How to improve regional productivity levers in England and Wales



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As winners of the 2024 Award for the Best Paper published in Regional Studies Policy Debates, Helen Tilley, Jack Newman, Charlotte Hoole, Andrew Connell, and Ananya Mukherjee discuss the winning paper. They argue that UK regions lack the policy levers they need to improve productivity by exploring the link between devolution and productivity.

Much has been written about the UK's productivity puzzle. If the UK is to achieve

the twin aims of increasing productivity and decreasing inequality, it must address two central problems of place: first, how to tackle inequality *between* regions, especially in terms of the stark regional disparities in productivity; second, how to ensure that devolved institutions have the capacity to improve productivity and inclusivity *within* regions. in recent years, the government has sought to unite these two issues in the 'levelling up' agenda, but with little progress to date on the twelve levelling up missions and with an expected change of government this year, there is clearly a lot of work to do.

To tackle place-based inequalities, the next government must look to the current levers and drivers of productivity and inclusivity. These are particularly important at the scale of the city region, a newly emerging tier of governance in the UK.

In our paper, we contribute to the discussion by considering whether UK regions have the policy levers they need to drive productivity and inclusivity. We compare three UK regions with different governance structures: Enterprise M3 LEP in South East England; the Cardiff Capital Region City Deal; and the North East Combined Authority.[1] We analyse policy levers across the three case studies in terms of their impact on four economic drivers of productivity: 1) investment and innovation; 2) transport infrastructure; 3) entrepreneurship and employment; and 4) skills. By taking this approach, we contribute to the ongoing discussion on the interrelationship between policy levers, regional governance and productivity outcomes.

Investment and innovation

Innovation is crucial to productivity, but it is currently marked by major regional disparities. Some EU and national investments have attempted to counter this imbalance, but regional levers are very limited. While regional institutions are well placed to work closely with businesses to attract major investments, this is currently undermined by a lack of effective local–centre communication, and limitations in local institutional capabilities. There have been various initiatives to improve links between civil servants and local officials, such as the 'Cities and Local Growth Unit' – a cross-Whitehall team led by DLUHC, but they exist in a context of mistrustful central–local relations.

We argue that there is a need for new fora through which communication can help leverage inward investment. One option would be to provide a more formal

role and increased funding to ‘interface institutions’ such as the Local Government Association and the County Councils Network. Another would be to establish well-funded place-based evaluation units, which would conduct economic research and policy evaluation within an area, comprising of both local and national representatives as well as a core research team. The new Local Policy Innovation Partnerships may support this as they are embedded in local areas and have the potential to offer the structure to bring evidence to develop solutions to local challenges.

Transport infrastructure

Transport infrastructure is currently the most important sector for place-based policy interventions, and this is reflected in the devolution of transport powers to regions and to devolved nations. Devolving more transport budgets is crucial, so that places can use transport investment as a productivity lever. However, our research finds that there is also a need for more cross-regional and inter-government working, which in turn depends on a move away from complex and competitive governance structures. The key to both is reforming the funding system. The obvious option is wholesale reform to create a stable and transparent funding formula based on local need.

Immediate changes to the existing system are also important, notably allowing local institutions more freedom to move funds from one project or sector to another and to combine budgets. The first steps have been taken with the ‘trailblazer deals’ and ‘Level 4 devolution deals’, but this roll-out needs to happen much more quickly, and this in turn is only possible if central government invests in building local capacity. With budgetary flexibility, the transport sector has major potential to impact productivity, as well as inclusivity and sustainability; to encourage active travel when supported by health budgets; with environmental budgets, tackle air pollution; and with business development budgets, encourage clustering.

Entrepreneurship and employment

In relation to entrepreneurship, we found a focus on larger firms at the expense of SMEs, and especially of start-ups, which are often absent from regional economic policy. Job creation, rather than business creation, is the priority for all three of the regional institutions we analysed, and a focus on the quantity rather

than the quality of jobs contributes to an emphasis on productivity over inclusivity. The existing balance between high- and low-productivity sectors means that there is considerable variability in the challenges faced, but there is also variability in the powers of regional institutions to intervene. Rebalancing these capabilities through adjusting communication channels, funding streams, devolved policy remits, and the institutional capacity to utilize them would provide the potential to achieve improved outcomes.

Skills

The ability to meet regional skills challenges is undermined by a lack of decision-making powers over education and training at the regional level, and by the difficulties of planning and predicting future skills demand. Devolving education and skills decisions to the regions and coordination amongst stakeholders would enable them to better respond to their local contexts. Because some of these powers have been devolved directly to schools and academy chains, it is also necessary to draw powers up so that they are able to strategically influence the local skills base. More generally, the powers of local governance institutions should not just come from existing processes that can be devolved, but also from local policy innovations where institutions are enabled to draw up or establish new powers to deliver productivity improvements.

Conclusion

Overall, we show that the UK's regional institutions are currently lacking the decision-making powers, budgetary capacity and institutional capabilities to make transformative policy interventions in the drivers of productivity. Positive steps are being taken but too slowly and not consistently across the country. Of course, outcomes also depend on the interaction of contextual factors, including past economic performance, economic geography and local political economy. And there is also the importance of agency, the creativity and strategy of individual leaders, though this is itself embedded in and influenced by the local governance structure. Ultimately, it is the structure of subnational governance that should be the key tool for intervening in regional productivity, and yet, in the UK, it is a major barrier to solving the productivity puzzle.

The full paper is published in *Regional Studies:* A place-based system? Regional policy levers and the UK's productivity challenge

The work was carried out as part of the LIPSIT project that aimed to identify institutional and organisational arrangements at the regional level that tend to lead to the ‘good’ management of policy trade-offs associated with increasing productivity.

[1] The latter will be replaced on 2nd May with the new North East Mayoral Combined Authority.

Watch as Phil Tomlinson, Editor of the Policy Debates section of Regional Studies presents the 2024 Award for the Best Paper published in the Regional Studies Policy Debates section to: By ***Helen Tilley****, Wales Centre for Public Policy, UK;* ***Jack Newman****, University of Bristol, UK;* ***Charlotte Hoole****, University of Birmingham, UK;* ***Andrew Connell****, Wales Centre for Public Policy, UK and* ***Ananya Mukherjee****, Cardiff University, UK, for their paper via* ***YouTube****:*