies and ensure that the key links between the different nations are addressed.

Whilst the focus of this report is economic and spatial, we are acutely aware that it sits within a wider political context of how to bring the UK back together again after one of the most divisive periods of its history. In other words, there is a political as well as an economic imperative to addressing the issues that this report highlights.

The Commission is a strong one, drawn from local government, business, academia and the policy world. We are fortunate to have support from the Lincoln Institute of Land Policy, the Universities of Manchester, Sheffield, Liverpool, Cambridge and University College London, the Sir Hugh and Lady Sykes Charitable Trust and Turner and Townsend.

Much of what has been done to date to tackle the inequalities across the UK has been in the form of underpowered ‘pea shooter’ and ‘sticking plaster’ policies – too little and too short-lived. Indeed, as this report makes clear much public investment has worked in the opposite direction. If we are really to shift the dial on spatial inequalities, what we require for the future will need to be structural, generational, interlocking and at scale.

This is our first report and we are holding a National Symposium to discuss it. We will produce a second report in the Autumn and a final report in January 2020.

Lord Kerslake
Chair of UK2070 Commission
The Nature of the Problem - An Unequal Country

A huge gulf exists between the UK’s best and worst performing regions and towns. The UK2070 Commission has undertaken a major review of the evidence on the nature of inequality. There is a clear connection between these regional variations and deprivation, educational attainment and skills. For example, a child who is poor enough for free school meals in Hackney, one of London’s poorest boroughs, is still three times more likely to go on to university than an equally poor child in Hartlepool.

Today, ‘moving south’ is no longer an option for most people with areas of growth, like London, increasingly constrained by the cost and availability of housing. A recent survey for London First found that 78% of those living outside London said that living and working in the capital was not an option for them.

Continued increase in property values, often arising from public investment in necessary infrastructure, feeds social and economic inequality in wealth and opportunity. Investment in infrastructure has focussed on coping with areas with short-term stress and at high costs (especially London and its wider region) compared with the longer-term restructuring of areas of potential economic growth.

The Commission has also looked at environmental inequalities. Water supplies are under pressure from climate change and from growing population and many parts of the south of England, with fast growth, will face significant water shortages by 2050. With extensive previously developed land supply, there is much less need to develop on green fields in the north than in the south of the UK.

Wealth and opportunities in one part of the country are highly visible but, under current conditions, they cannot be accessed by, nor the benefits spread across, other regions and nations in the UK. As a result, the United Kingdom is falling short in meeting the stated desire for equality and an inclusive economy. The United Kingdom is ‘decoupling’.

These economic, social and environmental contrasts are in part caused by the fact that the UK is one of the most centralised of western democracies. The result is that most government activity and much running expenditure (particularly government employment) is heavily concentrated in the capital. London also has the benefit of a powerful and effective Greater London Authority, which unlike other big British cities, is able to plan ahead and lobby for investment with government support.

Key Facts

- The UK’s richest region (London) has a 50% higher level of productivity than any other nation or region in the UK
- This gap can be expected to grow with over 50% of future job growth going to London and the wider south east, if we do nothing.
- One in four poor children live in the most deprived local authority areas where healthy life expectancy is 19-years less than the most affluent areas.
- There are numerous associated inequalities in terms of access, environmental conditions and social mobility as set out in the UK2070 Commission’s full report.

UK 2070 – An Inquiry into Regional Inequalities

Cumulative Percentage Point Differential Growth Gaps of GVA (2011 prices):
The North, South and London, 1971-2013

Source of data: Cambridge Econometrics
The Cost of Inequality

The costs of the UK’s regional inequalities are borne by all. Taxpayers pay directly through a growing benefits bill and indirectly through the under-performance of our economy. Individual households suffer in terms of health, wealth and lower levels of access to jobs and opportunities.

Continuing low productivity within our nations and regions is a drag on the national economy. For example, the three English northern regions have an estimated £40 billion productivity gap. In contrast to the rest of the country, continued growth in London and its wider region has had to be supported by major public infrastructure, often very expensive because of the old and crowded urban fabric, such as HS1 and Crossrail.

For ordinary people and their families, the ‘streets of London are not paved with gold’; increasingly they cannot afford to live there. Rents and house prices are simply too high, while overcrowding and excessive commuting distances are imposing further costs and strain on individuals and their families.

There is also an increasing longer-term environmental price being paid by us all as we place growing pressure on land and natural resources. For example, the pressure on water resources in southern England has been described as a national, existential threat. The current pattern of development of the UK is not sustainable. Tackling the ‘emergency’ created by climate change and the spatial inequalities in society are inextricably inter-linked.

Whether you live in rich and poor areas alike, few benefit.

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Key Facts

- The productivity gap in the English regions in particular is estimated to cost the economy around £40 billion.
- The gap in housing affordability in London and wider south east compared with the rest of England and Wales has almost doubled.
- The cost to the NHS of inequalities in society are estimated to be in the order of £4.8 billion per year at 2011/2012 levels.
- The current imbalanced patterns of economic development undermine our capacity to deliver on the UK’s international obligations for sustainable development and climate change.

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*Life Expectancy 2014: ONS*
Lessons from Past Experience

The question that the Commission has asked is “How did we get into this situation and why has the problem proved so intractable?” Part of the answer is our economic geography.

Since the 1920s the traditional industries declined generally across the country, but the new industries sprang up mainly in the Midlands and southern England. The basic objective of policies has remained the same – to get new industrial jobs to the old declining areas.

Despite progress in the 1960s, jobs in the traditional manufacturing base haemorrhaged from larger cities with the subsequent recession. This led to the introduction for example, of the Urban Programme, and later the creation of 17 Urban Development Corporations. Of these, most had a lifespan of less than 10 years. The same was true of the Regional Development Agencies (RDAs), which also lasted for a little over a decade. This contrasts with Scotland which has its own long-standing development agencies, Scottish Enterprise and the Highlands & Islands Development Board.

More recently, a strategic approach has been sought through the 39 English Local Economic Partnerships (LEPs), the National Infrastructure Commission and combined authorities linked to a ‘deal-based’ funding. Despite the value of much being done by these bodies they also are limited by the scale and control of resources.

As such, UK regional policy has been bedevilled by a lack of spatial strategy, continuity and longevity. The same applies to our national infrastructure planning. Big projects are certainly needed, but the absence of the context provided by a spatial strategy, has created investment discontinuities and limited the effectiveness of the investments made in isolated major projects. As a result, projects such as the Cambridge-Milton Keynes-Oxford proposal have not been set within a wider network of national connections.

EU regional funds and the European Investment Bank, however, have had coherence and longevity during this time. These programmes have been critical to the successful regeneration of, for example, Glasgow and Liverpool. There is now complete uncertainty about what might replace them.

Unlike other countries, the UK has no overall national plan for economic and infrastructure investment. The national context provided by Government’s Industrial Strategy has no explicit spatial dimension. Nor is there a systematic national auditing of the patterns of government investment. In contrast, the German government deployed a spatial framework to tackle the social and economic inequalities.

The German experience is particularly relevant. Post reunification Germany faced major challenges in the divergent economic performance and life chances between east and west. There was a national consensus that a decisive action was needed. By 2014 around €1.5 Trillion in public money had been made available for investment in regenerating and renewing cities, regions and infrastructure, supported by a spatial framework to tackle the inherited social and economic inequalities.

The biggest factor limiting the effectiveness of past policies to tackle spatial inequalities however, is the existence of an unstated and countervailing ‘regional policy’. An overwhelming body of evidence points to a historic concentration of public investment in London and the wider south east. This applies whether this is spending on research and development, culture, sport, the arts, national administration, national media or even military expenditure.

In summary, past policy, with few exceptions, has relied on short term, reactive, underfunded project bidding processes, with a perverse ‘policy’ environment which reinforces past areas of growth, rather than unlocking new areas with future potential.
What Might Lie Ahead? - Potential Future Scenarios

The UK will have faced great changes by 2070. These include an ageing population; the impact of robotics; global economic volatility; environmental threats to global food production and sea level rise; and political change (e.g. from the rise of populism and hyper-individualism). The UK 2070 Commission has therefore used scenario techniques to help understand what might lie ahead to 2070.

Analysis by the University of Cambridge for the Commission has separated out developments which seem hard and easy to predict, using probability prediction models. The computer modelling has tested three groups of scenarios, using economic growth rate assumptions which are comparable with those of the Office of Budget Responsibility:

- Scenario 1: Business as Usual, with continuing trends and the current policy context
- Scenario 2: Holding the Line, with an emphasis on preventing the growth of inequalities
- Scenario 3: Attacking the Problem, with a focus on radical reductions in the level of spatial inequalities.

**Scenario 1** tested high and low growth rates. Even under low growth, average housing costs in London and its region are expected to rise well above average earnings. Job growth would be concentrated in the least deprived areas.

**Scenario 2** tested the impact of job growth picking up in historically lower growing areas. In this scenario we already see a significant reduction in cross boundary commuting and a reduction in the rate of housing cost inflation in London and the wider south east region.

**Scenario 3** tested higher growth rates in the historically lower growing regions, reducing current disparities across the UK, while also containing house building in current high growth areas at the average rate of delivery since 1991. This involves creating 4 million additional jobs in the rest of the UK, whilst still anticipating an additional 2.4 million in London and its region. As a result, it would be anticipated that there would be a reduction in the growth of longer distance commuting, in the differences in housing and labour costs and in the pressure on environmental resources across the regions.

In summary, unless there is a change in policy direction economic inequalities will grow and London and the wider south east will experience increased problems of housing affordability and pressure on infrastructure, with increasing need for long distance commuting, requiring further investment to maintain current levels of access and mobility.

Higher growth rates driven elsewhere in the UK would lead to better job access, better balanced migration and a better outcome for house prices, reduced commuting and land use. However, all scenarios demonstrate the importance of complementary local employment policies if economic growth is to reach out beyond the regional core areas.

**Key Facts**

- On current trends pressures on the London and wider south east will have to accommodate over 50% of the UK’s new jobs and housing, and with growing inequalities elsewhere
- A rebalanced economy would still see substantial growth of between 2.4m and 4.3 m jobs in London and its wider region, but with a doubling of the rate of job growth elsewhere
- A more rebalanced pattern of job growth would also even out housing cost increases across the UK and reduce the growth in longer commuting
What Should Be Done? - An Agenda for Action

To deliver change on the scale required to tackle inequalities across the UK, a long-term, cross-cutting transformational strategy is needed. Our report therefore sets out an Agenda for Action based on four major policy interventions:

a. **Effective Devolution** to rebalance powers and responsibilities, through a systematic and comprehensive framework of political devolution and organisational decentralisation. This would empower existing and new accountable strategic bodies for England, build on what is already being achieved in the devolved nations (Scotland, Wales and Northern Ireland) and deliver a much greater level of devolution at local level to local government.

b. **Harnessing the New and Local Economies**, embracing the impact of technological change and creating a network of new place-based economic hubs at the same time as strengthening local economies in our communities.

c. **Aligning our Ambitions**, through national and sub-national spatial frameworks. This would include preparing a Plan for England to enhance the quality of life and scale of renewal of both growing and struggling communities, and build in resilience to the radical uncertainty being created by disruptive global technological and environmental changes.

d. **Establishing a UK Renewal Fund** linked to reformed fiscal regimes to ensure investment in new infrastructure, to encourage talent and investment at home and from across the world. To meet the scale of the challenge we believe a fund of at least £10 billion per annum would be required above and beyond existing spending plans over a period of 25 years.

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**Unemployment rate (claimant court) by local authorities in 2019**

Source: ©Spatial Policy & Analysis Laboratory, Manchester Urban Institute
Effective Devolution and Decentralisation

The current push for greater decentralisation and devolution must overcome the asymmetry between the representation of people in England outside London, compared with people in Scotland, Wales and Northern Ireland. It must go beyond the current limited arrangements in England and instead apply to all areas. It must tackle the current piecemeal delegation of powers.

Although centralised government does not, of itself, result in imbalanced regional development, there are unique problems in the UK generally in the way it operates which are highlighted in the full report.

Experience shows that planning and implementation at the metropolitan and city regional scale is effective for most purposes. Outside the metropolitan areas, county level governance can provide a sound footing for integrated planning of housing, transport, regeneration, economic development and skills.

Some decisions (e.g. for infrastructure) need to be taken at a higher level. This is certainly the case in London and the wider south east where the case for a coordinated, accountable approach is overwhelming. There is also a strong case for having institutional capacity at a ‘provincial’ scale (i.e. larger than current administrative regions) that complement local strategic bodies (e.g. the combined authorities).

This was proposed in the in the IPPR Commission for Economic Justice Report which suggested four such provinces for England—London and the Wider South East, North England, the Midlands and South West. The special circumstances of London to be treated as a separate province depends on arrangements for strategic planning going beyond a mere collaboration of the willing.

The UK 2070 Commission would like to receive views on these propositions for more effective and systematic local devolution of powers and responsibilities supported by new transregional arrangements.

Potential geographies of regional economic executives in England (Illustrative only)
Source: IPPR Economic Executive Regions for England

Effective Devolution and Decentralisation - The Propositions

More effective devolution could be delivered by

- Enhancing local devolution, rolled out systematically with transfer of powers and resources to a comprehensive framework of mayoral and combined authorities, and for rural counties;
- Establishing four transregional arrangements for the ‘provinces’ in England drawn from existing local leaderships which complement local strategic planning (e.g. of joint or combined bodies) focussed on the key transregional issues outlined in the main report; and
- Decentralisation of central government functions for England in terms of budgets and ministerial responsibilities to align with the above local and transregional devolution.
Harnessing the New and Local Economies

Harness the New Economy: Industry 4.0

The Government’s 2017 Industrial Strategy (UKIS) seeks to respond to the rapidly evolving new economy, referred to as Industry 4.0. This seeks a renewed global economic role for the UK with a modern industrial base rebalancing business domestically and trade internationally. This requires regional policy debate to move on from the historic zero-sum game of regional redistribution to one which is a ‘win-win’ by unlocking the potential of all regions.

To do this we need to build on research & innovation, culture & sport with new levels of connectivity. We already have nationally and internationally important economic hubs like the Laboratory for Molecular Biology (LMB) in Cambridge, the Crick Institute in London and Sheffield’s Advanced Manufacturing Centre, but these tend to be heavily concentrated in the ‘golden triangle’. We believe however that a new national network of such centres of excellence is needed.

In particular, we have discussed and identified a need for a new northern hub for innovation and research (it might be described as ‘MIT North’), bringing together researchers at the cutting edge of thinking and technology, working within businesses and the universities. To achieve the scale required, block funding would be required, perhaps adopting the LMB model. Similar arguments apply to the creative sector.

We will consult further on this, significantly scaling-up current aspirations for globally significant research, innovation and cultural hubs beyond London.

Strengthen Local Economic Foundations: Alongside high-level research and innovation, we must help communities – excluded from the growth agenda of the UK. Local economies need to be reinforced, developing their foundations and resilience for example through for health, care, education, access and housing, as well as creating ‘great places’. We will therefore want to clarify the role of national policy in working with local government and other institutions who deliver and support the foundations of local economies.

Make the Connections: Each of the new and existing national hubs must have effective physical linkages, Networking of cities within and between nations and regions is therefore needed to redress the imbalance and gaps in the labour markets; reduce peripherality in all regions; and overcome capacity constraints especially via rail, building up on the good access to London and tackling the weaker access between other cities. A long-term Trans-UK Network needs to be defined to address this issue as part of national spatial plans.

The UK 2070 Commission would like to receive views on the above propositions.
Aligning our Ambitions - Long Term Plans

Scotland, Wales and Northern Ireland already have national spatial frameworks and although their relationship with resource planning could be strengthened, they are already playing a key role in helping to shape their future development. England however, has none. As a result, there is no common understanding of shared priorities beyond the individual nations.

We believe national and sub-national spatial frameworks help to resolve this problem, identifying and connecting national economic hubs, providing a firm basis for long-term infrastructure investment, identifying priorities for a new urban policy and securing better national management for the natural and historic environment.

A Plan for England is needed to provide a long-term framework for major infrastructure investment and development. It would need to be approved and owned by government and linked to the devolved nations through a UK-wide Reference Framework. It could well be produced by an independent body and take into account emerging priorities from the Combined Authorities and Mayors. It would need to reflect and be informed by and bring together existing or future trans-regional/province level initiatives, especially in London and its wider region. New processes of engagement could be used to secure citizen involvement, for example citizens’ panels.

Section 6 of the main report briefly sets out the illustrative form and content for just such a Plan for England.

The UK2070 Commission therefore welcomes views would like to receive views on the proposed national and sub-national spatial frameworks for England and their scope as set out in the main report.

Aligning Ambitions
The Propositions

The national and regional ambitions of the United Kingdom will be better aligned through:

- Continued support for the existing national frameworks of Scotland, Wales and Northern Ireland;
- The preparation of spatial strategies for metropolitan and city, and rural county regions,
- The preparation of a Plan for England
- Linked to its four trans-regional provinces
- A UK-wide joint collaborative Reference Framework; and
- Fresh approaches to citizens’ engagement in national policy
Stable Long-Term Funding - A UK Renewal Fund

Without resources any plan is toothless, but without a plan resources cannot be deployed effectively. As the graph below indicates the UK’s problem is that it is simply investing far too little especially when compared with other similar nations. As such, we believe a new National Renewal Fund is an essential part of our long-term proposals.

A flexible fund is required, not skewed in favour of transport and infrastructure at the expense of science, health and regeneration. Some of the Regional Economic Strategies of the former Regional Development Agencies showed how this could be achieved at the regional level.

Local resource planning can also be achieved nationally, to ensure implementation is not simply based on short-term competitive funding regimes. It is also important to mitigate the self-reinforcing tendencies of the Treasury Green Book and cost benefit analysis (where fast-growing places automatically move to the front of the queue for more public investment).

The funding of the German reunification strategy also shows us a potential way forward. Aufbau Öst, formalised by two solidarity pacts, has provided close to €1.5 trillion in public funding by 2014. Approximately €500 billion was spent on infrastructure and regeneration, and €40 billion on Transport Projects of German Unity. We believe a UK equivalent is needed. A fund which could be implemented by processes similar to the EU’s European Regional Development Funds would create ambition, scale, and coherence.

It is hard to define precisely the level of funding needed but we believe that it should be at least £10bn per annum above and beyond existing spending plans and this should be sustained for at least 25 years - a total of £250bn. The annual spend would amount to some 0.5% of annual GDP. Higher regional growth rates would over time offset this cost. This fund would support investment in new infrastructure as well as inward investment, and business and skills development.

A UK Renewal Fund

The Proposition

In order to provide stable long-term funding of the renewal and rebalancing of the UK it is proposed that a UK Renewal Fund with a 25-year horizon is established

- linked to national and subnational spatial strategies;
- administered through enhanced devolved strategic institutions;
- supported by the creation of a new National Infrastructure Bank to replace the EIB; and
- subject to regular governmental reporting on regional productivity and living standards

We will consult further on the scale and scope of the fund and the period over which it should exist, taking into account the following issues:

- The need to be on a scale greater and more sustained than past and current funding regimes;
- The need for it to be tested against experience elsewhere, and potential offset savings
- The funding arrangements, e.g. top slicing, dedicated taxation, or land value capture
- Changes to Government decision making processes (e.g. the role of the Treasury Green Book)

The UK 2070 Commission would like to receive views on the scale of the UK Renewal Fund proposed and its purpose.

Total investment as a % of GDP: Gross fixed capital formation. IMF data 10% - Source: House of Commons Briefing No. 6594
Towards a Fairer and Rebalanced Economy - The Next Steps

A New National Narrative

A new national narrative is required. There is a common cause for a more balanced pattern of economic development across the UK. This is equally true for those struggling in overheated housing markets in county towns or undervalued peripheral and marginalised coastal or former industrial towns. These reciprocal interests lie at the heart of the agenda for A Fairer and Stronger Economy being sought by the UK2070 Commission.

The current policy responses are self-fulfilling determined by past socio-economic trends and locked in land and property values. Whilst in areas of need there is a resulting narrative of division, discontent or even despair where there is little perceived hope of a better future locally. There is too much inertia in the system which locks in past trends and results in a form of institutional fatalism. Horizons and expectations need to be lifted in terms of the horizons used and the scale of action taken.

The Agenda for Action

The problems have built up over half a century. It will take a generation of sustained action to reverse them. This requires us to kick-start now.

Immediate Actions to move the ‘goal-posts’ include:

• Increasing local institutional capacity and leadership to take on the tasks
• Setting national standards of access to services and living conditions
• Linking local strategies, funding & national commitments
• Systematic and Comprehensive Spatial Proofing of policies, programmes and spending.

Commitment is required now to:

• a common understanding of the scale and directions of change required;
• explicit targets and programmes to deliver them,
• share risks and rewards and, undo blockages especially in fragile or failed market areas;
• a 25-year UK Renewal Fund.

Next Steps

These actions address three key questions about framing a rebalanced economy:

• How would a rebalanced economy look different?
• What policies are needed to achieve this?
• How would the measures differ from what we have now?

Horizons, expectations and scales of action need to be lifted. The current state of affairs is not inevitable. There is an alternative - the vision emerging from the work of the Commission based on a Fairer and Stronger UK.

The UK2070 Commission therefore would like to receive views on the nature and measure of success that should be sought if we are to deliver a Fairer and Stronger economy for the UK.
Your contributions

The UK2070 Commission seeks views on this report by 29th June 2019 if possible, although responses after that date will be still welcome.

All comments, ideas and submissions should be:

Emailed to: uk2070@sheffield.ac.uk

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The Commission is a strong one, drawn from local government, business, academia and the policy world. We are fortunate to have support from the Lincoln Institute of Land Policy, the Universities of Manchester, Sheffield, Liverpool, Cambridge and University College London, the Sir Hugh and Lady Sykes Charitable Trust and Turner and Townsend.