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Policy Research



STATE OF THE NORTH 2023

LOOKING OUT TO LEVEL UP

HOW THE NORTH AND
THE UK MEASURE UP

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Our purpose is to conduct and promote research into, and the education of the public in, the economic, social and political sciences, science and technology, the voluntary sector and social enterprise, public services, and industry and commerce.

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SUMMARY

2022 was another tumultuous year for the North, and for levelling up. Severe regional inequalities endure despite government claiming it remains committed to the levelling up agenda. The government's levelling up white paper proposed a welcome path for further devolution, but it fell short of a real shift of power to local government or communities. The white paper and subsequent policy developments fail to unlock the essential government resources required to level up. The ongoing cost-of-living crisis combined with public spending levels in the coming years mean that levelling up is now on life support.

The UK continues to stand out internationally for the wrong reason: because it is the most regionally unbalanced large, advanced economy. Our latest analysis highlights continued and growing regional divides in productivity, incomes, job creation, unemployment, pollution, emissions, and educational outcomes. The North is too often at the sharp end of these inequalities.

Reducing the UK's regional divides would unlock national growth and deliver better lives for everyone across the country. The UK's vast regional inequalities continue to undermine national economic performance and harm people's life chances across the country. Inequalities are a handbrake on delivering economic prosperity, not a driver or necessary outcome of growth, as has been previously argued. People in all places can and want to contribute to the UK economy and share in its rewards.



Though it faces stark challenges, the North has the assets and ambition to level up, and opportunities to do so, including through the net zero transition. We are asset rich across our nature, our people, and our growing institutional strength. The North's strengths can be national strengths; **northern prosperity can be national prosperity again.**

The UK is the most regionally unbalanced large, advanced economy

Looking at our place in the world, such inequality is not inevitable. The UK's hyper-centralised governance and low levels of public and private investment sustain inequalities. The deep bond between centralised governance and unequal economic geography is clear. Across powers and resources, local government in the UK is too weak and under-resourced. Empowered local government facilitates stronger regional growth, better inclusion, and more progressive social outcomes, from reducing deprivation to improving health, and secures better returns from public investment.

We can see from international experience that empowering local places to level up is key to success. Our research draws on international case studies, in places where we found parallels to the North:

- levelling up through industry and investment in Leipzig, Germany
- levelling up through local transport investment in the Ibaraki region, Japan
- levelling up through cultural regeneration in Bilbao, Spain
- levelling up through the net zero transition in the town of Luleå, Sweden

- and levelling up through local skills innovation in Rotterdam, the Netherlands.

There are clear lessons to learn from each of these places, that we set out in detail in this report, that are examples of subnational government driving levelling up.

An upgraded levelling up is within reach. Broader, deeper devolution and strengthening central-local relations would support an upgraded levelling up. An empowered North can reduce regional divides, level up national prosperity, and help to deliver better lives for all in the North and across the country. It is not too late.

UPGRADING LEVELLING UP: WHAT CAN BE LEARNT FROM ELSEWHERE?

There are four key levelling up lessons for the UK from our international comparators.

1. A sustained public investment offer for places

When we look internationally, there is an assertive use of public sector investment to crowd in private sector investment to support levelling up, as we see internationally in Luleå and Bilbao. To encourage greater investment and crowding-in, in the UK context, the British Business Bank and UK Infrastructure Bank could be given an explicit remit in supporting the reduction of regional inequality.

The development of economic ‘clusters’ were also common across our German, Spanish and Swedish case studies. In Germany, Leipzig focussed on future industries with a focus on five sectors or clusters while in Bilbao, a cluster-based approach brought together local government and skills and education provision, including universities, to work with industry.

Additionally, Rotterdam uses robust social value contracting for public procurement. Not only do they include stretching criteria in their social value criteria, but they also review existing contracts above €50,000. In the same vein, we see local job boards in Leipzig working closely with emerging clusters to specifically support local and long-term unemployed people into the new jobs created in the area.

Of course, levelling up is only possible with serious, long-term central investment as can be learnt from the scale and duration of regional rebalancing efforts after German reunification (which included Leipzig) and fiscal redistribution practices across the OECD. For instance, within a much broader framework, one German supplementary federal grant programme devolved grant funds alone worth 0.4 per cent of national GDP to states in former East Germany under Solidarity Pact II, committed for 15 years, to reduce regional inequalities within a flexible framework. By comparison, 0.4 per cent of GDP would equate to approximately £7.6 billion annually of flexible, long-term devolved funding in an English context amongst a package of wider support and funding. In contrast, taking the UK’s Levelling Up Fund (LUF) as a primary example, it is a centralised grant fund worth £1.2 billion per year, due to run for four years only and local government is required to bid into the centre with discrete projects as part of annual competitions.

2. Improved accountability to sustain levelling up in the long term

Clear and strong accountability mechanisms are needed to sustain focus on reducing regional inequalities in the long run. Germany has a commitment to reducing regional disparities in living standards included within their constitution. The UK could set itself a similar goal in legislation.

Aligning wider central government spending with levelling up objectives is another key lesson. Other countries have been more adept at using central government investment to support both local and national goals, for example, the Swedish Government's support for a national steel decarbonisation project helped support Luleå's local net zero transition. Co-ordinating across different policy areas also maximises impact, such as between transport infrastructure, housing, and public service provision in Japan.

Internationally, there are also examples of how local governments are given a stronger voice in setting priorities in the first place, such as joint federal and state programmes in Germany.

To ensure progress is made, independent scrutiny should hold the government to account. In the UK's political system, we can look to independent bodies like the Climate Change Committee which provides independent accountability and advice on climate policy. As IPPR North has previously called for, an independent statutory body could be established outside of London to advise the UK government on levelling up and hold it to account on its missions. It would need to be defined in legislation, and report to parliament on progress in tackling the UK's regional inequalities. The body would make recommendations to government on achieving missions, assess cooperation between all levels of government to help drive mutual respect, and facilitate alignment across government departments.

3. Establishing a clearer economic tie between people and the places where they live or come from

Across all our case studies, a higher percentage of revenue raised locally stays local. Fiscal devolution in England could be the next step to both help create a stronger link between people and the places where they live, and to ensure the returns of public and private investment are better captured.

While in the UK, fiscal devolution is still in early stages, nurturing a sense of economic solidarity between people and places could be a helpful first step. We can learn from innovative ideas such as the German solidarity surcharge or Japan's home town tax. In Japan, residents living in thriving areas can opt in to make tax donations to their hometowns or other municipalities of their choice. This supports places with weaker local tax bases, for example where young people have moved away for work. Another example found across many comparable countries is tax sharing, where fixed proportions of central taxes stay local. These could be helpful first steps on the road towards greater fiscal devolution in England.

Additionally, mechanisms such as land value capture ensure the benefits of local development are captured by local government and are reinvested into further local infrastructure as in Japan, and have helped local places capture and capitalise on investment in economic renewal. This is an important lesson for the UK.

4. A deep and irreversible power shift to local tiers of government

Comparing internationally, local government in the UK is underpowered at all levels. Not only is our subregional tier, namely combined authorities, lacking in powers where it exists, but our local tier, local councils, are substantially underpowered compared to comparable countries. Developing subnational governance has involved asymmetrical devolution in several countries, moving over time towards more symmetry as local or regional capacity has developed.

England has an immature formalisation of the central-local government relationship versus comparable countries. Local government is underpowered, and unlike all international peers investigated here there is no constitutional protection or right to local self-determination. Learning from our counterparts and translating them into a UK context, primary legislation could formalise the following.

- Vertical cooperation mechanisms between different tiers of government grounded in mutual respect, such as Spain's senate, which comprises representatives from autonomous communities and a permanent body for cooperation with local government.
- Requirements that central government seek local government consent for future reforms to governance and resourcing. This would, for instance, mean negotiations based on mutual respect in changes to funding frameworks or fiscal powers.
- The responsibilities of local government, set out in one place, containing a universal service offer across places, and the competencies of all tiers of government, including areas of joint working, to strengthen local government autonomy.
- A needs-based fair funding formula with enhanced revenue-raising powers for local government. Internationally, such formalisation protects subnational government, provides certainty over future revenue, allows local institutional capacity to be developed, and provides fiscal flexibility to tackle local problems, including pursuing invest-to-save approaches to public services like in Rotterdam, or supporting local growth by specifically targeting local barriers to economic development as seen in Bilbao.

1.

THE YEAR THAT WAS 2022

The North, and the country, has faced considerable recent turmoil, including four different governments in the last five years. 2022 was no exception.

Within this tumultuous political and economic environment, our regional divides continue to yawn, as we demonstrate in this report. The work to address them extends back decades in the UK's economic history, evolving into 'levelling up' in 2019, the most recent agenda nominally aiming to address regional inequality.

CONTEXT: 2022 WAS A TUMULTUOUS YEAR FOR LEVELLING UP

2022 brought to the fore several interlocking crises:

- climate and nature, with a record-breaking heatwave in the UK
- cost of living, with a historic living standards squeeze
- financial, following the government's early autumn fiscal event driving stealth taxation, future spending cuts, and constrained public sector investment
- inequality, including intergenerational injustices in housing and wealth, and surging poverty
- economic: the Bank of England and the OBR both predict a prolonged recession, with inflation not returning below 2 per cent in the short term, and rising interest rates (BoE 2022, OBR 2022)
- political, with the partygate scandal undermining political trust and leading to the collapse of the Johnson government followed by the collapse of the Truss government.

It is against the backdrop of this tumult that levelling up has moved onto life support. Our *State of the North* report last year highlighted that levelling up had presented a series of false dawns in addressing regional divides and that it lacked definition. This lack of definition provided political flexibility to create the appearance of progress and delivery, but failed to make real change to match the rhetoric (Webb et al 2022).

2022 made some limited progress. The publication of the levelling up white paper (DLUHC 2022) set out 12 missions, building on six capitals. These capitals are the government's view of the building blocks of reducing regional inequality:

1. physical (including infrastructure and housing)
2. human (including skills and health)
3. intangible (including innovation and ideas)
4. financial (including growth finance)
5. social (including community strength and trust)
6. institutional (including local leadership and capacity).

The broad ambitions suggested in the white paper signified some progress, although a lack of prioritisation meant the missions lacked focus. Arguably, the most progress was made in the commitment to deepening and broadening devolution, which reflects IPPR North's longstanding arguments for shifting power away from Westminster.

However, in other areas the proposals fell short. The levelling up white paper failed to radically reimagine where power lies and how to ensure fair resources are available to deliver levelling up. The proposals, and the bill that has since emerged, also do not sufficiently provide accountability, to ensure central government delivers on the missions. It also did little to acknowledge the role the funding of local government plays in delivering such a critical agenda.

Even against its own missions, our analysis, presented below, highlights that levelling up, even as the government defines it, is at severe risk. This is both due to the government’s lack of sustained commitment to levelling up, its insufficient response to the cost of living crisis and the latest decision to pursue austerity anew.

TABLE 1.1: THE GOVERNMENT’S 12 LEVELLING UP MISSIONS COULD BE SEVERELY IMPACTED BY THE COST OF LIVING CRISIS

Mission	Potential impact of the cost of living crisis	R/A/G
By 2030, pay, employment and productivity will have risen in every area of the UK, with each containing a globally competitive city, with the gap between the top-performing and other areas closing.	The current recession is likely to impact pay, employment, and productivity. Due to high inflation, real-terms pay is falling, particularly in the public sector. Economic spatial inequalities have become more pronounced following economic downturns in the UK.	Red
By 2030, domestic public investment in research and development (R&D) outside the Greater South East will increase by at least 40 per cent, and over the spending review period by at least one-third. This additional government funding will seek to leverage at least twice as much private sector investment over the long term to stimulate innovation and productivity growth.	An ongoing recession and weak business investment is forecast (OBR 2022). This is likely to reduce the number of innovating firms and decrease private spending on R&D. Changes to R&D tax credits at the autumn statement could reduce the number of SMEs undertaking R&D.	Red
By 2030, local public transport connectivity across the country will be significantly closer to the standards of London, with improved services, simpler fares, and integrated ticketing.	Sustained local government austerity has impacted local transport networks, which continue to struggle in terms of financial viability post-pandemic. Combined with significant inflationary pressures for local government and transport authorities, this could harm the ability to invest, maintain and operate crucial public transport networks. Cuts to the scope of projects like NPR or HS2 reduce the potential for improved future connectivity across the North.	Red
By 2030, the UK will have nationwide (95 per cent coverage) gigabit-capable broadband and 4G coverage, with 5G coverage for most of the population.	While rising costs and inflation could impact this measure, the rollout of broadband infrastructure is likely to continue.	Green

Mission	Potential impact of the cost of living crisis	R/A/G
<p>By 2030, the number of primary school children achieving the expected standard in reading, writing and maths will have significantly increased. In England, this will mean 90 per cent of children will achieve the expected standard, and the percentage of children meeting the expected standard in the worst performing areas will have increased by over one-third.</p>	<p>Despite some additional funding for schools, schools face severe inflationary pressure, have faced underinvestment in areas like upkeep of buildings, seen rising class sizes, and are staffed by teachers who have experienced relentless real-terms pay cuts. This could drive further staff shortages and continue to reduce the quality of education in English schools.</p> <p>Poverty is a significant indicator of educational outcomes and it is rising, including the North East where two in five children now live in poverty (NECPC 2022). Given funding pressures, schools will not have resources to mitigate the impacts of growing child poverty and falling household income which will impact educational outcomes.</p>	Amber
<p>By 2030, the number of people successfully completing high-quality skills training will have significantly increased in every area of the UK. In England, this will lead to 200,000 more people successfully completing high-quality skills training annually, driven by 80,000 more people completing courses in the lowest skilled areas.</p>	<p>Financial vulnerability, alongside inflationary pressures for further education providers and local authorities could reduce real-terms per person expenditure on skills training, reducing either availability or quality. Cost of living pressures also impact on people's ability to take time off work to train and on businesses' ability to fund training. The pressures faced by businesses due to the recession may lead to even lower skills investment coupled with the apprenticeship levy's poorer performance than originally intended.</p>	Amber
<p>By 2030, the gap in healthy life expectancy (HLE) between local areas where it is highest and lowest will have narrowed, and by 2035 HLE will rise by five years.</p>	<p>The cost of living crisis alongside cuts to welfare and longstanding high levels of poverty in many places is increasing the depth of poverty that people experience and the numbers of people experiencing it. Poverty, including the ability to heat a home and to eat properly, has a significant impact on healthy life expectancy. Spending cuts could impact both preventative action in terms of poverty and health, and the ability to access treatment. Deep cuts to public health budgets (Thomas et al 2020) combined with increases in long-term sickness found in economic activity data indicate this may already be worsening.</p>	Red
<p>By 2030, wellbeing will have improved in every area of the UK, with the gap between top-performing and other areas closing.</p>	<p>Increasing cost of living and rising poverty is likely to harm wellbeing.</p>	Red
<p>By 2030, pride in place, such as people's satisfaction with their town centre and engagement in local culture and community, will have risen in every area of the UK, with the gap between top-performing and other areas closing.</p>	<p>The cost of living crisis is reducing consumers' discretionary expenditure and surging energy prices are impacting businesses, especially for the hospitality industry. The significant pressure this will create for high street businesses could lead to large-scale business closures, which will impact on local amenities and damage civic pride further.</p>	Red
<p>By 2030, renters will have a secure path to ownership with the number of first-time buyers increasing in all areas; and the government's ambition is for the number of non-decent rented homes to have fallen by 50 per cent, with the biggest improvements in the lowest performing areas.</p>	<p>Surging interest rates in response to the government's recently disorderly fiscal policy choices alongside the cost-of-living crisis is likely to harm people's ability to access home ownership and increase rents. This could impact both home ownership and quality of homes.</p>	Red

Mission	Potential impact of the cost of living crisis	R/A/G
By 2030, homicide, serious violence and neighbourhood crime will have fallen, focussed on the worst-affected areas.	Longstanding underfunding and underinvestment for police forces and local government who can intervene in this area over the long term – combined with inflationary pressures, reduces institutional capital and capacity to deal with crime. In addition, many police officers alongside other public sector workers have faced real-terms pay cuts since 2010.	Amber
By 2030, every part of England that wants one will have a devolution deal with powers at or approaching the highest level of devolution and a simplified, long-term funding settlement.	While devolution is advancing, institutional capacity has been stripped away during over a decade of austerity. Recent government fiscal policy suggests more spending cuts are likely with local government facing inflationary pressures. Combined, this could lead to councils/combined authorities (CAs) reducing services, cutting staffing levels further and potentially increasing financial failure.	Amber

Source: Authors' analysis of DLUHC 2022

These broad missions are welcome, but our assessment is that levelling up is failing – it is being undermined by underfunding and high centralisation (Webb et al 2022) and needs to be upgraded if our regions are to help drive the economic fortunes of our country.

Regional disparities have been further reinforced by government's public spending decisions. At the time of the third anniversary of levelling up, in July 2022, IPPR North analysis then demonstrated that public spending in the North, at £16,223 per person in 2021, is lower than across England (average of £16,309 per person) and London (£19,231 per person). Total public spending grew but more slowly in the North than the rest of England over the levelling up period – even when accounting for exceptional spending during the pandemic (Johns and Swift 2022).

Funding for levelling up remains inadequate, fragmented and delayed. Local authorities spend resources bidding for competitive funding programmes, reducing abilities elsewhere. Local authorities spent over £63 million – a conservative estimate – on bidding for three recent funds alone: the Levelling Up Fund (round 1), the Future High Streets Fund, and Town Deals (Tait et al 2022). This year, the opening of the Levelling Up Fund bidding portal in the summer and feedback in the autumn were delayed. Surging inflation (see below), especially in construction, has placed pressure on local authorities' bids, pushing some projects already planned towards being unviable.

More broadly, local government capacity is at risk across England, as further cuts fall on local government. Beyond council tax changes (see below) and extra funding for inflationary pressures in adult social care, there has been little additional support to account for inflation. This means that local authorities will need to reduce spending to account for inflationary pressures beyond the 37 per cent loss of central funding in the last decade (Shaw 2022). This is on top of a historic loss of local government expertise and capacity through austerity since 2010 (Webb et al 2022).

On devolution, some concrete progress has been made, including the signing of the York and North Yorkshire devolution deal. Under this 'level 3' deal within the white paper's devolution framework, powers like those of West Yorkshire and Greater Manchester are being devolved. Despite a comparatively restrained investment fund being agreed, a new deal for a large, diverse area brings further potential (Lockwood and Johns 2022).

Additional potential is rooted in ongoing ‘trailblazer’ devolution negotiations, emerging from the levelling up white paper.

Greater Manchester and the West Midlands Combined Authority area stand to have their devolution deepened, on a path towards London-style powers. The autumn statement also announced the exploration of ‘single departmental-style settlements’ to replace competitive bidding for these places. This is a long-awaited positive step, conceding IPPR North’s established argument that competitions are a poor way to level up (see Webb et al 2022). Other progress includes the following.

- Local authority reorganisation advanced in Cumbria, where facilitating devolution was a stated goal.
- In the North East a new, broader devolution deal has been negotiated to reunite the North of Tyne and North East Combined Authority areas into a North East Mayoral Combined Authority under a new mayor. This involves further powers on areas like transport and is not awaiting local consultation and parliamentary approval.
- Progress has also been made on devolution deals in Suffolk, Norfolk, Cornwall, and in the East Midlands.

THE GOVERNMENT’S CURRENT PLAN TO LEVEL UP

The 2022 autumn statement provided slim reassurance that the government remains committed to levelling up. The chancellor outlined public spending cuts anticipated to land after 2025 for most government departments and reductions in real-terms capital spending. At the local level, extra funding for social care will relieve some inflationary pressures for local councils, alongside additional ‘flexibility’ in council tax setting by increasing referendum limits to 3 per cent from April 2023 (OBR 2022).

The government is relying on local council tax increases to underpin local services. While improved flexibility for local authorities to raise funds locally for public services and investment is generally welcome, the absence of a fair, needs-based funding formula or additional fiscal devolution is less so. Increasing council tax raises revenue unequally: areas with higher property values raise more while places with lower property values – particularly in the North – raise less. This introduces differential exposure to inflationary pressures, which means deeper local cuts in less wealthy places. Meanwhile descriptions of local ‘flexibility’ suggesting choice is counterposed by the OBR’s assumption of a 5 per cent council tax increase across England (ibid). This derives from the fact that local councils will need to use all additional flexibility to keep anywhere near pace with inflation and avoid cuts. Notably, this increase is below current inflation. Therefore, this change is unlikely to protect local authorities from making further cuts to local budgets. It suggests that people across the country will be paying more for less.

Cutting local budgets and weakening public services (Webb et al 2022; Johns 2020) contradict reducing regional inequalities. Previous cuts undermined resilience and drove unsustainable demand on public services (ibid). Weak public services correlate with increased long-term sickness, growing child poverty and flatlining growth.

The autumn statement also announced the second tranche of the Levelling Up Fund. Yet, the government opted to inflation-proof neither this fund nor the Shared Prosperity Fund. IPPR North analysis identified that this decision has left a £560 million hole in these two key levelling up funds to 2025/26. Due to delays seen so far in the allocation and spending of these competitive pots, this inflationary gap could worsen (Shaw and Johns 2022).

Capital spend was not spared either. Many of the infrastructure or investment promises made, like Northern Powerhouse Rail, have been scaled back, ongoing funding opportunities are shrinking, and the current government appears to be even less committed to investment to enable growth and prosperity.

Since the autumn statement, a commission for the opposition Labour party on the future of the UK led by Gordon Brown was published. It outlined a plan for devolution and central government reform beyond the opposition's commitments to date. The offer included further devolution of powers over transport, infrastructure, skills, development, and housing alongside replacing the House of Lords with an elected assembly of the nations and regions, a British Regional Investment Bank, and better cooperation between central government and devolved and local government across the UK.

Reducing regional inequality and devolution is now, gladly, a contested political space.

RESTATING THE CASE FOR REDUCING REGIONAL INEQUALITY

Reducing inequality matters for both fairness and growth. It is well established that inequality undermines growth and prosperity. Even the institutions that form the international economic orthodoxy, including the Organisation for Economic Cooperation and Development (OECD) and International Monetary Fund (IMF), now recognise this, highlighting for instance that it “can be detrimental for macroeconomic stability and for sustained long-term growth” (IMF nd). Economic growth must empower people across the country to take part in driving growth and share in its benefits. Divergence between compensation and productivity has contributed to this; observed across the OECD since the 1970s and accelerating in the 21st century (Cantillon and Ucal 2019). It has been stark in the North, where the relationship between wages and productivity is weaker than the UK overall (Johns et al 2020).

High levels of inequality have wide-ranging impacts, including on life expectancy, educational outcomes, violence, wellbeing, and community relations (Wilkinson and Pickett 2009). Many of these, such as health, impact the economy in turn especially over the longer term (see for instance Thomas et al 2020). Pursuing growth at the expense of inequality will undermine growth itself in the long run.

Spatial or geographic inequality undermines national prosperity. For many years, some considered inequality acceptable within, or even desirable for achieving national economic growth. Yet prior to the Global Financial Crisis in 2008, OECD countries that were more inter-regionally equal grew faster in productivity, while in the aftermath, regional divergence was rooted in the ability of resilient economies to bounce back from a severe economic shock faster than weaker economies (Carrascal-Incera et al 2020). The analysis in this report supplements these findings that the UK's vast regional inequalities have undermined national economic performance (ibid).

LOOKING OUT, LOOKING AHEAD

We now explore drivers of regional growth, looking across comparable countries.¹ We assess the UK's levels of regional inequality in an international context² cross these drivers, and how those domains manifest in the north of England in particular. We then turn to international ideas within these areas, identifying clear lessons for the North and beyond in delivering regional prosperity.

1 In other words, countries in the OECD and EU, which are comparable in terms of development and size.

2 While our analysis of inequalities includes Wales, Scotland, and Northern Ireland, our lessons and conclusions are focussed on subnational arrangements within England. This is because local government is devolved to Scotland, Wales, and Northern Ireland – though of course, these learnings may be useful for policymakers and other actors there too.

2.

THE NORTH IN AN INTERNATIONAL CONTEXT

Looking at the UK and the North's place in the world, regional inequality is not inevitable. Neither is our centralised system of governance which sustains it.

Next we update and add detail to the evidence on the drivers of regional economic growth, and find the UK is consistently less equal than comparable countries, corroborating existing evidence that the UK is the most spatially unbalanced, large, advanced OECD economy. Similar findings hold with respect to comparison with EU countries (Carrascal-Incera et al 2020).

We compare the UK and the North internationally across a range of drivers of regional growth:

- local power
- economic prosperity, including
 - productivity
 - investment
 - employment
 - incomes
- net zero transition – emissions and pollution
- education and skills.

Of course, these are not the only drivers of regional growth. Other areas including transport, innovation and R&D, the business environment, ownership models, health, and quality of place are all important drivers of regional economic growth, which are not analysed here.

In choosing our indicators, we looked for metrics for which we could construct robust analysis of relative inequality across comparable countries with consistency over the selection and size of regions analysed and availability of data over time. We also sought alignment with the strategic missions for the North in the 2020s outlined in last year's *State of the North* report (Webb et al 2022). This led to the scoping in of the metrics identified above and some scoping out of other drivers. In many areas beyond the scope of this report, we have recently published research, including health, political sentiment, global value chains, migration, and transport investment (see Thomas et al 2020; Raikes et al 2019; Johns and Giovannini 2021).

Taking a snapshot assessment of the key drivers of regional growth outlined above, we now assess how the North currently performs in an international context.

LOCAL POWER

Decentralisation and stronger subnational government tend to produce greater regional prosperity and equality. Devolution, particularly fiscal, coupled with high subnational institutional quality means more equal outcomes – fostering inclusion, higher levels of growth-enabling investment in areas like education or infrastructure, improved economic growth, higher quality services, and

reduced regional inequality (Raikes 2020; OECD 2020). Recent evidence from Greater Manchester showed better population health with devolution than expected without it, particularly in deprived areas, narrowing health inequalities (Britteon et al 2022). Internationally, benefits are especially clear where strong intergovernmental cooperation occurs vertically between all levels of government (OECD 2018b).

Despite recent developments in devolution, the UK remains the most centralised of comparable nations (Raikes et al 2019). English subnational government power (meaning local authorities and combined authorities) is weaker than among comparable countries. While concentration of both public spending and staff in central government has accelerated since 2010 (Webb et al 2022), hyper-centralised public spending constrains socioeconomic development and contradicts levelling up. Reviewing powers and competencies of UK local government against those available for local government in comparable countries highlights a distinct weakness of UK local government as compared internationally. Further information of this review is presented in annex A.

The UK is at a severe disadvantage in securing returns from public investment and delivering prosperity. Subnational governance autonomy in the UK is less than comparable countries, less than that of Romania and Ukraine, and more in line with Moldova and Albania. Enhanced autonomy, alongside strong alignment between spending and local revenue-generation, seen elsewhere, tends to generate greater returns to public investment (Carrascal-Incera 2020).

Not only is local government in the UK comparatively weak, but also the UK has historically been moving in a different direction to many comparable countries with long-term centralisation. Contrasting to the UK, decentralisation and devolution have advanced in these countries over time, including in the case study countries highlighted below. 21st century devolution in England has only marginally readjusted this long-term centralisation. In the 1970s, councils were highly sovereign, with jurisdictional integrity, service autonomy, and strong democratic legitimacy. Subsequent centralisation has disempowered local authorities – stripping powers and functions, imposing targets, and offering competitive and highly conditional funding (including recent levelling up funding). In many areas, councils have responsibilities without power (Barnett et al 2021) and statutory services consume the vast majority of budgets. Local government funding is so constrained that little real power exists over discretionary services.

ECONOMIC PROSPERITY

Economic prosperity provides the foundations for good lives to be had by all. That involves stable, fulfilling work in an economy where rewards are fairly shared through strong wages, equitable wealth, and fair regional growth. Employment and activity that generates wealth with the wages and local economic architecture that helps retain it can deliver widespread prosperity.

The North has seen modest economic growth and falling unemployment in recent years (Webb et al 2022). However, the pandemic followed by the cost-of-living crisis has impacted on the North's ability to deliver good lives for all across areas like access to employment, wages, and high-quality public services.

Across productivity and disposable incomes, the UK is the most unequal of its size in the OECD, while highly unequal in job creation and unemployment.

In these areas, the North lags the rest of England, including in:

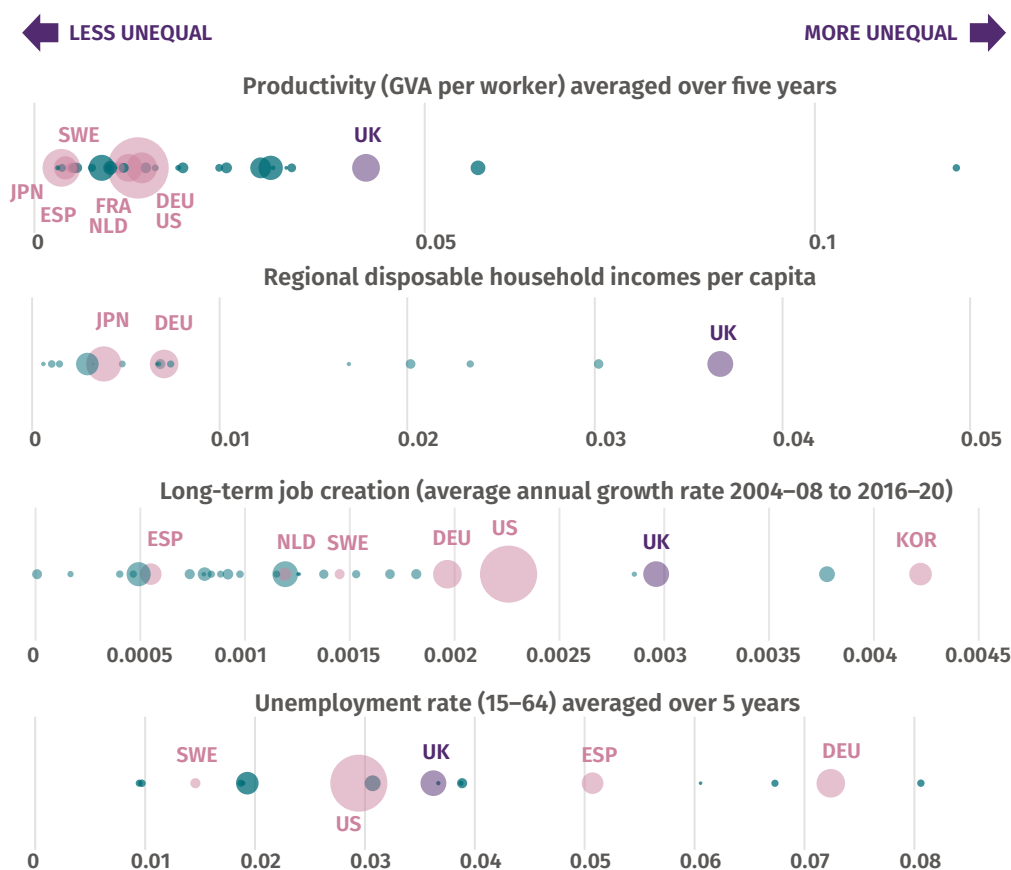
- economic activity, consistently 3 percentage points lower in the North (ONS 2022f)

- productivity, around £7 higher per hour worked in the rest of England (ONS 2022b)
- and pay, with median northern pay £1.60 lower every hour than the rest of England (ONS 2022e).

The UK and the North have experienced sustained economic stagnation – with sluggish productivity and real wages since the global financial crisis. This not only hurts living standards and the ability for all to live a good life (Johns et al 2020), but it also undermines trust in politics and institutions (Quilter-Pinner et al 2021).

FIGURE 2.1: THE UK IS VERY UNEQUAL ACROSS KEY ECONOMIC INDICATORS. IT IS THE MOST UNEQUAL IN TERMS OF PRODUCTIVITY AND INCOMES AND HIGHLY UNEQUAL IN JOB CREATION, THOUGH EMPLOYMENT AND UNEMPLOYMENT ARE LESS SEVERE

Theil Index of regional inequality among OECD nations across economic metrics (bubble area = country population)



Note: Compiled using TL3/ITL3 regions. See annex B for further information. Not all countries are available for all metrics.

Source: Authors' analysis of OECD 2022c

PRODUCTIVITY³

Productivity improvements are a critical long-term driver of economic growth. Both a function of and contributor to regional inequalities, raising productivity is an important starting point for addressing regional divides. Productivity growth provides the headroom for societies to improve living standards – though it cannot do so alone; without a focus on linking productivity improvements to wage growth, it can also drive inequality. The breakdown in transmission from productivity to wage growth is a serious stumbling block to the assumption that productivity growth alone can or will bring socioeconomic benefits to people living in the North. However, it deserves attention as part of a broader focus on improving economic prosperity.

Our regional productivity divide is stark. The average job in London produces an estimated £83,220 GVA per annum, compared to the North's £50,330 GVA. Assuming five-day weeks, this difference amounts to Londoners working three days a week to produce the same value as average northern workers do across the whole working week (ONS 2022b).

Low productivity is a feature outside London and the Greater South East. The UK's city regions and urban areas particularly underperform in comparison to European and OECD peers. The latest data (up to 2020) tells us that only one part of the North is more productive than the English average – Cheshire – while city regions lag (ibid):

- Greater Manchester – 88 per cent of the English average
- Liverpool city region – 84 per cent
- West Yorkshire – 86 per cent
- South Yorkshire – 77 per cent
- Tyneside⁴ – 80 per cent.

Just two of the North's 38 ITL3 regions,⁵ or 5 per cent, are more productive than the English average, compared to 25 of London and the Greater South East's 58 ITL3 regions (43 per cent) which are above the English average. A similar story is found in the Midlands, with one TL3 region out of 25 (4 per cent), and the South West, with one out of 12 (8 per cent) (ibid).

INVESTMENT

A significant factor in the UK's productivity problem is that both the UK and the North are low investment economies, as shown by figure 2.2. GFCF indicates investment, across both public and private sectors, including in machinery, transport, research, and development (R&D), software, new homes, new buildings, improvements/renovations of buildings and infrastructure. Both the UK and the North are lower than EU and OECD averages, including countries like Slovakia, Poland, Latvia, Czechia, and Hungary, as well as our more comparable peers like South Korea, Germany, Japan, and France.

In fact, looking on average over the five years to 2021, the UK's investment in GFCF stands at 17.5 per cent of GDP. This ranks 35th out of the 38 countries in the OECD, ahead only of Costa Rica at 17.4 per cent and Greece at 11.6 per cent. Meanwhile, the North only saw investment in GFCF of 17 per cent of GDP, meaning that if it were a country in the OECD it would sit ahead of only Greece, a country still recovering from a sovereign debt crisis and its fallout.

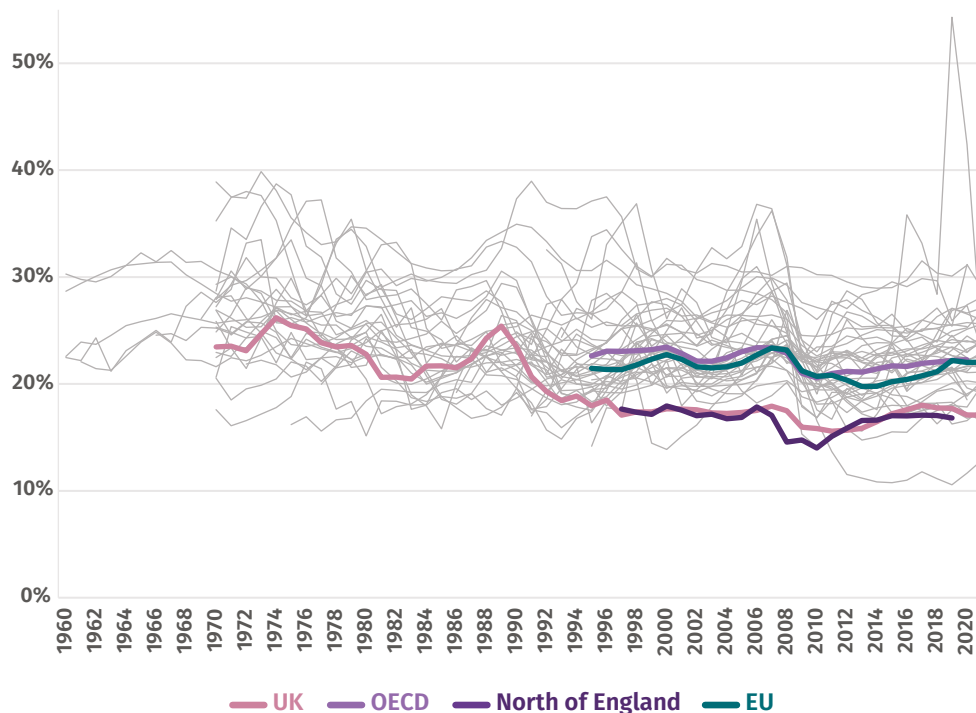
3 Productivity measures efficiency of value creation, analysed here in gross value added (GVA) per worker meaning the value that each worker produces annually.

4 North of Tyne CA area together with Gateshead and South Tyneside.

5 These match the TL3 regions used in our inequality analysis. See annex 2 for more information.

FIGURE 2.2: THE UK IS A LOW-INVESTMENT ECONOMY

Gross fixed capital formation (GFCF) as a percentage of gross domestic product (GDP)
1960–2021



Source: Authors' analysis OECD 2022a, 2022b, and ONS 2022a, 2022b

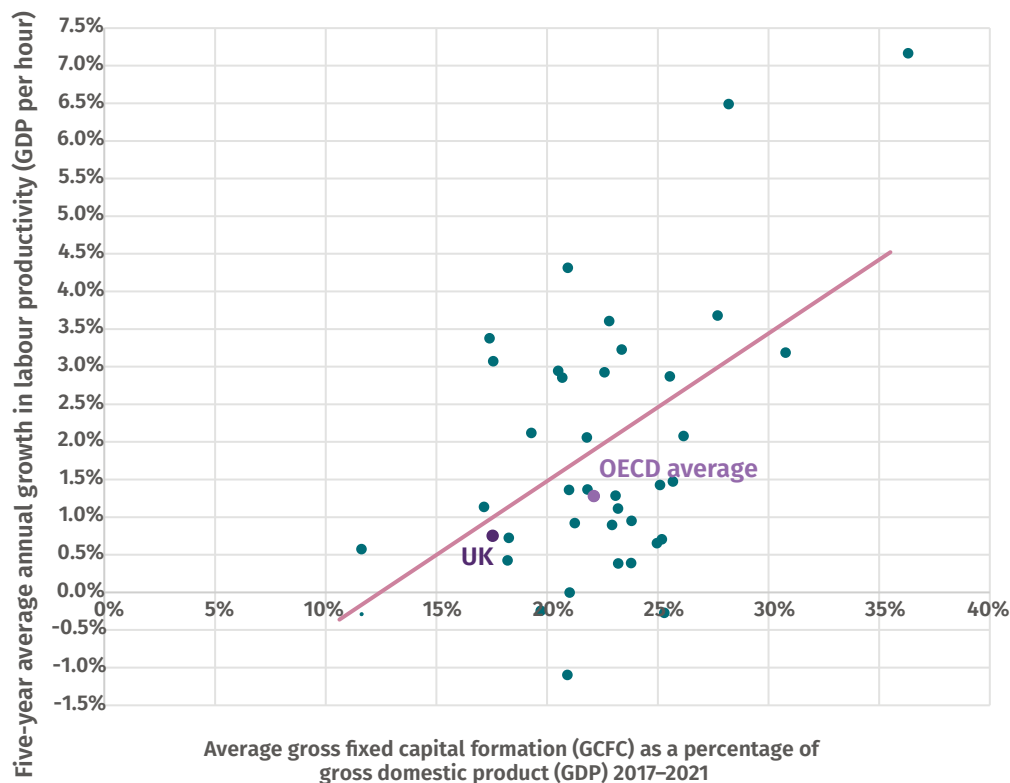
Low public and private investment contributes to slow productivity growth. Among OECD and observer nations, there is correlation between investment and productivity. It is not an unqualified case that more investment is better, but the UK economy – and the North's – can be characterised by a profound lack of growth-enabling investment. Systemic underinvestment in R&D, building homes and transport infrastructure reduces UK prosperity, especially in the North.

Growth-enabling investment has been concentrated in London and the Greater South East to the detriment of elsewhere (Raikes 2019). For instance, had the North received per person transport spending equal to London during the Northern Powerhouse era (2014/15 to 2019/20), £51 billion more spending would have been made – £86 billion over a decade (Johns and Giovannini 2021). Similar discrepancies are found in total public spending (Johns and Swift 2022).

This missing foundational investment in the North and other regions is a brake on growth.

FIGURE 2.3: ACROSS THE OECD, COUNTRIES WITH HIGHER INVESTMENT HAVE SEEN HIGHER PRODUCTIVITY GROWTH

Average GFCF as a percentage of GDP among OECD countries 2017–2021 compared to five-year average annual growth in labour productivity (GDP per hour)



Note: R² = 0.2308.

Source: Author’s analysis of OECD 2022a and 2022b

EMPLOYMENT

Fulfilling, good jobs which provide both purpose and sufficient incomes to sustain good living standards are a key feature of prosperous economies. Employing people in productive work drives economic growth. Creating and sustaining good jobs in regions like the North is therefore crucial to promoting fair regional growth and helping drive down inequality.

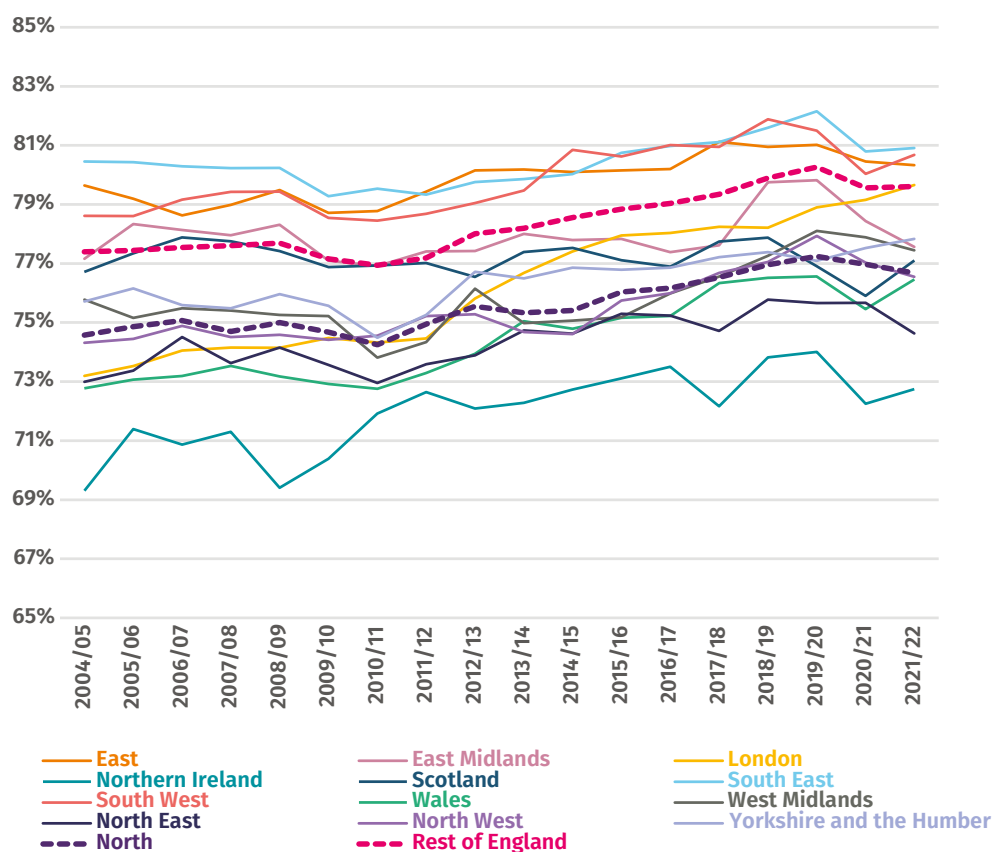
The UK is highly unequal in job creation and employment. For a long period, job creation has been concentrated in London and the Greater South East.

Inequality in access to work exists both between the North and the rest of England, and within the North. It has persisted throughout recent history at different points in the business cycle (Johns et al 2020). In recent years, employment grew in the North. However, a proliferation of poor-quality jobs characterised this growth (Webb et al 2022).

Despite headline improvement in employment outcomes (see figure 2.4), the gap between the North and the rest of England is not closing. The rest of England’s employment rate has been consistently 3 to 4 per cent higher during the 21st century. Long-term unemployment is markedly higher in the North.

FIGURE 2.4: THE GAP BETWEEN THE NORTH AND THE REST OF ENGLAND IN ECONOMIC ACTIVITY HAS WIDENED (A FALL IN ECONOMIC ACTIVITY INDICATES A SMALLER WORKFORCE)

16–64 economic activity rate by region



Source: Authors' analysis of ONS 2022f

Economic activity also fell across both the North and England, compared to before the pandemic. This indicates a shrinking workforce. Analysis suggests long-term sickness is a significant contributor to this (ONS 2022f).

Comparing employment levels with the rest of the OECD, the poorest performing subregions in the UK were Blackburn with Darwen and South Teesside in the North (and Nottingham and Birmingham in the Midlands), which all are in the bottom 20 per cent of the OECD TL3 regions analysed.

INCOMES

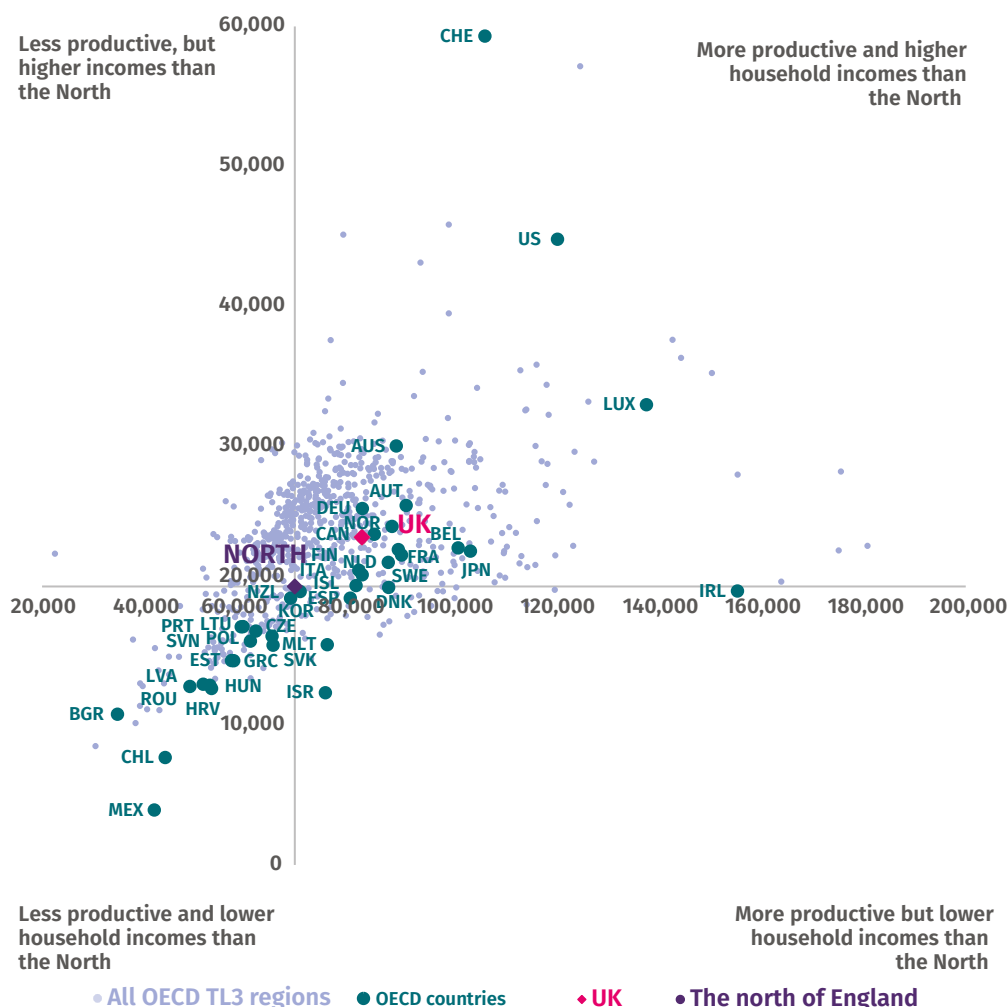
The UK is the most unequal OECD country with available data by incomes. Compared to previous analyses (Raikes et al 2019), income inequality is widening relatively.

Productivity and incomes have a complex, bidirectional relationship. Often assumed productivity growth is required ahead of wage growth, rather mutual interaction is probable (Cantillon and Ucal 2019; IPPR CEJ 2018). Particularly at local and region levels, higher wages spur growth and strong wages are a key mechanism for ensuring productivity growth accrues to workers, supporting fairer regional growth.

In fact, TL3 region Kensington & Chelsea and Hammersmith & Fulham (KCHF) has the highest household income across all regions analysed in figure 2.5,⁶ with the top four regions compared internationally all within London. Meanwhile, the lowest UK TL3 regions are Nottingham and Leicester, where household incomes are estimated to be just 22 per cent of those in KCHF. They are followed by Blackburn with Darwen, and Kingston upon Hull. All sit in the bottom decile, alongside Sandwell, Manchester, Derry City and Strabane, and Birmingham. This decile is principally made up of regions within Slovakia, Slovenia, Czechia, and other eastern European nations in the OECD. Average household income in the North⁷ now sits below all subregions of former East Germany.

FIGURE 2.5: MOST REGIONS AND OECD COUNTRIES LIKE GERMANY AND FRANCE ARE MORE PRODUCTIVE AND HAVE HIGHER INCOMES THAN THE NORTH, WHILE COUNTRIES LIKE SLOVENIA AND SLOVAKIA ARE CATCHING UP

Incomes (disposable household income per capita) by productivity (GVA per worker) in PPP (USD), 2015–20



Authors' analysis of OECD 2022c

6 Among countries for which data was available which notably excludes the US, and excluding Sweden due to irregularities reported to the OECD.

7 Which is constructed of three TL2 regions and so this comparison is only made for context as it is compared here with TL3 regions.

Low wages in poor-quality jobs are a key factor in explaining wide gaps in income inequality between regions, with over one-fifth of jobs paid less than real living wage and an acceleration of in-work poverty in the North (Webb et al 2022).

The impact of the cost-of-living crisis and inflation on living standards exposes those on low and modest income the most, worsening regional inequalities. The ONS marked a national record drop in pay – falling 3 per cent in real terms (so, adjusting for inflation) – from April to June 2022 followed by another large fall from May to July (ONS 2022c). TUC (2022) research suggests UK workers are suffering the most significant pay squeeze in modern history and recent analysis has estimated that inflation is higher in the UK’s poorest cities, including northern places like Burnley, Blackpool, and Blackburn (Rodrigues and Quinio 2022).

The link between productivity and wages is weaker in the North than the rest of the UK



The link between productivity and wages is weaker in the North than the rest of the UK (Johns et al 2020). Our analysis above shows the North performs poorly when mapping productivity and incomes together against regions and nations in comparable countries. As a proxy for inclusion in the economy, it highlights the significant need for progress in the North to build a more inclusive economy that promotes widespread prosperity.

NET ZERO TRANSITION: EMISSIONS AND POLLUTION

Emissions and wider environmental impacts are negative externalities of economic development rather than drivers of growth per se, yet the transition to a greener economy offers an opportunity to both decarbonise and to capture broader socioeconomic benefits through a just transition. In the past, industrial change has driven regional inequalities but such a well-managed just transition to net zero could build on the North’s economic strengths and help deliver a high-skill, high-wage, low-carbon economy (Emden and Murphy 2019).

The North is asset rich in ways that could drive the net zero transition and, with the right strategy, could build an energy economy to help level up the North economically while cutting down emissions (Baxter and Cox 2017; Hunter 2020). The North is also leading the way on renewable energy, producing just over half of England’s green energy supply (Webb et al 2022).

The North is overall more carbon intense than other parts of the UK due to a concentration of energy intensive industry alongside higher transport (particularly car travel) and household heating emissions (ibid). These contribute to global climate change, which has local impacts. There are direct local impacts too, like air pollution. Pollution is harmful to health, raises risks of mortality and morbidity, and contributes to health inequalities more broadly (Marmot et al 2020).

Where you live and work in the UK has a substantial impact on both your exposure to air pollution and the impact of your work and life on the planet.

At a UK level, our analysis below demonstrates that the UK is highly unequal in regional air pollution levels, and unequal across the carbon intensity of its economy – both per capita and against GVA. This builds on evidence, for example, that those living in areas of highest deprivation are exposed to higher levels of

air pollution (ibid). In turn, this exacerbates observed interregional differences in healthy life expectancy and quality of life (see Johns et al 2020).

Comparing internationally, both the UK's and the North's economies have lower carbon intensity than Germany or the Netherlands, but the North's economy is more carbon intense than Italy, France, or Spain.

FIGURE 2.6: THE UK IS THE MOST UNEQUAL COUNTRY OF ITS SIZE AND DEVELOPMENT IN TERMS OF EXPOSURE TO HARMFUL AIR POLLUTION AND IS RELATIVELY UNEQUAL IN TERMS OF REGIONAL EMISSIONS

Theil Index of regional inequality among OECD nations across air quality and emissions measures (bubble size = country population)



Note: Compiled using TL3/ITL3 regions.⁸ See annex B for further information. Not all countries are available for all metrics.

Source: Authors' analysis of EEA 2022; EC-JRC 2022; DEFRA 2022; OECD 2022c

The North's industrial emissions are higher than the rest of the country, particularly in Yorkshire and the Humber (Webb et al 2022), principally due to the industrial clusters present.

However, it contributes significantly to national carbon reduction efforts, generating more than 50 per cent of England's renewable energy, and hosting

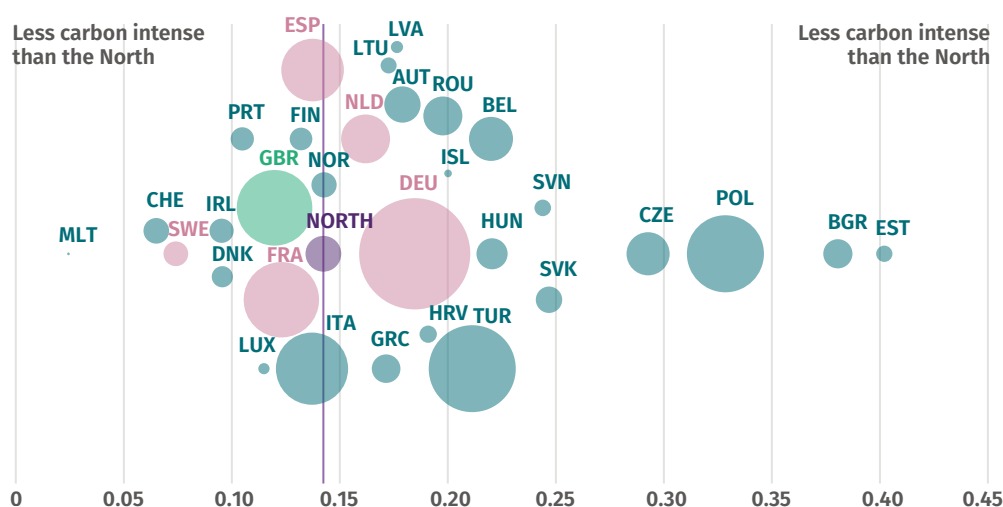
8 The Netherlands appears highly unequal by this measure largely due to the presence of the Groningen gas field. When removing the regions which include the gas field, the Netherlands is less of an outlier and would score around 0.6 by the CO₂ per capita measure and place to the left of Germany (DEU) by the GVA measure at around 0.4.

over half of UK onshore wind capacity (54 per cent) and more than one-third of offshore capacity (39 per cent) (BEIS 2022).

There is cause for hope and potential economic benefits. Building on the North’s assets, it could be the UK’s net zero engine. Investment in transport, innovation, skills, and decarbonisation across the economy – including households and industrial processes, for instance – can decouple growth and prosperity from emissions and climate degradation (Johns et al 2020).

FIGURE 2.7: THE NORTH’S ECONOMY IS MORE CARBON INTENSIVE THAN THE UK OVERALL AND SOME EUROPEAN NATIONS LIKE SPAIN, FRANCE, AND ITALY. IT IS LESS CARBON INTENSIVE THAN SOME COUNTRIES LIKE GERMANY OR THE NETHERLANDS

Carbon intensity, measured as estimated ktCO₂e emissions per million USD of GVA (five-year average, PPP) (bubble size = total emissions in ktCO₂e)



Source: Authors’ analysis of EC-JRC 2022 and OECD 2022c

Research by the Local Government Association (LGA) estimates that by 2030, the North could have around 251,103 jobs in low carbon and renewable energy sectors, rising to 422,500 by 2050 with employment growing in different green subsectors (LGA 2022). Recent analysis by IPPR highlighted that England’s housing stock is significantly behind European peers like Germany and France in energy efficiency and quality. It further suggests that areas in need of levelling up – such as the West Midlands, the North East or former industrial centres like Doncaster – would benefit twice as much economically from nationwide retrofitting than London (Emden 2022). These depend on investment – including crowding-in investment – alongside significantly focussing on improving local skills (ibid).

EDUCATION AND SKILLS

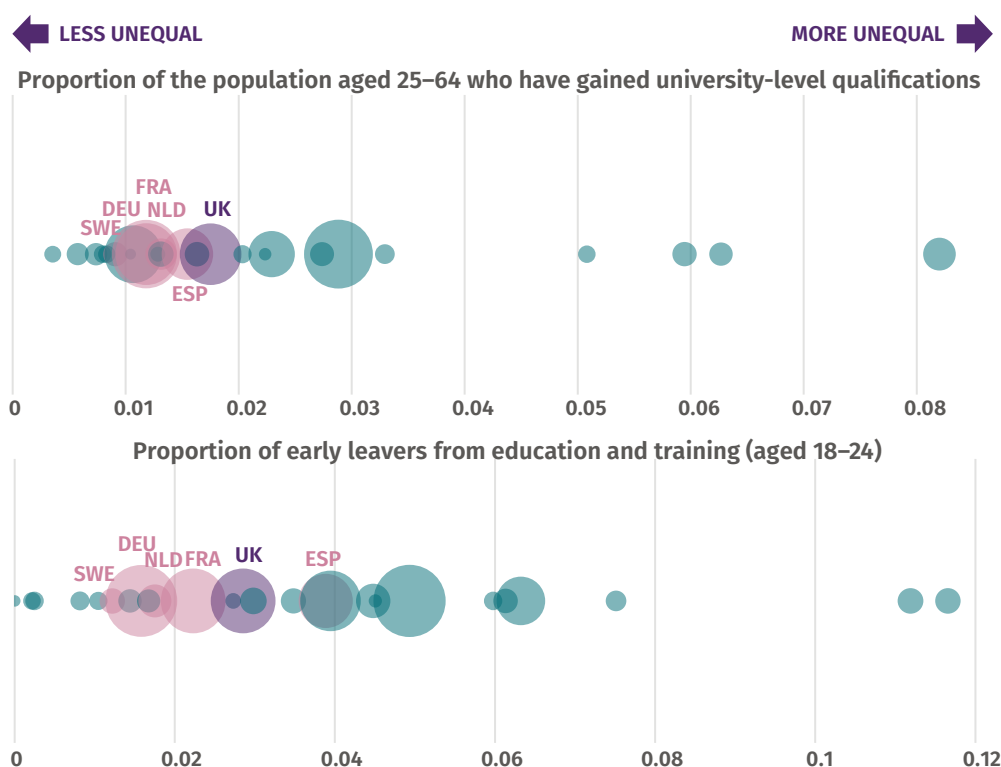
Regional skills are increasingly important for closing economic divides, particularly productivity. The UK economy’s structure continues shifting in favour of highly skilled work and relies upon it for productivity growth. Longstanding concentrations of skilled workers, as well as innovation, in London and the Greater South East is likely to further widen economic divides (Gardiner et al 2020). Coupled with good transport (which improves the accessibility of skilled jobs for workers and skilled employees for employers), improving skills is a key element of addressing productivity divides. While the UK remains more unequal than its peers in terms of

spatial inequality of skills, these divides are relatively narrower than the productivity and income differences highlighted above.

Lower skills levels are a factor in the productivity gap, as well as in the divide that exists in employment outcomes. This is because the relationship between unemployment and low skills levels is stronger in the North than across England at large (Round 2018).

FIGURE 2.8: THE UK IS MORE UNEQUAL THAN SOME COMPARABLE EUROPEAN ECONOMIES IN TERMS OF DISTRIBUTION OF UNIVERSITY-LEVEL SKILLS AND EARLY LEAVERS FROM EDUCATION AND TRAINING

Theil Index of regional inequality among OECD nations (bubble size = country population)



Note: Compiled using NUTS2/TL2 regions due to data availability. Not all countries are available for all metrics and some regions have been excluded due to small sample sizes.

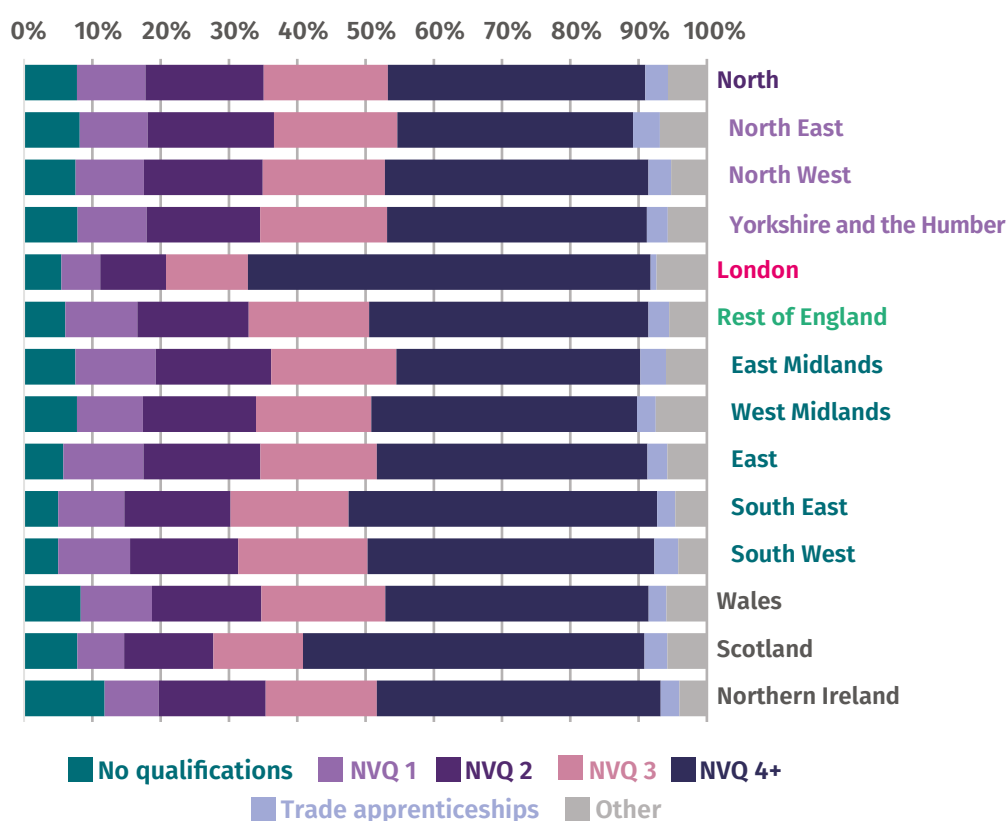
Source: Authors' analysis of Eurostat 2022 and OECD 2022d

In 2022, job vacancies overtook the number of unemployed people (ONS 2022d). Growing vacancies are observed in northern cities like Manchester – particularly in high skilled sectors (see for instance Holme 2022). Not only is this indicative of skills shortages – suggested above – but also skills mismatches between the skills that prospective workers have and those that employers need. While still unequal, the distribution of skills sees a lower relative level of UK regional inequality observed for skills as compared, for instance, to productivity and incomes. Nonetheless, there is an interaction between skills (and human capital generally) and other observed UK inequalities in drivers of growth, like physical capital (including transport) or institutional capital. These sustain and compound economic divides, including in productivity. Inequalities in skill levels remain crucial as one part of the broader puzzle of the UK's regional divides.

Inequalities are observed throughout the education and skills system. For instance, regional divides are observed at early years foundation level and in schoolchildren’s access to extracurricular activities (Webb et al 2022). In recent years, through the pandemic, apprenticeship starts have fallen more sharply in the North than elsewhere in England, amid a drop in entry-level apprenticeship uptake over time (Ambrose and Shaw 2022).

FIGURE 2.9: THE NORTH HAS HIGHER LEVELS OF PEOPLE WITH NO AND LOW QUALIFICATIONS THAN THE REST OF ENGLAND

Proportion of the population aged 16–64 by highest level of qualification by region



Source: Authors’ analysis of ONS 2022f

The UK is more unequal in the regional distribution of university-level skills than comparable countries in Europe, and even smaller nations like Slovenia and Croatia. While Denmark performs marginally worse, the remaining set of more divided countries by skills largely includes eastern European countries like Poland, Hungary, and Romania, alongside Turkey.

The UK performs better in terms of spatial inequalities in the concentrations of early school leavers – though where you live is still likely to impact how likely you are to leave education and training early, according to our analysis. The UK outperforms Spain, Italy and much of eastern Europe by this measure, though it is behind the Nordic countries, Germany, France, Serbia, and Croatia.

3.

INTERNATIONAL IDEAS

So far, this report has analysed the key drivers of regional growth and put the UK's stark regional divides in an international context. We now look out to level up, seeking to learn from successful levelling up in other countries.

This section presents five case studies of places that have levelled up in line with the key challenges already described. From over 140 pieces of evidence reviewed, these case studies were chosen due to parallels to the North, such as they have responded to deindustrialisation or polycentricity as an economic feature.

The five case studies below each provide key lessons for the North, and regions beyond.

LEVELLING UP THROUGH INDUSTRY AND INVESTMENT IN LEIPZIG, GERMANY

Leipzig is a historic, medium-sized city in Saxony, a region in former East Germany. Home to a population of 600,000, within a metropolitan area of one million people, its story is that of a 'phoenix' rising from the sharp end of regional divides to become the fastest growing German city (Green et al 2017; City of Leipzig 2020).

Historically, Leipzig was significant. Like the North, it was home to social movements such as the German women's movement. By 1930, its population stood at 718,200, making it Germany's fourth largest city (Power and Herden 2016; CIPFA 2022), but, it declined during the 20th century, sharply so after reunification. By 1998 Leipzig was experiencing mass unemployment, poor public services, social inequalities, dereliction and a population of just 437,101 (City of Leipzig 2020).

This decline juxtaposes Leipzig today. Its population started growing in 2002, and may reach 700,000 by 2040 (ibid). Its economy, which has restructured and diversified, is double what it was in 2000, and is one of the fastest growing in Europe (CIPFA 2022).

A driving force behind this transformation is local leadership. Mayor Wolfgang Tiefensee (1998 to 2005) convened experts and citizens, to co-design policies to 'level up' the city. They focussed on urban renewal, economic diversification for future industries with a focus on five sectors or 'clusters', and developing new transport infrastructure (Power and Herden 2016). One cluster – automotive – attracted BMW to establish a new plant in the city with local government setting up a job agency and working with BMW to ensure that one-third of the jobs went to local (particularly long-term) unemployed people (Green et al 2017). Specific initiatives to drive inclusive growth in Leipzig include a cluster-led approach, funding for innovation and structural economic change, and subsidised capital investment and business support for small and medium enterprises (SMEs) (CIPFA 2022).

In recent years, Leipzig has received numerous awards for quality of place and life. The integration of transport planning and housing strategy in redevelopment has helped to deliver repopulation in inner city areas, alongside tackling local

unemployment. It has also developed participatory infrastructure (Souris 2021) and, in 2019, was a finalist for the Innovation in Politics Award (Hörning 2019).

Leipzig's economic growth and diversification has created jobs and improved inclusion, particularly in reducing unemployment. However, incomes remain low in comparison to other German regions.

Subnational governance and fiscal devolution in Germany

Germany is a federal country. The 16 states (Länder) are very powerful and their powers and means of cooperation with central government are clearly defined in German constitutional law. The status of districts and municipalities is protected by the German constitution, but each state determines structure, responsibilities, and the fiscal framework of local government within them. The German constitution features a commitment to reducing regional disparities (OECD 2019d).

This political system enabled Leipzig's renewal, in part through regional autonomy – providing power and resources to effect its own change. Central government takes under 50 per cent of income tax and VAT and around half of corporation tax incomes. The remainder stays locally – for state and local government (CIPFA 2022).

Additionally, a national 'solidarity fund' provided East Germany, of which Leipzig formed part, with the scale of investment required to finance reunification. This national effort to close Germany's regional divide helped East Germany to become more productive than most English regions (Raikes 2020). Estimates of the total spent addressing German regional divides are contested. However, a total between €1.5 trillion to €2 trillion (€70 billion per annum) is well cited (Webb et al 2022, Fischer 2019). This estimate includes investment, spending in areas like pensions and social welfare transfers, and fiscal transfers as part of Germany's complex system for fiscal equalisation among states (see Raikes 2020). Some estimates suggest around €500 billion were invested⁹ in infrastructure and economic regeneration, of which around €40 billion involved national transport projects (Fisher 2019).

From 2004 to 2019, a key fiscal mechanism for reducing German regional inequalities was supplementary federal grants for states under 'Solidarity Pact II'. This was an agreement between states and the central, federal government. Divided into two baskets, around two-thirds of the funding came from equalisation between the Länder while one-third was funded by the central, federal government (BMWi 2016 and Deutscher Bundestag 2001):

- Basket I was worth €105.3 billion over the period and supported closing the infrastructure gap between East and West Germany and fiscal support for states with low financial strength
- Basket II was worth €51.1 billion over the period, involved other federal grants and focussed on priorities agreed between the federal government and the states. Largely, this involved economic affairs such as innovation, investment, and improving competitive strength. This basket was not limited to regions in former East Germany, though they received more by design.

Overall, Solidarity Pact II saw €156.5 billion transferred to states in former East Germany, including Saxony, to spend on levelling-up type activities, around 0.4 per cent of German GDP in the 15-year period.¹⁰ This is only one part of total spending to address German regional inequalities, and does not include areas such as:

- EU structural funds or subsidies

9 From reunification to 2014.

10 In 2004 prices, when Solidarity Pact II was agreed.

- locally or regionally generated tax revenue
- direct horizontal transfers within the German system for fiscal equalisation among federal states (see Raikes and Giovannini 2019)
- federal (ie centralised) investment, like the Transport Projects of German Unity which built new substantial transport infrastructure connecting to and within former East Germany
- other regional development funding, for instance the joint Federal Government and Federal State Improving the Regional Economic Structure (GRW) programme worth €1.2 billion annually (BMW 2019).

Specific support mechanisms for former East Germany, like Solidarity Pact II and the solidarity surcharge, were phased out in 2019, moving to a support system for all structurally weaker regions within a unified German scheme.¹¹ While Germany still has regional inequalities above the OECD average (in productivity for instance), owing to the scale of the reunification challenge, these have decreased in recent history. This is particularly observed in living standards (ibid).

TABLE 3.1: GERMANY IS HIGHLY DECENTRALISED

Subnational powers and competencies in Germany

	State level	Intermediate level	Municipal level
1. General public services	Internal administration, including salaries and benefits of all public employees (exclusive); justice (concurrent); local government (exclusive)	Internal administration	Internal administration including staff management; some administrative duties devolved by the state
2. Public order and safety	Police (exclusive)	Fire protection; disaster control service; rescue services	Local security
3. Economic affairs/ transports	Regional economic development; labour and economic law (concurrent)	Secondary roads; public transport; promotion of economic activity and tourism; pedestrian areas and cycle lanes	Local roads, local public transport; waterways; local economic development; local tourism; energy supply utilities
4. Environmental protection	Environment (concurrent)	Nature and landscape protection; maintenance of nature parks; household waste collection and treatment	Waste water management; local green areas
5. Housing and community amenities	Housing and community amenities (concurrent)	Spatial planning at district level; building permits and inspection	Urban development planning (land use and building plans); urban development and regeneration; water supply and sewerage; housing incentives
6. Health	Health (concurrent)	District hospitals (construction and maintenance)	Health care and veterinary affairs
7. Recreation, culture, and religion	Culture (exclusive power)	Public libraries (construction and maintenance); support for cultural activities	Culture; sports; recreational areas and leisure

11 That is to say that there are no longer specific allowances for East German regions versus West German ones.

	State level	Intermediate level	Municipal level
8. Education	Education including universities (construction and maintenance); adult education colleges; support for pupil exchanges	Secondary schools and technical schools (construction and maintenance)	Primary schools
9. Social protection	Social welfare (concurrent)	Social welfare and youth welfare; social welfare infrastructure	Social aid and youth; childcare

Reproduced from OECD 2019d.

Lessons for the North

Empowering places like Leipzig with policy levers, flexibility to respond to changing local circumstances and strong, long-term resourcing allows local places to level up for themselves, contributing to the national economy. Leipzig has significantly more policy levers, flexibility, dependable resourcing, and autonomy than local government in the North. In Leipzig, this has resulted in internationally recognised, sustainable prosperity for ‘the common good’ (see EC 2020).

Local political will and long-term cooperation, with different tiers of government and the private sector, has helped to strengthen the power of formalised local government levers and improve their impact.

Leipzig’s approach involved building on its strengths and focussing on future industries with a focus on five sectors or ‘clusters’, while also using a range of funding initiatives to support areas where its economy was weaker, which has strengthened and diversified its local economy.

Leipzig developed a well-resourced, long-term plan, and involved citizens and experts in its design, which has supported inclusive growth and resilience, and been recognised as world leading. Clear vision and defined goals are crucial to bring together partners to target specific problems that sustain inequality, such as high unemployment.

The German approach to spatial redistribution ensures places with weaker local economies have the tools to address local barriers and contribute to national prosperity. A fair, fiscal equalisation approach through the solidarity fund has been crucial to rebalancing the German economy and supporting places like Leipzig.

Substantial, long-term, and devolved funding around shared goals of national and local government can help bolster regional economic performance, address regional inequalities, and drive national economic performance.

LEVELLING UP THROUGH LOCAL TRANSPORT INVESTMENT IN IBARAKI, JAPAN

Japan has made significant efforts to close regional inequalities in recent years. As of 2018, it places in the top one-third of OECD countries with lowest regional disparities (OECD 2018b). While its richest region, Southern Kanto, has a GDP some 40 per cent higher than its poorest, Kyushu, this remains lower than other OECD countries when it comes to regional divides (ibid).

Despite these efforts, Japan’s economy faced significant challenges in the early 2000s. A combination of sluggish economic growth, coupled with congestion in its main economic centres, justified the need to develop ambitious infrastructure projects to accommodate an expanding population, while simultaneously boosting economic growth and closing regional divides (Byoungki 2006).

To address this, local government in the Ibaraki region – with the support of central government – developed an ambitious rail project, the Tsukuba Express. Opening in 2005, this 58.3km, 20-station corridor connects central Tokyo and Tsukuba to the north east of the capital (TDLC 2020).

Originally aiming to relieve pressure on the Joban Line, which had reached capacity, the enactment of the Special Measures Law concerning Comprehensive Advancement of Housing Development and Railway Construction in Metropolitan Areas in 1989 furnished local government with powers to better capitalise on this project economically. The measures allowed municipalities to expedite large housing projects and expand new and existing railway lines where they would aid economic development (Kriss et al 2021). Alongside this, a new legal framework accelerated the development of large infrastructure projects with the adoption of the Housing-Railway Integration Law (OECD 2022f). Given demographic and economic needs, this infrastructure project was facilitated and accelerated by both legal changes (TDLC 2020).

Costing £6.5 billion, the railway was delivered through a combination of no-interest government loans (80 per cent), local government contributions (14 per cent) and fiscal investment (6 per cent) (JLGC nd). Land readjustment was used to create rights-of-way and accommodate the new railway line (ibid). Local municipalities' active involvement in land assembly for development resulted in the railway not only providing infrastructure, it also enabled local government actors to control subsequent land use along the route. They used this to drive further economic development (TDLC 2020).

This approach saved municipalities land acquisition costs and promoted transit-orientated development. As well as providing initial financial support for the development of the Tsukuba Express, central government in Japan also provided strategic support. The Urban Renaissance Agency, a central government agency in Japan, worked closely with municipalities and helped them develop station areas, developing new commercial and residential spaces as part of a Land Value Capture strategy (ibid).

Subsequently, housing provision and the population have grown along the corridor at a higher pace than originally estimated. Consequently, the land prices in a 1.5km radius of the stations significantly increased from 2005 to 2010. This helped the new rail line reach financial sustainability within five years of starting operation (ibid).

Subnational governance and fiscal devolution in Japan

Japan is a unitary state, with three levels of government: central, regional (prefectures) and local (municipalities). These are constitutionally protected, and responsibilities and functions are clearly outlined. Most public services are delivered by subnational government in Japan.

Despite being a unitary country, Japan has seen significant fiscal devolution and is comparatively decentralised. In the 21st century, Japan underwent further devolution, with three main components (OECD 2019e):

- a tax-sharing system between national and subnational governments
- the local allocation tax (LAT)
- abolishing some centrally earmarked grant schemes in return.

Local government can levy 25 taxes (12 for prefectures and 13 for municipalities) and local government can introduce new non-statutory taxes where there is specific need. These are levied across different areas: incomes, businesses, consumption, and assets. In total, tax income represents around one-third of

total subnational government revenues. This tax base is significantly broader than available for UK local government (ibid).

TABLE 3.2: JAPAN'S SUBNATIONAL GOVERNMENT HAS WIDE-RANGING POWERS AND RESPONSIBILITIES

Subnational powers and competencies in Japan

	Prefectures	Local/Municipal level
1. General public services	Communication and coordination affairs relating to municipalities	Internal administrations; family registers; resident registrations
2. Public order and safety	Police	Firefighting
3. Economic affairs/ transports	Economic development; public infrastructure; prefectural roads; national highways; harbours; agriculture; employment	Local roads; local harbours
4. Environmental protection	Forest and river conservation; environmental protection	Sewerage; waste disposal; parks
5. Housing and community amenities	Public housing	Urban planning; public housing; water supply
6. Health	Public health centres	Nursing
7. Recreation, culture, and religion		Leisure services; sport; libraries
8. Education	Upper secondary schools	Pre-schools; elementary schools; lower secondary schools
9. Social protection	Social assistance policies	Child welfare; elderly; national health insurance; ageing insurance

Reproduced from OECD (2019e)

Intergovernmental transfers alleviate fiscal inequalities in Japan. The LAT is a redistributive mechanism based on five major national taxes where local governments receive between 23 per cent and 34 per cent of receipts generated locally. Local fiscal capacity and expenditure needs determine further transfers. This redistributes revenues towards local governments with high needs but lower tax bases, while allowing those with stronger tax bases to fund themselves (ibid). Japan also has a hometown tax (Furusato Nozei), allowing people living in places with strong local economies, generally urban, to contribute to places of their choice (which may include their hometown) with weaker economies – generally rural – in return for other tax credits.

Central government also provides grant funding in national priority areas like local economic revitalisation programmes (ibid).

Lessons for the North

The Tsukuba Express serves as a strong example of how involvement of local government in major infrastructure projects can ensure their quick delivery and enable strong local value capture, bringing net benefit to local economies around it and unlocking wider benefits such as enhanced housing supply.

Aligning infrastructure (and other growth-enabling) investment with housing, public services and other policy areas is crucial to long-term success and capturing local benefits, particularly through land value capture mechanisms for local government.

Japanese central government provided both financial support and strategic support through the Urban Renaissance Agency to assist local government in delivering on

their priorities which would contribute to national priorities and growth, including no interest loans.

Development plans in Japan appear to be much more orientated towards delivering ambitious infrastructure projects compared to the UK. A much more proactive focus from central government in the UK on driving economic development through local partnership, combined with streamlining the planning framework to unlock investment opportunities as well as enhancing local government capacity, could provide a new approach for driving forward major infrastructure projects in the UK.

Fiscal devolution alongside fair distributive mechanisms are possible, providing for local flexibility and needs-led funding. These are not solely reliant on centrally controlled fiscal transfers, but can exist within a transparent framework.

LEVELLING UP THROUGH CULTURAL REGENERATION IN BILBAO, SPAIN

Bilbao is capital of the Basque Country, one of 17 autonomous communities (or *autonomías*) in Spain. Its metropolitan area is home to around one million people. Its Atlantic port and nearby iron ore deposits made it an industrial city. Like the North, it suffered from deindustrialisation as industries including steelmaking and shipbuilding declined in the 20th century, driving local unemployment and deprivation.

Since flooding in 1983, Bilbao has rethought its landscape and adapted to become a deindustrialised economy, investing in culture and tourism, jumpstarted by the Guggenheim Museum opening in 1998. The economic impact of the museum has been termed the 'Bilbao effect', referring to investment in culture and the built environment as having a direct impact on struggling cities and economies (see Moore 2017).

Devolved government within Spain (see below) has helped boost Bilbao's culture-led regeneration, allowing strategic integration at different levels of government and collaboration with regional public and private stakeholders in designing policy. This culminated in Bilbao launching two new bodies to oversee regeneration; both sharing the goal of promoting culture for economic revival, yet each with their own function (Gray 2021):

- Bilbao Metropoli-30 – a public-private partnership promoting the long-term vision of using culture within regeneration, incorporating local knowledge and industry expertise
- Bilbao Ría 2000 – a publicly owned company funded by different tiers of Spanish government (national down to municipal), which consolidated land and co-ordinated infrastructure and regeneration, such as at the city's waterfront.

This long-term strategic vision, with multi-layered governance and partnerships, has made Bilbao a thriving example of culture-led regeneration. Bilbao is now a global hub for trade and business travel, with venues like the Guggenheim, the Bilbao Exhibition Centre, Palacio Euskalduna Conference Centre and Concert Hall, and Azkuna Zentroa (previously Alhóndiga Bilbao) opened since the 1990s.

Better physical connectivity, placemaking and branding, supported by cultural investment, drove diversification and inclusion. Economic support for diversification and renewal catalysed this change, while transport investment projects (like Bilbao's metro system) were jointly financed by the Spanish government and municipality.

A cluster-based approach to this further brought together local government and skills and education provision (including universities) to work with industry. Altogether, this has built a resilient economy, which outperforms Spain in terms

of unemployment and is notable across Europe for its strong productivity and high wellbeing.

Bilbao has been widely recognised for its efforts to build a more inclusive city economy and now outranks Nordic countries on the OECD Better Life Index, earning particularly high marks for social wellbeing and life satisfaction (PICSA 2019). Evidence suggests that Bilbao’s focus on inclusive growth has improved inclusion, though disparities remain within the city in areas like incomes and educational attainment (OECD 2022e).

Subnational governance and fiscal devolution in Spain

Spain is a highly decentralised, unitary state; sometimes called a ‘quasi-federation’. Three main tiers, guaranteed autonomy by the Spanish Constitution, govern it: autonomous communities, provinces, and municipalities. In smaller communities, autonomous communities and provinces are coterminous.

Autonomous communities are powerful, with extensive fiscal levers. Autonomous communities also have direct representation in the Spanish Senate (Raikes 2020) and vertical coordination between central government and communities is common and formalised. Each community has an autonomous statute defining their responsibilities, but there are both common areas (see table 3.3) and areas of shared competence between the Spanish state and communities, including in education.

Spanish decentralisation is increasingly less asymmetric. Two communities – Basque Country and Navarre – have further fiscal powers than the remaining 15 communities, while the Canary Islands have additional powers on tax. Spanish decentralisation occurred during democratisation, and autonomous communities moved at different speeds due to variation in local capacity.

TABLE 3.3: SPAIN’S TRANSITION TO DEMOCRACY INVOLVED SIGNIFICANT DECENTRALISATION

Subnational powers and competencies in Spain

	Autonomous communities	Provinces	Local governments (depending on the size of the municipalities)
1. General public services	Municipal and provincial supervision (shared with the central government)	Internal administration; coordination of local government with the AC and the state; technical assistance to municipalities	Internal administration
2. Public order and safety	Public order		Public safety; municipal police; civil protection and firefighting (larger municipalities)
3. Economic affairs / transports	Regional and rural development; fisheries, hunting, aquaculture, agriculture, and forestry; regional tourism; regional railway and road networks; regional transport; ports and airports not engaged in commercial activities	Cooperation in the promotion of economic and social development and in planning of the provincial territory	Traffic management; road maintenance; tourism; public transport (municipalities above 50,000 inhabitants); markets
4. Environmental protection	Environmental protection		Environmental protection (municipalities above 50,000 inhabitants); waste management; waste water; parks and gardens

5. Housing and community amenities	Urban planning; housing		Urban policies; water supply; public lighting; cemeteries and funeral services
6. Health	Health		Participation in the management of first healthcare
7. Recreation, culture and religion	Museums; libraries; music conservatories of regional interest; cultural heritage; promotion of culture and of the regional language (when relevant)		Cultural facilities; sport facilities (larger municipalities)
8. Education	Education (shared); universities (shared)		Participation in the design of education programmes and facilities
9. Social protection	Social welfare; social services (shared)		Social services allowances (larger municipalities); promotion of social reinsertion

Source: OECD 2019f

Spanish subnational government, especially autonomous communities, drives most infrastructural investment, R&D and other development, though this declined after the Global Financial Crisis. The central state supports regional initiatives through the Inter-territorial Compensation Fund and Regional Incentives Programme, aimed at less developed communities.

Fiscal equalisation through intergovernmental transfers guarantees basic public services across Spain, while a framework of fiscal powers outlines national taxes from which communities benefit (for instance their share of regional VAT receipts), windows of discretion on such taxes, and areas of further autonomy like wealth taxes or inheritance taxes. Municipalities have their own-source taxes like property taxes and shared taxes (such as a local proportion of VAT receipts), depending on the size of the municipality.

Lessons for the North

Bilbao benefitted from economic stability within long-term policy frameworks and visions that brought together different tiers of government and the private sector around common goals: the regeneration of Bilbao. This compares to the UK's institutional churn in recent decades, like the abolition of regional development agencies and forming of local enterprise partnerships (LEPs).

Subnational government in Spain is constitutionally protected, while in the UK different bodies are often at the mercy of UK central government where shorter ad hoc funding cycles dominate rather than transparent frameworks. This makes long-term planning and the formation of robust public-private relationships harder.

A holistic approach to socioeconomic transformation, built on investment and culture, and an economic system that gives the Basque Country fiscal autonomy helped Bilbao's successful regeneration. They recognised that placemaking and branding, paired with cultural investment help drive this transformation.

Bilbao built on its assets (such as the waterfront) and recognised the benefits that could be gained from investing in and renewing them.

Bilbao's story also involves investing in parallel and supporting local transport infrastructure, local economic clusters and skills.

Both fiscal decentralisation – with clear system for redistribution – and the Bilbao Ría 2000 partnership allowed Bilbao to capture economic benefits from regeneration and invest those in further renewal over the long term.

LEVELLING UP THROUGH THE NET ZERO TRANSITION IN LULEÅ, SWEDEN

Luleå, a city in Norrbotten County, northern Sweden, is an exemplar of net zero transition that is delivering local socioeconomic benefits. Its metropolitan area accommodates around 78,000 people, with 251,000 people living in wider Norrbotten County (forming 25 per cent of Sweden's land area) (Regionfakta 2022).

Luleå grew rapidly during the industrial revolution due to nearby natural resources, like minerals, and its Baltic Sea harbour. Like many industrialised places, Luleå deindustrialised in the 20th century – seeing population and employment fall, and experiencing 'brain-drain' style emigration.

Much has changed. Wide-ranging industrial, research, education and trade assets have developed alongside the professional services to support them. The Luleå University of Technology became a university in 1997; it collaborates closely with industry to provide technical skills and research, and is one of five Institutes of Technology in Sweden focussing on this industry-led approach.

Luleå's recent transition is transformative. Regional growth in hydro and wind power spurred this on, providing large, cheap renewable energy surpluses. This supports the region's energy-intensive industries and is attracting new industry; the municipal and county government promote this in inward-investment pitches.

The world's first hydrogen-powered steelmaking plant opened in Luleå in 2020, accompanied by new green hydrogen storage facilities. The SSAB pilot uses renewable electricity and water – highly available – to produce fossil-free hydrogen for steelmaking; traditional steel production methods account for up to 9 per cent of global emissions (Swalec 2022).

Alongside this, the first Facebook campus outside the USA opened here in 2013, with a third data centre planned, attracted by cold air (providing natural cooling for the servers so improving energy efficiency) and cheap renewable energy, and the least carbon intense data centre in the world (Lavi 2022) is now located here (data centres have overtaken aviation as a source of emissions (ibid)).

These are crucial developments not only for Luleå's and Sweden's economies but also for global net zero transition. According to Luleå's mayor, Carina Sammeli,¹² previously heavy industry was dragging down the city's chance of meeting its emissions targets; now, industrial transition is driving change.

Luleå's journey here has been asset-led, and involved working in collaboration and crowding-in investment to see it become a clear first mover in the net zero transition. The municipality was crucial in this. It worked through a collaborative tripartite approach to decarbonise local steel industry, meaning local government, trade unions and industry working together. According to Carina Sammeli, troubleshooting and sharing common goals are key. Skills, energy, and infrastructure have been central to enabling the local transition and collaboration. From land assembly to working around planning restrictions due to a nearby military base, this partnership approach reduced friction and enabled investment to support transition.

Partnership-working also extends upwards to Norrbotten County Council and to central government. Central government provided initial investment to SSAB's HYBRIT pilot project via the publicly owned energy company Vattenfall and state-owned mining company LKAB. This investment supported both initial R&D and construction and operation of the pilot. This has been followed by the

¹² Carina Sammeli was interviewed as part of this research.

development of plans for an entirely commercial net zero steel plant at nearby town Boden.

Significant private investment is being made in industrial production, renewable energy and improving the harbour’s freight capabilities. The municipality is investing too. The mayor points to a new challenge of success: providing necessary infrastructure. This is particularly the case now population decline has given way to growth. To meet population demand, the international publicly owned Nordic Investment Bank has loaned Luleå SEK 500 million to improve water infrastructure. The mayor is looking to the same partnership- and asset-based approach to meet new challenges in turn.

Luleå’s net zero transition is providing significant benefits to Luleå as a place and to its people. Arresting its population decline, it is expected that 25,000 new residents will be needed to fill labour demand in the coming decades; Norrbotten has lower unemployment (2.8 per cent opposed to 3.8 per cent for Sweden overall) and the second highest GDP per worker in the country after Stockholm (Regionfakta 2022). Whether data centres, green hydrogen or steel, renewable energy from wind or solar, Luleå and Norrbotten County are positioning themselves as Sweden’s net zero transition engine.

Swedish subnational governance and fiscal devolution

Sweden is a unitary country, like the UK, but has three government levels: national, regional (county councils) and local (municipalities). Sweden’s governance arrangements were set in law in 1992 but Sweden has since devolved further powers from central government. Sweden equalised regional government powers in 2019, ending asymmetries while devolving new powers on transport infrastructure (OECD 2019b).

TABLE 3.4: SWEDEN IS HIGHLY DECENTRALISED

Subnational powers and competencies in Sweden

	Regional/county council level	Local/municipal level
1. General public services	General administration	General administration
2. Public order and safety	Public transport (via a regional public transport authority); regional development; tourism (optional)	Emergency and rescue services
3. Economic affairs/ transports		Public transport (shared with regional public transport authority); economic development, road maintenance, employment (optional); industrial and commercial services (optional)
4. Environmental protection		Environmental protection; refuse and waste management; sewerage
5. Housing and community amenities		Planning and building issues; housing (optional); energy (optional); water supply
6. Health	Healthcare and medical services; primary care; hospitals; ambulatory care; dental care	Preventive health care
7. Recreation, culture, and religion	Cultural institutions	Leisure; culture (optional)
8. Education		Pre-school; primary and secondary education; vocational training
9. Social protection		Care for the family; child; elderly; disabled

Reproduced from OECD (2019b)

Sweden has clear divisions of responsibility between government levels, assigning compulsory service provision and additional areas of optional provision. Local autonomy is constitutionally protected. Local government has powers of general administration and competence to respond flexibly to local need. Sweden's counties are less powerful than municipalities, focussing more on regional coordination and strategy, though recent powers on regional development evolved this (ibid). Notably, Swedish local government owns over 1,800 companies where local public enterprises provide services in areas like housing, transport, property, energy, and communications (ibid).

Sweden is one of the most decentralised unitary countries in the OECD, with higher subnational expenditure per person than in the UK. It is characterised by longstanding high levels of public investment, low comparative regional disparities and high regional wellbeing (OECD 2018a).

Lessons for the North

Luleå took an asset-based, investment-led approach to net zero transition, creating the conditions to sustain industry and support decarbonisation. Building on natural assets and partnerships particularly with universities and trade unions, and leveraging investment from national government, public-sector corporations and the Nordic Investment Bank, Luleå helped crowd-in investment – spurring private sector investment into further local development, driven by local decarbonisation goals.

There has been a focus on coordinating to provide the right foundational infrastructure to support transition, including leveraging existing infrastructure (like the harbour and railway networks), leveraging the skills from the local universities and making growth-enabling investments in R&D, hydrogen storage, water infrastructure, land assembly and skills. Following this investment there have been ripple effects – including data centres moving to the area to due to renewable energy availability.

A crucial part of the collaborative approach's success has been the troubleshooting aspect. This has helped to reduce frictions in infrastructure provision and development. The role of trade unions and the local municipality has helped drive high-quality jobs and captured local workers' enthusiasm for this transition.

Sweden's regional associations and county boards collaborate to fund a Swedish regional data observatory called Regionfakta. This hosts wide-ranging, high-quality, and timely data that helps regional and local decisionmakers steer policy and support inward investment.

LEVELLING UP THROUGH LOCAL SKILLS INNOVATION IN ROTTERDAM, THE NETHERLANDS

Rotterdam is an economic hub for the Netherlands. It is part of the Randstad area and hosts the largest seaport in Europe. However, it has persistently high unemployment; double the Dutch average (UIA 2017). With this and reliance on petrochemical trade (OECD 2021b), it is not dissimilar to places like Teesside; we have previously compared the wider Randstad to the North (Raikes 2019).

Following the Global Financial Crisis, the municipality introduced a social return policy to public procurement (OECD-CFE 2022). Within this, public contracts worth more than €50,000 are automatically reviewed for social return opportunities, like social value in a UK context. All contractors must employ those furthest away from the labour market and allocate up to 50 per cent of total contract value to training opportunities for residents.

Commonly, this means funds for local apprenticeships, traineeships, and work placements. In its first years, the municipality allocated around €800 million, saving the city an annual average of €17 million and lowering the costs of social support. On average, about 5 per cent of all public contracts are reallocated towards social return (ibid).

The municipality has continued to develop this. It introduced an awards scheme for innovative uses of social return funding and Rikx, a digital platform, where employers can invest in social reskilling projects developed by local people (Bloomberg Cities Network 2022). In 2017, it launched a Career Start Guarantee scheme whereby employers guarantee employment for young people choosing to train in high-demand sectors. During the pandemic, Rotterdam expanded its central schooling fund using savings from the social return policy. The municipality began issuing vouchers for professional skills training in high-demand sectors like healthcare, IT, and technology (OECD-CFE 2022). The €2,500 vouchers targeted groups like unemployed people, young people or people claiming welfare, with vocational training.

Rotterdam's skills system is a strong partnership with local employers and it is strategic in tackling local economic need. Local government can shape skills provision for residents most in need, and direct workers towards emerging skills gaps identified with employers – better matching skills demand with skills supply. In this way, the city is becoming fairer and more economically resilient.

Subnational governance and fiscal devolution in the Netherlands

The Netherlands is a decentralised unitary state with three tiers of government: national, provincial, and local. Its governance framework has clear separation of powers between different levels. A legal framework governs vertical coordination between levels, encouraging cooperation and support for local priorities.

The Netherlands has significantly shifted towards decentralisation since the 1950s. Devolution is viewed as key to promoting social and economic development while efficiently using resources. Recent devolution particularly strengthened municipal governments, including in health and employment support for young people and target groups (OECD 2019c).

Beyond vertical integration, subnational government in the Netherlands is highly cooperative horizontally, such as in the Randstad region to which Rotterdam belongs. A polycentric, highly urbanised area of 2.3 million, it has seen large investment in a polycentric public transport network. Across its constituent places, the Randstad is highly integrated, having:

- integrated ticketing
- modal integration in service design
- and high-speed rail plugged into the urban network using tunnels to avoid environmental and economic disruption.

Half (48 per cent) of total public investment in the Netherlands is made by subnational government, though recent cuts reduced this. Economic, educational, environmental, transport and infrastructural investments are the largest areas. Dutch subnational government has significant freedom to invest and support high levels of investment in R&D, though co-funded projects require review by central government against national frameworks (ibid).

Subnational governments in the Netherlands are free to borrow capital, including issuing bonds. The Dutch Association of Municipalities (LGA) set up the Municipal Bank of the Netherlands in 1914 to help municipalities access credit markets.

Dutch subnational government has less freedom on levying taxes compared to other developed nations, though more than UK local government. Within central limits, Dutch local government levies property taxes based on property value. The Netherlands also sees a large annual municipal grant which is highly distributive and needs-based in design. Municipalities levy additional local taxes like parking taxes, tourist taxes and dog taxes. Notably, in aiming for effective governance, Dutch subnational governments spend significant amounts of revenue on staffing, including strong salaries for local government workers (ibid).

TABLE 3.5: THE NETHERLANDS HAS DEVOLVED SIGNIFICANT POWER OVER TIME
Subnational powers and competencies in the Netherlands

	Provincial level	Municipal level
1. General public services	Supervision of municipalities and regional water authorities	Municipal administration; administrative duties (passports, identity documents, and driving licences)
2. Public order and safety		Public order in the municipality and relationships with police forces; criminality prevention; public safety; disaster management (shared)
3. Economic affairs/ transports	Provincial roads, cycle paths and bridges; regional public transport (bus, regional trains); inland water transport and infrastructure; regional development agencies; promotion of the region and coordination of touristic local policies	Municipal streets and roads; traffic and parking regulations; local tourism strategies and policies; public transport and school buses (only the cities Amsterdam, Rotterdam and The Hague)
4. Environmental protection	Environmental protection plans and policies; water (groundwater plans and regulation); energy and climate; renewable energy; air quality; soil protection and cleaning; noise; production and transport of hazardous materials; supervision of municipal environmental policies; nature areas	Parks and green areas; waste management; sewerage; local environmental policy; soil protection and cleaning
5. Housing and community amenities	Spatial planning	Land-use plans; planning permission; urban planning (shared); civil engineering (shared); street cleaning; public lighting
6. Health		Municipal medical services (vaccination, prevention, hygiene); youth health care; elderly health care; long-term care
7. Recreation, culture, and religion	Environmental and recreational planning; financial support of cultural activities; protection of cultural heritage; provincial museums	Financing of cultural activities; cultural facilities and recreational areas; local sport policies and subsidies
8. Education		Public primary and secondary education (school buildings only)
9. Social protection	Social housing grants	Income support for less than fully disabled persons; mediation, training; assistance to the unemployed, people with disabilities and the elderly in their home environment; youth care services; social assistance and local employment schemes

Source: Reproduced from OECD 2019c

Lessons for the North

Rotterdam took a very strong social-value approach. They have targeted this at skills provision, working with employers to identify areas of need and incentivise training. They have reviewed existing contracts over a certain size as well as creating a framework for future ones.

Rotterdam's approach to its skills ecosystem has been long term, building capacity for over a decade. Employer collaboration has identified areas of need and built resilience to economic shocks. Developing an effective skills strategy requires coupling long-term vision and short-term flexibility.

Rotterdam's innovative digital platform Rikx developed organically through local policy; the requirement to invest in social impact created a new market for social entrepreneurs. The platform was developed as a public-private partnership, and has eased demand on local government's capacity.

Dutch subnational government has significant freedom to invest, and historically collaborated to establish a municipal bank that furthered this. With this freedom, the Netherlands has prioritised growth-enabling investments such as in skills, R&D and infrastructure.

4.

CONCLUSIONS AND LESSONS

Northern success is national success. Levelling up to reduce regional inequalities remains what the public want and expect. This report stressed the importance of addressing regional inequalities to drive northern and national prosperity, looking internationally for inspiration on how best to level up.

The inequality between our regions continues to sustain a broadly felt economic stagnation, prevents fair growth, hampers a just net zero transition, and undermines life chances. Our hyper-centralised state is a key factor in why inequalities persist. Paired with chronic underfunding of public services and local government, and underinvestment in growth-enabling physical and social infrastructure like transport, skills, or R&D, it is no wonder that levelling up is on life support.

The cost-of-living crisis, threat of government-led austerity and the possibility of a long recession reminds us that the structure of the UK economy has tangible impacts on who and where can flourish. The failure to address inequalities in wealth, power and opportunity harms the ability for a good life across the country. Our economic stagnation stands atop a failure to draw upon the strengths of the whole country, including the North, and its potential to deliver national prosperity.

When we look internationally, this is not inevitable. Building on the evidence in chapter 2, we draw lessons from:

- levelling up through industry and investment in Leipzig, Germany
- levelling up through local transport investment in the Ibaraki region, Japan
- levelling up through cultural regeneration in Bilbao, Spain
- levelling up through the net zero transition in the town of Luleå in Sweden
- and levelling up through local skills innovation in Rotterdam, the Netherlands.

While the North is often at the sharp end of inequalities, it is asset rich and well placed to help deliver national prosperity. Empowering the North will help reset regional inequality and unlock fairer growth. The work of local leaders in deepening institutional capacity and unlocking opportunities ahead are cause for hope.

Levelling up to end regional inequalities remains the right thing to do. It is also what the public expects. An upgraded levelling up remains within reach by continuing broader, deeper devolution, maturing central-local relations and learning from our neighbours.

Our hyper-centralised state is a key factor in why inequalities persist



UPGRADING LEVELLING UP: WHAT CAN BE LEARNT FROM ELSEWHERE?

There are four key levelling up lessons for the UK from our international comparators.

1. A sustained public investment offer for places

When we look internationally, there is an assertive use of public sector investment to crowd in private sector investment to support levelling up, as we see internationally in Luleå and Bilbao. To encourage greater investment and crowding-in, in the UK context, the British Business Bank and UK Infrastructure Bank could be given an explicit remit in supporting the reduction of regional inequality.

The development of economic ‘clusters’ were also common across our German, Spanish and Swedish case studies. In Germany, Leipzig focussed on future industries with a focus on five sectors or clusters while in Bilbao, a cluster-based approach brought together local government and skills and education provision, including universities, to work with industry.

Additionally, Rotterdam uses robust social value contracting for public procurement. Not only do they include stretching criteria in their social value criteria, but they also review existing contracts above €50,000. In the same vein, we see local job boards in Leipzig working closely with emerging clusters to specifically support local and long-term unemployed people into the new jobs created in the area.

Of course, levelling up is only possible with serious, long-term central investment as can be learnt from the scale and duration of regional rebalancing efforts after German reunification (which included Leipzig) and fiscal redistribution practices across the OECD. For instance, within a much broader framework, one German supplementary federal grant programme devolved grant funds alone worth 0.4 per cent of national GDP to states in former East Germany under Solidarity Pact II, committed for 15 years, to reduce regional inequalities within a flexible framework. By comparison, 0.4 per cent of GDP would equate to approximately £7.6 billion annually of flexible, long-term devolved funding in an English context amongst a package of wider support and funding. In contrast, taking the UK’s Levelling Up Fund (LUF) as a primary example, it is a centralised grant fund worth £1.2 billion per year, due to run for four years only and local government is required to bid into the centre with discrete projects as part of annual competitions.

2. Improved accountability to sustain levelling up in the long term

Clear and strong accountability mechanisms are needed to sustain focus on reducing regional inequalities in the long run. Germany has a commitment to reducing regional disparities in living standards included within their constitution. The UK could set itself a similar goal in legislation.

Aligning wider central government spending with levelling up objectives is another key lesson. Other countries have been more adept at using central government investment to support both local and national goals, for example, the Swedish Government’s support for a national steel decarbonisation project helped support Luleå’s local net zero transition. Co-ordinating across different policy areas also maximises impact, such as between transport infrastructure, housing, and public service provision in Japan.

Internationally, there are also examples of how local governments are given a stronger voice in setting priorities in the first place, such as joint federal and state programmes in Germany.

To ensure progress is made, independent scrutiny should hold the government to account. In the UK's political system, we can look to independent bodies like the Climate Change Committee which provides independent accountability and advice on climate policy. As IPPR North has previously called for, an independent statutory body could be established outside of London to advise the UK government on levelling up and hold it to account on its missions. It would need to be defined in legislation, and report to parliament on progress in tackling the UK's regional inequalities. The body would make recommendations to government on achieving missions, assess cooperation between all levels of government to help drive mutual respect, and facilitate alignment across government departments.

3. Establishing a clearer economic tie between people and the places where they live or come from

Across all our case studies, a higher percentage of revenue raised locally stays local. Fiscal devolution in England could be the next step to both help create a stronger link between people and the places where they live, and to ensure the returns of public and private investment are better captured.

While in the UK, fiscal devolution is still in early stages, nurturing a sense of economic solidarity between people and places could be a helpful first step. We can learn from innovative ideas such as the German solidarity surcharge or Japan's home town tax. In Japan, residents living in thriving areas can opt in to make tax donations to their hometowns or other municipalities of their choice. This supports places with weaker local tax bases, for example where young people have moved away for work. Another example found across many comparable countries is tax sharing, where fixed proportions of central taxes stay local. These could be helpful first steps on the road towards greater fiscal devolution in England.

Additionally, mechanisms such as land value capture ensure the benefits of local development are captured by local government and are reinvested into further local infrastructure as in Japan, and have helped local places capture and capitalise on investment in economic renewal. This is an important lesson for the UK.

4. A deep and irreversible power shift to local tiers of government

Comparing internationally, local government in the UK is underpowered at all levels. Not only is our subregional tier, namely combined authorities, lacking in powers where it exists, but our local tier, local councils, are substantially underpowered compared to comparable countries. Developing subnational governance has involved asymmetrical devolution in several countries, moving over time towards more symmetry as local or regional capacity has developed.

England has an immature formalisation of the central-local government relationship versus comparable countries. Local government is underpowered, and unlike all international peers investigated here there is no constitutional protection or right to local self-determination. Learning from our counterparts and translating them into a UK context, primary legislation could formalise the following.

- Vertical cooperation mechanisms between different tiers of government grounded in mutual respect, such as Spain's senate, which comprises representatives from autonomous communities and a permanent body for cooperation with local government.
- Requirements that central government seek local government consent for future reforms to governance and resourcing. This would, for instance, mean negotiations based on mutual respect in changes to funding frameworks or fiscal powers.

- The responsibilities of local government, set out in one place, containing a universal service offer across places, and the competencies of all tiers of government, including areas of joint working, to strengthen local government autonomy.
- A needs-based fair funding formula with enhanced revenue-raising powers for local government. Internationally, such formalisation protects subnational government, provides certainty over future revenue, allows local institutional capacity to be developed, and provides fiscal flexibility to tackle local problems, including pursuing invest-to-save approaches to public services like in Rotterdam, or supporting local growth by specifically targeting local barriers to economic development as seen in Bilbao.

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ANNEX A: COMPARING UK LOCAL GOVERNMENT POWERS WITH COMPARABLE OECD AND EU COUNTRIES

TABLE A1

Powers and responsibilities of English local government are weaker than their peers in comparable countries. Comparison of UK local government powers with comparable OECD and EU countries

	English local councils (both tiers)	Mayoral Combined Authorities (MCAs)	Subnational government in comparable OECD & EU countries ¹³
Transport	<p>UK transport services are generally privately owned and run, with limited regulation and subsidy. In England, councils manage local transport plans and budgets; they administer travel concessions and ensure ‘socially necessary’ bus services are available. Most bus services are operated by commercial operators deciding routes, timetables and fares. Central government has promised to extend greater franchising powers to Local Transport Authorities through secondary legislation.</p>	<p>Except for the North of Tyne CA (NTCA), all MCAs have devolved transport budgets.</p> <p>Bar NTCA, all have bus franchising powers, though only GMCA has so far managed to navigate the legal process and is starting to franchise local services. MCAs outside the North East can run concurrent powers on key route networks, working jointly with National Highways on road and the Department for Transport (DfT) on rail.</p> <p>Several MCAs run light-rail systems, often built and operated with little or no central government support (bar extraordinary support during the pandemic).</p> <p>Combined, local and transport authorities are barred from forming municipal bus companies.</p> <p>Local transport authorities have centrally limited borrowing power. For areas such as light-rail infrastructure, authorities require approval from DfT.</p> <p>There is little real influence over heavy rail services, fares, ticketing, or stations outside of London.</p> <p>Discussions are underway for NTCA and the wider North East to adopt transport powers.</p> <p>MCAs have been asked to make local contributions to support national investments such as the City Region Sustainable Transport Settlement despite their lack of powers to raise funding locally. This has led mayors to campaign for powers to capture land value uplift to fund these projects for instance.</p>	<p>Public transport is commonly publicly owned. Local authorities are often responsible for buses and local transport networks at municipal levels. Central governments maintain responsibility for overall legislation and national infrastructure, but often devolve authority to regional governments such as the Länder in Germany, Régions in France or comunidades Comunidades Autónomas in Spain.</p> <p>Regions develop public transport, including fares and service levels. Major projects are often delivered jointly with central governments.</p> <p>Subnational governments (particularly regions) can and do invest in transport infrastructure within their areas of competence without case-by-case permission from central governments.</p> <p>Local control over local or regional transport services like rail is common, including services, fares, ticketing, and stations. In some countries, there is local or regional input into national services and infrastructure too.</p>

	English local councils (both tiers)	Mayoral Combined Authorities (MCAs)	Subnational government in comparable OECD & EU countries ¹³
Education, skills, and business support	<p>Education is centralised. Many state-funded schools have shifted from local authority oversight to multi-academy trusts funded through central government, with little local input, including 80 per cent of secondary schools.</p> <p>Local authorities plan pupil places, ensure support for vulnerable pupils and foster collaboration. However, they have few levers to deliver given their lack of control over schools. School planning is constrained by limited or no influence over free-school and capacity capital funding rounds initiated by the Department for Education. This is particularly difficult in dealing with expansion in later school years, such as post-16 provision.</p> <p>There is some local collaboration, but it is often patchy and much of it sits outside of statutory frameworks meaning it is highly vulnerable at a time of local budget cuts.</p> <p>Local government also plans post-16 skills and delivers adult and community learning.</p>	<p>MCAs have some responsibility for adult education.</p> <p>All MCAs have devolved adult education budgets and business support services (bar West of England MCA). They carry out joint work on skills with central government departments. While some budgets are devolved, many adjacent budgets are held nationally, such as Help to Grow or Bootcamps. Devolved budgets do not match the wider-ranging legal functions available to MCAs on skills, employment, and business support.</p> <p>Most MCAs have devolved powers for work and health programmes to improve employment outcomes for people with health conditions or disabilities.</p> <p>Local skills improvement plans and partnerships support alignment of local labour market needs and post-16 education, and encourage joining-up of local provision. Working with local Chambers of Commerce is reasonable where Chambers are coterminous with local or combined authorities and have capacity, but more difficult where this is not the case and Chambers have little capacity to produce the plans.</p>	<p>It is common for education systems to be centrally regulated. However, many comparable countries are operationally decentralised. Local authorities are often responsible for primary schools. Secondary schools are typically under the responsibility of wider area authorities, and regional authorities are often responsible for colleges. Regional authorities sometimes manage adult skills training, fund universities, and support apprenticeships and work-based training.</p> <p>Authorities have more resource and flexibility to fund skills provision.</p>
Land and housing	<p>Housing powers are somewhat decentralised, with local authorities approving planning applications within tightly bound national frameworks and local plans, which must pass central inspection. The central Planning Inspectorate can overturn decisions.</p> <p>Local authorities are responsible for ensuring sufficient social and council housing, but have highly limited funding and power to deliver.</p> <p>There is little incentive to build homes, restricted ability to leverage development for social gain (eg funding local services), limited fiscal gain and often significant political pressure to block developments.</p>	<p>MCAs, bar Cambridgeshire & Peterborough, can establish mayoral development corporations, usually linked to land commissions examining public land use (excluding West Yorkshire). NTCA and Greater Manchester, Liverpool city region, West of England and West Yorkshire CAs have compulsory purchase powers to acquire land.</p> <p>Beyond this, planning and housing powers are limited and varied. Some MCAs can develop spatial strategies. Some can call in planning applications. Some have loan or grant powers to encourage housebuilding.</p>	<p>Comparable countries' approaches vary. Spatial/urban/land use planning, building regulations and specific property regulation (eg houses in multiple occupation) are commonly held at subnational levels.</p> <p>Central government policies play important roles. In Japan, central government wields significant control over land use, resulting in abundant affordable housing but little power for local authorities. Across much of Europe, homebuilding is 'by right'; local authorities must grant compliant planning applications.</p> <p>Local authorities have greater autonomy to create binding land use plans, and are required to involve the public in doing so.</p> <p>Commonly, local property taxes and other elements of fiscal decentralisation provide local fiscal gain from development.</p>

	English local councils (both tiers)	Mayoral Combined Authorities (MCAs)	Subnational government in comparable OECD & EU countries ¹³
Public services, including public health	<p>Local government is responsible for a range of public services.</p> <p>Local authorities have statutory duties for certain functions like social care or waste collection. The vast majority of local government budgets are dedicated to social care, principally adult social care and children's social care.</p> <p>Other services such as libraries, leisure services and parks are delivered by local authorities, but discretionary. Such services bear a significant burden of austerity.</p> <p>Oversight of policing and fire and rescue services is now separated from local councils.</p> <p>Local authorities have certain responsibilities around public health and improving local population health. They also work in partnership with the NHS through the integrated care systems, producing strategies to meet local health and wellbeing needs.</p>	<p>Mayors in Greater Manchester, (GMCA), West Yorkshire, and York and North Yorkshire (YNYCA) also take on the powers of the Police & Crime Commissioner. GMCA and YNYCA also have Fire Authority powers.</p> <p>Greater Manchester currently has a range of additional powers relating to public services, such as innovation and improvement programmes for local children's services, health and social care integration, and management of the prison estate.</p>	<p>Policing arrangements differ, some countries have municipal policing nested within national policing, such as through national law enforcement agencies or central coordinating agencies. In other countries, such as Germany, policing is a regional competence; in the Netherlands, municipalities are responsible for public order and safety while policing is centralised but de-concentrated to a regional structure. Fire brigades tend to be less centralised, often managed at local or regional level. Local government is usually responsible for waste collection services.</p> <p>Health is a subnational competence in many countries. Arrangements vary on elements of healthcare, eg primary or dental care. Health tends to be invested in larger, regional government than local.</p> <p>Water supply, sanitation, sewage, sewerage, and strategic planning over water infrastructure are common under subnational control. In some countries, this extends to energy and energy infrastructure. Municipal ownership of water and energy infrastructure and provision is quite common.</p>
Finance	<p>Fiscal policy is exclusively controlled by central government. Local authorities set council tax rates, within central limits. Business rates are set by central government, but local government receive around 50 per cent of the income, depending on retention agreements.</p> <p>Local authorities can levy fees and charges in certain areas, but this is highly regulated.</p> <p>Local authorities can levy workplace parking levies. Local authorities cannot levy other taxes without central government authorisation.</p>	<p>All MCAs can levy mayoral precepts on local council tax, within central limits. They can allocate investment funds, funded through long-term grants from central government. Some MCAs can draw on business rates (not NTCA, SYMCA and TVCA).</p>	<p>Income tax is generally levied nationally though some have local supplements. Some operate fiscal equalisation systems, sharing income tax or VAT with regional governments (as in Germany, Spain or Australia). In the German federal system and the decentralised unitary system in Spain, most of the government expenditure happens subnationally. The OECD average is a little over 40 per cent.</p> <p>In more centralised arrangements, subnational government typically have freedom to set local taxes, including property taxes, business taxes, and additional local taxes and levies like tourism taxes.</p>
General powers	<p>Local councils have general competence powers, meaning that they may do anything that individuals generally do, if they are not expressly prohibited.</p>	<p>Specific powers outlined in deals agreed between local areas and central government; ultimate accountability for these deals sits in Whitehall.</p> <p>Some MCAs have general powers of competences, though some operate under older legal frameworks. The lack of financial flexibility and inability to raise significant revenues limits the ability to act generally within these powers.</p>	<p>In some countries, subnational responsibilities are precisely defined in statute (unlike in the UK) with multi-level collaboration mechanisms. Generally, including subsidiarity or similar principles, local authorities have freedom to act in the best interests at local level. Across comparable nations, laws rarely limit or specify local responsibilities but outline broad functions.</p> <p>There has been an increasing trend towards shared responsibilities and well-developed coordination and cooperation mechanisms, including on legal footing.</p>

Sources: Lockwood and Johns 2022; OECD 2019a and 2021a; Barnett et al 2021; Johns 20212020; CEMR 2016.

ANNEX B: METHODOLOGY FOR ANALYSING REGIONAL INEQUALITY

Raikes, Giovannini and Getzel (2019) outlined principles for measuring regional inequalities. These are used in this report. In summary, they are as follows.

- GVA per worker is our main analysis for productivity because it highlights economic activity taking place within an area, is available consistently across the analysed regions, and is less sensitive than per capita figures to subnational boundaries.
- OECD TL3 regions (corresponding to UK ITL3 and EU NUTS3) are used because they are internationally recognised and comparable: the UK's TL3 regions are close to both OECD median and mean populations.
- Theil T entropy index is used throughout, ranging from zero to ∞ where zero represents an equal distribution and higher values represent higher inequality. This metric accounts for outlier effects and is readily interpretable for readers. As part of internal review processes, we have checked conclusions against another measure of inequality – coefficient of variation. The Theil T entropy index's formula is:

$$\textit{Theil T} = \frac{1}{N} \sum_{i=1}^N \frac{Y_i}{\bar{Y}} \ln \left(\frac{Y_i}{\bar{Y}} \right)$$

- Where possible, five-year averages are used to smooth noise and annual fluctuations. This is particularly important as recent data includes 2020, when much of the world faced Covid-19 lockdowns. Where individual cases have only three or four years of data, we use those averages in judgement that it is unlikely to significantly impact conclusions.
- For international comparisons expressed in monetary units, purchasing power parities (PPP) are used. We use PPPs expressed in USD, at constant prices, and constant PPP for a base year of 2015 to remove inflation and exchange rate effects during the periods.
- To compare like with like, we exclude some regions where we judge them to be non-comparable with UK regions, such as overseas territories. The full list of excluded regions is in Raikes, Giovannini and Getzel (2019). In addition, we exclude all countries' 'not regionalised' units. We also remove Sweden from analysis of regional disposable household income per capita due to discrepancies in the data, and have reported these to the OECD.

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