4

POLICY IMPLICATIONS

4.1 OVERVIEW

It is clear that these findings have major policy implications and work will need to be done to understand these further. This chapter is a first attempt to tease some of those fundamental policy points out and to steer the emergent debate. Brexit (at the time of writing) is an omnipresent issue in this context.[1] We have argued that real (price-adjusted) figures, as calculated in the previous two chapters, are indispensable for policy makers who wish to address the regional divides so powerfully evident in the Brexit vote. Indeed, use of nominal figures can distort funding flows: London's high transport spending (covered later in this chapter) might be understandable in light of its high nominal productivity. If, however, we adjust for price differences (as economic theory and international comparisons suggest we ought) then this disparity becomes much harder to justify.

As such, our results have significant implications for the geography of productivity and incomes and this will affect funding flows and other appropriate policies. Brexit presents some opportunities to adjust some of these but also major industrial challenges (Bailey & De Propris, 2017; Chen et al., 2018).

As such, we also discuss the 'geography of discontent' linking regional economic development and the Brexit vote (Los, McCann, Springford, & Thissen, 2017). It is perhaps no accident that the NUTS1 regions that voted most heavily to leave the European Union (EU) are those where we find price-adjusted productivity to be lowest. In order to do this, the chapter is structured as follows:

- *Introduction and outline* – This section introduces the reader to some of the major policy implications of our work, noting the existing policy environment.
- *The current spending bias towards London and the South East* – Here we examine the extent to which London and its environs dominate national infrastructure spending, noting that our figures imply that rebalancing towards the regions would benefit the UK as a whole.
- *The Brexit overhang* – This section explicitly examines the likely post-Brexit funding environment and considers what an optimal funding mechanism might look like.
- *The case for 'meaningful devolution'* – In this section, we examine the role of devolution in regional economic performance, making the case for greater devolution of powers.
- *Moving beyond 'people versus place'* – Here we outline how the academic debate needs to move on in light of our revised figures.
- Conclusion.

4.2 RECAP

We commenced this book by noting the nature of regional disparities and how they are conventionally treated by government bodies. In so doing, we noted how gross value added (GVA)-based measures (particularly GVA per capita) were (and continue to be) key metrics by which such disparities are calculated, and how the Government's Industry Strategy Green Paper made reference to them. Our research findings have highlighted that measures traditionally used in the allocation of regional funding may distort funding flows.

Particularly egregious is the ongoing use of GVA per capita, despite the fact that the ONS (Dunnell, 2009) and Gripaios and Bishop (2006), amongst others, have demonstrated that it is not a measure of either regional productivity or regional wellbeing. In addition, commuting and demographics both grossly distort GVA per capita when measured on a subregional level: GVA per capita is higher in Islington (represented by the constituencies of Jeremy Corbyn and Emily Thornberry) than in Kensington and Chelsea.

By using a variety of official data, we constructed a series of different regional price indices suited to different purposes in order to show that some of the gaps between different parts of the UK are narrower than hitherto believed. However, this was not to suggest that regional disparities are trivial or non-existent. Indeed, we also found that whilst the relative positions of different regions changed dramatically, gaps in living standards remain substantial. We found that the poorest region is not in the North of England, rather it lies in the old industrial heartlands of the Midlands. In contrast, we found that Scotland overtook the South East of England in terms of productivity (and was only marginally behind in terms of incomes). This is extremely noteworthy given the geography of the Brexit vote: Scotland voted heavily to remain whilst the West Midlands showed the highest leave vote in the country (closely followed by the East Midlands).

However, given the nature of the data that has been used in terms of assessing regional performance, it should not be surprising that funding has – we would argue – disproportionately favoured those areas *seen* to be successful by successive UK governments and policy makers. Indeed, this is particularly evident in transport funding, but also education. Simply put, quite striking is the difference in per capita funding between London and the rest of the UK – with only Scotland coming close. In this context, should it be any surprise that, with greater state investment in physical and human capital, London and Scotland perform better in terms of productivity? That both these 'regions' have substantial devolved powers is also significant as a driving factor, with Scotland in particular having widely extant resourcing/ decision-making powers over public service and infrastructure provision (and a favourable funding settlement via the Barnett formula). These are points we return to in subsequent sections of this chapter.

Table 6. Per Capita Funding (£) for Transport and Education, UK Government Office Region (GORs).

GOR	**Transport**	**Education**
North East	291	1,272
North West	370	1,276
Yorkshire and The Humber	335	1,280
East Midlands	220	1,244
West Midlands	314	1,286
East	333	1,266
London	944	1,605
South East	370	1,205
South West	305	1,190
Scotland	620	1,512
Wales	377	1,345
Northern Ireland	307	1,459

Source: HM Treasury (2018). See 'Country and Regional Analysis 2017: A Tables'.

In contrast, as seen from above, the East Midlands and West Midlands come out at – or near – the bottom in terms of these spending figures (having noted their relative income status above). It is perhaps no accident then that this 'missing middle' (Hearne, Forthcoming-a) of the UK voted most strongly for Brexit. In this context, it is of interest that the correlation between the regional Brexit vote (by GOR) is considerably stronger using our purchasing power parity (PPP) adjusted productivity data than the nominal original. Apparent here is that the Midlands has fared worst of all regions in the UK terms of foregone output over a long time period relative to the UK total (Hearne, Forthcoming-a).

In this final chapter, we hence wish to revisit the policy debate in light of our findings on the inadequacy of these measures and the implications for regional funding regimes in a post-Brexit environment. In the sections that follow, we examine why we think London in particular receives a disproportionate amount of public funding and the distortionary effects that this has on economic performance and well-being in the rest of the UK. We focus on the highly illustrative examples of 'The City' and Westminster and the emblematic transport projects of the Heathrow Third Runway,[2] Crossrail and HS2. In all of these cases, with London being the centre of both political and financial power in the UK, the underlying network of power relations between the UK Government and a handful of high-end businesses clustered in the 'Square Mile' (financial services, legal services and management consultancies) have been key in sequestering resources to these projects.

Having established the nature of London-centric approaches to public service and infrastructure spend in the UK, we then consider the threat that Brexit poses to the one genuine (albeit methodologically imperfect) means of redistributing wealth to poorer regions in the UK, European regional development funds, and the lack of any substance to replacement proposals for a 'Shared Prosperity Fund' after 2020 when the UK will (at the time of writing) have left the EU. We find that such conversations are still embryonic and raise concerns of actually being honoured, given the uncertain (but in all likelihood negative) impact that Brexit will have on public finances (Dustmann & Frattini, 2014). Given this, the final section of the book discusses the implications for regional development, and what we argue is the need for greater devolution in the UK going forward.

4.3 THE CURRENT SPENDING BIAS TOWARDS LONDON AND THE SOUTH EAST

A particular theme that we have sought to 'tease out' in this work has been the overarching dominance of London and the South East in terms of prioritisation for 'national infrastructure' spending.[3] In actuality, the area in question is even more precise in only constituting parts of London and the South East, that is, the financial services locales of inner London known as the 'Square Mile' or simply as 'The City', and certain corridors in the South East of England, notably Surrey and Brighton, Sevenoaks, Bishop's Stortford/Saffron Walden and the Oxford–Cambridge nexus. In explaining this conflation of the well-being of these areas with the 'national interest' we have noted the concentration of political and financial power in these locales – a nexus of the political establishment, and associated firms in high-end legal and financial services. It is our contention that this concentration of sociopolitical power and attendant social capital networks has distorted funding priorities across the UK (and to the lasting detriment of most of the country). In the following section, we highlight some key examples of this.

4.3.1. Heathrow's Third Runway

In spite of the fact that London is served by some six international airports, which according to Transport for London handle more passengers than any other city region on the planet, the government has approved plans to build a third runway at Heathrow (BBC, 2018a). Although the estimated £14bn cost of Heathrow expansion (BBC, 2017b) would be met by its private sector owners, it has been alleged that more than £10bn of rail and road spending would ultimately need to be met by the public sector to support the expansion (Topham, 2018). In addition, the proposed runway plans may involve major works to reroute the M25 motorway (BBC, 2018b). Given the complex corporate structure of Heathrow (Plimmer & Ford, 2018) and its highly leveraged balance sheet together with the possibility of substantial cost overruns (which are hardly uncommon for large infrastructure projects), it is difficult to avoid the conclusion that the state bears a substantial amount of risk. In this regard, it enjoys an implicit subsidy not dissimilar to that of major banks (Noss & Sowerbutts, 2012). To reiterate, the results of our previous chapters suggest that it is difficult to justify such investments on the basis of London's price-adjusted productivity.

4.3.2. HS2

High-Speed 2 (otherwise known as HS2) is a flagship project on behalf of the UK Government to link London to the West Midlands and the North of England (Manchester and Leeds) by a rapid mass-transit rail means of travel. The underpinning logic here is to significantly reduce travel times between key cities in the UK and improve connectivity to London (and ostensibly proximate European destinations via a link to Eurostar).

However, there have been criticisms surrounding the overall connectivity of the earmarked route for HS2. Particularly problematic is that the route will not connect with key stations such as Birmingham New St or St Pancras (in this case necessitating a walk between stations, from Euston, for international travellers). In turn, the costs projected with the project have also seen significant inflation, with estimates suggesting an extra £43 billion needed beyond initial estimates (Kentish, 2018), prompting calls from within the UK Parliament to review the scheme (Kentish, 2018). For Jenkins (2018), the costs associated with this project have been particularly egregious, with a quarter of the 1,346 staff employed being paid more than £100,000 p.a. and that 'the company's soaring consultancy bill also doubled last year to a staggering £600m, including £21m in one year on environment consultants' (Jenkins, 2018). Such costs do indeed raise severe questions over the actual value for money associated with this project, and to invite critical review of the justifications used to push the project forward in the first place. Jenkins (2018) further notes that

> *[w]hen Labour's then transport secretary, Andrew Adonis, embarked on HS2 in 2009, it was in defiance of the 2006 Eddington report, which dismissed high-speed as outdated, voracious of energy and with poor rates of return.*

Once again, it is telling that the northern parts of the line may now never be built.

4.3.3. Crossrail

With a funding deal of some £16bn (House of Commons Select Committee on Crossrail, 2007) Crossrail will increase London's total rail capacity by 10% (Glover, 2018). The line will undoubtedly be of enormous benefit for busy commuters from the Royal County of Berkshire, as well as those further East in relatively 'affordable' parts of London and offers a convenient spur to Heathrow. Nevertheless, even before Crossrail has opened, there are plans for 'Crossrail 2', to connect Surrey to Hertfordshire via central London, with an estimated cost of some £31.2bn (Topham, Pidd, & Halliday, 2017). This would mark the fourth major rail project in London since 2000.

In addition to the fact that the project is being delivered late and over budget (which is, in fairness, not unusual in the world of large infrastructure projects), it is difficult to justify pouring further billions into the rail infrastructure of the Greater London area ahead of improving transport links in metropolitan areas of the rest of the country. Indeed, for the cost of Crossrail, it would be possible to build 1,000 stations such as Kirkstall Forge in Leeds (which exceeded its expected annual passenger numbers within five months of opening). This simple example is just one illustration of the 'latent demand' for better infrastructure in the regions exposed by such projects. Again, we refer back to the results of Chapters 2 and 3, suggesting that our adjusted figures imply that greater 'bang-for-buck' enhancements to productivity and living standards might occur were such capital to be redeployed to the poorly served commuter networks in the Midlands and North.

For example, it is unsurprising that there is no obvious extant demand for public transport services between Skegness and Grimsby when it takes almost three hours by train and 3½ by bus to cover little more than 30 miles. Similarly, it can take at least an hour to travel the 11 miles between parts of Dudley and central Birmingham at rush hour via any means of transport. Even worse, the only trains between Walsall and Wolverhampton (a distance of under 7.5 miles) travel via Birmingham and thus take over an hour, in spite of the existence of track between the two.

Our analysis has already shown that these regions outperform their 'official' productivity: how much better could they do with the kind of funding received by London and the South East (or even Scotland). Given this, it's hardly surprising that such regions are both amongst the poorest in the country and those that voted most strongly for Brexit.

4.4 THE BREXIT OVERHANG: WHAT MECHANISM FOR FUNDING 'THE REGIONS' AFTER BREXIT?

And it is to the immediate Brexit context that we now turn. There has been a lively debate in the literature over the effectiveness of EU structural funding in the UK and elsewhere (Becker, Egger, & von Ehrlich, 2010). Currently, the UK benefits from EU regional funding, under the premises of the European Structural and Investment Funds (ESIF). Under this regime, approximately half of the UK share of ESIF over 2014–2020 (approximately £24 billion) were allocated to areas that are identified as 'less developed' or 'transitional' (Bentley, 2018). In light of this, it is noteworthy that Bachtler (2017) argued that such EU Structural Funding has provided a long-term anchor for policy.

However, as noted, eligibility for structural funding correlates poorly with many measures of deprivation. Our analysis has argued that the measures underpinning this funding allocation are flawed. A key finding here was that regions such as Shropshire and Staffordshire qualify for higher levels of funding on the basis of their GVA per capita but this ignored the household income (gross disposable household income, GDHI) side of the story – to reiterate, what we regard as a better measure to calculate deprivation. In this context, poorer areas such as the Black Country in the West Midlands were eligible for less money on the basis of having a GVA per capita that exceeded EU thresholds. Yet, Brexit premises that this funding regime will no longer be applicable to the UK and thus offers the opportunity to revisit funding formulas.

This is of particular importance in light of findings that the effectiveness of cohesion spending is critically dependent upon the proper identification of specific regional needs (Crescenzi, Fratesi, & Monastiriotis, 2017). Thus, whilst Brexit poses acute economic challenges, particularly in light of evidence suggesting that it might have starkly divergent regional impacts (Chen et al., 2018), it also presents opportunities for more appropriate targeting of regional policies (particularly in light of the devolution agenda).

With this in mind, the UK Government proposed a 'Shared Prosperity Fund' (BBC, 2017a) to substitute for the monies allocated under EU regional funding schemes. The Shared Prosperity Fund was first proposed by the Conservative Party in its 2017 Election manifesto (Conservative Party, 2017, p. 30) and described as a fund 'taken from money coming back to the UK as we leave the EU, to reduce inequalities between communities in our four nations'. In particular, that:

> *[t]he money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most. (Conservative Party, 2017, p. 35; our emphasis)*

Inferred from the above is that somehow EU funds are expensive to administer and highly bureaucratic. This does raise the issue of how one would administer such monies in a 'streamlined' manner. However, the more substantive issue for us is that of how areas with the most 'need' would be identified. Our analysis has suggested that measures such as real GDHI per capita (with our estimated regional price levels) would be better in this regard to a replacment 'social fund'. However, the thresholds relative to mean earnings would be contingent on the monies available. The nature of targetting priority areas in itself might be influenced by other factors. Should 'deprived' areas be prioritised, wherever they are in the UK? Or, to reiterate, is there a case that the Core Cities outside of London, which our analysis suggests have performed better than conventional measures depict, be given favourable treatment as nascent 'agglomeration economies' in themselves?

The above notwithstanding, practical discussion on the implementation of a new funding regime to compensate for the loss of ESIF post-2020 has been muted (Huggins, 2018). As Huggins notes, the launch of the UK Government's industry strategy paper in November 2017 provided an opportunity to substantiate the nature of the Shared Prosperity Fund, but very little detail was provided (Huggins, 2018, p. 144). Thus, even as late as August 2018 (at the time of writing) a high degree of uncertainty remains as to regional funding levels after Brexit.

In a sense, this should not be surprising. We would argue that this is so for a number of reasons. First, the obvious caveat is that any post-Brexit regional monies will be contingent on the size of the 'divorce bill' to be paid to the EU.[4] Second, given that the vast consensus of the economic impact of Brexit is that it will result in foregone revenue to the UK Treasury, there will be added impetus for Treasury to 'claw back' these monies (reinforcing long-standing practices in this regard). In addition, the thrust of regional policy in England in recent years having been for greater centralisation and control, we have little reason to expect that the fund will have any substance to it. Finally, there remains the question of how much money would actually be 'new', rather than recycled from existing funding tranches. European regional funding takes place on a matched basis by the UK Government (Huggins, 2018) so in a very real sense, on current allocations, half of any incipient Shared prosperity fund (SPF) would consist of moneys already allocated.

The implication of the above is that there is a risk that any post-Brexit regional funding settlement will be distinctly lacking in any real semblance of 'regional rebalancing'. Indeed, infrastructure concerns continue to be dominated by projects proposed for London and the South East (more narrowly defined here as a London–Cambridge–-Oxford 'golden triangle'), as HS2, Crossrail, Heathrow expansion, and the advocacy by the National Infrastructure Commission and the Highways Agency for a new expressway between Oxford and Cambridge to service a million additional homes (Monbiot, 2018) show. That such proposals appear a fait accompli, without any significant economic or social justification, or democratic debate (Monbiot, 2018), in turn only serves to reiterate the urgent need to address the regional balance of power, and resourcing in the UK. It is to this that we turn in the next section of the case for 'meaningful devolution' for the English regions, to match those of the devolved nations.

4.5 THE CASE FOR 'MEANINGFUL DEVOLUTION'

The creation of the Scottish Parliament and Welsh Assembly in 1998 arguably marked the most significant reconfiguration of powers in the UK since its creation in 1707, as a 'historically centralized "union state", […] which recently has been transformed by processes of devolution' (Pike & Tomaney, 2009, pp. 18–19). Scotland has a devolved administration in the form of the Scottish Government, which has a clearly defined role and is widely considered to be democratically accountable to the public, as evidenced by steadily increasing voter turnout at Scottish elections since 2003 (Aiton et al., 2016).

In contrast, since the 1970s, domestic regional policy across the UK has been progressively reduced in its scope of operation (Bachtler, 2017). Over the past decade, regional governance arrangements in England in particular (excepting London) have become highly fragmented and particularly prone to the vagaries of policy changes. This has seen the abolition of Regional Development Agencies, the creation of Local Enterprise Partnerships (LEPs), Combined Authorities, various 'enterprise zones' and the emergence of the 'Northern Powerhouse' and 'Midlands Engine' brands (Bachtler, 2017; Bentley, Bailey, & Shutt, 2010). Unlike the Scottish Parliament, these opaque entities have struggled to secure legitimacy in the eyes of a sceptical public struggling to understand their functions and perceiving them primarily in terms being unelected and hence unaccountable.[5] This is of concern given that a wide and growing range of literature suggests that governance and institutional quality are crucial factors in regional development (Bachtler & Begg, 2018). However, as Bentley (2018) notes, the discussion of devolution for the English regions in Westminster policy circles has abated: '[w]ith all attention on Brexit, the drive for devolution has waned' (Bentley, 2018).

There is thus a clear need to move beyond the current limited debate on devolution and 'regional rebalancing', and actually embrace a new constitutional settlement for the UK (Budd, 2018) with attendant transfer of resourcing decision-making ability. Indeed, if the UK is to survive as a political entity post-Brexit, we would argue that this is essential. For us, perceptions of social exclusion, or otherwise 'being left behind' – particularly in the 'Missing Middle' of the UK – could be related to a lack of suitably devolved governance arrangements within England (and Wales, to a degree). As such, Brexit poses a challenge to traditional notions of governance (Stoker, 1998), in that governance 'is ultimately concerned with creating the conditions for *ordered rule and collective action*' (Stoker, 1998, p. 17, emphasis added). Collective action in itself though requires some semblance of community and solidarity in the pursuit of basic shared objectives (Ostrom & Ahn, 2009). Hence, if the inequalities brought into sharp focus by Brexit are to be addressed, then 'meaningful' devolution cannot be done in a 'top-down' or 'dirigiste' manner, but rather, must engage directly with voters in order to overcome a perceived democratic deficit.

What would 'meaningful devolution' look like, then? Ideally, we would suggest that such a devolution would be one characterised by governance arrangements whereby voters in a given (e.g. English) region directly elect representatives to make decisions on resourcing priorities for their area. Against this we would stress that the English experience with regional devolution has not given cause for optimism in this regard, having noted the failure of a referendum on the creation of an elected regional assembly in the North East of England in late 2004 (Pike & Tomaney, 2009, p. 24).[6] Indeed, English identities seem firmly rooted in local orientations, rather than regional ones, as our own focus group studies under the auspices of the 'CBS Roadshow' also have demonstrated (De Ruyter et al., Forthcoming).[7] As the experience with Metro Mayors has shown, local parochialism is difficult to overcome in trying to consolidate governance mechanisms at the regional level. We are then left with the somewhat problematic thought that some element of top-down imposition is required to enact such structures, rather than relying on the local 'democratic will'. However, further research is needed in this regard to ascertain what the ideal form of regionally devolved governance in England would be.

However, the level of governance notwithstanding, given the manifest disparities in funding between London, Scotland and the English regions, a necessary reform would be an updated funding formula to equalise per capita funding across the UK at the GOR level of public services and infrastructure (see Forrest et al., 2017, for a discussion of this). Of course, the question remains as to which policies should be devolved to a regional level. For this we need to revisit the debate between 'people versus place' policies, in order to arrive at a better understanding of what the optimal scale (national/regional/local) for policy design and delivery should be.

4.6 MOVING BEYOND 'PEOPLE VERSUS PLACE': PUTTING IT TOGETHER IN A POLICY FRAMEWORK

The argument over whether policies to help those living in lagging regions should be 'place based' or 'people centred' has a long academic pedigree (Barca, McCann, & Rodríguez-Pose, 2012). Divergent views are clear internationally, with some arguing of 'the futility of providing economic incentives for staying and striving in lagging regions' (Gill, 2010) and that institutions should be 'space-blind' (World Bank, 2009). Indeed, the World Bank (2009) goes so far as to argue that economic growth 'will be unbalanced' (World Bank, 2009). As such, this view has been criticised on the grounds it ignores sociospatial factors (Murphy, 2011).

In contrast to the 'people-centred' vision espoused by Gill (2010), others argue in favour of a 'place-based' approach to policy (Bentley & Pugalis, 2014). As noted by the latter researchers, in the post-war period, 'local development policies veered between being targeted interventions intended to improve property (e.g. business accommodation, housing stock, etc.), and those intended to improve people (e.g. workforce skills, education, etc.)' (Bentley & Pugalis, 2014, p. 286). Nevertheless, since the advent of the neoliberal consensus in economic policy from the premiership of Thatcher onwards, policy interventions in the UK have overwhelmingly been people-focussed. In recent years, even industrial policy has become more centralised (Peck, Connolly, Durnin, & Jackson, 2013).

Indeed, even many innovations that ostensibly have a regional focus, of which LEPs are probably the best example, have ultimately ended up being delivery vehicles for an increasingly centralised set of policies (Bailey, 2011; Bentley et al., 2010). It is clear from many of the 'strategic economic plans' adopted by LEPs that most focus on the same handful of sectors that happen to be 'in vogue', almost irrespective of their real local strengths (Swinney, Larkin, & Webber, 2010). Further academic critique has focussed on the 'missing middle' in terms of regional policy (Bentley et al., 2010), together with their lack of financial firepower (Bentley et al., 2010) and the absence of statutory 'teeth' (Pugalis, Shutt, & Bentley, 2012).

It is ironic that the intellectual underpinnings of this consensus stem from traditional economic orthodoxy: the primacy of the neoliberal agenda coincided with economic orthodoxy moving decisively away from many of the intellectual foundations that it formed. This was perhaps most obvious in the development of the new Keynesian school of macroeconomics, which has come to dominate modern DSGE[8] modelling (Stiglitz, 2018). In the same vein, there can be no doubt that the 'new economic geography' associated with Krugman (1991) and others is now firmly mainstream. Indeed, the tractable mathematical model of imperfect competition pioneered by Dixit and Stiglitz (1977) has become a workhorse of modern economics and is one of the 'bag of tricks' used by those economists seeking to understand why economic activities and certain industries 'cluster' in certain places (Krugman, 1998).

Our contention is that the debate over ‘people versus place’ has grown stale. What is instead needed is a realistic conceptual framework within which to evaluate where ‘space neutral’ policies are most appropriate, and where such policies can become damagingly ‘spatially-blind’ and engender ‘perverse spatial outcomes’(Bentley & Pugalis, 2014, p. 289). We therefore posit the following policy framework within which to frame the discussion and avoid what Barca et al. (2012, p. 139) refer to as ‘explicit spatial effects, many of which will undermine the aims of the policy itself’.

Thus, in putting forward a framework, or recommendations, for regional policy in a post-Brexit landscape, we return to the dichotomy between incomes (measured by GDHI per capita), which are ultimately what define living standards, and productivity (measured by GVA per hour worked), which is a fundamental measure of economic performance.[9] In essence, to reiterate, regional policy must be characterised by meaningful devolution of powers, as well as resources, from central government. Hence, we capture this by putting forward the following very simple Bigger-Better-Bolder (or B-B-B) framework for devolution:

4.6.1. Bigger and Better

Simply put, meaningful devolution means greater sums of money allocated to the regions. This can take place directly via increased UK Government funding of the regions; but also in enabling regions greater powers to secure resources themselves. In terms of central government funding, we propose that the ‘Shared Prosperity Fund’ consist of two key funding tranches:

- A ‘social fund’ to replace the current UK allocation of European social fund (ESF) monies (including matched UK government contribution) in order to tackle deprivation.

This fund would be allocated to areas on the basis of our identified metric of adjusted GDHI per capita at the local authority level. Crucially, this should be done on the basis of measures that account for differences in regional prices. For example, the London borough of Barking and Dagenham should not be penalised simply because it is in a high-cost region. Similarly, Portsmouth and Southampton (alongside large parts of the eastern reaches of the River Thames) are every bit as poor in real terms as more northerly regions in the UK. Finally, using such figures would acknowledge the fact that, in real terms after adjusting for purchasing power, many of the poorest parts of the UK lie in the Midlands rather than the North, and they have a commensurately large need for funding.

Whilst GDHI per capita is not perfect (as it still conceals inequalities within a given area), we argue that this would represent a dramatic improvement over doling out such monies on the basis of GVA per capita. As the methodology develops (an item we take up under 'further research' in our Conclusion section), we would suggest that the funding mechanism thereof could be further refined to consider household income deciles within a given local authority GDHI per capita average, as a means to 'prioritise', or target, locales for funding.

- An 'infrastructure fund' to replace the current UK European regional development funding (ERDF) allocation (including matched UK government contribution) to the regions. This fund would be allocated to areas on the basis of our estimated regional productivity figures. This infrastructure fund would include funding for infrastructure as broadly defined, which would include both physical transport and digital infrastructure. On this basis the current disparity in transport funding levels between London and the English regions would be reduced from over 200% to only 20–30% (which whilst not ‘equalised’, provide a robust metric of economic performance of which to assess infrastructure needs against). Ideally, these monies would be allocated at the GOR level (i.e. NUTS1; coterminous with the now defunct regional development agencies (RDAs) in England). However, in the absence of this, the Mayoral Combined Authorities would be a good starting point, as the natural foci of city-regions within the UK, where the greatest ‘bang for buck’ for infrastructure spend could be demonstrated.

4.6.2. Bolder

In addition to the two proposed funding streams identified above (and accompanying allocation mechanisms) we propose that further powers be transferred from central government down the regional level. Key here is that in addition to powers over spending decisions, should come the power to raise resources, that is, via taxation and borrowing powers above and beyond that of current levels as depicted in Council Tax and business rates. As inferred from our earlier material, transport, health and education would be obvious areas.

Of course, this then raises questions over what the ‘optimal scale’ of different interventions. What interventions should be undertaken on a national level, that is, be ‘space-blind’ – and what should be done at a subnational level? In general, access to quality education should not be contingent upon location. Existing policies contradict this: education spending per student varies widely across the UK and schools can find themselves disadvantaged by their particular situation with respect to aspects of their intake. Similar issues can manifest themselves depending on the age of the school infrastructure: older buildings are costly to maintain, particularly if the school has shrunk. Although the government is in the process of introducing a new funding formula for schools, it is far from clear whether this will adequately tackle the historic regional divide. Whilst a detailed examination of education spending is beyond the scope of this book, one's life chances and opportunities should not be contingent upon one's location. Moreover, the spatial element to education is clear: for most schools, admission criteria are (at least in part) dependent upon location.

In contrast, funding to tackle deprivation and social exclusion should be as locally focussed as possible (at least within the confines of the data we have available to us). Deprivation is typically highly spatially concentrated: often at the ward level or below. In contrast, control over transport and infrastructure spending most naturally resides at the regional level. Beyond this, there is a clear necessity for greater control over decisions at a subnational level, representing a 'revolution in devolution' for the UK.

In this context, we argue that Scotland potentially provides a good model for such a 'devolution framework'. Again, we would suggest that such powers should operate at the GOR/NUTS1 level, but in the absence of such structures, the combined authorities seem a natural starting point (with the added advantage that they have some modicum of democratic accountability – in contrast to the former RDAs). However, the challenge would come in terms of engaging with local communities to assess (or try to engender) support for such measures. As noted, attempts to legitimise regional governance structures in England have been problematic at best and further work is needed in this regard.

4.7 CONCLUSION

In this chapter, we have sought to tease out the policy implications of our analysis. We have argued that existing measures used to allocate regional funding are fundamentally flawed and built upon previous chapters to comprehensively demonstrate why this is the case. Moreover, even when not explicitly used to allocate funding, such measures are at best unhelpful and more often actively damaging insofar as they shape perceptions of relative regional success and where the greatest economic need and returns are.

We have thus argued that Brexit presents British regional policy with a fundamental challenge, but also an opportunity. The challenge is that Brexit threatens to exacerbate existing spatial inequalities (Chen et al., 2018) and, worse, those areas that voted most strongly for Brexit appear most vulnerable (Los et al., 2017). As a result, a vote that may in part have stemmed from the problems of those areas left behind (Rodríguez-Pose, 2018), threatens to worsen them. The opportunity, however, lies in fact that Brexit challenges us to do better.

Brexit challenges us to ensure that the gains from globalisation are more equally spread and that no region is left behind. As such, post-Brexit regional policy (whether under the guise of a 'shared prosperity fund' or other vehicle), needs to take account of real regional disparities, rather than nominal ones. Our figures suggest that greater spending on education and transport infrastructure in London and Scotland have paid dividends in enhancing productivity and living standards. A truly coherent post-Brexit regional policy must also build on what works well in these regions – most notably real power over policies – to offer a devolution deal that works for the whole country.

NOTES

1. Even if Brexit does not ultimately occur, the results of the referendum bear out in striking fashion the need to revisit these issues, and our recommendations have a pan-European dimension.

2. Strictly speaking, Heathrow airport expansion would constitute private sector expenditure. However, the money needed to re-route the M25 around (or under) the proposed development have been contested and the prospect remains that the state being the ultimate bearer of risk here would foot the bill should the owners of Heathrow not have sufficient money to undertake the work (Topham, 2018).

3. And with Edinburgh providing a microcosm of this phenomenon in Scotland; again because of its being a (relatively small-scale) concentration of political and financial power (BBC News, 2015).

4. See Clancy and De Ruyter (2018) for a critical analysis of the figures cited here for the 'divorce bill'.

5. Mirroring charges that have been levelled (not always entirely fairly) at the EU by many voters (Follesdal & Hix, 2006).

6. Significant factors here were what Pike and Tomaney (2009, p. 24) described as 'apparent disquiet concerning its weak and limited set of powers and financial capabilities, subregional tensions and rivalries, uneven enthusiasm as well as outright hostility amongst some elements of central government…' (Pike & Tomaney, 2009).

7. Examples here include residents of Sutton Coldfield resolutely refusing to identify themselves as 'Brummies', and the shared notion of being from the West Midlands stark in being absent from any conversation (Pike & Tomaney, 2009).

8. 'Dynamic Stochastic General Equilibrium'.

9. Of course the two are closely linked: an area with low real productivity cannot sustain a high standard of living for its workforce (and those who are dependent on their taxes and/or savings – including the elderly).