

# **FAIRER AND STRONGER**

## REBALANCING THE UK ECONOMY

# **SECOND REPORT**

Moving Up The Gears -  
The Seven National Priorities for Action

September 2019

## Message from the Chair



The UK2070 Commission is undertaking an independent inquiry into deep-rooted spatial inequalities across the United Kingdom. At present no one wins. We are all made worse off by the imbalanced development of the UK. Those in economically high performing areas experience longer commutes, growing congestion, and unaffordable housing; those in other areas often feel disconnected, overlooked and caught in a vicious cycle of lower growth, less investment and stagnant productivity.

It does not have to be this way as demonstrated in the Commission's First Report *Fairer and Stronger: Rebalancing the UK Economy* published in May of this year. In it, we not only defined the scale of regional inequalities, but also set out the foundations of a plan for the renewal of the UK, based on effective devolution, harnessing the new and local economies, aligning our ambitions through national and sub-national spatial frameworks, and establishing a £250bn UK Renewal Fund.

The UK2070 Commission has been overwhelmed by the response to our First Report. Reaction to the report, from across the professional and political spectrum, has therefore encouraged us to go further in developing a plan to address these regional inequities.

This is a challenge which we have embraced. Against the backdrop of the UK's fraught relationship with Europe, and the clear political discontent which has recently been brought to the surface, we believe that rebalancing the UK, to deliver both growth and social justice, is critical. In three respects, the challenge is now even more urgent than when the Commission first formed.

Firstly, it now seems possible that the economy will slow down or even move into recession at some point in the next eighteen months. However, much of the UK has not yet recovered from the global financial crisis and if we fail to address these inequalities now, and with a real sense of urgency, they will only grow as we enter the 2020s.

Secondly, this short-term prospect is heightened by the climate crisis that has come into sharp focus. The Government has now rightly committed to net zero emissions by 2050. Arguably, we have to move faster and go even further. However, there is a vicious cycle in the relationship between climate change and inequalities, whereby disadvantaged groups will suffer disproportionately, yet have fewer resources to cope with the effects of climate change. We need to reverse this and create a virtuous circle in a twin-pronged attack on climate change and inequality. Only then can we talk about a '*just transition*' to zero-carbon.

Thirdly, all parties now accept the need for change but not as yet the remedy. There is a risk that we revert to short-term ineffectual measures. Our Commission therefore believes that we need to seize the moment and build support for a radical plan for action.

This is our Second Report. It focuses on seven major challenges, building on the propositions in our First Report. We have consciously been selective in the issues that we cover now in order to focus a number of particularly critical issues.

Our third and Final Report will be published in early 2020.

Lord Kerslake  
Chair of the UK2070 Commission

# CONTENTS

**Section 1: The Call for Change**

**Section 2: Embedding Spatial Justice into Tackling Climate Change**

**Section 3: Delivering a Connectivity Revolution**

**Section 4: A Network of UK-global Centres of Excellence**

**Section 5: Strengthening the Foundations of Local Economies**

**Section 6: Shifting Devolution up the Gears**

**Section 7: Shaping the Future through National Spatial Plans**

**Section 8: Levelling the Playing Field for Accessing Funds**

**Section 9: Next Steps**

## Appendices

**Acknowledgements**

**Appendix A: The Myths that Inhibit Action**





## SECTION 1: The Call for Change

### The Responses to the UK2070 First Report

We live in unprecedented times without any agreed vision for the future of the UK. The research and analysis brought together in the First Report of the UK2070 Commission came to the following conclusions:

- The UK is the most unequal country amongst the major developed nations; against a range of measures of productivity, wealth, social wellbeing and environmental conditions;
- These inequalities have been growing and will continue to do so if we maintain the current package of short term, underfunded and silo-based policy interventions; and
- A step-change is required by a sustained and funded programme of action to re-align power and build upon our core strengths in research and innovation, brought together within a common spatial plan.

This analysis of the state of the nation has been overwhelmingly endorsed. Responses have been made through the range of consultations by the Commission across all parts of the country, including the devolved administrations. These have included a National Symposium, meetings in the nations and regions, workshops, focus groups, extensive news coverage and social media as well as bilateral discussions. The general support received is reflected in the following reactions to the First Report:

*“Things cannot stay as they are and what we have discovered and believe - but we now have the evidence to support it - is just how deep-rooted the geographical inequalities that are [shown] in the report actually are.”* (Cllr. **Judith Blake**, Leader of Leeds CC. & Chair of the Core Cities Network)

*“It is an authoritative, unarguable, searing anatomy of a woefully divided country... The north-south divide is not the problem of northern whinging but actually a matter of serious social injustice”* *“It is a clarion call for change which cuts through the fog currently enveloping British politics.”* (**Mayor Andy Burnham**, Greater Manchester Combined Authority)

The agenda set out in the First Report has also been mirrored in recent statements in Parliament or previous public speeches by the three main UK-wide political parties:

*“By unleashing the productive power of the whole United Kingdom—not just of London and the south-east, but of every corner of England, Scotland, Wales and Northern Ireland—we will have closed forever the productivity gap and seen to it that no town is left behind ever again and no community ever forgotten.”* (Rt. Hon. **Boris Johnson**, Prime Minister)

*“We must also address the deep regional inequalities in this country. The Northern Powerhouse has been massively underpowered and the Midlands Engine has not been fuelled.”* (Rt. Hon. **Jeremy Corbyn**, Leader of the Opposition)

*“There is a vast gap between the living standards of the better and least well off in the UK. Under the surface, there are also stark generational and regional divides. Recently widening wealth inequality is now one of the greatest challenges facing the country.”* (Rt. Hon. **Vince Cable**, Former Leader of the Liberal Democrats)

These political aspirations echo the underlying concerns in the responses from individuals to the First Report about the impact of policy on people and their lives. In the words of one respondent:

*“People feel they don’t control their lives and destiny. It’s not just about more jobs but good lives, and jobs with resilience and (for) generations long term”*

These aspirations, if achieved, will not only strengthen the economy by making the UK more resilient to global economic vicissitudes but will also raise the wellbeing and health of the country as a whole.

## Recent Policy Developments

Since the First Report was published there has been a range of major policy developments that the UK2070 Commission will take into account as it moves the agenda for change forward, in particular the following:

- **The continued uncertainty over Brexit:** We are at a ‘tipping point’. There is a very real prospect of the UK leaving the EU without any agreed deal. Whatever the final outcome, there will be an imperative to address the divisions in society, to change the way we do things and to set out a vision for fairer and stronger future for the UK.
- **Cutting greenhouse gas emissions to almost zero by 2050:** In June the UK became the first major nation to commit to the target of zero-carbon by 2050, stating that the UK had a "*moral duty to leave this world in a better condition than what we inherited*". This issue was raised in the UK2070 First Report but is now considered critical.
- **The rolling forward of devolution:** The need for further devolution has been given added impetus through the major report by Lord Heseltine for the Core Cities Group, and by the Treasury Committee inquiry into devolution in England. Both these initiatives raise fundamental questions about the next steps in the devolution process, which are addressed in this Report.
- **Subnational collaboration:** There has been progress on three initiatives to promote collaborative work at a subnational scale (i.e. larger than the administrative regions) – the Great North Plan, The Great Western Powerhouse and the One Powerhouse Consortium. These were anticipated in the First Report and are now giving evidence about how best to meet the need for a regional policy across England.
- **Infrastructure Investment and the Independent Review of HS2:** The implementation of HS2 has been put on hold pending the outcome of an independent review with the risk of a five-year delay. At the same time the full Comprehensive Spending Review (CSR) on major capital expenditure has been put back until 2020. It is also noted that the Government has made commitments to the Northern Rail Upgrade and to reinvesting in town centres. The Institution of Civil Engineers has also recently updated its report on the State of Nation which highlights the costs of inadequate investment in the nation’s infrastructure. These all have particular significance for the infrastructure required to rebalance the economy and implement the UK Renewal Fund proposed in the UK2070 First Report. It is therefore imperative to address the problems of funding for new investment which are currently holding back the provision of infrastructure needed for economic growth of the nations and regions outside the Wider South East of England.

This Second Report therefore develops the *Agenda for Action* set out in the First Report. It is selective and addresses the seven key priorities that have emerged from the responses received and recent policy developments. A comprehensive assessment of action required will be set out in the final report of the Commission in early 2020.

A central objective that links all these areas of action is the need for a more Inclusive Economy that addresses the needs of all communities, especially those that are and risk continuing to be most challenged from climate change, poor connectivity and access to power and resources. This agenda for action is also a challenge to the range of ‘urban myths’, highlighted by Professor Philip McCann<sup>ii</sup>, that have undermined confidence in the UK’s ability to find solutions to the entrenched problems of the UK. These are summarised in *Appendix A*.

## Moving up the Gears – Seven National Priorities for Action

1. ***Embedding Spatial Justice into Tackling Climate Change:*** The First Report highlighted the inextricable link between climate change and inequality – what has been referred to as a ‘*double-headed crisis*’. The cost of climate change is being borne by those who least benefit from economic growth, whether that is in terms of pollution, health, waste or worklessness. The national goal of moving to a zero-carbon economy must avoid an ‘*unjust transition*’ which merely reinforces the existing patterns of spatial inequality. ‘*Spatial justice*’ must become embedded in the UK’s contributions to the global response to climate change.
2. ***Delivering a connectivity revolution:*** The current communication networks of the UK are not fit for purpose – inadequate capacity, incomplete, unsustainable. They reinforce the patterns of inequality and low productive output. This requires a revolution in connectivity as transformative as those in earlier periods that creates a new integrated *UK Network* delivering sustainable and equitable connectivity between, within and beyond the main cities and towns of the UK.
3. ***Creating more UK-Global Centres of Excellence:*** The UK is recognised as one of the global powerhouses driving the global economy. This, however, depends unduly on the global centre of excellence, described as the ‘*Golden Triangle*’, based on the international status of London and the research and innovation nexus of Oxford and Cambridge. A complementary northern centre of excellence would reinforce the global economic role of the UK whilst helping to rebalance the economy.
4. ***Strengthening the foundations of local economies:*** The First Report recognised that generally 40% of the economy is foundational, and in many overlooked or excluded communities it is far higher. This part of the economy is critical to tackling inequality, especially in terms of educational / skills and health outcomes. There is emerging experience, especially in Wales and Greater Manchester, in identifying how central government can target resources to support the foundational economy – without also stifling the local entrepreneurial enterprise which lies at its heart.
5. ***Devolution: If you will the ends you must will the means:*** The rhetoric of devolution needs to be converted into action. Financial and legal powers need to match the responsibilities that are being, or should be, transferred to local government if they are to unlock their potential to provide ‘*whole place leadership*’. This must be based on “*devolving from above and consolidating from below*” – transferring powers and resources down from central government and giving greater discretion to local government. It needs to build on existing arrangements. New arrangements need to ensure democratic accountability and engagement, and to be appropriate for each area. No single model can be applied everywhere. There needs to be a balance in devolution that reflects local circumstances and capacities to be effective in terms of action and advocacy.
6. ***Shaping the future through National Spatial Plans:*** The structural inequalities across the UK need a more strategic approach across and between nations and regions. The threefold challenge is to avoid creating another layer of government, or cutting across current devolution arrangements, or creating a new set of boundary problems. This has been achieved elsewhere through National Spatial Plans, but not for England. Its particular circumstances, its scale and complex urban structure, require national priorities that are supportive of and linked to sub-national and local priorities and commitments.
7. ***Levelling the playing-field in Accessing Funds:*** Short-term incremental financing currently constrains national economic growth and reinforces the existing imbalanced distribution of wealth. There needs to be secure and equitable access to public and private finance. In particular, the 1.2% cap on infrastructure expenditure needs to be lifted. Fiscal reforms are needed to deliver change including: the implementation of the UK Renewal Fund; the introduction of fresh metrics (e.g. mobility and mortality indices); a review of the Green Book; and cross-departmental spatial priorities to rebalance the economy. There is a complementary need to develop local technical competences linked to the devolution agenda.

## SECTION 2: Embedding Spatial Justice into Tackling Climate Change

### Proposal

The future risks from climate change vary greatly across the UK. The implications are that energy, travel and food costs will fall more heavily on those most disadvantaged communities in the UK. Meanwhile, continuing the ever-increasing concentration of development in southern England risks increasing flooding, water supply shortages, loss of higher-grade farmland and increasing commuting distances. The global challenge of climate change must be integrated with tackling spatial inequalities.

As a corollary, the opportunities arising from new industrial demands associated with a transition to a zero-carbon economy (e.g. in terms of energy and products) could be harnessed to support a more balanced economic geography for the UK. This therefore should become an integral component of the UK-wide climate adaptation and mitigation strategies.

### Context

Climate change is the over-arching national and global threat. Recognising and tackling spatial inequalities is an underlying principle of the 'Paris Agreement on Climate Change' because of their '*intrinsic relationship*'. It therefore requires policies on climate change to be '*on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty*'. This international obligation has been endorsed by the UK Government and has been reinforced by the clear statement of support for fundamental action on climate change by the new Prime Minister to Parliament:

***"The House will know that we (the Government) place the climate change agenda at the absolute core of what we are doing."***

This commitment is especially important since some of those communities most affected by climate change are already socially vulnerable:

- There is already a strong link between inequality and poor environmental conditions which has been confirmed in successive studies, e.g. the [Marmot Review](#).
- Vulnerable communities will tend to experience disproportionate negative effects from climate impacts (e.g. on water & air quality, green space, biodiversity, flood risk).
- Areas vulnerable to particular impacts of climate change also have a disproportionately high number of vulnerable communities e.g. increased risk of flooding in coastal East of England or increased river flows North West England.
- Environmental quality is of growing importance in defining the economic competitiveness of cities, for example in the [London Plan](#), but also in such regions as the South West of England and therefore has to play a key part in rebalancing the economy.

### Proposal 1: Ensuring a Just Transition to Zero-Carbon

The UK's response to climate change should be reviewed to embed more explicitly the action required:

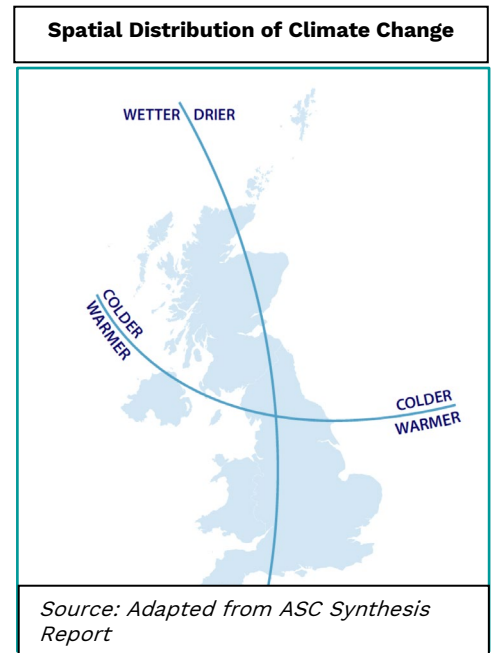
- To mitigate the impacts of climate change on disadvantaged & marginalised communities; and;
- To harness the new economic opportunities in adapting to climate change to help in rebalancing the economic geography of the UK.

## The Double-headed Crisis

There is an inextricable link between climate change and inequality – what has been referred to as a ‘[double-headed crisis](#)’. The most recent analysis by the Committee for Climate Change show that because of the significant geographical variations in climate risks reinforce inequalities by:

- The current patterns of risk e.g. overheating in London and the south east and large city centres of Birmingham and Manchester.
- The quality of the local infrastructure in terms of age, condition and design e.g. the North West’s exposure to drought due to limited water storage facilities, or London’s protection from tidal flooding due to the Thames Barrier.
- The differences in local physical geography affecting risk from rates of run-off and soil erosion.

These issues are reinforced by the trend-based nature of government policies which results in demand being concentrated in already stressed environments and thereby increasing costs, for example, the need for piping of additional water across the UK to serve water shortages in the Wider South East (WSE). Similarly, they increase the rate of loss of better-quality land and the current growth of journey distance.



## The Double-headed Opportunity of Clean Growth

A double-headed approach to tackling inequalities and climate change requires action at all levels and on a broad front. This is reflected in the scope of the work of the Committee of Climate Change. A paper submitted to the UK2070 Commission by Dr. Bateman and Zeldman<sup>iii</sup> illustrates the range of potential action. This ranges from environmental improvement of degraded environments to locating offset schemes as close as possible to development areas. It is suggested that the application of a number of straightforward principles could deliver improvements to both wider ecosystems, and to the wellbeing of those who currently suffer the poorest environments in the country, given that the poorest in UK society almost invariably suffer the most degraded environments.

This double-headed approach to framing national policies was illustrated in the First Report through embedding a more spatially sensitive approach to climate change into a National Spatial Plan, for example:

- **Managing rising sea-levels**, for example by harnessing tidal power of our estuaries upon which several of our major cities sit, and the creation of new English polders linking the risk global food shortages and rural regeneration.
- **Integrating the national natural assets** to the pressure of growing urbanisation, through a network of National Urban Parks, linked to the designation of National Heritage Areas.
- **Creation of new landscapes** for example ‘Nature Recovery Network and a National Forestry Strategy.

The responses to the consultation on the First Report have supported this approach, but they advocated stronger policy links in tackling climate change and inequality as a twin-tracked programme for a *just-transition* to a zero-carbon economy.



It is therefore considered that there are major opportunities to transform the impending crisis into a '*double-headed opportunity of clean growth*', whereby:

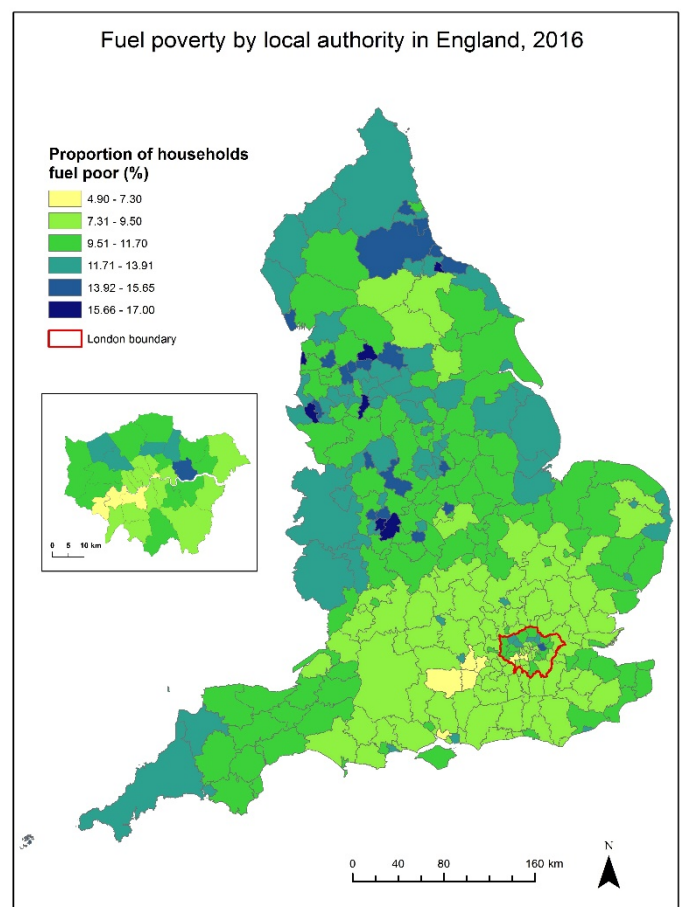
- The delivery of a more balanced clean and green economic development of the country will mitigate climate change impacts, for example by using brownfield land and reducing the dependency ever-increasing journey times that are associated with increasingly focussing development on London and the Wider South East.
- The delivery of clean growth could help drive the rebalancing of the UK's economy by giving priority to investing in the new *green* industries in those areas of greatest need for industrial restructuring.

The scale of these opportunity is highlighted in the Government's [Clean Growth Strategy](#), which argues that the UK is well placed to grow the carbon economy in view of its strengths in research, financial services, regulatory framework and design. It estimates that the UK's low carbon economy could grow by 11% per year to 2030 – four times faster than the rest of the economy – and deliver over £60 billion in export sales. The new industries include such areas as energy supply, battery technology, car production, the construction industry and training – all of which are inherently mobile and influenced by government funding, for example, on research, innovation and investment in infrastructure. The transition to *Clean Growth* is therefore a central part in the UK's Industrial Strategy. This transition however must be 'just' in terms of its spatial impacts if this strategy is not merely ending up replicating the current patterns of inequality.

## A Just Transition to a Zero-Carbon Economy

The spatial impacts of the transition to a zero-carbon economy must not be based on an '*unjust transition*' which merely reinforces exiting spatial inequalities. The transition to a zero-carbon economy will have a fundamental impact on the structure of the UK's economy; its investment in new industries and restructuring of existing ones; and patterns of expenditure and development. Indeed, many of these opportunities potentially lie in currently poorly performing or disadvantaged regions, where there are heavy energy users or high levels of fuel poverty. This creates a real opportunity to link economic change and tackling inequalities, as a strand of the industrial strategy.

Seeking a just transition needs to go beyond the current focus on minimising the disruption arising from climate action. There is a mounting body of evidence that climate action will result in net employment gains in the drive for a carbon-neutral prosperity. Public policy interventions that seek to maximise the number of jobs should use this opportunity to redress the inherited spatial imbalances in employment and opportunities ranging from research, innovation and productive capacity.



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As already indicated, current policies do not take sufficient account of the spatial balance of development across the country nor of the potential to rebalance the economic geography of the country. A twin-track approach is needed. A key example of this twin-track approach is reflected in the Proposal for a *UK Network* to deliver a *Connectivity Revolution*. This is based on supporting the zero-carbon target whilst meeting the needs of the most disadvantaged. Critically, this includes young people, job seekers, and increasingly, the elderly for whom public transport is vital. This study for the Commission, undertaken by Greengauge<sup>2,1</sup> is considered more fully in **Section 3** of this report. It faces up to the fact that the highway network is unsuitable for an expanded role as the framework for sustainable national travel, and that the de-carbonising of 35 million road vehicles requires a doubling of the nation's electrical power generation alone.

The linkages between climate change and tackling inequality is also reflected in principle in the Treasury Green Book advice. Its four-step evaluation process in '*identifying whether an intervention or proposal may affect natural capital*' includes consideration of '*the social welfare implications of the bio-physical effects*' in terms of the key ecosystem services of climate impacts.

There are however real challenges in translating these principles into action related to the intrinsic nature of the goods and services involved, recognised in the Green Book. There is a fundamental challenge arising from the incremental nature of change. Loss of environmental resources is essentially a result of a 'salami slicing' process, arising from the impacts of a myriad of individual decisions. Policy should take account of the aggregate impact on climate change from the cumulative decisions taken over the period used for forward planning. This requires a holistic, proactive and non-incremental approach through National Spatial Strategies, as discussed in **Section 7** of the report.

## Implications

**The implications of the proposals set to deliver a Just Transition to Zero-Carbon require the UK Government's plan to deliver a zero-carbon economy by 2050 to be embedded with the reduction of spatial inequalities.**

**The UK2070 will therefore explore with the Committee on Climate Change and others how this could best be achieved.**

## SECTION 3: The Connectivity Revolution to Support a New Economic Geography for the UK

### Proposal

The economy of the UK has always been strengthened by its successive investment in new systems of transport, from turnpikes, canals, railways, motorways, ports and airports. The inherited UK-wide networks are structured around serving historic and long-passed economic demands. The current networks are not fit for future purpose.

It is time for the next **connectivity revolution**, responding to a new more balanced economic geography by delivering:

- A national network which creates renewed levels of connectivity **between** cities.
- Sustainable multi-modal mobility **within** major urban areas.
- Connectivity **beyond urban centres** to marginalised communities in coastal & rural areas who have lost transport and basic local services.

There needs to be a radical shift towards shared forms of transport, new technologies and increased capacities - with up to 1000km of new rail connections as well as existing proposed commitments - delivered by 2040.

### Context

The UK's transport networks reflect both the past manufacturing landscape and another which is intended to fuel the service economy of London. Neither are fit for the future. This has bequeathed a very asymmetrical system, with high quality access to and within London; whilst large parts of the nation have become distanced, and even excluded. As a result, the current transport systems are not fit for purpose, and characterised by:

- Poor levels of connectivity between the major centres of economic activity, thus limiting the efficiency of their labour markets and supply chains, and ultimately limiting their productivity.
- Congested and expensive transportation within communities which does not meet the needs of the existing population - never mind the additional three million work trips expected by 2050.
- A failure to meet the needs of communities marginalised by poor access to key social, health and cultural services; nor to educational or employment opportunities.
- Difficulties in responding to two emerging issues that will transform the nature of connectivity: digital connectivity; and the need for zero-carbon transport systems that improve public health, air quality and facilitate decarbonisation at scale.
- The London and Wider South East networks being severely overcrowded with a wide series of costs and impacts that are a national burden.

### Proposal 2: Delivering the connectivity revolution

A programme of investment should be brought forward through the next Comprehensive Spending Review and related 2020 Budget to create a 20-year UK-wide Strategy to deliver:

- A national connected network **between** cities.
- Sustainable mobility **within** all major urban areas.
- Connectivity **beyond** the marginalised communities in coastal & areas that have lost transport and rural local services.

Connections must also go beyond transport to include digital connectivity - which is driving the new Industrial Revolution. Half the UK workforce is expected to spend at least some time working remotely by 2020, meaning that full rollout of super-fast fibre broadband is essential. There are issues related both to the general roll-out of 5G, and in terms of unequal standards of access to ICT, which are discussed in **Sections 4 & 5** of this Report respectively.

In terms of transportation systems, the future depends on developing the capacity and effectiveness of *shared* transport, in all its forms:

- Shared transport is essential (because the challenges of electrifying 35 million road vehicles is huge - and the UK is anticipating yet more journeys).
- Shared vehicle used in connected autonomous vehicles that are pooled rather than owned by individuals.
- Enhanced investment in intra-urban shared modes, public transit and 'last mile' innovations.
- In strategic mass transit systems, at both a metropolitan level an intercity level, as rail is really the only mode that has the capacity we need.

Any assessment of future needs must also have regard to the costs of meeting the needs of investing in the infrastructure of the nation. This is illustrated in the recently updated [\*'State of the Nation' Report\*](#) by the Institution of Civil Engineers, which estimates that to meet the demands created by the anticipated economic and population growth the UK will undergo by 2040 that:

- The direct cost of strategic road congestion will be £8.6bn without action.
- There will be a 24% increase in capacity required to stave off future drought.
- An additional 34.2GW of energy supply will be needed, the equivalent of ten and a half Hinkley Point C Power stations.

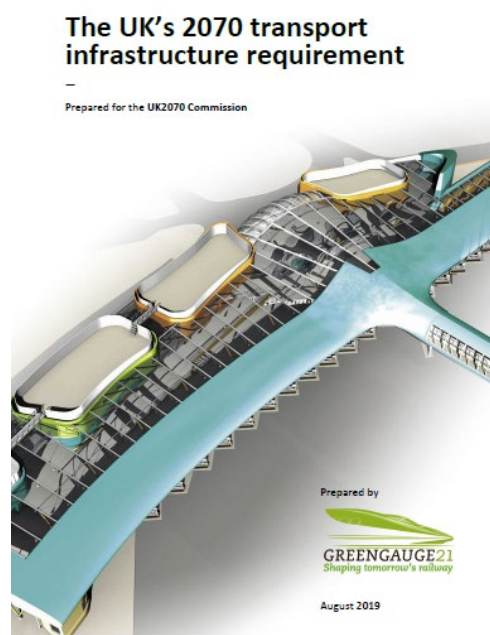
The report concludes that: *'a failure to do so will see the quality of the nation's infrastructure provision standstill, or more likely, deteriorate.'*

What is needed is a **connectivity revolution** based on new technologies, clean energy and increased capacity to provide the new integrated *UK Network* that creates:

- A high-quality national network **between** all major cities and towns.
- Sustainable mobility **within** major urban areas.
- Reconnections **beyond** to marginalised communities in coastal & rural areas that have lost transport and local services.

These elements of a UK-wide framework are considered below. It is also a context for reviewing major investment proposals, including HS2, Northern Powerhouse Rail and Crossrail. These need to be decided within the long-term network requirements of the UK and not on ad hoc project-based appraisals - as is currently the case. This is illustrated by the report prepared for the Commission by Greengauge21 - *The UK's 2070 Transport Investment Requirements*.

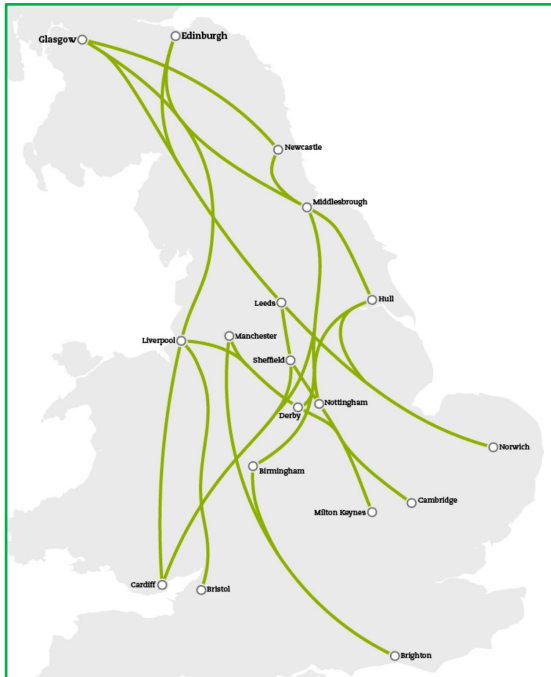
These provide a context for a fundamental reappraisal of the national budget for infrastructure to lift the current cap on investment. In addition, frameworks for decision making - including the Green Book - therefore need to look at a wider set of criteria such as social cohesion and economic accessibility; as well as fare box value for money or cost-benefit- analysis. These fiscal issues are discussed in **Section 8** of this Report.





## Intercity Connectivity

The global strength of the UK lies in its network of towns and cities. However, the *Greengauge21 Report* for the UK2070 Commission shows that intercity journey speeds are getting worse. Links to London are good, albeit with insufficient capacity. Some of the capacity problems will have arisen because of the increasing imbalance of the UK's spatial economy. As the National Infrastructure Commission (NIC) noted in their 2016 report '[High Speed North](#),' it takes longer to travel from Liverpool to Hull by train than to twice that distance from London to Paris; while a 40-mile journey from Manchester to Leeds should take no more than 30 minutes, but can presently be undertaken no faster than 48 minutes.



*Weaknesses in City to City Linkage - Greengauge21*

The quality of Britain's rail network is also reflected in the levels of overcrowding that continue to be a major issue, with trains averaging 5.4% above capacity in Greater London, 4.8% above capacity in Cambridge and 4.3% above capacity in Manchester - although this masks peak load factors as high as between 167% and 250% on the busiest routes. The future growth of demand will exacerbate these problems, with passenger numbers expected to increase by 40% by 2040<sup>iv</sup>.

The current underfunding of investment, (refer **Section 8** of this report) results in a 'beauty contest' between components of what should be seen as the overall *UK Network*, the core infrastructure framework for the UK. Whilst some additional road capacity is inevitably needed, given the extra demand to be created by a growth in population of 10 million by 2070, the future priorities for intercity travel must lie with mass public transport - with the rail system playing a lead role in high capacity corridors.

Equal standards of excellence are needed on east-west rail corridors, connecting the major regional centres and groupings of towns. The *Beyond HS2* report highlights those cities and towns which are least connected and would particularly benefit from such a strategy (such as Cardiff). The upgrading of north-south rail capacity needs to be complemented by developing the missing east-west links and connections to economic hubs from the main rail spines. There are embryonic elements of this matrix at different stages of definition and commitment. They are promoted as separate projects, and not as part of a coherent package of investment, which may take 30 years to deliver, but collectively deliver a network to serve the country for the rest of the century. As a result, schemes are pitched against each other and their potential linkages are not necessarily addressed.

The current debate about HS2 illustrates the weakness of the current policy approach. The review that is now taking place needs to be set in the context of the overall long-term framework for transport and integrated connectivity. It is generally accepted that:

- The capacity of the core north-south spine of the UK's rail system is not adequate for current and future passenger or freight movement. Investment is therefore required to enhance its capacity and is integrated into a wider strategy for the *UK-Network* in the context of a rebalanced spatial economic geography;
- There is a need for equity in the levels of connectivity that are being delivered in accessing London; and also, in the current poor level of connectivity between other main centres of economic activity. These are reflected in the list of East-West Corridors in **Table 1**;
- The national networking of the main centres of population must be linked locally within urban centres by investment in new local transit systems and beyond to remoter areas (as discussed in the following subsections); and
- Continued delay in implementation of major infrastructure projects must be stopped.

**Table 1: East West Corridors**

- Crossrail
- Thames Estuary
- Midlands Connect
- Bristol - Cardiff – Swindon
- Northern Powerhouse Rail
- Central Scotland Rail
- Oxford-MK-Cambridge
- The Wider Solent<sup>1</sup>

The current review of HS2 must be set within the wider perspective of its role in the new *UK-Network* required to serve to rebalance the economic geography of the country, enhance the capacity and quality of the core matrix of the rail system in the UK and be integrated to enhancement intra-urban mobility and wider connectivity beyond, as discussed in the following sections.

## Intra-urban Mobility

Intra-urban infrastructure is just as important for reducing economic inequalities as inter-city infrastructure. Major strides have been made, particularly by cities, in developing dedicated transit systems. However, despite these efforts, the UK still lags behind in levels of provision. There should be continuing investment in intra-urban transport systems such as local rapid transport networks; bus rapid transit and trams, along with suburban rail to connect within cities. A nationally supported 10-year programme for extending these local transit networks should be established.

These major projects need to be complemented by a general drive to:

- Reduce congestion and divert journeys onto other modes of transport.
- Promote active travel i.e. walking and cycling.
- Improve local bypasses, roundabouts, railway junctions and stations.

These interventions can help stimulate growth, and many can be completed quickly. Commuting overwhelmingly takes place within city regions, and a lack of local connectivity can lead to intra-city inequalities such as that seen between the poorer and richer parts of Greater London.

There is therefore a two-fold challenge in achieving this – to enhance national connectivity between the UK's network of towns and cities, whilst sustaining levels of access within their related regional hinterlands. These are reciprocal objectives which are held together by the core



shared networks and not alternatives, which together form an integrated multimodal system that is focused on delivering effective door-to-door services. Such approaches have been most effective where there are strategic powers for planning and delivery, as is the case in London and many European cities, and are now being delivered by the new metropolitan authorities such as [Greater Manchester](#).

## Reconnecting Marginalised Communities

It is not enough to provide infrastructure only to those places with potential for major economic expansion. In addition, a key outcome of the Greengauge21 study is to highlight the fact that so many parts of the UK lack viable transport links to areas of prosperity and jobs, which in turn constrict their potential for productivity and quality of life. Peripheral communities have suffered from spirals of decline, often triggered by the downgrading of transport connections.

National policy must go further and make the commitment to link many overlooked or excluded towns, coastal and rural settlements in a way that reinject skills, social networks and investment. The Greengauge21 study has recommended investment in a network of rail links to those towns suffering from the highest levels of deprivation and lowest levels of employment. Although such investment might not produce immediate returns on cost, it will over time help to connect communities, offer opportunities and re-empower citizens, and which would be expected to have an impact on the numbers of people on benefits.

However, there is a larger national issue raised by the Greengauge21 Report. It highlights the fact that the eastern side of the country, especially coastal areas (including the East Midlands) is identified as requiring particular attention to reduce social and economic inequalities. It illustrates how this might be addressed through, for example, the measures based on:

- **Creating multi-modal interchanges** – at Norwich, King's Lynn, Wisbech, Hull, Peterborough, Barnetby, Scarborough, Whitby and Middlesbrough.
- **Establishing complementary interurban bus routes** – radiating from Lincoln to the Lincolnshire towns of Louth, Skegness, and Boston, for example;
- **A new cross-Humber route** to reinstate a coastal route, linking beyond to Hull, Nottingham, Sheffield and London.



*An integrated network case study - Greengauge 21*

## A New UK Network

In an era of online, digitised and personalised consumption patterns, it still makes sense to address the nation's needs primarily through a network of shared transport services (rail, metro and bus), which has adapted to more demand responsive services. Such an approach would build on what exists (a substantial rail network) and provide the missing links, electrify all busy routes, and – for the first time in the UK – propose an integration of rail and bus, longer distance and local services, with common fares and a set of hubs and 'mini-hubs'. It also has the potential for more efficient use of limited network capacity, and to contribute to meeting the Government-adopted environmental targets.

The UK2070 Commission proposition is therefore for a vision for a connected Britain, based on environmental standards to meet the national carbon target in 2050, which has the following components:

- A common standard of excellence in connectivity between the core network of towns and cities, comparable to that which operates with London.

- Creating mobility within city regions and smaller urban areas through new transport systems – with extensions into rural hinterlands through LRT/bus/metro systems (suitably decarbonised), including the expansion of existing systems in the metropolitan areas – as well as major investments in other cities and towns, transport innovations and shared travel options connecting areas of lower demand to the core network.
- Creating new connectivity beyond, to address the absence of sustainable links to disadvantaged areas and across estuaries. This would enhance access to high order services (such as hospitals and FE opportunities) and to economic prospects (e.g. for coastal towns and cities). This could be delivered mainly through local urban and rural transport services in rural areas connecting to key transport hubs as well as key destinations. This is more likely to be road-based but also the re-instatement of passenger rail services over freight-only lines, for example.

The new *UK Network* would ensure that the whole of the UK's nations and regions would be well connected (in terms of speed and frequency) with each other and not just with London; and that economic sub-regions should be well connected internally and with their neighbouring sub-regions. At this stage of the Commission's work we are seeking to identify the range and potential scope that a UK-wide Network may encompass. This could include the following illustrative list of components, and based on past experience will require local concerns and national funding issues to be addressed:

- A major programme of rail electrification (noting that Scotland already has a stated ambition to electrify its entire rail network).
- A series of new lines, re-openings and major railway route upgrades, totalling around 1900 miles – needed to improve connectivity, increase capacity and service reliability.
- A strategic electrified rail-freight network linked to ports in both the north and south of the UK.
- A new policy initiative to create bus priorities along express interurban bus routes.
- A presumption of a joined-up public transport network, with fares/ticketing available across travel modes and a series of mini-hubs established where passengers need to interchange.
- A set of measures which together provide for a public transport corridor, for example, along the south and east coasts of England, where there are a number of significantly disadvantaged places in terms of connectivity.
- A set of metropolitan area transit systems – both for all city regions with existing light rail/Metro systems where extensions will be needed and others where new systems need to be established – bringing a better public transport alternative to smaller cities and towns.
- A programme to retain connectivity in rural areas, where use of demand-responsive rather than scheduled transport is likely to feature. For example, in Northern Ireland – the absence of rail connectivity precludes the opportunity of accessing opportunities and facilities in Belfast.
- A programme of new estuarial rail crossings – e.g. in England, Scotland and Wales.

## Scale of Action

Overall, nearly 1000 km of potential new lines are identified in the Greengauge21 report<sup>v</sup> (including 200km of long-closed lines in Northern Ireland) along with approximately 2000km of route upgrades. The illustrative elements of the new *UK Network* are listed in Table 2 below, in addition to the enhancement of the capacity and quality of the central core matrix of the rail system of the UK, referred to above. These are not specific recommendations by the UK2070 Commission, but illustrative of the scale and scope of action that is required. However, it is considered that with a genuine national commitment to a revolution in connectivity, a programme may be brought forward within twelve months. Such ideas are inter-dependent but it would be envisaged that localised improvements to address inequality would be put in hand in advance of delivering larger schemes to which they might connect in the longer-term.



The new *UK Network* would require funding commitments that are set in a 20-year programme including existing commitments to high speed rail. It is proposed that this principle should be brought forward in the full spending review and related 2020 Budget, with a detailed programme prepared by early 2021. This requires a fundamental reappraisal of the national budget for infrastructure to lift the current cap on investment, as discussed in **Section 8** of this report.

The economic strength of the UK has been led by successive revolutions in new systems of transport from turnpikes and canals to railways and highways. The geography of transport systems has however changed relatively little in 50 years and if anything, the best facilities are now more concentrated in London and the Wider South East. While these systems are now a great deal busier and more congested, even transformational projects like the Channel Tunnel have not much changed this picture. It is time for a step change - a revolution in connectivity.

### **Table 2: Illustrative Framework of Action to Transform Levels of Connectivity**

Extracted from the Greengauge21 Report to the UK2070 Commission

#### **In infrastructure and service terms – for rail:**

- Closed line-re-instatements
- Re-opening of some freight-only lines for passengers
- Extensions of some existing main line (and high-speed) services to serve remoter places
- New chords (short connecting lines)
- New lines, including a new fast route to link East Anglia with London, to link Perth/Dundee with Edinburgh and new lines to serve the eastern part of Ulster
- An extensive programme of upgrades to existing lines
- Arrangements to operate peak hour services on heritage railways
- New estuarial crossings (Tay, Humber, Thames and Neath)
- Using the need to provide resilience to climate change to bring services to remote locations

#### **Together with the implementation of existing programmes, including:**

- Midlands Rail hub schemes – with the addition of new connections to link the Black Country to HS2
- The wider enhancement strategy of Transport for the North
- East-west rail
- South Wales Metro (extended to link in Swansea/Neath)

#### **Measures to enhance inter-urban express bus services:**

- Through targeted highway improvements
- The creation of a set of integrated multi-modal transport mini-hubs and mass transit systems (electric bus/LRT etc) for city regions, smaller cities and large towns to create sub-regional transit networks, linking medium/small size towns e.g. for Northamptonshire and Hertfordshire

#### **A rural area transport programme:**

- To ensure that everywhere has a connection (whether scheduled or not) to places of employment opportunity, higher education and regional healthcare. to create sub-regional transit networks, linking medium/small size towns e.g. for Northamptonshire and Hertfordshire

## **Strategic Implications**

**The Implication of the UK2070 proposal for a Connectivity Revolution is that the UK Government should commit to planning, funding and delivering a Connectivity Revolution over the next 25 years to make the UK one of the best-connected countries in the developed world.**

## SECTION 4: Creating a Network of UK-Global Centre of Excellence

### The Proposal

The new industrial revolution (the 4IR), 'Industry 4.0', is being driven by research and innovation. It has been estimated that Industrial Digital Technologies (IDTs) have the potential to create 20,000 businesses, increase GVA by £1.2bn and upskill a million industrial workers.

The UK is well placed as a global pioneer in this digital revolution given the fact that it has nearly 20% of the world's top universities. A third of these are part of the so called 'Golden Triangle' between Oxford, Cambridge and London, a recognised UK-Global Centre of Excellence.

The other leading UK universities are however well placed geographically to support strategic renewal in the nations and regions, translating their advanced research power into development. They could form the basis of a new UK-Global Centre of Excellence, bringing together the country's expertise and powering the UK as a leader in the digital revolution.

### Context

The UK has many competitive strengths and is seen as a 'beacon on innovation' together with Germany, the USA, Japan and South Korea, by the World Economic Forum (WEF). The UK has been a consistent global leader in digital technology over the last 70 years including radar, stored-programme computers, commercially available computers, pocket calculators, and the World Wide Web.

This tradition needs to be maintained to drive the future economy of the UK and for it to continue to be a leader in the digital revolution and pioneer in Industrial Digital Technologies (IDTs). This has huge potential. Faster innovation and adoption of digital technologies could generate as much as £455 billion in the UK manufacturing sector alone over the next decade. This has the potential to create 20,000 businesses, an increase in GVA by £1.2bn, and to upskill a million industrial workers who bring together the country's expertise, as estimated in the Government's [Made Smarter Review](#).

However, our digital connectivity is falling behind that of other countries. In 2018, the UK fell to eighth place in the [World Economic Forum Competitiveness Index](#), partly because of the slow rate of adoption of new technology:

*"While the UK has a strong innovation ecosystem and a vibrant business sector, it currently looks less prepared than some of its peers to leverage ongoing rapid technological change. ICT adoption is also one of the weakest pillars compared to the other eleven drivers, with the UK ranking only 28th globally. It also lags in terms of its provision of fibre to the home (75th) and in mobile broadband provision" (WEF 2018)*

There is therefore a concern that the UK could potentially lose its lead in the digital economy. There is already much in hand. The aerospace industry is already embracing additive manufacturing, collaborative robots, and Artificial Intelligence (AI). Separately, manufacturers such as Unilever are looking to use technology to increase sustainability. Yet other sectors are

### Proposal 3: The New UK-Global Centre of Excellence

The following actions are proposed to harness the UK's potential as a leader in the digital revolution, to renew its nations and regions:

- A new multi-centred global institution for science, business and technology should be created to complement the current focus of R&D in the 'Golden Triangle.
- A National Adaption Programme (NAP) should be established to embed digital and automation technology.
- The roll out of future digital infrastructure should be accelerated across the whole of the UK.

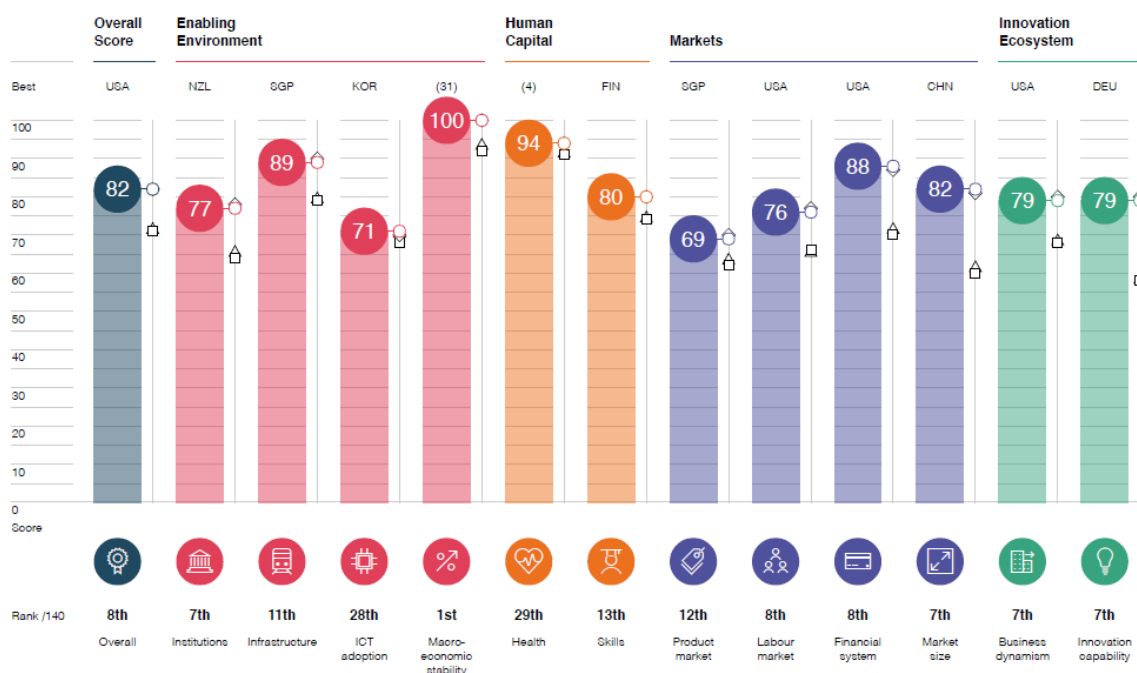
far behind. In construction and the built environment, the uptake of modern methods of construction has been slow, meaning that houses today are built in much the same way as they were a hundred years ago. In addition, across manufacturing, SMEs perceive significant barriers to technological experimentation and adoption, including risks around cybersecurity. This also raises issues concerning the need to reskill the existing and future workforce as highlighted by the WEF in its latest [report](#). This stresses the need for a reconfiguration of our perception of education, employment and entrepreneurship. This is considered further in **Section 5** of this report.

Global Competitiveness Index 4.0 2018 edition

Rank in 2017 edition: 6th/135

## Performance Overview 2018

Key ◇ Previous edition △ High income group average □ Europe and North America average



## The Challenges

The UK2070 Commission's First Report concluded that if the UK is to unlock the potential of the new economy, referred to as Industry 4.0, it must build on our existing research and innovation strengths. In terms of research, the UK has nearly 20% of the world's top universities, yet only a third are part of the so-called 'Golden Triangle' between Oxford, Cambridge and London. The majority are located in the heart of the new English powerhouses and Scotland. These should be drivers of the new economic geography required to rebalance the UK.

The picture however is even more worrying in terms of translating advanced research power into development. Only four of our top universities were ranked in the top 100 educational institutions that are most successful in advancing science, inventing new technologies, and powering new markets and industries. Although there are accepted issues in any rankings, a recent review of innovative universities demonstrated the overall focus on the Golden Triangle, with the notable exceptions in Scotland and Manchester.

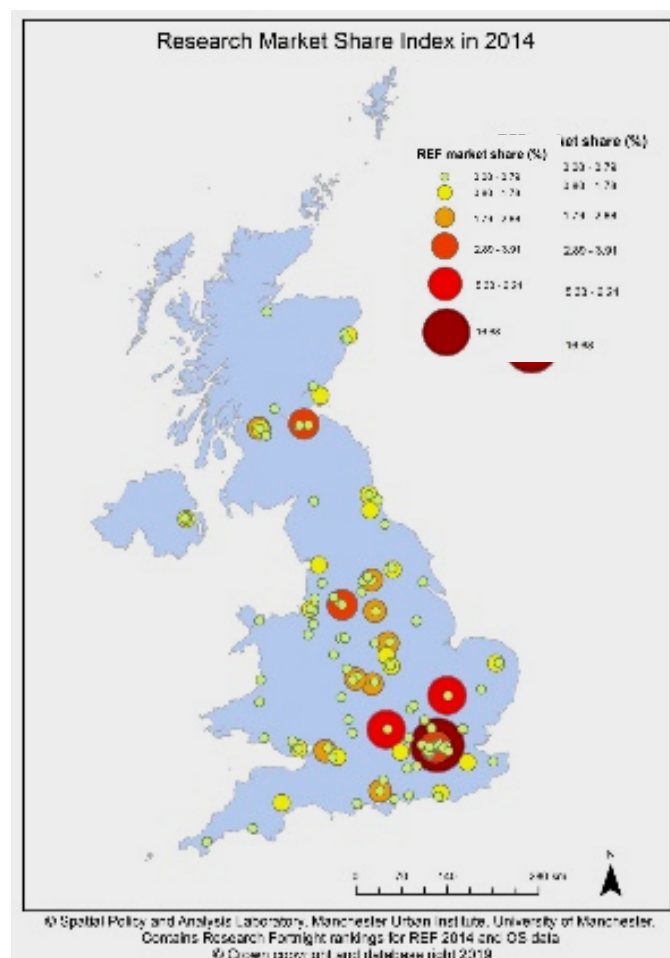
The UK has the potential to become a digital superpower once more. This vision is of a country that embraces cutting-edge digital technology, leveraging support from both governments, a constellation of world-leading universities, and leading companies to gear up the economy in all regions. This Second Report therefore focuses on the action required to support this, and harness the digital economy in the rebalancing of the UK's economy in terms of:

- The need to move from the emphasis in R&D to one based around on linking Research to Development.

- The need to more quickly develop our digital infrastructure.
- Accelerating the rate of take up of the digital economic revolution (Industry 4.0).

In developing this agenda, it is critical that the UK sustains the existing UK-Global Status in Research and Innovation of the *Golden Triangle*. There is already much research on this by bodies such as the [Centre for London](#), and the emerging local strategic plans. There is a growing consensus that London needs the rest of the UK to thrive. The agenda that is presented here is complementary to that goal. The Commission will be undertaking further work and liaison with these bodies to ensure that the Final Report of the Commission reflects this. This includes ensuring that the growth associated with the UK-Global centres of excellence is inclusive in providing opportunities and investment that benefit the wider region for example in employment, training, incomes, access and place making.

## The Existing UK-Global Centres of Excellence – London and the Golden Triangle



London is at the heart of the existing UK-Global centre of excellence, indeed London itself is key to the success of the national economy. London is consistently rated with New York as the world's leading city across a range of benchmarking studies in terms of its ability to attract people, capital, and enterprises from around the world, and across a range of measures including its economy, innovation, cultural offer, liveability, environment, and accessibility<sup>vi</sup>. It is estimated by the Greater London Authority that London accounts for 23% of the UK economy, and generates £32.6 billion net to the exchequer. London also contributes heavily to other regional economies through intra-UK trade, supply chains, and employment in London-headquartered international businesses.

This global role is reinforced by London's pivotal position in the *Golden Triangle* between Oxford, Cambridge and London. These three centres, together with Milton Keynes, are the focus of much venture capital investment in technology. London is particularly dominant with nearly half of high-growth businesses being in the technological sectors, especially software development<sup>vii</sup>.

The institutions in the *Golden Triangle* also receive some of the highest research incomes, funding and grants from the UK government, and the largest financial endowments of all British universities<sup>viii</sup>. The risks to the global role of London and the Golden Triangle lie in both external competition and an undue dependency on London and the Wider South East to accommodate a disproportionate amount of domestic growth. As recognised in the recent report by the Mayor of London "*This means London has transport and infrastructure demands that are not comparable with any other city, or indeed region, in the UK.*"



This has fed a common misconception, namely, that the promotion of a more balanced economy is a zero-sum game. The reality is captured by in the Mayor of London's report on the relationship between London and the rest of the country, '[A Declaration of Interdependence](#)':

*"The country's economy is not a 'fixed quantum' that gets shared between London and other places; rather it is dynamic within a global economy. London government and the civic leaders of all the core cities agree that the dynamism of the country's economy as a whole is being held back by the centralisation of power in Whitehall. Rebalancing the economy cannot be achieved by making London poorer, but by helping the rest of the country become more prosperous and by creating a strong network of powerful cities and regions.*

*To this end, two sustained revolutions are needed: the devolution of power – in London and throughout the regions; and substantial investment - in housing, skills and infrastructure. These combined wills greatly increase prosperity within and across all UK cities."*

This position reflects the conclusion in the UK2070 Commission's First Report. The investment needed to sustain the global leadership role of London in business and finance will benefit if all nations, regions and cities on the UK thrive.

This requires a twin-track response based upon:

- A more coherent spatial strategy for the management of growth in Greater London and its wider region. The lack of such a longer-term vision is no longer just a local or regional issue but a critical national challenge. The scenarios tested by the UK2070 Commission suggest any such strategy should address the challenge of another 2.4 million jobs in the wider region. The scope of such an approach has been set out in a range of reports, including submissions by the London and Wider South East Strategic Planning Network<sup>ix</sup>, the AECOM London 2065 Report<sup>x</sup> and is being tested further by the One Powerhouse studies (due to be published by the end of 2019).
- A National Spatial Plan for England (refer to **Section 7** of this report) which puts the future of London in a wider national context. One of the key roles of a National Spatial Plan is to establish the relative roles of the main regions and cities in terms of economic function, demand for housing and the infrastructure investment required to underpin this.

## **From Research to Development – The Second UK-Global Centre of Excellence**

The UK's manufacturing regions have become separated from much of its advanced research base. This makes it more difficult for business to share research findings with research institutes and universities, more difficult for collaboration to occur and more difficult for the web of personal and social connections to develop (the essential basis for the spontaneous sharing of ideas and initiatives). There is international experience of such initiatives, for example the MIT in the USA. The Commission is therefore drawing on the REAP work that Leeds City Council is undertaking in connections with MIT. It is therefore proposed to create a new multi-centred global constellation for science, business and technology, an 'MIT' for the North of England, a *Northern Constellation*.

A 'Think Piece'<sup>xi</sup> prepared for the Commission by ARUP highlights the issue that they have yet to build an innovation-led-economy with sufficient strength, coherence and critical mass. This identifies four principles that need to be applied a place-based approach linked to the promotion of innovation districts, collaborative networks and new approaches to the funding of innovation.

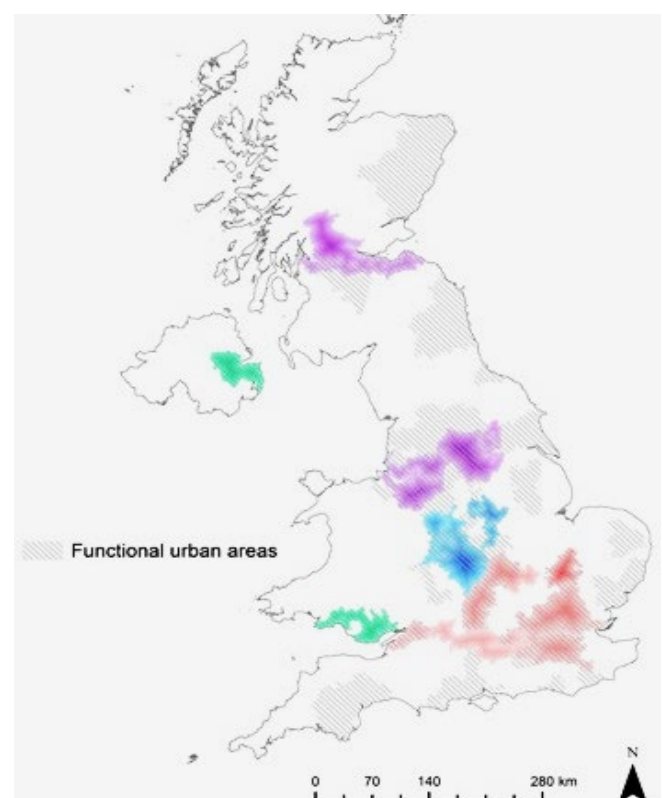
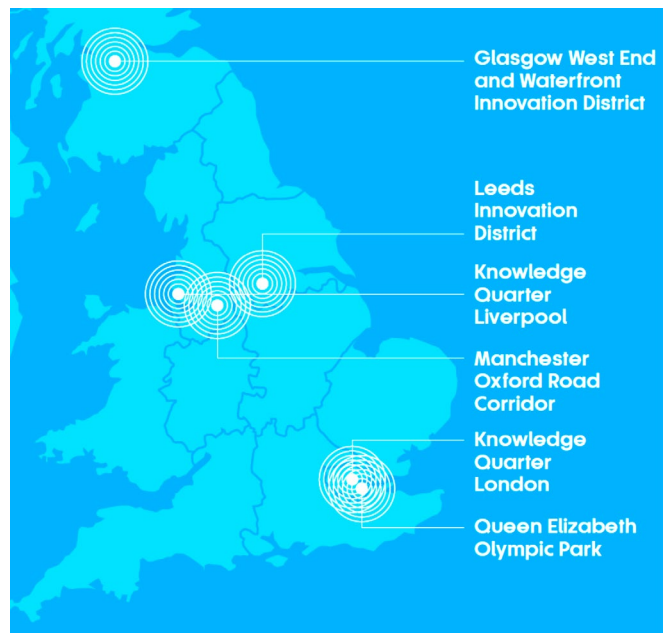
The University of Sheffield Advanced Manufacturing Research Centre has demonstrated the huge potential for collaboration between business and higher education. There is also work being undertaken in promoting Innovation Districts to build connections and drive innovation, as well as the impact innovation can have on place and regeneration. Even so, a central problem remains as to how to boost research ratings' how to connect business and research; how to bring tech entrepreneurs into the old industrial areas; and how to bring in the best minds in the world.

The United States has similar experience of building up a large body of knowledge in science and technology to support its economic development. It achieved this by creating entirely new institutions, which generated nearly half of the top 50 engineering schools in the US. The MIT turned out to be one of the most effective government investments ever made, its researchers underpinning US advanced technology up to and beyond the Apollo 13 mission and the creation of the internet.

The central purpose of "MIT(N)" would be to create new institutional capacity of global significance which operates within the UK, distributing funds and contracts to other northern institutions. It would also boost partnership with business and other research departments and institutes, bringing in the best research and business talent from across the world, and encouraging that talent to flourish throughout the North and the Midlands and Wales. Creating this new institution requires funding but it would not be the first time the UK has led the world in creating an entirely new internationally recognised educational institution, after the Open University in 1968. This could additionally be complemented by greater collaboration of a similar sort between universities in Scotland.

## Accelerating Change in the UK's Digital Infrastructure

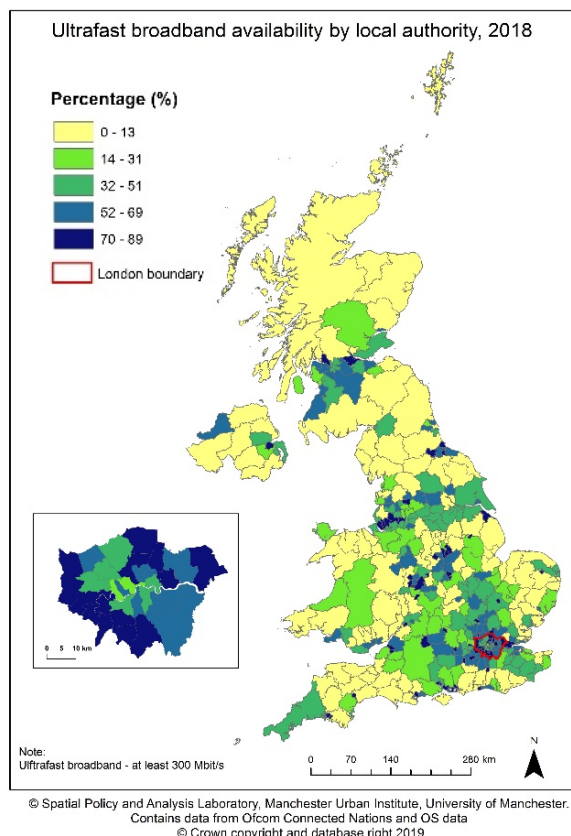
Digital infrastructure is key in sectors like manufacturing, health and transport and a universal service standard a base level of connectivity for consumers wherever they live and work. The key question is timescales. Currently, the UK's Fibre to the Premises (or 'full fibre') coverage is only 4%, compared with 99% in South Korea and 97% in Japan. There is already discussion of 6G by 2030. The Government must commit to the deployment of 5G telecoms networks to all parts of the UK in a timeframe that means that it is not obsolete by the time it is implemented. The current competitive basis for rolling out 5G, does not reflect the scale and the urgency of catch up required.



There is a need to accelerate the rate of change – the take up and application of new technology. The UK has the strongest AI and machine learning market in Europe, with over 200 SMEs, but many of these struggles to invest in the technology or supply chains they need to scale up, leading them either to plateau in size or to be bought out by international competitors. More broadly, less tech-savvy SMEs need more functional support in terms of implementing technology into their systems and processes.

The UK2070 Commission therefore propose a *National Adoption Programme (NAP)*. The network of Local Enterprise Partnerships (LEPs), Catapults and partnerships with universities could roll out the NAP to support SMEs in adopting and using existing technologies. The NAP could be piloted in the North West of England, working with the universities of Manchester and Sheffield, and the existing markets in health and new materials.

There is a related need for high level (re-)training. Technology does not destroy jobs; it just creates different ones, which are often safer and higher paying. Nevertheless, workers need to be given the tools to do these jobs. The Government working with FE colleges and universities could establish accredited training schemes, equivalent in value to a degree, specifically targeted at those whose jobs are being displaced or those just about to enter the workforce for the first time who live in less economically prosperous parts of the country. The scheme should be launched in pilot form in the North East of England by 2022, with an initial intake of 20,000 people.



## Implications

**The implications of the UK2070 proposals for renewing the UK's global economic role is that the UK Government should invest in creating and promoting a second global nexus of innovation in the UK, a constellation of research and development.**

## SECTION 5: Strengthening the Foundations of Local Economies

### The Proposal

Strengthening the foundations of local economies is critical to the delivery of a more inclusive economy. Generally, 40% of the UK economy is foundational, non-export oriented. In many marginalised communities it is far higher. Support for the foundational economy is of its nature local, but there is a key enabling role for national government. This should include better support for the SME sector, as is now being particularly developed by the Welsh Government, through its funding of local enterprises and asset-base. There are also similar emerging experiences in local industrial strategies in England, for example, in Greater Manchester.

Such policies would be supported by the revolution in connectivity to marginalised communities (see **Proposal 2**); by restoring the status of Further Education; and by the provision of local basic services as a key to the development of the local skills base and the foundational economy.

### Context

The spatial variations in economic performance across the UK can no longer be explained away simply in terms of industrial structure nor solved by the attraction of external investment. A wider set of local economic factors are critical to their relative performance and enhanced resilience to economic shocks and change, for example, skill levels, connectivity, local services and environmental conditions. Furthermore, a significant proportion of economic activity in localities is accounted for the so-called foundational economy. This refers to the set of economic activities that meet the basic requirements of civilised life for all citizens irrespective of their income and location. It includes *material infrastructure* – pipes and cables and utility distribution systems for water, electricity, retail banking, etc. – and *providential services* – education, health, dignified eldercare and income maintenance. It embraces activities that are neither easily tradeable nor exportable.

The foundational economy accounts for more than 40% of all UK employment and more than 50% in many overlooked or excluded communities, particularly those who have suffered de-industrialisation, where it is higher. It is therefore a key to understanding the spatial variations in economic performance and potentially unlocking stronger development in places.

There is an increasing evidence base on the types of action that can be developed in support of the local and foundational economy which also broadly sustain welfare and livability. For example, the Manchester CRESC 2013 [Manifesto](#) and its more recent work has set out how central and local government, alongside business and civil society, can develop policy and practice to give focus to essential goods and services because they account for a large part of the local supply side and underpin household well-being. This includes the powerful use of public procurement, initiatives in support of local currencies (e.g. the Bristol & Preston Pounds), setting new standards of public services that underpin well-being, effective, inclusive devolution, investment in the local asset-base, and support for SMEs and the skills agenda.

### Proposal 4: Building the Foundations of Local Economies

The local foundational economies should be supported by all UK governments based on:

- UK-wide support for local asset-based strategies building on the experience in Wales and local industrial strategies;
- A framework for resourcing universal standards of service provision, especially the levels of connectivity to marginalised communities.
- A fresh strategy for the skills agenda, linked to renewing the role of Further Education.



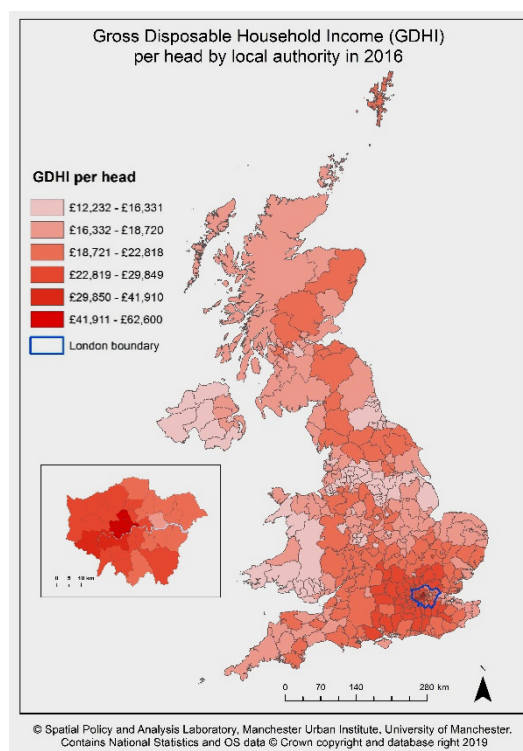
In addition to basic principles for sustainable economic programmes of action (e.g. integrating economic policy with social and environmental policy) foundational economy approaches seek different methods for designing and delivering economic policy including:

- A focus on empowering civil society and involving citizens in addressing the immediate needs to supply basic goods and services, including social infrastructure.
- Enabling local and regional governance to resource, facilitate and enable interventions to suit locally-specific needs.
- Asset-based economic development that begins by asking people what matters and building community capacity and agency by addressing priorities.

The UK2070 Commission's First Report identified three potential priorities for action – the development of an innovation fund to advance the foundational agenda (based on the experience of the Welsh Government); the identification of universal basic standards of public service; and the need for new metrics of economic performance that went beyond the limitations of GVA per head as a measure of productivity and household income per head as a measure of wealth. Work currently being undertaken to produce an [Atlas of Inequality](#) by the University of Sheffield will help illuminate this debate.

Although these issues have been endorsed in the responses received, a range of factors has been raised to which the UK2070 Commission should give greater weight in its thinking. These include the following cross cutting issues, dealt with elsewhere in this report:

- The need to '*couple up*' the economy with the environment to tackle climate change, where the foundational economy is crucial because it includes low carbon sectors like health and care and sectors like housing, food and transport which are crucial to decarbonisation (see **Section 2**).
- The need for a fundamental shift in the level and quality of access to local and higher order services (see **Section 3**)
- The need for *inclusive devolution* for new democratic processes to create a momentum for change given that the foundational economy is predicated on citizens playing an active role as co-producers (see **Section 6**).
- The need for a sharing in the uplift in land and property values compared with the current situation where rising house prices have brought home owners in London untaxed capital gains of £200k over the last 10 years (see **Section 8**).



This section of the Second Report takes forward the thinking of the UK2070 Commission on three issues:

- Rolling out across the UK the experience of emerging from Wales and Manchester (in its LIS) of embedding the Foundational Economy into economic policy, albeit it at an early stage.
- The provision of equitable standards of access to basic services to more citizens especially marginalised communities.
- The need to link up further education policy with the industrial strategy, for skills development.

## Embedding Policy

The [Welsh Government](#) embedded the foundational economy into the 2017 Economic Action Plan, subsequently enhanced, which made a commitment to supporting the foundational economy through the support of four foundational sectors: food, tourism, social care and retail.<sup>xii</sup> It set up a £3m Foundational Economy Challenge Fund designed to:

- Support a series of experimental projects to test how best to support the foundational economy and which Government interventions work best.
- Give renewed focus on growing the ‘missing middle’ - this represents a focus on the so-called grounded firms in Wales, and a commitment to establishing a firm base of medium sized Welsh firms which are capable of selling outside Wales but have decision making rooted firmly in Welsh communities.
- Spread and scale best practice - this focuses upon supporting social value within procurement through using Public Service Boards and the framework provided by the Wellbeing of Future Generations Act to use and strengthen local supply chains.

The key feature of this policy is that it will support innovative and alternative approaches to addressing problems or realising potential in the foundational economy. This fund is about supporting small-scale experiments and pilot actions about ways to think, behave and work differently - it is activities that support this which are eligible expenditure. It is less about the delivery of the actual service, which should be a core function of the applicant and its partners, more about creating additional capacity to challenge and change the ways of working. The challenges in relation to ways of working may, for example, relate to the recruitment, retention and skills of the workforce; the delivery structures and design of services; boosting the impact of local purchasing; and ways of involving citizens in the design of services.

The Welsh Government’s approach to supporting the foundational economy is new and there will inevitably be constraints and pressures of funding and governance that limit the capacity for more wholesale policy change. There will be questions, for example, over whether it is too limited (being sectoral) and whether there is a more basic challenge in terms of civil capacity to engage. This is particularly important given the concerns raised in the UK-wide research by UCL about the capacity of local communities.

It is also recognised that Local Enterprise Partnerships in England were established to address issues that have a direct bearing on the foundational economy. However, this is often not explicit in industrial strategies, to the point of being invisible. However, the recent Local Industrial Strategy for [Greater Manchester](#) embeds the foundational economy in the overall strategy, and could be a model applied more widely to all areas. It is therefore considered desirable to promote the benefit of the Local Assets Strategy by rolling out to the whole UK the emerging experience of policy initiatives and both entrepreneurial and experimental funding for enterprise.

## Universal Basic Services

A policy for the provision of universal basic standards of service across the country is key to tackling inequality. Geographical variations have been the focus of debate, for example, concerning a postcode lottery in the Health Service, or in the new policy for the roll out of ICT provision. Although such policies do not result in equality, it does guarantee that no one is overlooked or excluded. Such policies are however themselves limited because of their sectoral or place-blind application.

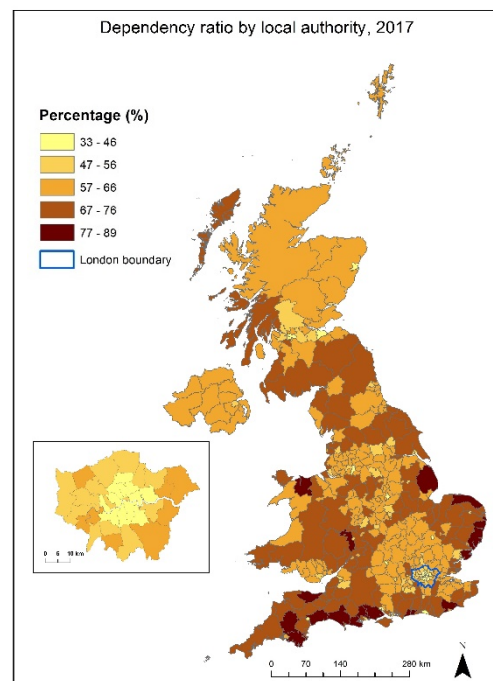
The UK2070 Commission has therefore proposed an integrated national policy to provide minimum acceptable levels of connectivity to core services (e.g. health and post-16 education) to communities.

A study undertaken for the Commission shows that the national priorities for improved connectivity vary in detail according to the particular measure of inequality. These are summarised as follows:

**Low social mobility** - there is a concentration of poorly connected places in a number of geographic clusters in the east of the country, particularly along the English coasts. A general policy of strengthening coastal links and filling in missing elements is required, especially where there is no or limited estuarial crossing.

**Low life expectancy** - the pattern of life expectancy is essentially a north-south divide (along a line drawn between the Wash and Severn estuaries) requiring three overarching transport policy responses:

- Re-dressing the imbalance of investment in public transport service support across the nations and regions.
- Reducing the harmful impacts of road traffic on air quality.
- Improving travel conditions to reduce stress levels – this includes making much better provision for those with restricted mobility for whatever reason – and includes ensuring that there is good access for people without a car to access health care facilities.



**High levels of unemployment:** - the worst performing places, where better transport links to education, training and work opportunities could help, are:

- Derry/Londonderry
- The Black Country
- Hastings
- Part of west central Scotland stretching from Kilmarnock to Gourock
- Part of the Colne Valley in Lancashire
- Sunderland – Hartlepool – Middlesbrough on the North East coast
- East Lincolnshire
- Thanet

**Low levels of educational attainment** - within the overall pattern, several places stand out as being poorly served. Typically, these are in rural areas dependent on road based public transport and include:

- Mid-Kent, rural and coastal East Anglia, the Fens and Lincolnshire.
- Parts of the East Midlands/South Yorkshire border and parts of Cumbria;
- Across the whole of rural Northern Ireland.
- Parts of South West England – including North West Devon where rail access is possible.

The place-by-place analysis is set out in the supporting Think Piece by Greenguage21. This also sets out an illustrative strategy to redress imbalances. As the report stresses, the priorities that it sets out need to be part of the new *UK Network* to deliver the connectivity revolution set out in **Section 3** of this Report.

## Skills, Capabilities and Vocational Streams

The UK2070 Commission's First Report highlighted the 'low-skills gap' whereby those with lowest levels of basic skills are least likely to engage in further adult learning, and therefore, become caught in a 'low- skills trap'. There are a range of [sectoral studies](#) which have set out the policy interventions required, and which lie within the competence of the respective agencies to deliver. These include the provision, shaping and procurement of training opportunities, and even anticipating higher-skill requirements beyond the immediate (often low skill) local economic needs. The required collaborative action involved is central to the duties of LEPs and local authorities.

There is however a wider issue that has emerged from the consultation process on the First Report. This relates to a need to recognise a more fundamental role for the Further Education (FE) sector. There is a need for a change in culture and funding for FE to make the contribution in needs to the economy generally and in particular to the needs of marginalised communities.

Over recent years, the focus of public policy has been on Higher Education which has received increased funding, given the emphasis of economic policy on the knowledge-based economy. This was justified and is not questioned. Similarly, funding levels of schooling has been sustained in line with the growing school population. In contrast Further Education budgets have been cut by 8% in real terms. A particular anomaly is the reclassification of sixth-form colleges as FE has had a 21% cut and is now funded 25% less per child than a comprehensive school in the same catchment area.

The concern is that there could be a threefold impact:

- A key area in skills development particularly for the foundational economy is being cut.
- The possible impact on inner cities with the greatest levels of inequality of the sixth-form cuts.
- The issues raised for remoter rural areas not near universities which are more dependent on increasingly underfunded FE opportunities, and where increasingly expensive and poorer public transport services all disincentivise the take up of FE-based skills training.

The policy for developing skills needs more analysis and goes beyond just levels of qualification. For example, in Wales there is an over qualification problem: there are 500,000 jobs which do not require level 2 qualifications while only 200,000 Welsh people of working age lack such qualifications. The answer lies in being more discriminating about broader capabilities and vocational streams. The UK2070 Commission is therefore in liaison with the Association of Colleges, the British Academy and other parties to develop the Commission's proposal.

## Strategic Implications

**The implications of the UK2070 Commission's proposals for supporting local economies is that the UK Government and devolved administrations must support local action to develop the foundational economy with better access to funding, consistent standards of public service and equitable funding of skills, training and education.**



## SECTION 6: A Framework for Comprehensive Devolution

### The Proposal

The current ad hoc negotiated ‘deal-based’ system of devolution that has developed in England will soon have run its course. We need to move to a framework of powers and capabilities available to all of local government.

Powers and responsibilities must be transferred to the lowest viable practical level of government, and should not be restricted to elected mayors or combined authorities. Local government can act strategically with responsibility.

In addition, England needs a new regional framework to facilitate common strategic approaches to address regional issue. These include regional economic hubs, infrastructure priorities, climate change and regional fund management. Any arrangement should relate to emerging strategic local and regional partnerships, the decentralisation of central government and new mechanisms for citizen engagement.

### Proposal 5: A Comprehensive Framework for Devolution

A comprehensive devolution framework is required to help deliver a more balanced economy. This should be based on:

- A common package of powers that are open to all areas of the UK but tailored to local circumstances.
- Block-funding regimes to offer greater local discretion about spending priorities.
- A new regional framework for England based on the emerging networks of trans-regional powerhouses, combined authorities and unitary rural counties.
- Support by a parliamentary and ministerial portfolio for each area.
- New engagement processes e.g. Citizens’ Assembly.

### Context

The UK is the most centralised country in the developed world. The current state of devolution has created asymmetry between the representation of people in England outside Greater London, compared with people in Scotland, Wales and Northern Ireland<sup>xiii</sup>. Although there is scope for further devolution in the devolved administrations there is a need to eliminate the democratic deficit that exists in England – although it is also recognised that there is potential for further devolution in the other three home nations.

The focus of this Second Report therefore sets out what is required to go beyond the current deal-based system of devolution. The current ad hoc ‘deal-based’ devolution has served its purpose, run its course, and has resulted in there being no coherence to the pattern of. For example, the West Midlands Combined Authority includes 3 LEPs with local authorities being part of LEP, but not the combined authority. This results for example, from a business perspective, in confusion.

Benchmarking of the effectiveness by the [OECD countries](#) highlights the importance of a systematic devolution settlement. Variations in size, legal and historic context will shape what is desirable and possible. However, larger countries of the UK’s size have a comprehensive three-tiered governance structure and greater control of revenues relative to their expenditure than the UK has. Key to success generally, listed by the OECD study, is that one-size does not fit all, and therefore there has to be flexibility, with the opportunity for local experimentation overseen within a broader strategic framework and long-term perspective.

This therefore argues for a comprehensive approach to devolution which opens up a full suite of real powers to be available to, but not necessarily taken up in all areas. In particular the devolution of economic powers is seen as key to allowing places to deliver their

individual needs for infrastructure and services locally. There is a long experience of local government acting strategically and with responsibility - as once eloquently expressed by Boris Johnson when serving as Mayor of London, in support of greater fiscal devolution:

*“We should be getting back to very proactive, strong, city-led government that has an incentive to go for growth. I think it is something that all parties should support!”*

The UK2070 Commission’s First Report therefore proposed that to be effective, devolution needed to be rolled out systematically, supported by arrangements to deal with the key trans-regional issues aligned with the decentralisation of central government budgets and ministerial responsibilities. These propositions have been widely supported and are reinforced by the recommendations in the Heseltine Report ‘*Empowering English Cities*’, which even though its focus was on the cities they have a wider significance and apply to non-metropolitan areas. In particular, its proposal that the reform of government and Whitehall itself should be the crucial first step, involving a new Department for the English Regions with a Secretary of State, a Permanent Secretary and a functioning civil service. This would be reinforced practically and symbolically by all government policy offices outside London being co-located regionally.

This report is echoed in the call by Phil Graham<sup>xiv</sup> of the National Infrastructure Commission for a genuine shift in ambition and change of mind set from government through proper devolution, involving, for example:

- A move to a five-year funding settlement, in line with the approach taken in Greater London.
- Local leaders being free to decide how to spend their budget.
- A significant tranche held back to fund transformational strategies.
- Linked to joined-up transport, housing and employment strategies.

The House of Commons’ Housing, Communities and Local Government Committee has also set up an inquiry into the effectiveness of devolution arrangements since 2014. The inquiry is looking explicitly at the opportunities for devolution across the whole of England. In the words of the chair of the committee:

*“Most importantly, we want to discover what opportunities there are for improving outcomes across the country. Notably in areas such as transport and health where provision doesn’t match existing local government structures, but also in improving the local economy, environment and infrastructure. We will be looking to see how improved devolution can boost cities and regions, and how it can be implemented more quickly.”*

In addition, the Commission is mindful of other work being undertaken, for example in the joint report by the Core Cities Group and the CBI on ‘*Powering up Places*’. These bodies have the shared objective of promoting a more effective framework for devolution. This includes means to assess current and future arrangements related to functional economic areas; optimising Westminster and Whitehall for devolution, including prioritising regional growth within Cabinet and across Whitehall; new ways of working with Metro Mayors; and a more efficient and collaborative local government. This work will be taken into account in the Final Report of the UK2070 Commission.

If there is to be real devolution any further transfer of powers and responsibilities will need to resolve the following issues:

- Scope - what powers should be transferred and to which accountable level of government?
- Geography - what local institutional arrangements are needed to avoid any wider strategic decisions always having to be made in Whitehall?
- Inclusiveness - how can the wider communities of interest be included in national and sub-national decision-making processes?

## The Scope of Devolution

Since the First Report work has been undertaken for the Commission on devolution by ARUP<sup>xv</sup>. Alexander Jan, Chief Economist at Arup concludes that:

*“In the UK and elsewhere, research shows local politicians consistently outperform those from central government in surveys on trust.<sup>xvi</sup> It follows that stronger authorities could be key to rebuilding faith in British governmental institutions. They need to be free to innovate, raise revenues, invest and test new ways of doing things. With more autonomy they could help to tackle many of the long-standing challenges the UK 2070 Commission want to see addressed.”*

Jane Healey-Brown has also highlighted the need for a systemic change to decision making to address the growing regional disparities through the following action:

- Include all regions in the debate and proposals to be for the benefit of the whole, and ensure sufficient local capacity.
- Require a regional perspective by decision making bodies particularly in Parliament, comparable to gender representation,
- Provide a national economic-spatial framework as a basis for Local Industrial Strategies and Shared Prosperity Funds. and
- linked place-based auditing and appraisal guidance (including Green Book Appraisal) that capture a wider set of benefits that can help with decreasing inequality and rebalancing opportunities across the country:

There is therefore a need to move away from this bespoke deal-based arrangement to a system based on the presumption that devolution should be generally applied. There should be a common range of powers and capabilities available to all local government, and not restricted to elected mayoral or combined authorities. The choice to limit the range of powers should be taken locally. Local government can act strategically and with responsibility. Devolution should be based upon the principle of the transfer powers to the lowest accountable and effective level - both in terms of management functions, capabilities and to the control of resources.

## Functions

A key outcome of a more comprehensive and systemic approach to devolution is to unlock the potential of local government to provide the whole place leadership. For example, in Leeds the Council has used its influence and convening power to intervene in the economy and drive innovation and economic development, with a focus on social responsibility. With greater freedoms and flexibilities and a willingness to commission at the level of place, cities and localities could take such an approach much further.

The current devolution arrangements focus on four broad areas of responsibility - land use/housing; transport; employment/skills and community services (e.g. health & social care). The Heseltine Report confirms this list with a five-year programme updated annually, and calls for the immediate transfer of day-to-day responsibility for:

- Affordable housing
- Schools performance
- The skills budget
- The unemployment and employment programmes

It also recommends two over-arching duties – the spatial structure and carbon reductions, and environmental improvement (i.e. strategic planning), with local strategies given statutory status and incorporated into the government’s own national strategy. These recommendations should be applied generally, and allow for different packages of responsibility, dependent on the capacity of places to manage them. These principles also apply to Scotland, Wales and

Northern Ireland where although there is devolution at a national scale, it has yet to be applied locally.

## **Funding**

Unlike Northern Ireland, Scotland and Wales, no taxes are devolved specifically to England. This has therefore been a central issue in the devolution debate over the last decade. One of the key issues is the potential impacts of devolution of fiscal powers reinforcing the patterns of spatial inequality across the UK, since local taxes in any form are not raised equally around England in turn reflecting differences in both the proportion of properties in each tax band and different impacts of mandatory discounts or exemptions (such as for single adults or students).

This is illustrated by the fact<sup>xvii</sup> that the largest council tax base per person in Kensington and Chelsea is three times larger than the area with the smallest, Nottingham. Business rates tax bases are even more unevenly distributed than council tax bases. The tax base per person for Westminster is 46 times greater than that of the council with the lowest tax base per person, Redbridge. There is also concern that the ongoing policy reviews by the Ministry of Housing Communities and Local Government will increase the extent to which councils gain or lose as local tax bases change (particularly in the longer term).

Over the last 40 years there have been changes in the proportion of local services run by local councils and funded by central government. In 1980, only 40% was funded centrally, now it is over 80%. In addition, over the last decade, local authorities have had this core funding from the Government cut by over £15 billion. This is a loss of 60p out of every £1. In 2020, 168 councils will receive no revenue support grant at all.

Local service provision and funding are therefore subject to central control of policy. This imbalance needs to be redressed if devolution is to have any real momentum. There is however a concern that the current transfer of powers is only a different form of centralised administration where decisions are still taken by central government. This concern is fuelled by the perception that in general the focus of devolution has been the transfer of responsibilities whilst Whitehall retains control of the level of resources.

The Institute for Fiscal Studies therefore recommend a local income tax as the vehicle for financial devolution. A penny-in-the-pound local income tax could raise around £6 billion across England. It is seen as being administrative feasible, accountable via the local ballot box, and an incentive to boost incomes of local residents. Although it is also less spatially polarised than other options, like council taxes, there are still marked spatial variations that will require to be compensated for in any settlements by Whitehall. Therefore, it will be important to consider at what level this would be best done, for example, whether a trans-regional arrangement would minimise redistribution issues.

Although the UK2070 Commission does not seek to make recommendations on the most appropriate detailed mechanism, it is essential that the following principles be applied to revenue funding:

- Block allocations would allow greater local flexibility in prioritising and integrating activities and remove silo-based budgeting.
- Whatever model is adopted it takes account and offsets the potential distortions of established patterns of wealth and land and property values.
- Levels of funding should be linked to long term needs set out in local and national spatial strategies.

This will help move more generally to a place based multi-year integrated budgeting of public services.

There is a similar need for a new approach to capital funding which is not silo-based departmentally and is on a sustained basis. The UK2070 Commission's proposals for a UK



Renewal Fund addresses this need (as discussed in **Section 8**). The Heseltine Report highlights the importance of this based on the experience of block allocations to cities which ended with the resources reverting to its functional subdivisions with the change in the Chancellor. Therefore, these principles for revenue funding also apply to capital funding.

## The Geography of Devolution

Few local authority boundaries relate to the areas within which people search for homes and work. Local powers must be exercised in a way that takes account of the interdependency of communities through regional planning. This has been part of the Scottish practice even when the regional councils were abolished. This contrasts with the situation in England, outside Greater London. The recent creation of combined authorities and joint statutory strategic plans are a major step in addressing this problem. In the truly rural areas of England the unitary counties provide an equivalent strategic capacity (e.g. Cornwall and Cumbria). This thinking needs to be extended across England to establish a systematic and secure approach to dealing with local sub-regional issues, for example in both the labour market and in meeting demand in full across housing market areas.

In addition, it is now generally accepted that there are also matters where there is an interdependence across a larger area than any individual metropolitan area, that need a trans-regional perspective, agenda and capacity to act collaboratively, and for which there needs to be a shared spatial framework. These relate to:

- The hubs and drivers of trans-regional economies (e.g. national centres of excellence)
- Trans-regional infrastructure powers & strategies (e.g. Transport for the North and TfL)
- Trans-regional environmental frameworks (e.g. climate mitigation afforestation)
- Resource Management (e.g. regional allocations of UK Renewal Fund and Green Book procedures)

A research paper prepared for the UK2070 Commission by the University of Sheffield highlighted the fragmented geography that is used by a range of strategic statutory bodies (see **Table 3**). A more detailed analysis for the East Midlands region has also been submitted to the UK2070 Commission.<sup>xviii</sup> Together these demonstrate that a more coherent approach is needed. The specific regional arrangements must be tailored to the specific context of each trans-regional forum. Additionally, the Centre for Urban and Regional Development Studies (CURDS) has also submitted evidence on decentralisation in England. It specifically considers the potential implications of trans-regional ‘provinces’ in the context of national and international experience in Europe and assessing their appropriateness as governance arrangements. This provides a critical review of the issues that would need to be taken into account in taking forward any regional proposals in England.

<b>Table 3:</b> Statutory Body	No. of Regions
Central Government	9
NHS	14
Police Forces	39
Statistical (NUTS)	33
Ceremonial Counties	48

Any devolution package should also be linked to a change in relationship to Whitehall on the lines set out in the Heseltine Report including parliamentary committees and a Minister for each trans-regional area, who inter alia provides cabinet presence and ministerial endorsement of a sub-national spatial strategy or report prepared on behalf of the constituent bodies. It is important that this does not result in a ‘*decentralised centralisation*’. If there is to be a partnership between levels of government this will need to be reflected in arrangements (e.g. joint chairs and reporting systems) and at its heart be based on genuine collaboration of equal partners.

The UK2070 Commission therefore proposes the following Principles for collaboration that should guide the choice of the most appropriate regional configuration in England. Whatever regional geography is created, it should be based on a collaboration between existing bodies and focussed on covering only strategic policy areas.

**The Principles for collaborative subnational regional arrangements in England.**

The following principles should be applied in developing regional arrangements comprehensively across England:

- The area, structure and organisation of any subnational organisation should be based on groupings of existing English local authorities and have boundaries to ensure simplicity, transparency and accountability.
- Any powers or responsibilities should be collectively exercised by the constituent authorities, and not create another tier of government.
- Places may belong to more than one kind of partnership related to the specific trans-regional issue being addressed, e.g. cross border.
- They should have ministerial portfolios, a cabinet level champion and report to a parliamentary committee.
- They must build on current strategic and sub-national planning initiatives.
- They must be of a sufficient scale that differentiates them from Combined Authorities and other strategic planning bodies - so that new regional arrangements create clarity over powers, responsibilities and expectations.
- They must have regard to existing strong sub-national institutions such as universities, local authorities and chambers of commerce.
- Any new engagement arrangements must include civil society in decision making.
- They must be designed with reference to local identity, culture, history and experience.
- They are not required to meet any specific population threshold.

The application of these principles will allow for a diversity of areas in size and scope. It is considered that it will be most practical to build on the emerging powerhouse arrangements for the Northern Powerhouse, Midlands Engine and the newly created Greater South-West Powerhouse. They are consistent with the thinking of the IPPR report on [Economic Justice](#) and the Independent Industrial strategy.

These emerging trans-regional areas in the North, Midlands and South West of England are of a scale that:

- Allows integration across the plethora of spatial units used by the statutory bodies (see Table above).
- Allows flexible geographical partnerships to be put together according to the specific issue e.g. transport or flood management.
- Is clearly differentiated from the major metropolitan joint planning areas.
- Justifies ministerial representation, thus enabling financial block allocations and the associated regional application of Green Book rules.
- Allows growing recognition on public debate e.g. 'powering up the north'

There are also some specific issues that will need to be addressed if they are taken forward. For example, there is a need for a strategic capacity for London and the Wider South East - it is therefore recommended that this is brought forward as matter of urgency to take account of:

- The special circumstances of London may argue for it to be treated separately, but this depends on arrangements for strategic planning going beyond a mere collaboration of the willing (as currently operates).

- The specific issues in the South West of England in terms of resolving a working relationship with Devon and Cornwall with the wider Greater South West Powerhouse partnership.
- The need for cross-border cooperation with North Wales comparable to that initiated with Cardiff and Newport in the south west, and the Borderlands in Scotland.

## Inclusive Devolution

Devolution of powers to local councils and statutory bodies is only part of the solution to reducing the highly centralised approach to decision-making. Power must also be shared locally to involve those who are critical to the delivery of local strategies and by those affected by them. The detachment and disenchantment of citizens from the political decisions applies to local as well as national politics. There is the risk that this will happen, especially with the new larger strategic planning arrangements that are proposed. There is therefore a need to balance strategic arrangements with mechanisms to allow participation in decision-making at all tiers – such as combined authorities and trans-regional bodies.

Research undertaken by UCL for the UK2070 Commission reinforces this. This research undertook in-depth qualitative work with a series of focus group sessions across the UK to take the ‘temperature’ of views from a diverse range of interest groups – ranging from homelessness partnerships, through local economic support networks, to green activists. Perspectives were sought on: priority concerns; barriers to action; aspirations for change; what action is sought and is already in hand; and the relevance of a more strategic approach to policy. The views received were those of people grounded in the day-to-day reality of local communities’ lived-experiences. The over-riding message was a fear that devolution would be ‘*done to them*’, as opposed to their desire to be ‘*at the table at every point*’, especially from the start.

Across these diverse focus group participants there was consistent feedback. There is an over-riding concern about a fragmented policy response to the economic insecurity that people are facing. The study highlighted that there is currently a lack of institutional capacity to take action locally not just in terms of finance, but also competences and resources. Despite the local focus of those involved there is a clear appreciation and a call for a more strategic response. Increased and improved local capacity for action on its own was not sufficient without a clearer and stronger strategic context. Indeed, the lack of a consistent strategy was undermining local efforts, and raised serious concerns about sustaining them over the long term. The strong caveat was this needed to be one that could engage sensitively with localities.

The study also underscored the vital role and enormous value of engaging civil society. The participants highlighted how, in order to achieve this, local involvement needs to go beyond consultation embedding participatory systems in the formal decisions processes from the outset, not just as an add on. This is going beyond a duty to cooperate, beyond promoting local action and ownership and an inclusive economy. It is ensuring that devolution itself is inclusive.

## Strategic Implications

**The implication of the UK2070 Commission’s proposals for a new balance of powers and responsibilities across the UK is that the UK Government should implement within the next full parliamentary cycle a new constitutional settlement to deliver a major devolution of powers and funding to local and combined authorities.**

## SECTION 7: Shaping the Future through National Spatial Plans

### The Proposal

Current policies have failed to meet the objectives agreed by all political parties – namely, ‘*a country that works for everyone*’. In addition, the UK is facing “tipping points” particularly from climate and technological changes. This future is not inevitable but can be shaped by national spatial frameworks.

Unlike the rest of the UK, there is no spatial plan for England. Such a plan is needed to promote the UK’s global role, to tackle inequalities and to link up sub-national spatial frameworks. A spatial framework for England would set out explicit long-term funded priorities, and integrate multi-agency urban and rural programmes of action to meet future development needs sustainably.

### Context

The UK’s future as a global economic powerhouse is for the whole to be greater than the sum of the parts. That means national spatial planning, not a fragmented mosaic of poor connections and disconnected communities. The UK has the potential as a global mega-region building on London’s status as one of the highest-ranked global cities, with an urbanised agglomeration of nearly 70 million people it is comparable to Boston-Washington and the Shanghai mega-regions. This is currently undermined by the decoupling of the economies of the UK, as set out in the First Report based on the work of Professor Philip McCann, whilst in addition the UK is at “tipping points”, particularly from climate change and the digital revolution. The future is uncertain but not inevitable. It will be shaped by the decisions we take about where, when and how government marshals our resources and directs investment.

Currently, the future of the UK is being shaped by the incremental, short term and ad hoc nature of government policy. Policy approaches are sectoral in nature, and operate within different time frames. This can make them fragmented and insensitive to the implications for other policy sectors. This often sub-optimises the scope for effective action and, in some cases, places policies in conflict with each other. For example, areas being promoted for growth overlap with those more susceptible to water shortages or extreme flooding.

As the UK2070 Commission’s First Report concluded, there is a need to replace this approach with a spatial framework that:

- Sets out explicit and long-term national priorities for development that are linked to budgets.
- Holds together the wide-ranging and multi-agency programmes of action.

There are national spatial frameworks for Scotland, Wales and Northern Ireland. However, there is no Spatial Plan for England; the current National Planning Policy Framework (NPPF) does not set out a vision for the future of England.

### Proposal 6: A National Spatial Plan for England

A National Spatial Plan for England is required as a matter of urgency:

- Prepared by a reconstituted National Planning and infrastructure Commission (NPIC)
- Then, endorsed by Parliament and independently audited in an annual State of the Nation Report
- Coordinated with the devolved administrations of the UK through a UK Spatial Framework.



Although England does not have such a framework the decisions of Whitehall, whether through taxation regimes or spending programmes, have a critical effect on the pattern of development between English regions and with the devolved nations. England therefore has a *de facto* but unstated set of national spatial policies expressed in the cumulative spatial impact of the decisions that are taken. For example, the emphasis upon ensuring that investment in the London transport system, and connections to it, reflect the understandable need to maintain London as a global centre for financial and other services.

These de facto national spatial policies are not articulated and nor is there any forum in which they can be debated or influenced, except through fragmented governance arrangements by which the nation is managed. This is reflected, for example, in the [recent statement](#) by the Institute of Directors in April this year:

*“Most businesses still find it hard to see how the industrial strategy; Local Enterprise Partnerships (LEPs); and other key devolutionary initiatives, such as the Northern Powerhouse and the Midlands Engine, all fit together.*

This situation is not only undesirable in principle but it also fails to meet the stated objectives of all political parties – namely ‘a country that works for everyone’. Those affected by change often feel excluded from having a voice in decisions.

There is therefore a need to make the national spatial decisions and plans for the country explicit within a spatial framework that is sensitive to and cognisant of their impacts on communities at all levels and for all places, and which has been debated and agreed.

This need is not met by the National Planning Policy Framework (NPPF) for England. However desirable it is in its own right, the NPPF has no spatiality. It offers no vision for the future of the country. It is essentially a framework for planning practice, setting out policies to be applied consistently in England in the preparation of local plans and in the determination of planning applications. In fact, it arguably has unintended policy consequences by in effect reinforcing past trends. For example, the population forecasts to be used in local planning build a hidden assumption about a continued shift from the north to the south of England.

The UK2070 Commission’s proposal for a National Spatial Plan for England has received general support. It is considered that this would:

- Set out clear development priorities and not merely a set of reactive control criteria.
- Engage implementation ‘partners’ as integral to plan making from the outset, and not treated as mere consultees or annexed to the plan.
- Be linked to public sector expenditure programmes for the delivery of a common vision.



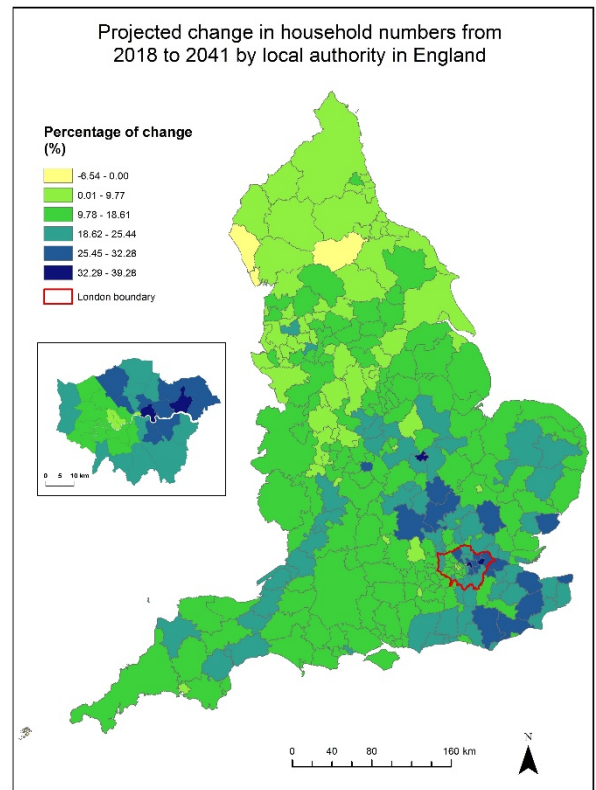
In order, therefore, to take this proposal forward, this report sets out proposals for:

- The scope and content of a National Spatial Plan for England;
- Its relationship to the spatial plans being prepared for the regions, combined authorities, city regions and local authorities;
- The coordination with the spatial planning in the devolved administrations of Scotland, Wales and Northern Ireland; and
- How it is prepared, its status and how it is maintained.

## Scope & Content

The **scope** of a national spatial framework should be limited to those matters which can only be or are best defined at a national level. From international experience these include:

- Setting out a consistent basis for sectoral programmes of investment, for example, scales of economic and demographic change.
- Identifying priorities which are critical to the restructuring of the nation and the opening up of opportunities of national significance for example, new towns, community regeneration, industrial sectors or conservation priorities.
- Requiring cross-boundary action where it is in the national interest, for example in terms of metropolitan regions and along key trans-regional development corridors, as well cross-boundary collaboration with the nations of the UK and internationally with the Republic of Ireland and France/Belgium.



The **content** of a national spatial framework would vary from time to time but in general it could typically include:

- *Climate Change* - Priority actions to respond to the climate change emergency including a renewable energy framework;
- *Competitiveness* - A new urban policy to support the global role of London as a trading centre, and the major towns and cities in delivering Industry 4.0;
- *Quality of Life and Places* - Priorities for raising the standards of services, environmental and accessibility for communities at risk including 'overlooked or excluded places' and remoter communities;
- *Land Use and Environmental Management* - To support the vital national ecosystems and indicative priorities for agricultural and forestry, national heritage assets and nature recovery;
- *Infrastructure* - An integrated infrastructure strategy to serve all cities, towns and regions, including transport, energy and the national Green-Blue networks.

## Relationship to Sub-national Planning

The national spatial plans in Scotland, Wales and Northern Ireland provide a strategic context for local decisions. In England the problems created by the lack of clear national plan are compounded by the absence of strategic plans, with the notable exception of the London Plan. As highlighted in the devolution proposals there is therefore a lack of policies for tackling strategic issues. The link between a national spatial plan and sub-national planning will be key to ensuring that it is not exclusively top-down imposition, but one that builds on and has a

level of ownership by local communities. Recent changes are starting to fill this gap at a sub-regional scale for the metropolitan and combined authority areas, but not elsewhere.

There still remains '*the regional question*' raised in the UK2070 Commission's First Report – namely, how to deal with the issues which require a collective trans-regional policy response e.g. for transport and environmental assets. The report recognised that government's trans-regional initiatives for the North, Midlands and the Cambridge-Milton Keynes-Oxford corridor had started to address this question. Since the First Report was published there have been three initiatives for developing trans-regional visions for England which the Commission will take account of in its Final Report.

Firstly, the Great Western Powerhouse has been launched. This is particularly significant since it was established by local authorities. It offers an alternative locally-owned model of trans-regional cooperation that is also not constrained by the national boundary of Wales (**see map**).

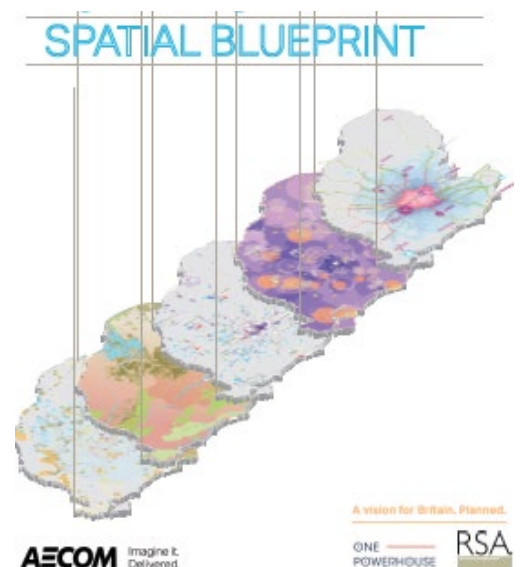


Secondly, the Royal Town Planning Institute published '[Ambitions for the North](#)', as a basis for developing a Great North Plan. This sets out the scope of Spatial Framework – which covers the period to 2050 – identifies what needs to be done to overcome the barriers in delivering a better future for the people and places of the North.

Thirdly, the One Powerhouse Consortium has published four '[Spatial Blueprints](#)' which provide a systematic analysis across the whole of England based around five key themes - Economy & Prosperity & Innovation, People and Placemaking, Transport and Connectivity, Infrastructure and Energy & Resilience. They are based on identifying the core shared assets of each region.



In addition, there is a well-established basis for local joint strategic planning, most notably in Scotland with the work of the Glasgow and Clyde Valley Strategic Plan for the metropolitan area of Glasgow. There is also set of key strategic plans emerging through the work of the Combined Authorities (e.g. Greater Manchester and Greater Cambridge and Peterborough) or joint statutory plans (e.g. Oxfordshire)



## Aligning the Nations

There is a complementary need for a common understanding of UK-wide spatial priorities (e.g. in relation to energy infrastructure) and matters requiring cross-border collaboration in the United Kingdom (e.g. the Borderlands Partnership between authorities in the North of England and the South of Scotland, and between England and North and South Wales). It is proposed that this alignment of the nations could be through a UK Spatial Framework agreed between the administrations of the UK. The British Irish Council already has a Working Group on Collaborative Spatial Planning that facilitates discussion on matters of common interest across the UK and Ireland.



## Organisational Implications

There are a range of options in terms of the status of the plan, who commissions it, and how it is maintained.

### Status

A key objective of the National Spatial Plan is to provide a context within which local action can be taken with confidence. Confidence that local decisions fit into the wider national agenda and confidence that they will not be undermined by countervailing policies by central government or other areas. It is also important that there is a requirement for subnational plans to have regard to the policies and priorities with the national plan.

In Scotland, recent legislation has made the National Planning Framework (NPF) part of the statutory development plan. There is however a strong case for any plan for England for any national spatial framework or plan for England to be a non-statutory expression of national policy proposed by the government of the day and endorsed by Parliament.

### Commissioning Body

The national plan for England must not be seen as a departmental document. Its very nature is crosscutting and integrated. This could be achieved by being the responsibility of a new cabinet committee, (or example made up of cabinet members with portfolios for the English trans-regional areas in their portfolios).

It is also important that it is prepared on a joint-departmental basis serviced with an independent and permanently established technical capacity. There are various options for who should be responsible for preparing the plan, set out in the First Report, drawn from experience elsewhere. However, it is considered the specific context of England – its size and local government structure – are unique and require its own model.

This question has been raised in the Raynsford Review of Planning that suggested that the task be undertaken by the National Infrastructure Commission (NIC) because of the potential relationship to the existing role of the NIC. In addition, the NIC is currently constrained in that it has been given a task of defining national infrastructure priorities without an agreed development context (i.e. a National Spatial Plan). It would however be inappropriate to merely add a further task to the Commission as currently constituted – the duties would shift from an advisory role to one with responsibility for policy. It is also important to clarify that the role of any such body is separate from the regulatory land use planning system that would remain the responsibility of the Ministry of Housing, Communities, and Local Government. It is therefore proposed that the NIC's role should be formally changed to the *National Infrastructure and Spatial Planning Commission*. This body might also be able to be independently funded out of the 'national infrastructure levy' if it were to be established (as proposed in **Section 8** of this report).



## Monitoring and Review

An outdated plan is of no value. Circumstances change, proposals are implemented and new challenges emerge. More importantly any national plan must be owned by any incoming government. The systematic review of the plan is not only inevitable but also essential. This should be built into any system and could be linked to the five-year fixed term of governments.

A central challenge to the monitoring as well as the preparation of a national spatial framework is that data and analysis used for policy is currently generally place-blind (aspatial). As a result, national policies and programmes have a general and generic form and as a result can be insensitive to the spatial variations in their impacts– as Andrew Haldane put it ‘*by lifting all boats across the whole of the UK*’ they are insensitive to their differential impacts.

The need for credibility is particularly important today, in a world of alternative truths, big data and social media. Confidence in public policy is being shaken to its foundations. The National Spatial Plan provides a real opportunity underpinned by sound place-based and place-sensitive evidence, but currently such a resource does not exist. New mechanisms that are more systematic are required to secure national policy, based on reasoned justification and not asserted propositions.

It is important that those who make the decisions should not be judge and jury on the quality of their evidence-base. This would be to provide an understanding of the present and possible future states of the nation with the following objective:

*.... to generate debate, information and options concerning spatial futures to inform national and sub-national policy-making, and to use the information gathered to press for cross-sectoral action to achieve better and fairer spatial outcomes*

There is a range of models for providing this building on existing capacities, through:

- Parliamentary scrutiny;
- Statutory Bodies (e.g. UK Statistics Authority, ONS & OBR)
- A co-production activity by research institutes through the ESRC
- Independent Bodies, including private foundations (e.g. IFS, IfG, & JRF)

The choice between these depends upon striking a balance between the independence with impact that the scrutinising body will bring to the table. This could be best achieved by building on the status and credibility of the statutory bodies to create a National Observatory. The UK2070 Commission will therefore carry out further consultation on the most appropriate means for delivering this capacity.

## Strategic Implications

**The implications of the UK2070 Commission’s proposals to create clear plans for the future of Nations and Regions are that:**

- **The UK Government and devolved administrations should establish a coordinated programme for the preparation and review of the constituent national spatial plans for England, Northern Ireland, Scotland and Wales, linked to expenditure programmes: and**
- **In England, integrated regional and local spatial development frameworks should be put in place.**

## SECTION 8: Levelling the Playing Field for Accessing Funds

### The Proposals

#### *Funding Sources*

Public and private funding regimes in the UK reinforce inequalities, for example, by being based on past rates of development, land values or short-term returns. This is compounded by a 1.2% 'cap' on major infrastructure public spending, which is much lower than our international competitors. Private financing, especially in terms of venture capital, and the benefits in the uplift in land values, associated with development, are also more limited outside London. These problems would be worsened with the loss of key EU sources.

It is therefore timely to seek a more strategic approach. The UK2070 Commission has already proposed a UK Renewal Fund to support local renewal programmes. This proposal has received wide support. This Fund needs to be set within a wider new funding framework from public and private sources.

#### *Access to Funding*

A fresh approach is also needed to the evaluation of project funding by government, whilst maintaining fiscal discipline and transparency. Current procedures should be updated to enable and not inhibit proposals and policies where they have a clear 'strategic fit' with national spatial priorities, for example, the need to open up new market areas, or to reduce welfare costs, or to promote wellbeing, or are critical in yielding longer-term returns and resilience.

### Context

Public and private funding regimes reinforce the pattern of inequalities across the UK. As highlighted by the First Report this arises from two inter-related issues.

Firstly, the UK is simply investing far too little and as a result, renewal and regeneration programmes cannot deliver the aggregate scale of investment to transform and rebalance the economy. This situation would be worsened by the loss of EU funding explicitly geared to strengthening economic and social cohesion.

Secondly, because there is no clear national spatial strategy, there is no consistent basis for maximising, never mind ensuring, their strategic fit with the longer-term strategic needs of the UK. As a result, investment is determined based on ad hoc criteria and short-term fiscal returns, often based on past trends, and, it has been suggested, at the expense of investing in science, health and regeneration.

### Proposal 7a: Funding Sources to Rebalance the Economy

In addition to the £250bn UK Renewal Fund:

- The 'cap' on public sector funding of major infrastructure should be lifted to 3% of annual GDP (c. an additional £40bn per annum).
- A regional investment bank structure should be put in place.
- A more strategic approach to the sharing of the uplift in Land Values from new development should be introduced.

### Proposal 7b: A review of Funding Procedures

Current accounting, Green Book and other assessment processes should be adapted to include:

- A new criterion of 'strategic fit' in terms of implementing approved national or regional spatial plans.
- Guidelines that allow decisions to reflect regional variations, for example, in assessing the return on capital.
- New metrics should reflect well-being, environmental and other criteria that support the rebalancing of the economy.

The UK2070 Commission's First Report therefore proposed a *UK Renewal Fund* with a 25-year horizon which should be based on a minimum additional £10 billion per annum allocation which would be:

- Linked to national and subnational spatial strategies;
- Supported by local priorities for renewing places and communities
- Administered through enhanced devolved strategic institutions;
- Supported by a new National Infrastructure Bank to replace the European Investment Bank, and
- Subject to regular reporting based on a wide range of measures of well-being.

This approach is considered consistent with the call from the Chair of the National Infrastructure Commission, in July this year, for a long-term strategic plan with firm funding commitment, at least to 2050. The responses to the UK2070 First Report have not only been very supportive but have also highlighted the need for a wider framework for access to funding from both public and private resources.

This proposal goes well beyond the current UK Shared Prosperity Fund (SPF) in terms of scale and scope. It however builds on the same principles in the SPF, namely, being a single-pot, multi-year funding and devolved to local areas. It must also be flexible enough to enable cities and other competent local bodies to promote programmes offering sustainable, long-term solutions to the challenges facing communities. This requires it to not just be equivalent to existing funds received from the EU and other relevant domestic funds prior to Brexit but to be on a significantly higher scale.

Therefore, this Second Report proposes a range of interventions that would to fill this gap in policy by:

- Lifting the 'cap' on capital investment.
- Better local access to funding.
- Sharing the uplift in wealth arising from investments more equitably.
- Adopting wider criteria for projects selection and evaluation processes.

## Lifting the Cap on Capital Investment

The level of capital investment in infrastructure in the UK has fallen since 1980. The current National Infrastructure Assessment proposals are constrained to a 'cap' of 1.2% GDP on major infrastructure spending. This is 25% lower than in the 1980s and much lower than our international competitors, for example 2.5% in the EU. As noted in the UK Industrial Strategy total venture capital investment in UK businesses would be £4bn more per year, if the UK had the same level of investment as the US. There have been various estimates of future infrastructure needs as a percentage of GDP. These have been 2% for the USA, and 3.5% for the EU including the UK. If we compare funding levels in the G7 countries (which are in some cases 30% higher) the level the UK infrastructure programme it would unlock a further £6 billion/year for infrastructure investment.

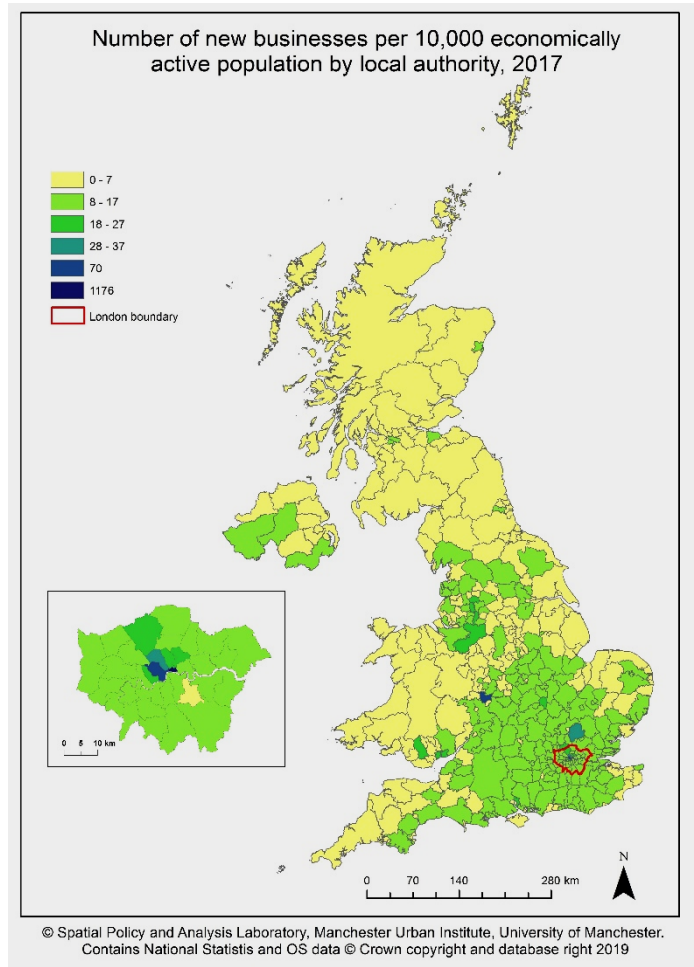
The 'cap' on levels of investment means in effect no new projects beyond ones that are already identified can be brought forward before 2030. This constrains necessary investment in long-term projects. In effect, the next decade of funding is already committed. This is of concern given the regional disparities in investment rates, with over 70% of investment in 2016 made in the South East of England.

Improved levels of funding are proposed as essential to building a fairer and stronger economy. It is therefore proposed that in addition to the £250bn *UK Renewal Fund*, the current spending 'cap' of 1.2% of GDP needs to be lifted to 3% to be comparable to other nations, unlocking an additional £40bn per annum, i.e. £1 trillion over a 25-year period.

## Better Local Access to Funding

There have been long-term changes in banking. As illustrated by Martin et al there has been a shift in lending activities away from industry. In 1950, some 65% of bank lending was to industry; by 2010 this had fallen to 15 %, accounting for only 18 percent of industry financing in the UK in 2010. This particularly affects small and medium-sized enterprises (SMEs) which are a key part of the advanced manufacturing sector as well as the local economy in economically weaker and peripheral localities and regions.

Access to investment funding for productivity, training, innovation and improvements is crucial to business development. However, in the past questions have been raised about how well the banking system is geared to supporting local business enterprises, especially for SMEs or areas such as the northern regions of England. For example, the RSA report (Martin et al) concluded that the centralised nature of the financial system in the UK has reinforced spatial imbalances. The Institution of Civil Engineers (ICE) report *The State of the Nation* also highlights the need to establish new vehicles to overcome blocks in the funding of infrastructure, including the establishment of a national investment bank.



As a result, firms, particularly SMEs, based outside London and the Wider South East have poorer access to credit or invariably have to borrow money on stricter terms. The 2016 report *'The Real Deal'* by [SPERI-CLES](#) concluded that the banking system adds to geographical imbalances within the UK economy. This was reinforced most recently by the analysis and recommendations in the June 2019 Report by IPPR, [Perspective on SMEs and Productivity in the Northern Powerhouse](#), which highlighted the fact that many SMEs have difficulties in gaining access to finance. As a result, it therefore considered that:

*“things may be harder for more mature businesses looking to scale up after several years of successful operation, and for firms whose growth ambitions are more modest – but still of potential value in growing GVA and creating jobs.”*

The report also draws attention to the considerable variation across the UK between rates of bank lending to SMEs and the fact that:

*“Both awareness and use of equity finance remains concentrated in London and the South East. In particular, access to money for relatively small-scale and ‘unshowy’, but crucial investment is a major problem for many SMEs. Potentially transformative investments in equipment, technology, skills, marketing and other areas may be outside the reach of many SMEs; even £5,000 or £10,000 is prohibitive for an owner who has already made a major commitment of personal funds.”*

Some banks are of scale to operate a regionally-based SME lending operation. For example, those involving devolved authorities to local centres, relationship managers and sector specialists, an innovative high-growth unit serving IP rich start-ups and scale ups, and overall targeting the small and mid-range of the SME market.

This situation contrasts with Germany which has a very strong SME sector, as noted in **Section 5** of this report. It also has a well-developed regional banking system. As highlighted in the SPERI-CLES report, German SMEs are clustered resilient supply chains that enable local banks to provide long term debt financing and national pooling of liabilities.

The bigger problem is access to risk capital rather than debt financing – i.e. through venture capital rather than bank lending. This disparity of supply does not mean that northern companies could not be better connected to southern venture capital funders, or that the venture capital funding power of London could not be replicated in the north.

In the UK there have been various initiatives to improve the situation over recent years but there is little change to the basic situation, as set out in the CLES report [The Real Deal](#). All studies recommended a comprehensive regional investment bank structure is needed to overcome difficulty, particularly for SMEs, of accessing risk capital financing. This could include building on the British Business Bank and the Northern Powerhouse Investment Fund and the experience of the Scottish Investment Bank. The Manchester based [GC Business Finance](#) Growth Company is also an example of local response to providing alternative funding especially targeted at the SME sector of the economy. The foundations are there but they need scaling up. The ICE has also confirmed the need recognised in the UK2070 Commission's First Report to consider establishing a UK Investment Bank in the event of the loss of access to low-cost anchor finance from the European Investment Bank and to maintain domestic expertise in infrastructure investment.

It is also desirable that there could be more coordination between risk capital and debt lenders across the wider geography as in done in the major cities, and between innovation/H.E. Enterprise and the financial services sector. Funding of the regional banks could be commensurate with the size of the SME base and potential increased productivity. In addition, the proposed UK Renewal Fund could be channelled regionally, targeted at the people and places renewal agenda emerging from local collaborative strategies. The UK2070 Commission therefore considers that the Government should support the establishment of a network of regional banks.

## Sharing the Uplift in Land and Property Values

It is accepted by all parties that as the value of the land depends on both the use permitted and the infrastructure to support it, a key source of infrastructure funding should come from the uplift in value created by that investment. As the work of [Lichfields](#) has demonstrated There are however enormous regional variations in average land values, for example, ranging from £19m per hectare in London to £1.4m per hectare in the North West of England.<sup>xix</sup> The current regime of land value capture inherently reinforces the inequalities in access to funding that inhibit funding of new infrastructure and renewal in the places that need it most. This is well illustrated by the map of the net benefit from the uplift in land values from development mapped by Bidwells.

As concluded in the [report](#) by Lichfields:

*“The upshot of this is that a residential development in one part of England could generate a substantially higher benefit-to-cost ratio than the same scheme in another location, potentially giving (it) an advantage in accessing public sector funds.”*

The UK2070 Commission's First Report highlighted the relationship of the uplift in land values and its impact on the spatial inequalities in the UK both in terms of their cause and its

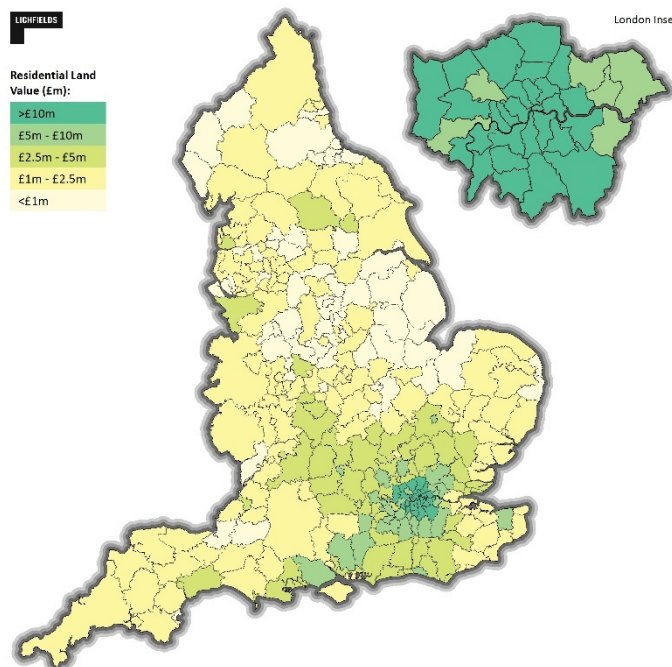


solutions not only in terms of the patterns of property wealth (reinforcing the patterns of income inequality) but also its impact on levels of entrepreneurship (in access to collateral for start-ups and impact on business rates). This calls for a system to allow transfer of land value uplift levies which is not constrained, as is the case currently. This is reflected in the conclusion of the MHCLG Committee report on [Land Value Capture](#), which stated that:

*“If the Community Infrastructure Levy (CIL) is to become an effective mechanism for capturing development value for the provision of local infrastructure, it requires considerable reform”*

The current system works in areas where there is a significant uplift in value. Even here there are concerns that the system is too complex and confrontational and does not yield the fairest sharing of values.

Elsewhere, where there are limited current land values, there is a need for a more ambitious approach as set out recently in the advice to the Scottish Government by [The Scottish Land Commission](#) - in which the public sector shares the risks and rewards of development more equitably with landowners and the development industry. This requires *“a more proactive involvement by the public sector should enable additional value to be created that would not otherwise exist.”*



This report argues for a sharing land value uplift through a range of mechanisms including a plan-led approach for example, through New Town type powers or based on Masterplan Consent Areas (MCAs). The new towns model could work in England with all landowners sharing, with public expenditure pump-priming, and the uplift of values which gets recouped. Others have raised the question of whether the South East should be subject to an agglomeration tax (Collier, 2018)<sup>xx</sup> or of linkage to the emerging strategic plans for Combined Authorities or on a corridor basis particularly where related to a major transit investment.

The UK2070 Commission has therefore held discussions on the scope for a more equitable basis for sharing the uplift in values of land and property. A report prepared for the UK2070 Commission by Dr. Nicholas Falk, considers what would be considered fair and equitable in terms of pooling land, value uplift and sharing the longer-term strategic returns based on who benefits and who pays, and how the risks can be minimised.

The most notable example of this type of thinking being applied is in the funding of Crossrail, where a strategic approach to the use of CIL provided £600m towards the cost of the project, and with 60% provided by Londoners and London businesses.<sup>xxi</sup> It is [proposed](#) that CIL will make an even more significant contribution to the costs of the proposed Crossrail 2 project. It is possible to envisage such principles being used in tiered funding on a national basis. As an illustration of such a regional approach, it has been suggested that the uplift of land values in and around Cambridge help fund the renewal of the rail link to Wisbech in Fenland, one of the most deprived areas in southern England.

Internationally, other countries are more successful in capturing the uplift in land value for public purposes, but their land and legal systems make it difficult to translate their systems in UK practice. There are however three principles that can be applied in the UK:

- That the UK needs to capture a higher proportion of the uplift in values than is currently achieved.
- That the taxation of the uplift in values needs to be more directly linked to the delivery of infrastructure that helps to create it. For example, under the current systems of taxing development values (e.g. Stamp Duty Land Tax) the money is not hypothecated.
- That the system could be simpler, more transparent and strategic by being plan-led as was historically the case with the development of New Towns.

A fresh approach is required to address the uneven distribution of resources around the country, and the long record of underinvestment in some areas. Such an approach should:

- Enable more proactive public interest-led development programmes in areas where property markets and value need to be created to help rebalance the UK's economy.
- Enable a redistribution of a proportion of the receipts from a charge on land values to regional investment on a national or regional basis - a strategic or national infrastructure tariff.
- Reflect the relative potential for private financing contributions of necessary infrastructure in the allocation of public funding – namely that a form of gap-funding weighting is applied.

The advice that the UK2070 Commission has received set out a range of issues that need to be considered before it finalises any recommendations to Government. These relate to local competencies and capacities in developing a proactive regime and the need to be sensitive to the market impacts on the viability and confidence of private sector investment. These proposals therefore require to be developed further to confirm how efficient and effective they are, and to ensure that they maintain and where possible increase the incentive for landowners and developers to bring forward development proposals. The UK2070 Commission will therefore be undertaking further work and consultation on this and will welcome evidence, comments and suggestions on these proposals.

## **Project Selection and Evaluation**

The First Report of the UK2070 Commission highlighted the problems associated with current approaches to project evaluation, including the Treasury Green Book. Whilst it is important to have a disciplined and consistent approach to funding, the current system has some endemic problems. These have been highlighted in the MetroDynamics-Peel submission to the Commission and the fact that the Green Book provides little guidance on the spatial dimension of investment. As a result, the pattern of investment has been skewed towards already successful areas such as the South and South-East of England.

The Green Book rules also underplay the wider benefits of infrastructure investment in areas of need. This arises not only because of the aspatial nature of the measures used (e.g. local strategic fit) but also because econometric measures alone (e.g. GVA per head) fail to measure the wider impacts - for example the impacts on levels of enterprise or the benefits bill. New metrics are required for example on living standards, wealth, health and wellbeing at neighbourhood, local and city-region level; and relationship to areas of greatest need. Such changes are within the scope of established bodies to address.

Recent updates to the Green Book are not considered to have changed the underlying incentives and pattern of prioritisation granted to infrastructure investment. These issues could be met, inter alia, by:

- Linking projects to strategies with a new criterion of 'strategic fit' that any individual project has in implementing the approved national and regional spatial plan.
- Region based criteria to reflect that the detailed return on capital will vary according to regional economic context.
- Building into the criteria the extent to which projects meet the overarching policy goal to rebalance the economy.

A fresh approach to the evaluation of government funding regimes is needed, whilst maintaining fiscal discipline and transparency. The proposals below would enhance the evidence base for policies nationally, and support proposals which open up new market areas, reduce welfare costs, promote wellbeing or are critical longer-term investments with limited short-term returns.

## **Strategic Implications**

**The implications of the UK2070 Commission's proposals to a new fiscal regime, as well creating a UK Renewal fund to support rebalancing, are that the UK Government should revise its current fiscal policies to substantially increase infrastructure investment to review its appraisal mechanisms and set targets for rebalancing the UK.**

## SECTION 9: Next Steps

The Priorities for Action set out in this report support and promote:

- **Uniting Powers and Responsibilities** through decentralisation and devolution of political powers to create the leadership and capacity to make effective and efficient decisions through a new constitutional settlement.
- **Complementary longer-term programmes of action** brought forward through linked national and sub-national frameworks.
- **A Fresh Contract between state and local partners** to move away from the current ad hoc, short term or bidding-based approaches.
- **A Balance of Voices** through new processes of civic engagement to provide a fresh approach to participatory democratic processes.
- **Common metrics of change** to equip decision makers with spatially-based evidence for policy by removing the current fragmented, short term and place-blind approach.

### **The UK2070 Horizon is deliberately long-term but the actions proposed need to take immediate effect.**

We need to break free of the policy inertia which ossifies past failed policy mantras. The problems of spatial inequalities facing the UK have built up over half a century. It will take a generation of sustained action to reverse them. Horizons, expectations and scales of action need to be lifted. The current state of affairs is not inevitable. This report sets out a new narrative for a **Fairer and Stronger United Kingdom**.



## Your contributions

The UK2070 Commission seeks views on this report by 1st November 2019 if possible, although responses after that date will be still welcome. These will feed into the drafting of the final report which will be published in early 2020.

All comments, ideas and submissions should be:

Emailed to:

*uk2070@sheffield.ac.uk*

Posted to:

*The UK2070 Commission, c/o Department of Urban Studies and Planning, The University of Sheffield, S10 2TN, United Kingdom*

## **APPENDICES**



## Acknowledgements

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## APPENDIX A: The Myths that Inhibit Action

Doubts have been raised about the capacity of the UK to change despite the political rhetoric. This has been the past experience because of a reluctance to cede power and the polarised nature of debate, typically about the regional north-south divide. The reality is that, as the First Report demonstrated, no one is gaining by the current levels of inequality in the UK; all pay a high cost in terms of living standards and quality of life. Wealth is being accumulated in the main by small sector of society. It is critical therefore that we face up to the political inertia and vested interest in the current arrangements, reflected in Lord Heseltine's speech to the UK2070 Symposium in June 2019.

As the First Report demonstrated change is possible but we need to change the current climate of confrontational debate. It frustrates consensus building - what Professor Philip McCann has characterised as the *Geography of Discontent*. Doubts that change is possible also arise from a range of false narratives, myths that therefore need to be exposed as such.

*Myth 1: Policies merely result in the 'jam being spread even more thinly'*

The Reality: This has only been true because programmes of action have been underfunded (e.g. funding of infrastructure is less than half the levels in comparable economies like France and Germany and the US. In addition, the scale of money has been cut over a sustained period (e.g. the FE training budgets the funding of LEPs is significantly less than the former RDAs)

*Myth 2: London is the motor or engine for the whole of the UK from which growth benefits will cascade outwards to the rest of the country*

The Reality: London is a vital and increasingly important part of the UK economy. It produces over 20% of the UK's economy. However, there has been limited spill over in terms of economic growth to the rest of the country and London's economy is becoming increasingly 'decoupled' from the rest of the country. London's main contribution is to the government's tax revenues needed to fund the costs of inequalities in terms of, for example, welfare benefits and NHS costs.

*Myth 3: London as a dark star which sucks in people and growth from the rest of the nation*

The Reality: The decoupling of the London economy also means that its growth has been despite what has been happening in the rest of the country not because of it. Indeed, the London labour market is becoming increasingly 'inaccessible' because of housing costs. Skilled labour is increasingly being sourced through international migration. Similarly, the markets that London has underpinned the London economy are global and the alternative locations for these businesses are New York, Frankfurt and Singapore and not the UK.

*Myth 4: That there is a trade-off between the promotion of the Core Cities and the future of towns and rural areas*

The Reality: For the most part the old industrial areas are at the core of the problem, whether towns, cities, coastal towns or regions. With the exception of the major cities only a small number of places appear to have broken free from their industrial history. However, this raises two important issues. Firstly, cities themselves are affected by the conditions of the urban networks that they serve, whilst the quality of life of the towns which are served by these metropolitan centres and benefit from the growth and higher order services they provide. This interdependence needs to be recognised in framing of policies which is undermined by creating a false dichotomy between cities, towns and other communities.

*Myth 5: Devolution will only result in localised delivery of central decisions*

The Reality: This fear is driven by the current pattern of devolution – its limited scope and eligibility, the transfer of responsibilities without control of resources, and the deal-based funding. Governance reforms lie at the heart of delivering change. An alternative model for devolution is therefore imperative.

*Myth 6: Devolution will only result in governance fragmentation leading to opposing incentives and goals and national governance problems*

The Reality: This is not inevitable and in fact does not occur in nations which have a far more decentralised (e.g. France) or federal structure (Germany). The key to this is having a workable equalisation and stabilisation formula. It is also essential for all parties have a clear national planning spatial framework of shared goals and priorities.

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<sup>ii</sup> This is drawn from the contribution by Professor Philip McCann at the UK2070 National Symposium in Leeds in June 2019.

<sup>iii</sup> Building a better society: Net environmental gain from housing and infrastructure developments as a driver for improved social wellbeing: Ian Bateman and Sara Zonneveld: September 2019: UK2070 Website:

<http://uk2070.org.uk/publications/>

<sup>iv</sup> ICE Report: State of the nation: September 2019: <https://www.ice.org.uk/getattachment/news-and-insight/policy/state-of-the-nation-2018-infrastructure-investment/ICE-SoN-Investment-2018.pdf.aspx>

<sup>v v</sup> The strategic freight network and a programme of metropolitan rail schemes can be added, and together this points to the need for commitment to a long-term investment programme as the basis of a zero/very low carbon national transport network that will help address spatial inequalities.

<sup>vi</sup> Such measures include the [GPCI Index](#), [The Mori-M-Foundation](#), [The Schrodgers Global Cities 30 index](#), [A.T. Kearney's eighth Global Cities report](#).

<sup>vii</sup> <https://about.beauhurst.com/blog/silicon-roundabout/>

<sup>viii</sup> <https://www.bidwells.co.uk/faqs/what-is-the-golden-triangle-in-the-uk/>

<sup>ix</sup> [https://www.london.gov.uk/sites/default/files/ad\\_42\\_tcp\\_2018\\_10\\_october\\_extract.pdf](https://www.london.gov.uk/sites/default/files/ad_42_tcp_2018_10_october_extract.pdf)

<sup>x</sup> <https://www.aecom.com/london-2065/>

<sup>xi</sup> The MIT of the North? Building an innovation-driven economy : Tom Venable (to be published September 2019)

<sup>xii</sup> See Joe Earle, op cit.

<sup>xiii</sup> At the time of writing the assembly in Northern Ireland is suspended

<sup>xiv</sup> Phil Graham: speech to UK Infrastructure Show: April 2019

<sup>xv</sup> Please refer to [www.uk2070.org.uk/publications](http://www.uk2070.org.uk/publications)

<sup>xvi</sup> See for example, Local Government Association (undated), "Perceptions: The fact and fiction of trust and satisfaction." Accessed from <https://www.local.gov.uk/our-support/guidance-and-resources/comms-hub-communications-support/futurecomms-building-local-2> September 2019

<sup>xvii</sup> IFS Report: Taking control: which taxes could be devolved to English local government? Neil Amin-Smith, Tom Harris and David Phillips: March 2019: ISBN 978-1-912805-17-4

<sup>xviii</sup> This will be made available on the UK2070 website

<sup>xix</sup> Figures taken from Lichfield Report <https://lichfields.uk/blog/2018/january/23/are-you-uplifted-land-value-uplift-and-economic-appraisal/>

<sup>xx</sup> Collier, P (2018) *The Future of Capitalism: Facing the New Anxieties*, London: Penguin Books

<sup>xxi</sup> £600m of which identified contributions of £300m from 'developer contributions' and a further £300m from a 'London Planning Charge' (subsequently to become the Mayor's Community Infrastructure Levy or MCIL)

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