



**Post-Covid recovery – what now for regional growth?**

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## Abstract

*Disentangling some of the emergent themes of 'levelling up', we argue that in the face of pressing economic challenges, regional policy must try to retain a focus on the long term aspirations for economic growth and that regional policymakers should avoid setting too much store in headline-friendly infrastructure projects or short term fiscal incentives. The possibility of a wider spread of public spending on research and development could offer opportunities for the region to boost growth and address some of Tees Valley's long-term social and economic challenges. Low skills and skills shortages remain a challenge and any levelling up conversation must prioritise investment in human capital and raising educational attainment at all levels.*

*Regional and local actors should play a key role in economic recovery and growth; government must trust in local expertise, engaging with regional actors and providing them with proper resources to make a change.*

[Despite a period of relatively healthy growth](#) in the north and decades of regional policy, the UK remains [one of the most economically imbalanced counties in the OECD area](#). Levelling up is the latest term, widely used by Prime Minister Boris Johnson and his cabinet, for policies intended to reduce economic inequalities and help 'left behind' places. Given that many of these places are now represented by newly-elected Conservative MPs, there was hope that these policies would quickly gain traction. However, the government barely had time to celebrate the election victory, before the Covid-19 pandemic created uncertainty and turmoil across the world and for most of 2020, Government has been preoccupied with the Covid crisis.

At the start of the Covid crisis there were optimistic discussions of a quick economic rebound. However, this initial optimism has proved to be just that, with the economic impact of the mandated 'lockdown' period now keenly felt. Less well-off people and places tend to be at most risk in an economic crisis and there is little evidence to suggest that this one will be different.

Now, with efforts underway to get the economy moving, government intends to set out its plans in a devolution and recovery white paper, while local restrictions under the [new tier system](#) have highlighted the importance of local and regional government in the recovery and the need to collaborate with Whitehall. Meanwhile [Conservative MPs have signed up to a new levelling up taskforce](#). Within this context it seems timely to consider what government means by 'levelling-up' and, more specifically, what this might mean for a region like Tees Valley.

## The Tees Valley economy

Tees Valley has long term socio-economic challenges that developed in the wake of the deindustrialisation of the 1970s and 1980s. Economic productivity (measured by Gross Value Added (GVA) per head of population) in Tees Valley is less than [75% of the UK average](#). Prior to the Covid-19 crisis the unemployment rate in Tees Valley was low by its own historical standards (c. 5% in February 2020) but still well above the national rate. The region has a relatively low concentration of people in higher skilled and higher paid jobs and is more reliant than many places on lower paid employment. Health is a significant barrier to work and rates of long-term sickness among the economically inactive are high. Parts of Tees Valley have very high levels of deprivation. For example, the 2019 English Indices of Multiple Deprivation demonstrate that Middlesbrough is, on many measures, the most deprived in England and that deprivation here is especially concentrated. These factors are likely to interact with the effects of the Covid-19 crisis, necessitating careful analysis and locally designed policy.

## Levelling up

[Levelling up](#) has replaced rebalancing as the buzz term in regional policy and, as is often the case with vogueish political ideas, it is a somewhat hazy concept, characterised by an ambitious rhetorical emphasis on re-industrialisation. Given the fuzziness of levelling up as a concept, an analysis of its implications is difficult, but readings of political statements and briefings reveal several consistent themes. First there is **a possible shift in geographical focus** away from the urban rhetoric of recent years, together with **ambitions to boost manufacturing through active industrial policy**. Next there are the familiar themes of **infrastructure investment** and **regional dispersal of civil service jobs**. Levelling up may also feature a reprisal of **special economic zones (SEZ)** in the form of free ports and perhaps development corporations with **relaxed planning**. In addition, **devolution** remains at the centre of policy discussions and there is also significant interest in the **decentralisation of public funding for research and development**. Reflecting on these ideas what might be the opportunities and risks for a region like Tees Valley?

First, in the face of urgent [economic challenges](#), policymaking will need to remain focussed on longer-term ambitions to nurture endogenous development set out in the local industrial strategy. Second, whatever the political intention, particularly around ‘towns’ or so called [blue/red wall](#) voters, there needs to be genuine commitment with greater clarity on the geographical focus of levelling up. Fuzziness of scale dogged, for example, [Northern Powerhouse](#) from the outset and led to suggestions that it was more of [a brand than a strategy](#).

Infrastructure spending in lagging regions, particularly on transport, is again high on the agenda and this is welcome. At the same time, it is unlikely to be transformative in itself and we should be wary of eye-catching, ribbon cutting opportunities or using inputs (the amount of money spent on infrastructure) as a measure of success. There is potential for local transport projects to better connect some parts of the region to employment centres but [public transport is widely seen to be expensive and complicated](#), a problem that

requires ongoing financial support and a change in the way transport is managed rather than capital investment alone.

Special economic zones such as [free ports](#) might be part of a policy mix but should look for [benefits](#) that generate deeper, longer term growth for the regional economy. Clearly, this kind of policy objective isn't easy to achieve, but spatially targeted tax and regulatory incentives, aimed at competing on the cost of labour [have been tried in the past](#) without proving a long term solution to the region's problems. In this sense, it is very welcome that the initial [free port assessment for the Tees Valley Mayor](#) has tried to emphasise the economic "high road" route for any special economic zone. It is vital that this aspect remains at the front and centre of regional policy. [Reforms to the planning system](#) are also high on the agenda but there is limited evidence that planning restrictions are holding back regions like ours, where local and regional government is more likely to welcome potential investors with open arms than a committee of officious planners. In addition, the idea that taking planning out of local control will boost the local economy makes limited sense when the Mayor and Combined Authority are energetically tackling big questions around industrial land use through mechanisms such as the [South Tees Development Corporation](#).

A focus on public research and development funding is potentially one of the more interesting aspects of levelling up. Government aims to increase national spending on R&D [from 1.7% of GDP in 2018 to 2.4% by 2027](#), including a big increase in public investment which now accounts for around 30% of R&D expenditure in the UK. [A report for Nesta](#) makes a powerful case for regional R&D investment, arguing that if government were to invest in all regions at the same level as in the south east it would spend £4 billion more. Previous attempts to change the way government distributes R&D money have met resistance within government, [sometimes woolly compromises, and limited success](#). Consequently, it is essential that policymakers in regions such as Tees Valley help keep this discussion alive in the face of competing political priorities and inevitable counter lobbying. When new funding becomes available, local institutions working together, including mayoral combined authorities and universities [with their key role in local innovation systems](#), are best placed to identify local specialisms and areas of potential. This is likely to mean devolving funding to local institutions where there is capacity, with central government helping places build that capacity where it is not. There is evidence of this process working well in the Tees Valley, where the Combined Authority and regional anchor institutions such as Teesside University and other stakeholders work collaboratively and with a shared agenda. There might also be a need for dedicated and complementary regional institutions, so called '[translational research centres](#)', tailored to places' social and economic needs.

Tees Valley required significant investment prior to the Covid-19 crisis. Its social and economic challenges are deep, persistent and beyond the scope of discrete economic development policy. For example, poor health in the most deprived regions like Tees Valley [interacts with economic challenges](#). In this context, growth potential is not necessarily found only in the more glamorous high-tech sectors dominated by cities and regions that currently benefit most from public funding. The lower-profile backbone of productivity is [incremental improvement in products and organisation across existing industries and public services](#).

Tees Valley could look to blend R&D driven development with a parallel focus on [foundational economic sectors](#) including health, criminal justice or education, combining an opportunity to invest in the local economy and address some of the region's [broad and persistent societal challenges](#).

Local and regional institutions are a common theme running throughout this discussion but the status of devolution within levelling up is unclear and the much-trailed devolution and recovery white paper is said to be [delayed and possibly reduced in ambition](#). Nevertheless, there remains a need for [local and regional leaders to have a key role in social and economic policy more broadly](#). Furthermore, given the scale of the challenge and the apparent intention to move civil service jobs out of London there may be a role for a dedicated regional office or offices, rooted in place, rather than Government simply dispatching civil servants to sit in the region as outposts of Whitehall. Perhaps most importantly, local institutions are not well placed to manage more budget cuts and without [properly funded public service](#), discrete economic development policies are arguably tinkering around the edges.

Finally, the correlation between education and skills and economic and social prosperity is widely recognised. Indeed, the Prime Minister's recent speech on education and skills set out plans to transform the post-18 education and skills system to enable the country build back better.

Low skills and skills shortages are often a challenge for 'left behind' places and that is why any levelling up conversation must prioritise investment in human capital and raising educational attainment at all levels. Given Tees Valley's challenges, improving engagement in education and skills remains important, but expansion and improvement will require increased revenue funding, something that was highlighted in a well-received but subsequently partially forgotten [Northern Powerhouse Schools Strategy](#). Whilst school spending is likely to remain centralised, all regional institutions (including colleges and universities) can contribute to improving performance through raising aspirations and outreach activity.

However, it is the challenge of adult skills that remains obstinately difficult to resolve. Whilst new initiatives such as the lifetime guarantee will undeniably help, an integrated system that has the flexibility to meet regional skills needs is most appropriate. The transfer of significant powers for employment and skills from central government to local and combined authorities has enabled local partnerships to maximise opportunities. For example, in Tees Valley the mayoral authority has developed a strategic skills partnership which has facilitated a range of targeted skills interventions. The Government has emphasised the importance of investing in FE for levelling up, however collaborative regional partnerships are vital in delivery of regionally responsive skills offer; the [Teesside University College Partnership](#) (TUCP) is founded on genuine partnership and utilises the expertise of all partners to provide seamless pathways of employer responsive provision from level 1 to 7.

## Conclusion

The Covid-19 crisis will not end with a quick economic rebound. For regions such as Tees Valley, the crisis will likely amplify long-standing problems beyond the reach of discrete economic development or industrial policy. Planning for the economic recovery will be a huge task, perhaps without modern precedent, for government at all levels. Geography or [“place” is vital to an understanding of economic processes](#) and the current debate around local Covid restrictions has highlighted that regional nuances in policymaking is the right approach. With this understanding, policy and interventions for the short and long term will need to be informed by a deep understanding of how the economic crisis has and will unfold differently across the country. The response will require effective partnership working across all levels of government and between different subnational institutions; this must include local and regional government, businesses and business representative groups, colleges and universities. It is essential that the immediate recovery policy response seeks to understand local nuance in moves to mitigate the immediate effect and minimise long-term damage. In Tees Valley, collaborative working between stakeholders within the region and beyond has a long history and the solutions-based approach to regeneration adopted by the combined authority, local anchor institutions and regional actors exemplifies positive partnership working and presents a model of how others could operate.

The post-Covid world will likely be very different, and there will be multiple asks of government. However, there is a real opportunity to think seriously about regional inequality and [double down](#) on efforts to level-up the UK. Our plea to government is two-fold:

Firstly, that levelling up is fully explored and decisions are based on a genuine commitment to reducing spatial inequalities rather than political gains.

Secondly, that the Government trust in the local and regional actors; only through genuine multi-level partnership and policy making will a difference truly be made.