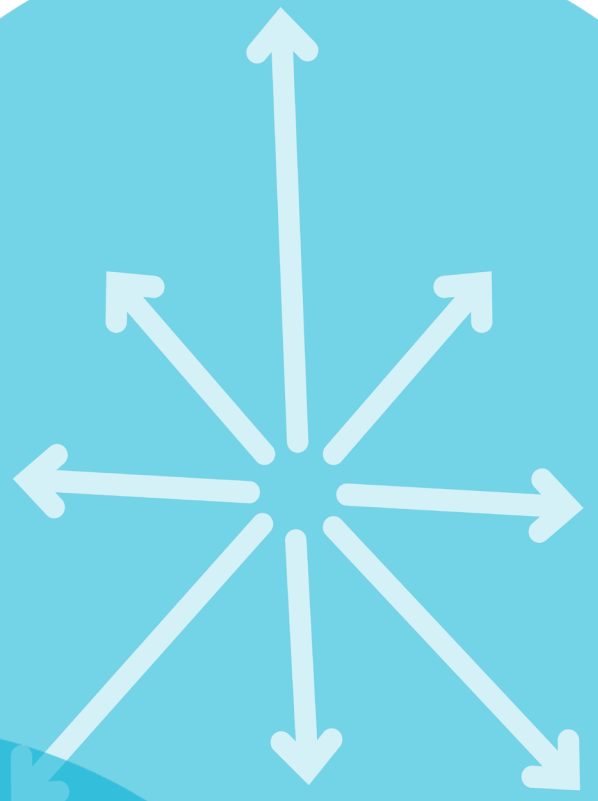


Devolve, redirect, democratise

The future of local economic development in the UK



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CLES
the national organisation
for local economies

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Centre for Local Economic Strategies (CLES)

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Introduction

Local economic development should lessen the worst excesses of wealth extraction. As a public policy process of intervention, it should serve to ensure that economic gains are delivering social benefits at scale and are working within environmentally sustainable limits.

Yet, at the latest count, 14 million people are now living in poverty in the UK – more than one in five of the population, including four million children and two million pensioners.¹ Zero hours contracts have recently hit a record high – with almost a million people now having no guaranteed work from one week to the next. The updated Marmot Review has revealed a stalling life expectancy for the first time in a century.²

In an effort to raise prosperity throughout the UK, “levelling up” is the latest in a long line of much-heralded, yet flawed, national policy initiatives, promising to turbo charge economic development and address decades of longstanding inequality, and variations in economic performance across the country.

Levelling up has been in part prompted by the government winning new seats in the north - the so called “Red Wall”. But, whilst the government’s pledge of £4.8bn to fund infrastructure and regeneration may provide some relief, evidence to date suggests that levelling up will continue to fail to provide the necessary support at a national policy level to help end economic divides and the longstanding disparities of economic and social disadvantage.

In addition to this failure at a national policy level, in local government, the proliferation of an economic model prescribed by the Treasury and Whitehall, has resulted in a narrowly focused local economic development practice. This has seen economic growth continue to be peddled as the defining metric of a locality’s success. And in the drive to achieve endless GDP growth, city centre regeneration has been used as a proxy for economic strategy.

Moreover, adherence to this economic model has resulted in poorly paid, insecure work, a gulf between property owners and renters and profits that are too readily extracted by distant shareholders at the expense of local people. With the economy battered by the effects of the pandemic, the risk is that this dysfunction will be magnified in the scramble to get the economy back on its feet. Now – more than ever, with Covid-19, the climate emergency and impending economic and social crises – we must take significant, new and profound action.

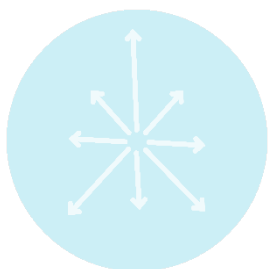
As such, after providing a brief history as to how the UK has consistently failed to address longstanding and persistent geographical disparities in economic and

¹ Joseph Rowntree Foundation (2020). UK Poverty 2019/20: The leading independent report. [Read](#).

² M Marmot et al (2020). Health Equity in England: The Marmot Review 10 Years On. Institute of Health Equity. [Read](#).

social conditions (section 1), this provocation proposes **three central tenets to reshape local economic development in the UK**, with a view to addressing the failings to date (section 2). These involve both recommendations for national policy as well as local economic development practice.

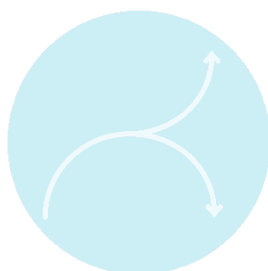
Devolve



A genuine step change is needed with respect to devolution in the UK, particularly in England. At a national policy level we need:

- a national constitutional convention;
- the establishment of a new national redistribution process;
- the creation of new fiscal powers for local areas;
- further social devolution; and,
- more control over transport.

Redirect



Covid-19 has further exposed the need for an overhaul in the UK's industrial strategy. Moreover, local economic development practice needs a broader focus to fundamentally consider what *kind* of development is being sought. Place-based approaches, such as community wealth building, should therefore be utilised to empower local areas and communities to maximise their existing skills, talents and capabilities in the pursuit of economic democracy. Here we address four areas for attention to bring about this redirection:

- progressive local economic strategies to support foundational sectors, address Covid-19 recovery, tackle the climate emergency and advance more democratic forms of ownership;
- public expenditure as a key driver of the just transition;
- an end to wealth extraction within our public services; and,
- a new approach to measuring economic development activity.

Democratise



At the local level, we must seek to expand opportunities for citizens to shape the economic destinies of their localities by strengthening the social architecture for participation, co-design and democratic agitation. We need not only to devolve and redirect economic development, but to deeply democratise it. In this, local government should:

- establish citizens assemblies; and,
- invest in social infrastructure to create fertile ground for citizen-driven movements and initiatives.

1. Failing to level up: a brief history

The UK, and particularly England, is one of the most highly centralised countries in the world. It also has longstanding and persistent geographical disparities in economic and social conditions.³ The economic gap between London and the rest of the country has been in place for decades. Regional inequality in the UK has become the worst of any comparable country and continues to grow.⁴

Today the disadvantage that stems from inequality is both complex and varied. In the UK's former industrial regions, there are still disproportionate levels of premature mortality, accompanied by lower rates of employment growth and substantially higher rates of poverty.⁵

In regions outside of London and the south east, productivity levels are similar to those found in central and eastern Europe.⁶ England's coastal peripheries include some of the poorest and least productive areas of the UK, their problems exacerbated by disconnection due to poor transport links with more economically dynamic areas.⁷

National policy failure: from past to present

Attempts to address this imbalance include both specific social and economic development policy initiatives, as well as the reallocation of powers and resources from national to sub-national levels of government.

With respect to the former, these have ranged from the Barlow Commission in 1940,⁸ through Beveridge and the industrial policies of Labour's Wilson government, to the introduction of enterprise zones in the 1980s and recent initiatives such as the Levelling Up Fund. Broadly speaking, however, these initiatives have to date been unable to end economic divides and the longstanding disparities of economic and social disadvantage.

³ A Pike et al. (2019) Submission to HCLG Select Committee Inquiry on Progress on Devolution in England: a submission by the centre for Urban and Regional Development Studies (CURDS), Newcastle University. [Read](#).

⁴ L Raikes et al. (2019). Regional inequalities in the north, the UK and the developed world: state of the north 2019. [Read](#).

⁵ A Pike and L Natarajan (2019). Land use planning, inequality and the problem of 'left-behind-places.' Submission to the UK2070 commission. [Read](#).

⁶ P McCann (2016). The UK Regional-National Economic Problem. London: Routledge.

⁷ R Jones (2019). A resurgence of the regions: rebuilding innovation capacity across the whole UK. University of Sheffield. [Read](#).

⁸ JH Jones (1940). The report of the royal commission on the distribution of the industrial population. Journal of the Royal Statistical Society. 103(3). [Read](#).

In more recent years, attempts at decentralisation in England began with the Regional Development Agencies (RDAs), that were set up by the Labour government in 1998. RDAs spent twelve years trying to bridge the gap in economic performance between London, the south east and the rest of England. In their heyday, RDAs spent around £15.1bn on local place-based regeneration, business development and skills.⁹ Their work was complemented by targeted area-based regeneration and housing programmes, such as the Housing Market Renewal Pathfinders Programme and the Growth Areas initiative. The RDAs were a relative success and were supported by a network of regional government offices, EU funding, and improved regional spatial planning. Nevertheless, economic rebalancing during this period remained an uphill task.¹⁰

Despite some success, with the arrival of the coalition government in 2010 RDAs were abolished due to the claim that they were wasteful of resources and inherently anti free market.¹¹ They were replaced by business-led Local Enterprise Partnerships (LEPs), which were posited as a new non-managerialist and non-prescriptive approach to sub-national economic development. In practice LEPs have been stifled by centralism, with a reluctance to devolve powers, responsibilities or funding, and tend to be dominated by big businesses with little affinity to place.¹²

Accompanying the arrival of the LEPs was a process of city region-focused devolution (although perhaps more accurately categorised as delegation, due to the limited nature of the power and resources involved). City regions were identified as an integral part of the UK national government's recovery strategy following the 2008 financial crisis and recession. Consequently, this approach was shaped by priorities around public finance deficit reduction and an ambition to enable cities to boost economic growth and recovery.¹³

Central to the government's approach post-2010 has been the process of "deal making" whereby agreements on decentralised powers, responsibilities and resources have been negotiated between national and local city region actors. As such, we have at times seen tortuous and fraught deals emerge, whereby local city regions (after much negotiation with Whitehall and the Treasury) end up signing an agreement, with only some decentralisation of power and resources from Whitehall departments and different combinations of powers allocated to different areas.

A charitable reading of this picture could interpret this outcome as rightly reflecting geographical differences in ambition, aspiration and capacity for decentralised governance. A more critical perspective, however, recognises that what has emerged is a profoundly unjust and unequal manifestation of devolved power and

⁹ K Larkin (2009). Regional Development Agencies: the facts. Centre for Cities. [Read.](#)

¹⁰ N McInroy (2016). Forging a good local society: tackling poverty through a local economic reset. CLES. [Read.](#)

¹¹ G Gaskarth (2010). Scrap the RDAs. Conservative Home. [Read.](#)

¹² CLES and FSB. (2014). The future of local enterprise partnerships: the small business perspective. [Read.](#)

¹³ P O'Brien and A Pike (2019). 'Deal or no deal?' Governing urban infrastructure funding and financing in the UK City Deals. *Urban Studies*, 56(7). [Read.](#)

resource.¹⁴ What we see here in devolution is not a significant levelling up via the breaking up of central power in order to forge new economic futures, but rather to only act within the confines of what Whitehall allows, and only in certain geographical areas. What has been devolved is not full power to deliver prosperity (wider fiscal powers or other social inputs to economic success such as welfare), but the responsibility to deliver austerity.

Agglomeration failure

Meanwhile, all of this sits within a dominant market-liberal economic model, with financial investment indelibly skewed to existing winners. Sitting underneath the current devolution approach and borne out in mainstream local economic development practice is a powerful orthodoxy. The belief is that cities offer productivity and growth premiums, precisely because they generate agglomeration economies through their scale, density and diversity.

Put simply, agglomeration economies champion the economic benefits that stem from businesses and people being located near one another – in cities and industrial clusters. To date, however, this economic model has paid too little heed as to the quality of these alleged benefits and how corresponding wealth and opportunity are to be distributed.

With a narrow focus on economic growth, agglomeration approaches tend to champion high growth sectors such as digital and knowledge-intensive business services as well as asset-based appreciation stemming from property development. These are then presented as the economic model to which other places should aspire.¹⁵

In practice, city centre regeneration – fuelled by inward investment – is being used as a proxy for local economic strategy,¹⁶ with rural areas and towns excluded outright from these wealth creating opportunities. The Manchester and Liverpool metropolitan areas have recently made it into the top 10 cities, globally, for foreign direct investment.¹⁷ This has seen developments such as Meadowside in Manchester – a £200m residential development by the Far East Consortium¹⁸ – and Liverpool One – the largest privately owned and privately managed retail development in Britain.¹⁹ Yet, the regional hinterlands and areas outside of these city centres are being more and more left behind, with towns such as Bolton, Wigan

¹⁴ A Pike et al. (2019) Submission to HCLG Select Committee Inquiry on Progress on Devolution in England: a submission by the centre for Urban and Regional Development Studies (CURDS), Newcastle University. [Read.](#)

¹⁵ A Pike and L Natarajan. (2019). Land use planning, inequality and the problem of 'left-behind-places': submission to the UK2070 commission. [Read.](#)

¹⁶ C Berry. (2018). 'D is for dangerous': devolution and the ongoing decline of manufacturing in Northern England. In *Developing England's North*. Palgrave Macmillan, London.

¹⁷ Economic Journal (2019). Manchester-Liverpool Metropolitan Area Perfect for Foreign Direct Investment. [Read.](#)

¹⁸ O Wainwright. (2019). Welcome to Manc-hattan: how the city sold its soul for luxury skyscrapers. *The Guardian*. [Read.](#)

¹⁹ F Langstraat (2013). Liverpool ONE and the Privatisation of a City Centre. The Protocity.Com. [Read.](#)

and Rochdale continuing to struggle despite the economic success of Manchester, for example.²⁰

What is more, whilst people and places are seen as benefiting here – either through the trickle down in wealth through jobs or a trickle outwards of wealth toward any outlying (and poorer) areas of cities and neighbouring towns – the reality of this approach is that it creates winners and losers. In practice, there is no substantive trickle down or trickle outwards of wealth and opportunity. Rather than tackling deeply entrenched and systemic issues of poverty and deprivation, the rise of “residential capitalism”,²¹ where economic growth stems from appreciating asset values, has resulted in wealth extraction by land and property developers, leaving all but a few speculative winners better off.

In addition, agglomeration economies generate negative externalities such as pollution. Greater Manchester, for example, is now the most congested region outside of London, with 152 roads in breach of legal NO₂ levels. Central Manchester has the highest rate of emergency admission for asthma in England.²² In many of our cities, rising gentrification forces up house prices for local residents, pushing some of the poorest members of society out of their homes.²³ As more of our city centres are sold off to private developers, we are also seeing the undemocratic erosion of our public spaces. Here, those who come to visit high end department stores are welcomed, whilst anyone else can – in principle – be denied access.²⁴

The emperor’s new clothes

And so to the latest national policy initiative that promises to address inequality and level up underperforming and left-behind parts of the UK. The Levelling Up Fund will invest £4.8bn in high value local infrastructure, including regenerating town centres and high streets, upgrading local transport and investing in cultural and heritage assets. It sits alongside a number of other funding measures – namely, The Towns Fund and The Community Ownership Fund – as well as plans to forge ahead with controversial schemes for freeports around the UK. Furthermore, in conjunction with its focus on hard infrastructure, the government’s recently published “plan for growth” again places a heavy emphasis on high-tech and high-value sectors such as life sciences, financial technology and defence.²⁵

Yet whilst more funding support may provide some relief, its association with traditional economic approaches will mean that the failings exposed above will continue to dominate.

In addition, the government’s focus on high value high tech sectors is unlikely to lead to better jobs or wages for most people in most places. A recent study

²⁰ A Pike (2016). Uneven growth: tackling city decline. The Joseph Rowntree Foundation. [Read](#).

²¹ J Ryan-Collins et al. (2017). Rethinking the economics of land and housing. Zed Books Ltd: London.

²² E Cox and D Goggins (2018). Atmosphere: Towards a proper strategy for tackling Greater Manchester’s air pollution crisis. Institute of Public Policy Research. [Read](#).

²³ A Rae (2015). Comment: Here’s what we learned from mapping out England’s inequalities. The University of Sheffield. [Read](#).

²⁴ F Langstraat (2013). Liverpool ONE and the Privatisation of a City Centre. The Protocity.Com. [Read](#).

²⁵ HM Treasury (2021). Build Back Better: our plan for growth. [Read](#).

indicated that such sectors employ just one per cent of people in the UK.²⁶ What is more, since high-tech jobs are heavily concentrated in the south east of England, prioritising these sectors could make regional divides worse.²⁷

Such a focus, then, is blind to much of the UK economy, large swathes of which consist of “foundational” sectors meeting the everyday needs of households and small businesses. These range from “providential” services like education, health and care, to “material” essentials like utilities, high-street banking and food. Distinct but related is the “overlooked economy”, which provides goods socially defined as essential, such as haircuts or house maintenance. Taken together, foundational and overlooked sectors (also collectively termed the “everyday economy”) make up nearly two thirds of UK employment.²⁸ Unlike frontier sectors, they are also represented across the UK.

²⁶ S Fothergill et al. (2017). Industrial Strategy and the Regions. The Shortcomings of a Narrow Sectoral Focus. Centre for Regional Economic and Social Research. [Read](#).

²⁷ I Stanley (2020). Love’s Labours found: Industrial strategy for social care and the everyday economy. Nesta. [Read](#).

²⁸ The Foundational Economy Collective. Foundational Economy. Manchester: Manchester University Press.

2. Towards an alternative

Covid-19 represents an opportunity for a great reset – the moment to “build back better”. However, as the preceding section has underlined, the problem of regional economic inequality has bedevilled England for decades. Years of incremental ideas and piecemeal approaches have failed. As they stand, current measures and institutional architecture will inevitably fail to deliver on the ambition to level up.

We therefore need a progressive leap, which rejects the flawed devolution of the now and genuinely transfers power to people, communities and local democratic bodies. This needs to be done within a deeper national system of fairness and with a commensurate response to the climate emergency.

As such, on the following pages we propose **three central tenets to reshape local economic development** in the UK with a view to addressing the failings to date. These involve both recommendations for national policy as well as local economic development practice.

Devolve

A genuine step change is needed with respect to devolution in the UK, particularly in England. At a national policy level, we therefore need the following measures.

A national constitutional convention

Devolution has been weak and has created confusion. It has failed to tackle the fundamental imbalances of power and wealth. To resolve this imperfect mess, we need a national constitutional convention to focus on devolution, involving devolved nations, local governments, metro mayors, Parliament, the business community, unions and civil society organisations. This conversation should consider:

- how to develop an enduring package for constitutional reform;
- the likelihood of a federal UK and England; and
- reshaping local government so that it sits alongside central government as a co-director of the nation.

This whole conversation should form the basis to new legislation, to be taken forward by Parliament.

The establishment of a new national redistribution process

There have been some calls for a national UK renewal fund,²⁹ or greater retention of local business rates. Both of these approaches provide a means of making the country fairer and/or give back some real power to local authorities.

However, CLES argues that forms of renewal fund have been tried in the past and have failed to deliver the transformation that is needed (for example, the national strategy for neighbourhood renewal, and the RDAs “single pot”). Furthermore, local or city regional retention of business rates on its own would merely deepen inequality. As such, we need a clean start in which we create a national process of redistribution to deal with longstanding regional economic imbalances, and ensure a more level platform for all areas, in perpetuity. This should include a local needs assessment with a recognition that poorer areas need more resource. As such the process should be applied in relation to the following mechanisms:

- funding for local government in England;
- funding for universal public services; and,
- block grants given to each nation of the United Kingdom (the Barnett formula).

²⁹ A Pike and L Natarajan (2019). Land use planning, inequality and the problem of ‘left-behind-places’: submission to the UK2070 commission. [Read](#).

New fiscal powers for local areas.

New local tax powers should be agreed, but only once an appropriate national redistribution method is established (as above). These new powers should be used to create more secure links between people and local government by increasing local tax intake. Business rates reform, a local land value tax and hotel or tourist taxes should also be considered.

Further social devolution

Human and social capital are the basis to a new productive and inclusive society. Therefore, English devolution must broaden its predominant focus on infrastructure, skills and economic development towards social powers and resources. This includes devolved power over health budgets so that services can target specific local priorities and facilitate better alignment between health and other sectors. Local areas should also gain more control and power over national sources of social investment, including welfare, education, funding for the social sector, cultural policy and arts funding. This should be facilitated by pooled pots of place-based funding for local government, covering the main elements of public resources within any given locality.

More control over transport

The Bus Services Act 2017 prevents the creation of any new municipal bus companies. This should be amended to give city regions greater democratic control over the ownership of bus services. Greater power over the running of the rail network and rail franchises should be devolved to regional bodies such as Transport for the North. Control of rail station should be devolved to city regions and combined authorities.

Redirect

Covid-19 has further exposed the need for an overhaul in the UK's industrial strategy. So far, there has been little discussion of what business forms industrial strategy should support. Instead of focusing on providing incentives for high-value firms to do business in the UK, a new approach should lock public funds into building the strength of key sectors by investing in generative, mission-driven organisations.

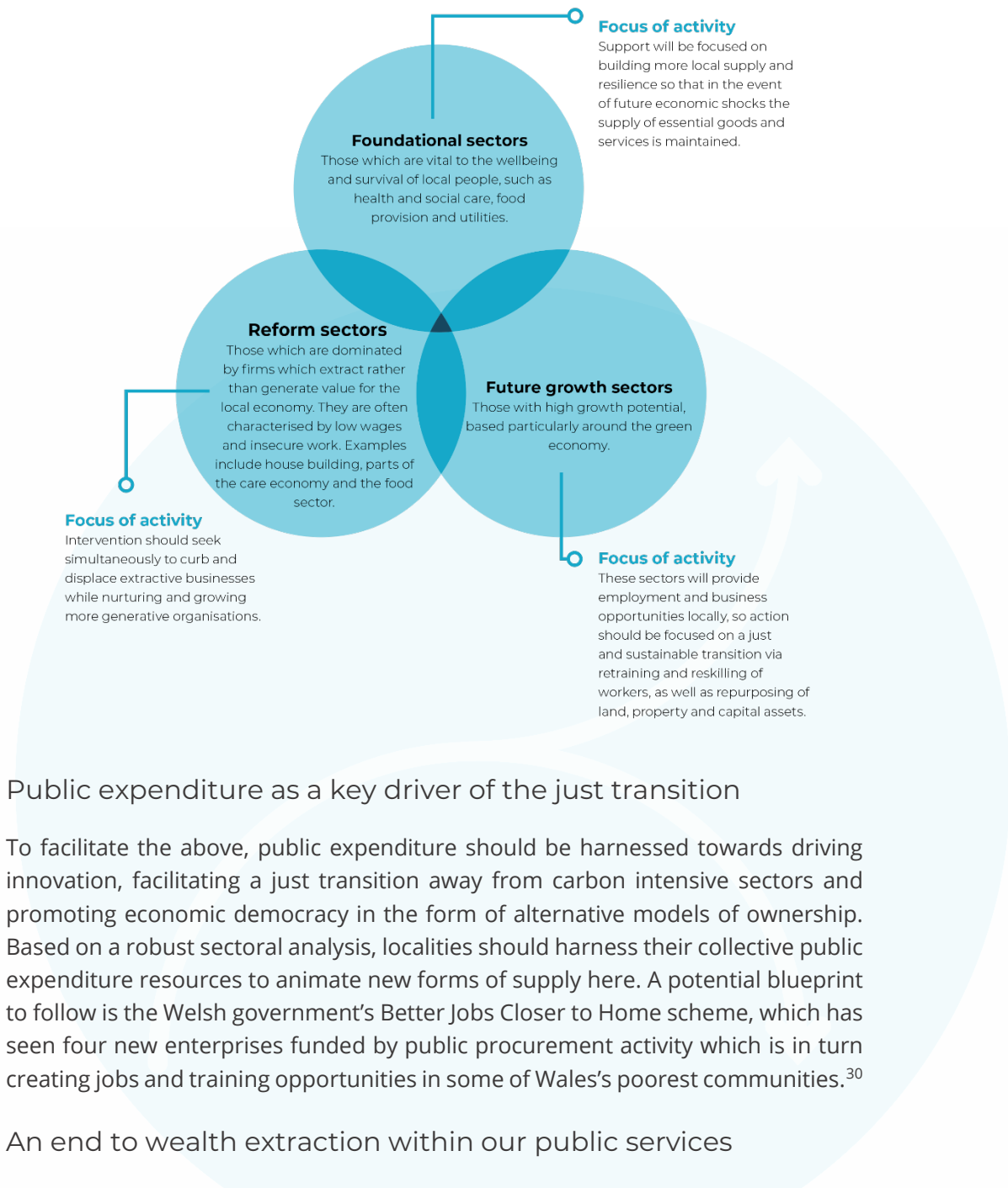
Local government must join with voices across the sector to make the case that UK industrial strategy must begin to discriminate between extractive and generative firms and focus national policy and resources on advancing the generative economy.

Local economic development practice also needs a broader focus to think more fundamentally about what *kind* of development is being sought and what kind of economic activity and culture is being promoted. Place-based approaches, such as community wealth building, should therefore be utilised to empower local areas and communities to maximise their existing skills, talents and capabilities in the pursuit of greater economic democracy. Community wealth building has emerged as a powerful tool to democratise our local economies and create wealth for all. It rejects the economic development pathway that this paper is critiquing and offers a return to common sense economic principles, whereby the economy and wealth are brought closer to our everyday lives, our communities and our neighbourhoods. Here we consider four particular areas for attention to bring about this redirection.

Progressive local economic strategies

To reflect the true nature of the UK economy, local economic strategies should have a much greater focus on promoting and supporting economic activity within specific target sectors. Target sectors are those sectors which are of strategic importance to local economies and where Covid-19 related recovery and reform activity should be focused. In the diagram on page 14 we identify and describe three types of target sector and outline the key elements of activity that relate to them.

In this, there should be a focus on advancing more generative businesses to enable greater wealth and resource to be kept within the confines of the local economy – more co-operatives, employee-ownership, social enterprises, community businesses and the like.



Public expenditure as a key driver of the just transition

To facilitate the above, public expenditure should be harnessed towards driving innovation, facilitating a just transition away from carbon intensive sectors and promoting economic democracy in the form of alternative models of ownership. Based on a robust sectoral analysis, localities should harness their collective public expenditure resources to animate new forms of supply here. A potential blueprint to follow is the Welsh government’s Better Jobs Closer to Home scheme, which has seen four new enterprises funded by public procurement activity which is in turn creating jobs and training opportunities in some of Wales’s poorest communities.³⁰

An end to wealth extraction within our public services

We should be building a resurgence of a public service movement based on new forms of democratic and citizen involvement. In this, we should no longer allow large providers to extract profit from our struggling front line public services, putting shareholders ahead of the needs of service users and workers. As such, frontline services should be run by the state, or in conjunction with non-extractive private sector organisations – e.g. co-operatives, community businesses and social enterprises.³¹

³⁰ Wales TUC (2015). Better Jobs Closer to Home. [Read](#).

³¹ Nevertheless, and the moral argument notwithstanding, outsourcing has of course been with us since the introduction of compulsory competitive tendering in the early 1980s. We therefore recognise that the current system cannot be changed overnight. There are now significant funding restrictions

A new approach to measuring economic activity.

In the light of today's intersecting social and ecological crises, it is clear that economic growth is no longer fit for purpose as the defining measure of an economy's success. Local governments should follow in the footsteps of places such as Newham, Wales and Scotland that have all adopted wellbeing metrics to chart their economic success beyond growth to ensure that the economy is working for everyone. In addition, to capture economic progress in a more substantive way, localities should consider utilising the following more nuanced measures:

- the ratio of housing costs to income;
- the growth in the number of generative businesses; and,
- the decrease in the level of poverty.

and capacity issues that frustrate the ambition outlined above (especially in England). However, when the need for a new service (or element thereof) emerges, or when existing service contracts come up for renewal, removing extractive providers from public sector supply chains should be what the public sector everywhere is working towards.

Democratise

Devolving and strengthening local economic governance and redirecting local economic development efforts in a more generative direction will be vital in moving towards a more just and democratic economy. But economic justice will not be achieved through confident and creative municipal initiatives alone.

To move towards an economy in which all can flourish, it is vital to create more opportunities for ordinary citizens to shape the economies of the places where they live and work. We need not only to devolve and redirect economic development, but to deeply democratise it. In this local government should look to establish the following practice.

Citizens assemblies

Workable solutions for “left-behind” places will require a bottom-up approach, where a range of political and civic actors come together to enforce and promote identity, respect and resilience within local communities. A deepening of democracy will therefore be fundamental in turning back the market liberal tide. But whilst civil society, social action and democracy are the basis to a productive, inclusive economy and society, a substantive democratic process means going beyond the mere expression of preferences at the ballot box. As such we should enact more deliberative mechanisms that allow all citizens to participate and have a real impact in the decisions that affect their daily reality. We must therefore accelerate existing experiments in deliberative democracy within combined authorities. This should include citizens’ assemblies to debate key local issues such as budget-setting and funding decisions.

Invest in social infrastructure to create fertile ground

Local democracy not only takes place within the institutions of the local state. It is also practiced within diverse community organisations, associations and social movements, which play an important role in articulating the concerns and priorities of ordinary citizens and agitating for change. These organisations have a vital role to play in shaping local economies for the better. While it is important that these organisations can retain a certain independence from local government, in order to stand as a critical voice,³² local government has an important role in creating the conditions for a dynamic local civil society. Notably, it should invest in the social infrastructure which underpins it, (for example meeting spaces, capacity building activities for VCSE organisations etc). It should also seek to open up productive dialogue with community organisations and develop horizontal links with them.³³

³² I Stanley (2020). Taking Back Control of the Innovation Economy. Rethinking Poverty. [Read](#).

³³ E Radcliffe (2021). Politics for the people: New municipalism and the feminisations of politics. CLES. Forthcoming.



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