Nation Rebalanced:
How do we create a country that works for all places?

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Labour Together

Foreword

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We may represent different parts of the country, but we are united by a common cause: ensuring the economy works for the people we serve. The last 14 years have been a disaster for the British economy, with stagnating wages and a lack of decent jobs for working people. At the same time, costs - particularly housing - have spiralled out of control. This government was elected to fix these problems, and voters will not forgive us unless we deliver meaningful change.

This report presents a compelling argument that the previous government's policies failed to create an economy that works for all regions. When viewed through the lens of investment, it becomes clear that the rhetoric on levelling up was nothing more than a sham. Not only did the previous government fail to build more homes in the areas that needed them most, but it concentrated spending on transport, research, and education in just one corner of the country, neglecting other regions.

As a result, Britain has become dangerously unbalanced, with an economy that often relies on a single engine while failing to provide opportunities for all regions to thrive. While we may represent constituencies with very different economic landscapes, regional inequalities benefit no one.

In 2024, the average wage for a worker in Bassetlaw was £27,549, compared to £35,006 in Milton Keynes. However, housing costs in Milton Keynes were more than eight times average earnings, compared to six times in Bassetlaw, and these figures do not even reflect the most extreme cases. Across the South East, housing has become prohibitively expensive, shutting an entire generation out of homeownership. Meanwhile, in the North and other regions, a chronic lack of investment has prevented the growth of well-paying jobs that people desperately need.

What the country needs is an investment revolution. The government must allow development in areas where businesses are eager to invest. This requires bold reforms to planning, pensions, and regulation to drive growth. Public spending must also be distributed more fairly to ensure that towns and cities across the country have the resources to help Britain reclaim its position as a world-leading economy. We don't believe this means trading the North off against the South, but rather unleashing the potential of the whole country.

To do nothing is unthinkable. Without action, we condemn the country to lower living standards and fuel the rise of populism, which has already inflicted significant damage on our economy and political landscape over the past decade.

This report is a call to arms - for the good of the whole country we must start to rebalance now.

‘Just remember this: if you’re going to do it, it isn’t just about pots of money or building the odd rail or extending a road. It’s about quality of life. It’s about making places that people want to go and live in, where they feel confident, they can live there, their children can grow up there, there’s opportunities there, and they don’t have to go somewhere else to get on, as it were. None of this is beyond us. Most other countries do it, and I don’t see why we shouldn’t either.’

- Alistair Darling

‘The frustration is that we haven’t made enough progress. Given the deindustrialisation of Britain, we haven’t managed to find a way to generate the kind of growth and wealth in the areas of the country that were at the heart of the first Industrial Revolution.’

- Gordon Brown

‘For this to work, you need a coherent policy pursued over probably a 15- to 20-year period in order for the thing to have a result. That’s why if you can take it out of, as it were, ‘small’ politics and put it into ‘big’ politics, it would be very valuable.’

- Tony Blair

‘It’s only when you stop doing these jobs that you realise how fleeting they are. You wish you’d done twice as much. ... If I had my time again, I think things like the high speed line across the Pennines, which I was keen to build in 2010, I would have said, ‘let’s get going, let’s commit’, knowing it was going to take years before it requires any serious Treasury money.’

- George Osborne

Source: https://sites.harvard.edu/uk-regional-growth/transcripts/

Contents

About

About the author

JP Spencer is the Director of Devolution Policy at Labour Together, leading our work on policy and political strategy with mayors and local government. He has over a decade of experience working across economic policy and strategy in both the public and private sectors. This includes roles at HM Treasury, HM Revenue & Customs, Greater Manchester Combined Authority and Metro Dynamics.

About Labour Together

In Labour's wilderness years, Labour Together was founded by a group of MPs fighting to make the party electable again. Today, Labour Together is a think tank offering bold ideas for Britain under a Labour government.

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Summary

Gleaming towers rise around redeveloped London stations, while plans are stalled around Manchester Piccadilly and Leeds. In the South East, house prices have soared to ten times the average income — twice the level of the North East.[1] This model fails all parts of the country: for some, it means shorter lives and stalled growth; for others, an overheated economy locks people out of housing, while taxes go to welfare spending instead of long-term investment.

Nothing encapsulates previous failure more than the national government's attitude to Leeds, a dynamic city with huge potential.[2] The Leeds Supertram was cancelled by New Labour in 2005 citing rising costs. The city orientated itself to the new opportunities afforded to it by High Speed 2 - preparing development sites around the south of the city. This too was cancelled, by the Conservatives in 2021. The city remains the largest city in Europe without its own mass transit system - a situation that has now undermined its potential despite repeated planning for decades.

These are the symbols of a country unbalanced. A country where people have to travel far from where they live to find work or housing; a country where places are stuck in a system that works for nowhere.

At the root of barely growing living standards, unaffordable housing, declining trust in politics and stagnating economic growth is a simple truth: many of these issues are a direct result of regional inequality. We must now address the causes rather than the symptoms. And the need to address this imbalance is threefold.

Firstly, the need is moral as it is simply unfair that geography has become destiny for too many people. Life expectancy for a boy born in Hart in Hampshire is 83 years, for one born in Blackpool it is a decade shorter.[3] 94% of neighbourhoods identified as having the most critical need are outside the 'Greater South East' around London.[4] [5]

Secondly, the need is economic because whilst productivity and wages in some parts of the country have seen stagnating living standards and high streets; in other areas we have seen surging house prices that are unaffordable for the majority - creating a situation that satisfies nowhere fully.[6] [7]

And finally, the need is political. Trust in Members of Parliament declines the further you get from the capital.[8] For Labour, the alarm bells were ringing in 2019 when the 'Red Wall' was taken by a Conservative government promising to 'Get Brexit Done' and to 'Level Up'. The 2024 General Election may have seen many of these seats retaken, but polling is clear that many of these seats can be easily lost again if change is not delivered.[9]

The underlying trend is an overheating economy in the Greater South East, whereas other regions and - in particular large cities outside London - underperform compared to their international peers. The underperformance of cities leads to poorer regions around them that do not benefit from the economic boost that a large city is meant to bring. And the sticking plaster for all this is an unsustainable level of fiscal transfer from one corner of the country to the rest - with the Greater South East effectively generating the tax revenues to sustain the rest of the country.[10]

To change this, we must learn from the failures of the past - of both Labour and Conservative governments. Research shows that many ministers leave office regretting not having done enough to change this status quo.[11] The new model must address the economics - all our regions and in particular our major cities underperform - tackling identified barriers to growth in terms of transport, innovation and skills.[12] And it must address the politics - giving every place dignity over discontent. In particular, the North and

Midlands have proud histories of industry and manufacturing - the places where the modern world was forged. Satisfying the economics and politics requires Whitehall to let go and resources to be more fairly distributed.

The failure of 'Levelling Up' provides a cautionary tale. The slogan featured heavily in the 2019 Conservative manifesto, contributing to Boris Johnson's electoral success. It was appealing because it spoke to a reality that many in the country recognised, that opportunity was not spread equally.

Unfortunately for the Conservative government, the policies were poor and the public were less convinced about their ability to deliver it.[13] And, as subsequent events proved, Britons were right to be sceptical. Our polling shows that 52% of people think that 'Levelling Up' failed - compared to just 13% who think it was a success - a ratio of 4:1 with a consensus across all regions and voting intentions.

The Labour government is taking different places seriously, committing to broadening and widening devolution to create a new tier of local leaders equipped to deliver strategies to unleash the potential of their regions. And, despite the failure of 'Levelling Up' to deliver change, it has perhaps helped illuminate a policy agenda that does actually work: investment.

How do we know this? Because public spending statistics on 'growth spending' over recent years lay bare the inequitable spending patterns that reinforce this imbalance.[14] Growth spending here is defined as spending on 'Economic Affairs' (including areas such as transport, business support and research and development), 'Education' and 'Housing and community amenities' in HM Treasury statistics.

While spending levels will always vary somewhat between places because of different costs, the gap between different regions is still staggering. Looking at just growth spend per head, we see that it is an enormous £1,839 (41%) lower in the East Midlands than London. And comparing the Greater South East with the rest of England, the gap is £667 (19%) per head. Despite the rhetorical flourish of 'Levelling Up', this gap has only grown since 2010. There is no doubt that this spending has served to grow the economy of the Greater South East through new infrastructure like Crossrail and research in the Golden Triangle. And these inequalities in growth spend end up simply being partially compensated for by 'social protection' on welfare and pensions - which is £487 (10%) higher per head outside the Greater South East.

This wasn't inevitable. Over the period from 2008 to 2024, had governments chosen to fund the Greater South East at the England wide average for growth spending, other areas could have benefitted from over £100 billion.[15] Money which could have been used to invest in infrastructure and people, narrowing inequalities and addressing specific regional needs. Looking ahead, if the inequitable spending pattern of 2023-24 persists for another ten years, the rest of the country will miss out on almost £100 billion of growth spending compared to an equal per capita allocation.

These imbalances create problems for all regions. For those left out of growth, their wages, educational outcomes and infrastructure suffer. And for the 'Greater South East', the supposed beneficiaries, housing and the cost-of-living becomes even more unaffordable for working people. Both of these issues are generating political demands to deliver: crudely, for more housing in the South East and for growth and regeneration everywhere else. A new model of growth would leave all places would be better off - and all places more able to stand on their own feet.

Addressing these issues is Labour values in action - a party founded by people from across the country to further the cause of working people. A party that states that 'by the strength of our common endeavour we achieve more than we achieve alone'. In the 2024 General Election, Labour won the most seats in every nation and region in Britain with a manifesto declaring 'the country remains too centralised, with the economic potential of too many regions and communities ignored.' [16] Fundamentally, tackling regional imbalance is a Labour project.

So where can Labour go from here? The path forward will not be easy, but this paper outlines a set of proposals that can begin to remedy this imbalance.[17]

Firstly, we should utilise the strength that prosperity affords us - particularly in the Greater South East. Planning system reforms can unlock land value in the places where previously we could not build. This would maximise development potential through already-announced projects, for example: the third runway at Heathrow, more homes in the Oxford-Cambridge Growth Corridor, all supported by existing public investment like East West Rail. And the government can also enable further business growth through pension reforms and smarter regulation. Together, such changes can unleash private investment in the places where growth is already strong and land values are already high, building a self-sustaining engine for development with a lower requirement for public investment (predominantly in the Greater South East).[18] [19]

Secondly, the government should rebalance public spending to drive economic growth in other parts of the country. Instead of the Greater South East receiving a public investment premium in areas like transport and innovation, the government should focus on supporting and growing other regions. New spending combined with the government's focus on sectors like advanced manufacturing, clean energy industries and defence in the Industrial Strategy - alongside strengthened employment rights and a higher minimum wage - as well as Local Growth Plans tailored to places led by new strategic authority mayors, will improve the economy in all areas. This means improved roads and rail, better quality jobs, additional housing and renewed high streets in our towns and cities.

This would be supported by further reform to the Treasury's Green Book, the guidance which helps departments appraise policies and projects, but which is also often blamed for wealthier areas receiving more investment.[20] Many of these criticisms would be more accurately laid at the door of previous government ministers - but there are also some elements of the usage of the Green Book which must change. This must include an end to all arbitrary benefit-cost ratio thresholds based on limited economic forecasting - instead replaced with more rigorous evaluation, public transparency on calculations and published judgments on why decision makers believe a project to be value for money given the available information.

Thirdly, it would be beneficial to particularly boost the spending and autonomy of underperforming cities as defined by the current established mayoral authorities. Their size, relative underperformance compared to international peers and additional funding flexibilities (in transport, business, skills and housing), will lead to the greatest return as they utilise their local knowledge to benefit their areas.[21] As seen in the South East, we should expect public investment to start to leverage private sector investment too and also to benefit the regions around them as London does.

Fourthly, and finally, to increase and spread economic growth the above should be coupled with a new focus on growth corridors around major national investments. For example, the Transpennine Route Upgrade will cost over £10bn, but previous governments failed to develop a growth plan for it. A 'Transpennine Growth Corridor' chaired by a government minister and bringing together the relevant strategic authority mayors could marshall investment along the route in transport, housing and businesses into something greater than the sum of its parts. This principle should be extended to all major national projects - extending the benefits of growth to larger numbers and reaping the benefits of agglomeration in towns and cities.

The way forward is clear, but not simple. It requires acknowledging difficult trade-offs in the short term: mainly rebalancing public spending on economic growth away from the Greater South East mitigated by reforms to allow more private investment. It also means ensuring the benefits of development are shared by the community and forcing devolution of power through a sceptical Westminster that wants to hoard power despite overseeing these failures.

Addressing this historic issue will require more than the proposals here, but the long term prize is a nation rebalanced. With self confident places providing good work for people, more affordable housing and greater trust in politics. A country less reliant on fiscal transfers from one place to another, with devolution of power to areas now able to raise the funds to deliver investment themselves in new transport, housing and services. A triumph of concerted effort rather than a hope that piecemeal policies like 'Levelling Up' or redistribution from one part of the country to the rest will suffice to meet the moral, economic and political aspirations of the whole country.

Recommendations Summary

Recommendation 1: Use deeper planning reform, pension reform and smarter regulation, to create a self-sustaining engine of privately led growth particularly in the Greater South East.

Recommendation 2: Change national government spending patterns and the Green Book to rebalance public growth spending outside the Greater South East.

Recommendation 3: Increase the spending and autonomy of the 'Established Mayoral Authorities' to deliver growth as quickly as possible in underperforming cities.

Recommendation 4: Create 'growth corridor plans' agreed between national government and strategic authorities around major transport schemes to spread the benefits across regions.

How did we get so imbalanced?

Regional inequalities are not a new phenomena - but they have become more pronounced. In 1951, Gross Domestic Product (GDP) per worker was 7.8% higher in the South East and London than the British average. By 2001, this had widened to 17.6%.[22] In 2022, Gross Value Added (GVA) per filled job is 24% higher than the UK average in the same regions.[23]

What is the (shortened) backstory of regional imbalances?

Tackling regional inequalities has long been an aim for successive governments for almost a century - though often with differing views on what to do. After the North and Midlands created the modern world in the wake of the Industrial Revolution, much of the widening gap between the Greater South East and the rest of the country was a result of deindustrialisation.

The Industrial Transference Board created by the Conservative government in 1928 looked to move unemployed miners to areas with higher levels of employment.[24] The Distribution of Industry Acts under the Attlee government aimed to relocate industries to areas with severe unemployment, a policy extended under the Wilson governments alongside fiscal incentives for industrial location. Such measures failed by focusing too much on trying to regulate the placement of industries or move workers rather than addressing the underlying issues like transport or skills. In limiting the expansion of successful places they also did untold damage to growth prospects - particularly in the West Midlands.[25]

These efforts were ended by the Thatcher government. That government did much to encourage further economic change - symbolised by closing mines at the same time as the 'Big Bang' deregulation of the City of London. Its ideological belief in the free market, coupled with global economic change, meant little was done to alleviate deindustrialisation leading to mass unemployment in the areas most affected.[26] The deep scars from this can still be seen in economic and social statistics. For example, social connectedness still lags in former industrial areas.[27]

New Labour came to office saying that 'prosperity needs to be built from the bottom up' with the creation of Regional Development Agencies (RDAs) and proposals for referenda on regional assemblies.[28] Ed Balls, in his role as Chief Economic Adviser at the Treasury, characterised New Labour's approach as bringing together the essential building blocks for growth like innovation and skills with local initiative.

During their time in office, this initial offering was added to with John Prescott pioneering a 'Northern Way' to tackle the output gap between the North and the rest of the country. This came alongside the foundations for a devolution of power to places through the passing of the legislation to establish Combined Authorities and the trialling of 'Total Place' to give greater control to local institutions for all the public service budgets in places. Through trial and error in office, the government had started to edge towards an approach that would work based on devolved institutions and genuine power and resources in places.

Unfortunately, the Coalition government changed tack again from 2010 by abolishing the RDAs, ending 'Total Place' and creating 'Local Enterprise Partnerships'. In implementing spending cuts, the burden was felt most heavily in the places that needed support. Combined Authorities provided a point of continuity - gaining traction from 2014 alongside George Osborne's revival of the 'Northern Way' with the new moniker of the 'Northern Powerhouse'.

In simple terms, much of this past policy history can be crudely characterised as Labour governments trying to help places (though not necessarily with good results), with Conservative governments often relying on the free market and an assumption that people should move (often with worse results).

2016 proved a critical moment - with most parts of the country, and particularly those with weaker economies and fewer opportunities, voting to leave the European Union.[29] The Brexit referendum changed the above dynamic, with a Conservative government now seeking to invest in places to create a new coalition of voters responding to this underlying economic and political reality.

What about 'Levelling Up'?

The Conservative Manifesto of 2019 seized the opportunity, committing to the twin aims of 'Getting Brexit Done' and challenging the orthodoxy that investment must 'inevitably' start in London.[30] To do so, the Conservatives made the case for 'Levelling Up' every part of the UK'.[31] The manifesto said that this would be achieved by investing in towns, cities, rural and coastal areas, and by giving them 'far more control of how that investment is made.'

This approach was supported at the time by influential thinkers across the political spectrum, including those on the centre-right.[32] While much of the focus in practice was on short-term investments aimed at sprucing up high streets, some thought was also given to underlying weaknesses in our economy. As Onward outlined, government spending on economic growth is skewed towards already 'productive' parts of the country. Examining spending across transport, innovation, housing and culture, they found that within England, London and the East of England did relatively well on a per capita basis and also had productivity close to or above the national average. This contrasted with areas such as the East Midlands, Yorkshire and the West Midlands who had - and continue to have - lower productivity and also received less investment. For the most part the public has long been critical that, in their view, London and the South East have been beneficiaries of investment at their expense.[33]

In March 2020, the government announced that it would 'review the Green Book, which sets out how decisions on major investment programmes are appraised in order to make sure that government investment spreads opportunity across the UK'.[34] An updated Green Book was then published in November 2020 with the accompanying review claiming that 'the Government would expect future investments to be better aligned with its ambitions to level up the country.'[35]

Boris Johnson articulated this line of reasoning in 2021 claiming that previous governments had created a 'Matthew effect' whereby 'you end up investing in areas where house prices are already sky high and where transport is already congested and by turbo charging those areas, especially in London and the south east – you drive prices even higher and you force more and more people to move to the same expensive areas'.[36] He acknowledged that this was bad for people even in these areas as 'their trains are more crowded, they have less time with their kids, they worry at the same time that the younger generation won't be able to get a home and that their leafy suburb or village will be engulfed by new housing development but without the infrastructure to go with it'.

This rhetoric continued in the 2022 Levelling Up White Paper, which acknowledged that 'central government decision making will be fundamentally reoriented to align policies with the 'Levelling Up' agenda and hardwire spatial considerations across Whitehall' alongside 'extra resources being deployed to local areas, including moving 22,000 civil servants out of London by 2030'.[37] The White Paper also focused on a series of missions.

However, as Johnson moved on and Liz Truss became Prime Minister, there was a reversion to Conservative orthodoxy as Truss criticised the 'lens of redistribution'.[38] When Rishi Sunak became Prime Minister, he claimed credit for ending funding formulas that benefited 'deprived urban areas' - and to the same crowd in Tunbridge Wells made the case for more investment in places such as Kent.[39] It is not surprising, then, that analysis by IPPR found that in the three years since Johnson articulated his agenda, public investment in the North of England has not increased: it was 'business as usual'.[40] The plan may have been there, but without funding and action, it did not amount to anything more than rhetoric.

Why did previous policies fail?

Previous policies failed to address regional imbalances because they failed to get the policy diagnosis correct and failed to build an enduring political consensus that would enable continuity.

What does economic analysis tell us about how to address regional imbalances?

The economy is simply a combination of bringing together the right people, with the right materials, in the right way. However, the issues in doing so are complex - and vary by place. Analysis consistently shows that place based issues need to be addressed in order to improve the economies of different regions. For example, a 2023 paper found that STEM skills, transport and public R&D funding distribution outside the Greater South East were the constraints on regional economies alongside London's overheating housing market.[41] Other analysis comes to similar conclusions that some combination of transport, skills, innovation and housing is important to economic growth in different areas.[42]

Building on this, it is therefore important to pursue different strategies in different places, based on the evidence about what the barriers to growth are in those places. What works for Birmingham, is not necessarily the same as what needs to happen in Blackpool. Devolution is an important part of this - allowing mayors and local authorities to develop plans which will address the issues for their place by for example coordinating transport and spatial planning (as already proposed by the government).[43] Previous Labour Together work has also shown the strong relationship between local public services and economic growth.[44]

The evidence is also clear that stable local leadership and strategies are essential to support places that are not doing as well - chopping and changing institutions simply does not work.[45] These local leaders know what is best for their areas - and can make the crucial join up between areas like transport, housing and public services that cannot be done centrally. Therefore the cross-party consensus that seems to have emerged on the model of mayoral combined authorities is very welcome. Research has also shown that fiscal capacity and autonomy differences between regions can also greatly impact the economic fortunes of places.[46] So it is important for central government to understand the total resources available to an area - both in terms of centrally allocated grants and locally raised taxes, but also in terms of private sector finance.

The private sector is particularly willing to invest in the places where prices and land values are high. The prices are high because there is already demand for activity in that area. So what such places require is better regulation to ensure further private investment can power future growth and deliver additional housing. Reforms to unlock investment - for example from pension funds - will complement this. There will still be some need for public investment, but to a lesser extent than in other areas. What other places need is public investment in transport, research and other growth enhancing activities. This will help to overcome the constraints facing businesses in those areas in accessing labour and in innovation.

Crudely, the above picture distinguishes between what the Greater South East and the rest of England require. The former can rely on more privately led investment, particularly in housing and other developments, given high land values. And - as the analysis below will show - other parts of the country need what the Greater South East has already had: public investment.

In particular, our major cities outside the Greater South East are underperforming compared to their international peers.[47] Research shows that significant, stable funding led by local leadership with a focus on building up economic strengths is the key to turning things around.[48] The private sector will also need to invest, as it is already doing, but weaker economies signal a need for greater state intervention to overcome particular economic constraints.

Central government also needs to adapt its role in different places. Policies like the increased minimum wage and improved employment rights can help across all places. But, decisions over Industrial Strategy, transport and wider funding will have important spatial implications. In focusing on key strengths across the country like advanced manufacturing, clean energy and defence - alongside industries like professional services that congregate in cities - the government is rightly looking to unlock the potential in all places.[49]

So the key to economic prosperity differs by place - requiring local leadership partnering with an intelligent central government that recognises where the issues are. However, as the analysis below will show, we have pursued a model of investment-led growth effectively in just one part of the country thus failing the economic test above.

But not only does it fail to achieve the economic potential of all our towns and cities, it also fails to satisfy the desire of communities to see prosperity in their own areas. And it also fails the supposed beneficiaries if overheating impacts living standards. The result of previous policies along these lines has been declining political trust and a growth model that seems to benefit no-one.

Why did 'Levelling Up' fail and what do the imbalances look like now?

'Levelling Up' may have had the right rhetoric but it still failed both in policy terms and in political terms. The initial signs were promising as set out above - from the Green Book Review to the Levelling Up White Paper. However, the funding did not follow.

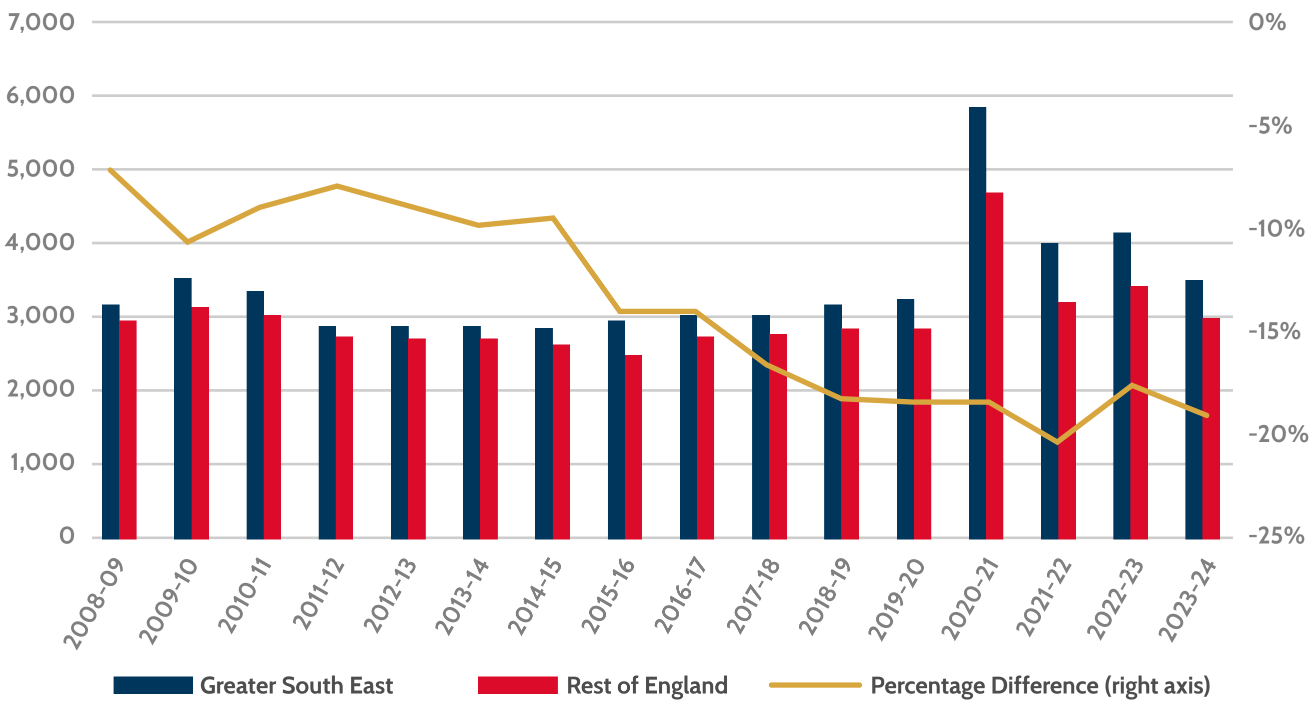
In March 2021, a new 'Levelling Up Fund' was announced that allowed places to bid to the government for 'high value local infrastructure'.[50] The 'Integrated Rail Plan for the North and Midlands' was published in November 2021 with the Prime Minister - Boris Johnson - saying he was proud to present it as the 'biggest ever government investment in our rail network, in redressing decades of underspending in the Midlands and North, and in 'Levelling Up' our country'.[51] Even the 'National Funding Formulae' for Schools in 2021-22 was claimed to deliver 'on the government's pledge to level up the lowest funded schools'.[52]

However, as our data shows, these set piece announcements and others failed to shift the dial on government growth spending outside the Greater South East.

In this report, growth spending is defined in terms of three categories of spending delineated by HM Treasury. These areas are 'Economic Affairs' (including areas such as transport, business support and science and technology), 'Education' and 'Housing and community amenities'. Economists disagree about the salience of drivers of economic growth, but none can argue that some combination of education, skills, housing, transport, research and development are the essential mix.

Chart 1 shows that there was little change in the distribution of this growth enhancing spend over the 2019 to 2024 parliamentary term. In 2019-20, growth spend outside the Greater South East was 19% lower than in the Greater South East. By 2023-24, this figure was still 19%.

Chart 1: Growth spend per head, Greater South East v rest of England (real terms, 23-24 prices)



Indeed, looking back to 2008-09 when the records begin, we can see a persistent gap in this spending. The average gap in growth spend per head in real terms has been 14.5% over the 16-year period since then, with the trend getting worse over the Conservatives time in office.

These calculations suggest that if the Greater South East had been funded at the England wide average rate for growth spending over this period then this would have freed up over £100bn to spend elsewhere.

Breaking growth spend down into its components, Table 1 below shows spend by region for the most recent financial year available - covering April 2023 to March 2024. It is shown by region with a summary at the bottom showing the population weighted average spend for the Greater South East and the rest of England (with the percentage difference also shown).

A clear picture emerges. London stands out as the region which receives the most spending per head. Given the significant economic links with the surrounding regions, it is fairer (though not perfect) to compare London and the surrounding two regions with the rest of England.[53] Both areas then contain significant urban and rural components. This then balances out to some extent the almost completely urban nature of the London region (which is unlike any of the other regions).

Even taking this into account, the UK government significantly underinvests outside the Greater South East in areas such as enterprise, science and technology and transport.

Table 1: Spending per head by region on selected functions (2023/24), HMT statistics

2023-24	Economic affairs	of which: enterprise and economic development	of which: science and tech	of which: transport	Housing and community amenities	Education	Total Growth Spending	Total Spending
North East	1,118	263	134	541	262	1,667	3,047	13,593
North West	1,261	278	97	729	202	1,589	3,052	13,297
Yorks & Humber	1,025	255	106	495	219	1,624	2,868	12,185
East Midlands	881	239	101	368	203	1,599	2,683	11,603
West Midlands	1,249	280	119	706	231	1,672	3,152	12,527
East	1,252	344	148	599	227	1,580	3,059	11,730
London	2,139	510	189	1,313	575	1,808	4,522	14,842
South East	1,300	344	179	628	220	1,539	3,059	11,613
South West	991	258	98	429	200	1,493	2,684	11,936
England	1,311	324	136	693	273	1,621	3,205	12,625
Rest of England	1,101	264	106	561	215	1,601	2,917	12,490
Greater South East	1,589	404	175	867	349	1,646	3,585	12,804
%	-31%	-35%	-39%	-35%	-38%	-3%	-19%	-2%

Statistical Note: The Public Expenditure Statistical Analyses and Country and Regional Analysis break down identifiable public spending into different categories and by region. For 23/24, this totalled £885bn out of total £1053bn of Total Managed Expenditure. That some of this is not allocated to places is not surprising - for example debt interest spending. Not all areas of spend are shown here.

The result of this is that spending per head on growth is £668 (19%) lower in the rest of England. Looking specifically at 'Economic affairs' spending, we can see the balance is even more skewed with a £448 (31%) gap particularly concentrated in London.[54] This undoubtedly has an effect on the economic prospects of these different places - with public investment providing the transport infrastructure, ideas and skilled workforce to create a thriving economy. This growth generated then means that the country is reliant on net fiscal transfer from London and the South East.[55] Public spending per head overall is only £314 lower (2%) outside the Greater South East as these inequalities in growth spend end up simply being compensated for by 'social protection' on welfare and pensions - which is £487 (10%) lower per head in the Greater South East.

Taking us back to the academic evidence above - the areas of particularly unequal spend like transport and innovation are the exact areas which have been found to be binding constraints on regional economies outside London and the South East.[56] The respective gaps on transport and science and technology spend are 35% and 39%. This is not sustainable economically or politically. Social protection spend is no replacement for growth spend - it is treating the symptoms of regional inequality rather than the underlying condition.

Given this, the approach to 'Levelling Up' failed on two measures common to other attempts.

Firstly, 'Levelling Up' failed to choose a policy platform that would give genuine power and resources to places - instead relying on piecemeal competitions and national announcements. A freedom of information request in 2024 found that of the £10.6bn allocated to the three main funding pots as part of 'Levelling Up'

(Levelling Up Fund, Towns Fund, UK Shared Prosperity Fund), just £2.5bn had been spent.[57]

And despite the review of the Green Book, there is evidence that a culture persists that elevates benefit-cost ratios (which tend to favour already wealthy areas) above other considerations. For example, the guidance for the Brownfield Housing Release Fund stipulates that the benefit-cost ratio must be above one though various adjustments can be made.[58] Anecdotally, there is still a persistent belief in some government departments and local authorities that these metrics must hit a particular number to be considered value for money. And research has suggested that there is bias in the system where 'London projects or those serving London with relatively low BCRs (less than 2) have routinely been approved, whereas outside London there is a more mixed picture'.[59] Reliance on imperfect economic modelling is no substitute for a holistic policy intended to redistribute power and resources.

Secondly, 'Levelling up' also failed to sustain a political consensus in favour of its chosen national projects and a rebalancing of spending. For example, the Integrated Rail Plan referenced above from November 2021 was spectacularly ripped up by the next-but-one Prime Minister in September 2023. The result of this being the laughable image of a Prime Minister - Rishi Sunak - using a party conference in Manchester to announce the cancellation of a new high speed rail line to Manchester. This course of action is part of the reason why spending on growth related areas continues to be skewed to the Greater South East - with major investments like High Speed 1, Crossrail and now High Speed 2 all being designed to benefit one corner of the country.

Indeed, one of the 'Levelling up' missions specifically referenced changes in the distribution of Research & Development (R&D) spend. The second 'Levelling up' mission said that "By 2030, domestic public investment in R&D outside the Greater South East will increase by at least 40%, and over the Spending Review period by at least one third." In 2019-20, Science & Technology spend (as a proxy for R&D) was 28% per head lower outside the Greater South East. However, by 2023-24, this gap had actually widened to 39%. Spending per head grew from £97 to £106 in real terms outside the Greater South East, growth of just 10% at a time when the gap was also widening.

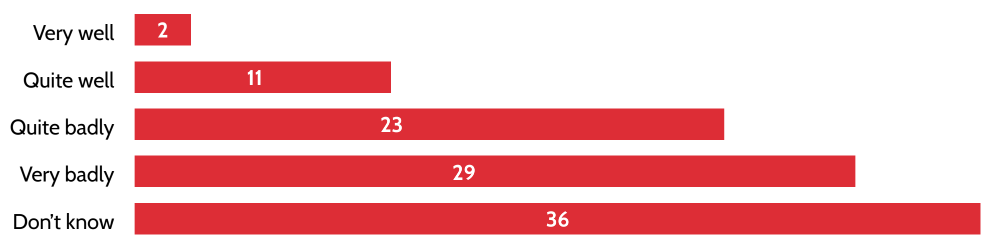
Learning from these mistakes means better policy that builds on local institutions like mayoral authorities, giving them genuine powers and resources but also pursuing an active policy to tilt the balance of national growth spending to focus on places outside the Greater South East.

But the political foundations must also be strong. So the final verdict on 'Levelling up' belongs to the people. We polled a nationally representative sample of 4,580 people and found that 52% think that 'Levelling up' went badly or very badly compared to just 13% who think it went well or very well. This is a ratio of 4 to 1 and holds across all regions.

Figure 1: Views on delivery of 'Levelling up'

'Overall, how well or badly do you think the previous Conservative government(s) did in delivering the 'Levelling Up' programme?'

% of all Britons



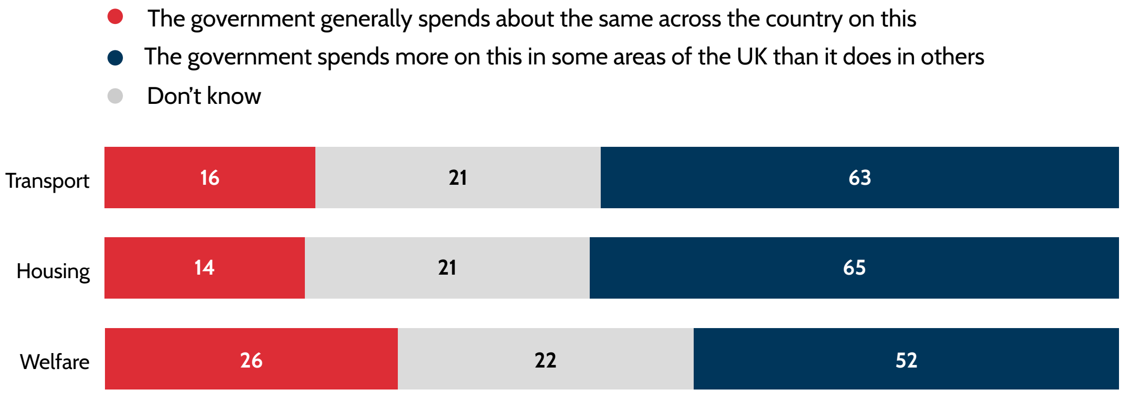
Source: Polling by Labour Together. 12 - 18 February, 2025

We also asked people if they thought that some parts of the country received a higher level of funding on different policy areas per person. Across all regions there is a view that this is the case as shown in Figure 2.

Figure 2: Views on concentration of funding in some places

'For each of the following, do you think that the government tends to spend about the same per person across all areas of the UK, or do you think some areas tend to get more funding per person than others?'

% of all Britons



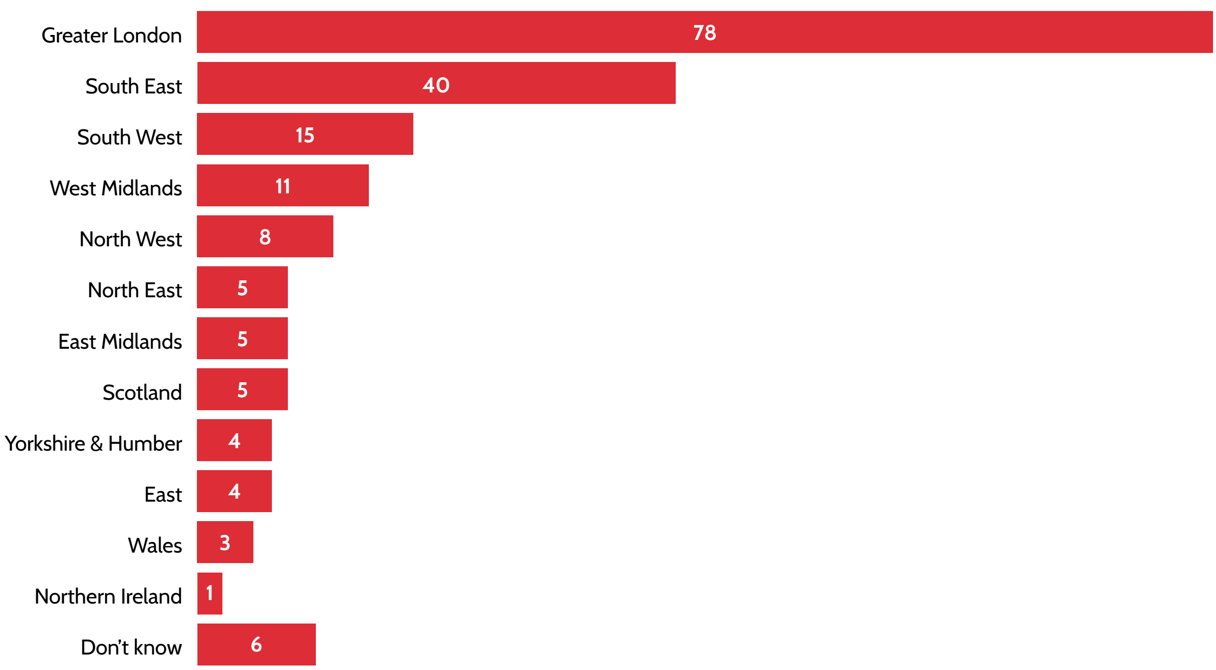
Source: Polling by Labour Together. 12 - 18 February, 2025

When we asked people which areas they thought received this disproportionate level of funding the answer was clear. London and the South East receive a disproportionate level of spending - particularly on growth focused areas such as transport as shown in Figure 3.

Figure 3: And which of the following areas, if any, do you think that the government tends to spend more on when it comes to transport?

'And which of the following areas, if any, do you think that the government tends to spend more on when it comes to transport?'

% of all Britons, with each able to select up to 3 options



Source: Polling by Labour Together. 12 - 18 February, 2025

How do we rebalance?

The point here is not to criticise the original aims of previous governments to change this state of affairs, but the means by which they were pursued and then ended in failure. Achieving a rebalanced country requires a clear focus on our current situation and an understanding of what policies might change this based on what we know has worked or is working elsewhere.[60] It also must be built on strong political foundations.

The current Labour government's manifesto said that 'the country remains too centralised, with the economic potential of too many regions and communities ignored', committing to 'landmark devolution legislation' and 'improving rail connectivity across the north of England'. It also said there would be an end to wasteful competitive bidding and that local government would receive multi-year financial settlements.

Since July 2024, the government has announced some welcome changes that will provide a genuine political and policy basis for achieving widespread prosperity.

The Devolution White Paper published in December 2024 looks to deepen the powers of existing mayoralties and spread them across the country. Supporting this, changes to the local government finance settlement have refocused central funding on areas with significant deprivation. And a new review of the Treasury's Green Book has been ordered to understand why the previous attempts at change have failed to shift the dial.

The government is rightly trying to grow the economy more quickly and rebalance growth. These actions are promising, but further reform is needed to build economic growth across the country. Labour must learn from past mistakes to build the right policy and political foundations for widespread prosperity. The proposals here would begin this process of rebalancing investment across the nation.

Recommendation 1: Use deeper planning reform, pension reform and smarter regulation to create a self-sustaining engine of privately led growth, particularly in the Greater South East

Together, such changes can unleash private investment in the places where growth is already strong and land values are already high, building a self-sustaining engine for development with a lower requirement for public investment (predominantly in the Greater South East).[61] [62]

The private sector is signalling - through high land values - that it wants to invest in places. The government is rightly looking to allow that investment, for example by looking to permit a third runway at Heathrow. It also needs to think about how private investment can be leveraged to pay for the infrastructure needed to sustain further growth.

For example, land value capture is one tool that the government can draw upon. It has been deployed by governments across Europe and the United States of different political persuasions in the service of different objectives. At its core, public investment increases the value of land, but the private sector often benefits from that increase. A percentage of that increase should therefore be retained and invested in transport infrastructure - such as happened with the Northern Line Extension or with Crossrail.

Such mechanisms can be used to help fund the infrastructure in a place that will enable new housing and commercial sites. The proposed Oxford-Cambridge Growth Corridor centred on East-West Rail through Milton Keynes is ripe for this. Places need the capability and tools to do this more often as happens elsewhere.

We have never quite got this right as a country - a CLG Select Committee Inquiry in 2018 is being followed up with another look in 2025. The last Conservative government made some positive changes in 2022, but there will be a need to go further to ensure there is the capacity and fiscal flexibility to promote this model.

Pension reforms also have the potential to create greater pools of capital for private and public sectors to draw on, based on what we see happen in other countries.[63] And it is right that the government are also looking at how smarter regulation can support growth.[64]

As set out above, local leadership is vital to the redevelopment of places. The government's reforms to widen devolution to more places and deepen it in existing areas like the Greater London Authority will enable public and private funding to deliver growth for their areas, working with institutions like the National Wealth Fund and the Office for Investment.

With private investment unleashed across the country, particularly in the Greater South East where the land values are higher, public funding can be rebalanced across all regions of England - righting the historic wrong that has meant that growth enhancing public investment has been highest in the wealthiest parts of the country.

Recommendation 2: Change national government spending patterns and the Green Book to rebalance public growth spending outside the Greater South East

Taking account of the evidence base set out above, a new approach would rebalance government spending on economic growth to the places that require greater support. This includes parts of all regions - including parts of the Greater South East - but a more equitable distribution would help to build up new centres of economic growth.

Based on the evidence as to what is holding places back, this investment would likely mean better road and rail links between and within regions, more support for innovation in universities and businesses and more.[65] All of this can be tied to the Industrial Strategy sectors - for example with the development of further skills and apprenticeships in the defence or clean energy industries. This money would be used to work with local leadership - people using their knowledge of their area to direct funding towards solutions that work for their area as set out in their Local Growth Plans.

In particular, we know that there are many cities that underperform compared to cities of a similar size in other countries. Polling shows that people living in towns on average know that policies which benefit their neighbouring cities will also benefit them. But they also want to see improvement locally, meaning some focus on regenerating high streets and making everywhere a decent place to live.[66]

Investing more equitably across the country will benefit towns and cities - with higher performing cities reinforcing newly self confident towns within strategic authorities. Every single strategic authority has a combination of urban areas of different sizes within them - it will be the job of local leadership backed by the right powers and resources to deliver growth that works for all parts of their area. And this is particularly important in places which do not have a large city nearby.

All of this means updating funding formulae or processes to take account of these priorities. For example the following should be considered:

1) Department for Transport rebalancing investment priorities - and grant allocations - towards places with the most potential to develop integrated transport networks quickly (likely in Established Mayoral Authorities)
2) Department for Science, Innovation and Technology and UK Research & Innovation rebalancing funding towards building excellence in places with potential for significant innovation.[67] This would mean ensuring new facilities are clustered outside the Greater South East particularly in places where universities have strong foundations to build upon - such as the N8 collaboration of research intensive northern universities.
3) Homes England focusing on building private investment in places where land values are high, with public investment used to support places with potential where there are issues with land assembly, remediation etc. which might hinder development.
4) An updated Local Government Finance Settlement taking significant account of the needs of each place as well as differing tax bases with the intention of supporting all places to create thriving communities.

And Green Book best practice must be updated to ensure project funding is primarily based on strategic objectives - rather than arbitrary forecasts - with publicly transparent business cases to ensure value for money. This must include an end to all arbitrary benefit-cost ratio thresholds based on limited economic forecasting - instead replaced with strengthened systems of evaluation, public transparency on those calculations and why the decision maker believes a project to be value for money given the available information. Devolution is complementary to this, as it puts local communities with greater knowledge of their place in charge of where the marginal pound should go.

This will still require prioritisation and sequencing of projects by local leaders and national government - particularly in the UK's difficult fiscal context. However, as set out above, a more equitable distribution of growth spend coupled with reforms to unleash private investment might free up around £100 billion over the next decade.

Looking internationally, this might even just be the start of a long term project. For context, it is estimated that more than £2 trillion (2019 prices) was spent on the German reunification project to reduce regional inequalities there between 1990 and 2018.[68]

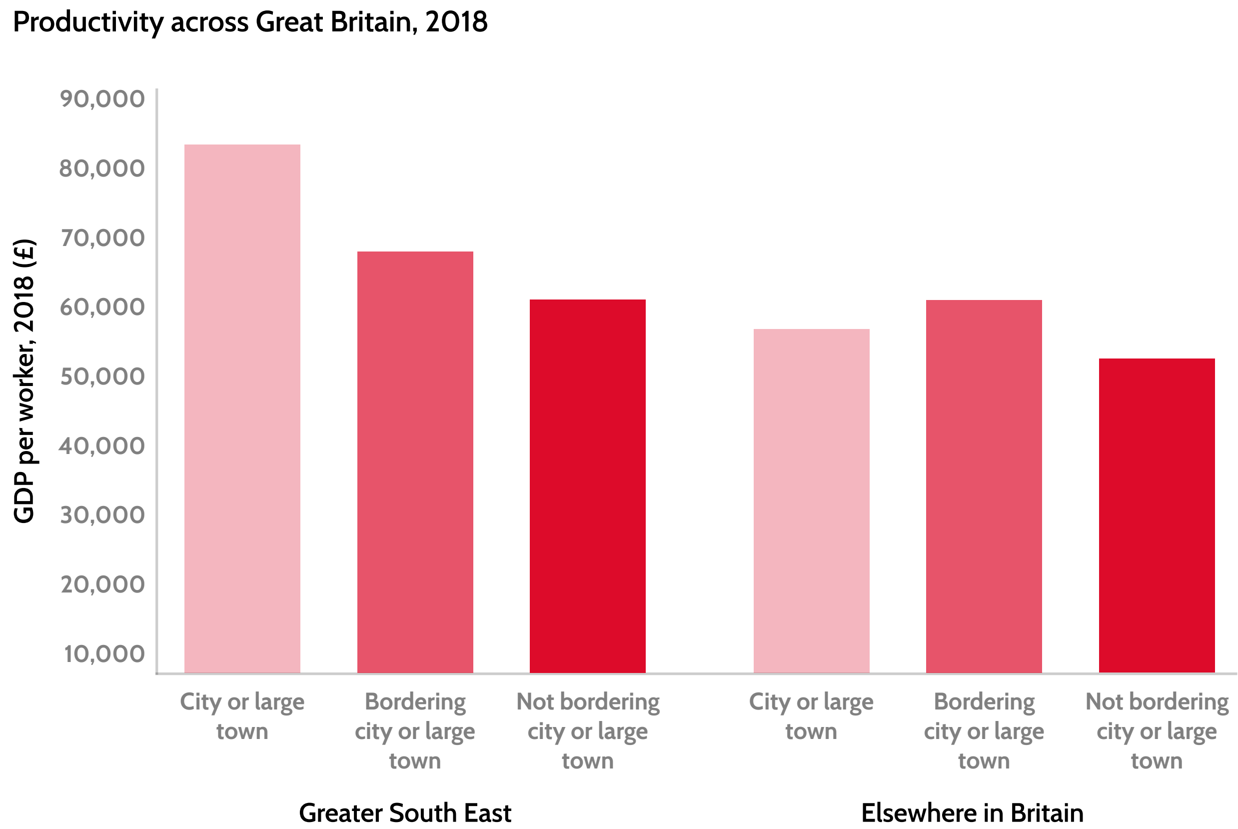
But the way forward now is clear - the outcome of government spending choices over the coming years must end the current model which only focuses growth spending into one part of the country. It would be reasonable to see progress on the distribution of spend within this parliament, with the ultimate aim of ending the Greater South East's growth spend premium within two parliaments.

Recommendation 3: Increase the spending and autonomy of the 'Established Mayoral Authorities' to deliver growth as quickly as possible in underperforming cities

As set out above, our underperforming cities have lots of potential given their size - and would also have an economic benefit for the areas around them.[69] And we also know that regions outside the Greater South East have received less growth funding per head, even seeing projects not go ahead where the Benefit-Cost Ratio according to the Treasury's Green Book was high.[70]

The highest growth return to public investment is likely to come from focusing a disproportionate level of funding on the underperforming cities of England outside the South East. There is now a voluminous literature on this. It is well summarised by Chart 2 produced by the Centre for Cities where the picture has changed little since 2018.[71] Look overseas and the story is still true - our major cities underperform compared to their peers. Closing the productivity gaps of Greater Manchester and Birmingham to London with those that Lyon and Toulouse have with Paris would increase total GVA by around £20 billion a year.[72]

Chart 2: Productivity by urban/rural areas in Greater South East v rest of Britain[73]



Source: Centre for Cities, ONS

The sweet spot here is to focus disproportionate growth funding and major projects on these underperforming cities - particularly those with developed institutions as represented by the 'Established Mayoral Authorities' who will all have flexible integrated funding settlements from April 2026.

These Established Mayoral Authority areas have proven their ability to deliver and align with the major underperforming cities outside the Greater South East. This would include Greater Manchester, Liverpool City Region, the North East, South Yorkshire, West Midlands and West Yorkshire. They now need backing with further powers and resources to ensure they have the capacity to get things done. As well as national projects, there should also be consideration of ways for each area to deliver more growth for itself. For example by:

a) Increasing allocations through the Integrated Settlements - for example by expanding the scope of integrated settlements to new areas of economic or public services spending so that they can deliver for residents. Further transport, housing, innovation, employment support and skills spend would help these areas with the issues they face. And further public services devolution linked to this would enable more tailored delivery joined up to this - such as Barnsley's integration of health services on the high street linked to South Yorkshire's bringing together of health and economic issues through the mayor.

b) Considering fiscal flexibilities - for example land value capture as proposed above, increasing borrowing caps or further fiscal devolution. In the coming years, giving mayors more control over taxes would improve their ability to deliver quickly given certainty over revenue streams. There are already precedents for this in the Devolved Administrations which could be pursued in a fiscally neutral and pro-growth manner.

Growth requires places to bring levers together to achieve a vision for their area. This can help businesses in overcoming coordination issues when looking to locate or expand - for example a mayoral office of the future would be able to consider transport, land use, skills, business support and investment issues in the round to meet the needs of specific proposals.

As well as the reforms above, the government should consider how to liberate mayoral areas to deliver - including fewer restrictions on the usage of funds (in return for the transparency on value for money proposed above) and Arms Length Bodies providing a supporting role to these places rather than focusing on delivery and control.

Following such a strategy would mean greater prosperity, with public investment starting to leverage private sector investment too and spreading the benefits to wider regions.

Recommendation 4: Create 'growth corridor plans' agreed between national government and strategic authorities around major transport schemes to spread the benefits across regions

Towns and cities do not exist as economic islands - they are inextricably bound to their neighbours by not just transport links but through bonds of history. Where significant transport projects are being developed to tie areas closer together, it is essential that national government and local areas consider how to get the biggest return from such investments for the benefit of wider regions.

The Oxford Cambridge plan is an example of this around East-West Rail. The government can help to marshall the private sector with a strategy to develop an area - building on existing strengths and creating something bigger than the sums of its parts. This can extend the benefits of growth to wider areas by thinking more holistically about wider transport services, land use, supply chains and complementary policies that can be pursued across the area.

The principle can be extended to create growth plans where similar major transport interventions are being made such as a 'Transpennine Growth Corridor' alongside the Transpennine Route Upgrade and other proposed rail improvements to link up the Liverpool City Region, Greater Manchester, West Yorkshire and South Yorkshire and neighbouring areas. This plan should be developed in collaboration with strategic authority mayors in an area, working with a lead government minister.

Public bodies should also prioritise projects that support growth in these corridors. For example, places could work with the National Wealth Fund on projects which unlock their binding constraints. Similarly, the Office for Investment can bring in international investors. Focusing on such corridors could also be extended to the project prioritisation made by Network Rail, National Highways, Homes England and similar bodies.

This will help to extend the benefits of increased growth in cities to the areas around them, with greater numbers in reach of opportunities and the agglomeration benefits that this can bring.

Conclusion

The outcome of these reforms should be to target a higher level of per capita spend on growth enhancing policies outside the Greater South East. This cannot shift overnight, but it would be reasonable to see progress within a parliament and the end of the Greater South East's growth spend premium within two parliaments. Such changes will sharpen the incentives for allowing further private investment in the Greater South East too.

Through higher private investment and a significant rebalancing of public investment, we will begin the process that reduces regional inequality. Increased public spending will address the transport, innovation and skills barriers facing most of England. Private investment unleashed can continue building prosperity in the Greater South East. A whole country open for business and firing on all cylinders, more secure and stable in a volatile world.

This project is a long term one - but the proposals in this paper would shift the dial. Through local institutions, a national funding system that invests in the places that need it and a regulatory system that backs private investment, we can deliver widespread prosperity. For too long, geography has meant destiny. This Labour government can finally start to rebalance the nation.

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