

# 디지털경제시대의 지역고용거버넌스 선진사례 연구

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고용노동부  
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## 1. Introduction

The United Kingdom has produced contrasting regional policy cases under both Labour and Conservative governments, allowing for a multidimensional evaluation of policy outcomes. England has experience pursuing broad devolution negotiations in response to issues such as Scottish independence. This experience in the UK differs from countries like Switzerland, Canada, Germany, and the United States, which have applied federal principles since the inception of their modern states.

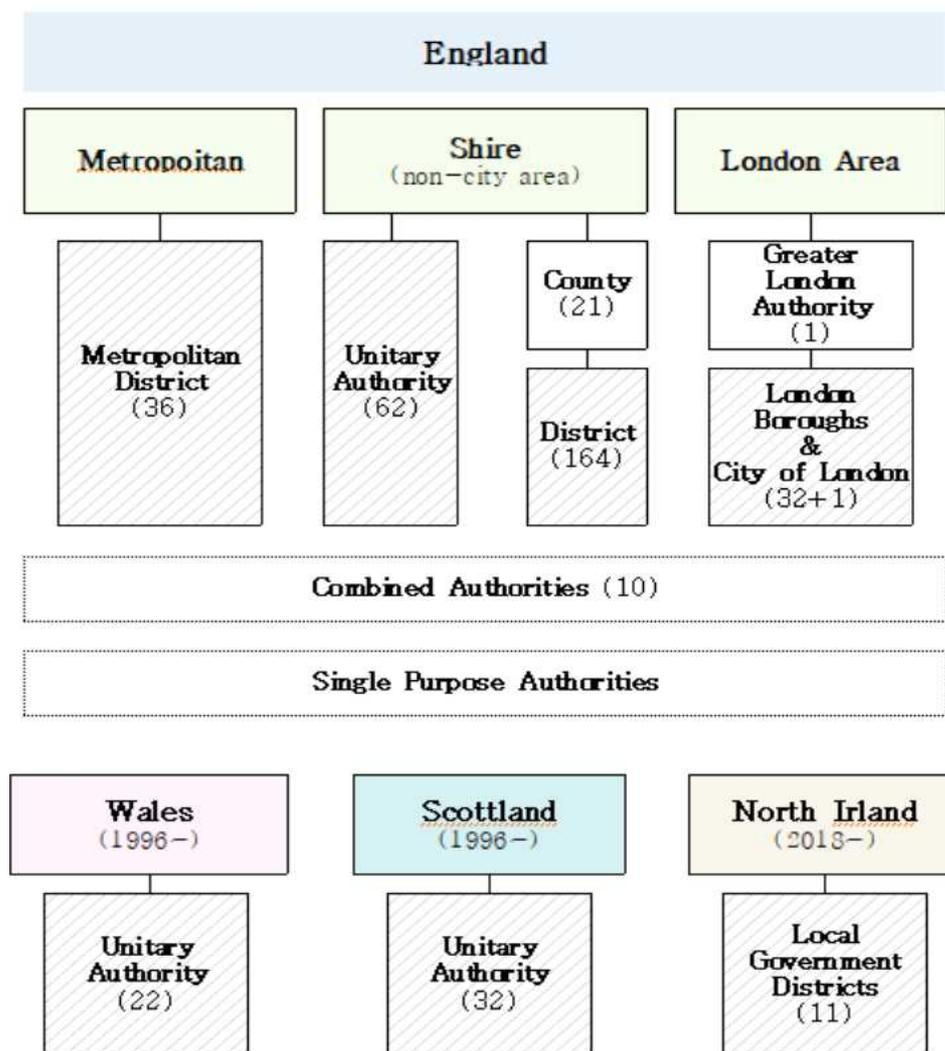
Instead, Korea's political history, with its continuous tradition of centralization from pre-modern times, resembles the centralization in the UK. The UK, a highly centralized country with power and resources concentrated in London, faces significant regional disparities, known as the North-South Divide. Over 40 years, the UK has pursued decentralization to address these regional disparities and achieve regionally balanced economic growth. The UK has a tradition of regionalism pursued by Labour governments and localism pursued by Conservative governments for regional development and economic growth. Recently, the UK government announced the Levelling Up strategy and is progressing with regional development policies and devolution negotiations. The Levelling Up strategy combines centralization tradition, regionalism, and localism strategies.

This report undertakes the crucial task of reviewing the comprehensive devolution negotiations that have shaped the UK's

political landscape over the past 40 years, with a particular focus on their impact on employment policies. This review is not just a historical account but a pertinent analysis of the evolution of regional policy in the UK.

## 2. A local administrative system in the UK

### Local Governments in the UK (as of 2023)



The local administrative system in the United Kingdom consists of a two-tier structure of counties and districts, with unitary structures

coexisting in certain regions. In England, six metropolitan areas have a unitary structure known as Metropolitan Districts, while non-metropolitan areas have a two-tier structure of counties and districts. Counties can be compared to the metropolitan municipalities in South Korea; however, they cover a larger area than basic local government units (cities, counties, and districts) but are smaller than the provinces (do). Until recently, apart from the Greater London Authority, no metropolitan-level local governments in the UK existed.

Local governments play a pivotal role in the daily welfare of residents, performing functions such as education, housing, personal social services, environmental services, police and fire services, local development, waste management, and consumer protection. Among these, the most crucial ones are education, housing, and environmental services, which directly impact the quality of life for residents.

In contrast, the Greater London Authority handles a wide range of responsibilities, including transport, urban planning, economic development and urban regeneration, environment, police, fire services, culture, and health. The four most significant functions performed by the Greater London Authority are transport, regional development, fire services, and police, all of which are vital for the smooth functioning of the city.

Policy coordination issues arise under the multi-layered and fragmented governance structure of the UK's local administrative

system. These problems restrict intergovernmental cooperation at the regional level, ultimately slowing down effective decision-making and economic development. Since local governments still deliver services within administrative boundaries, horizontal collaboration must be improved.

As a potential solution to this issue, the concept of metropolitan areas has gained traction. A unified, integrated metropolitan area is seen as a promising way to efficiently provide services such as housing, transportation, and workforce training, which often span administrative boundaries. The relatively small size of UK cities, compared to those in neighbouring countries, further underscores the need for such a solution.

For example, while Greater Manchester has a population of about 2.5 million, the city of Manchester itself is home to only about 450,000 residents. This spatial constraint limits the capacity of individual cities to address their current challenges. Establishing metropolitan areas offers a platform for implementing policies that align with the city's economic power and can help alleviate policy coordination issues to some extent.

Understanding the historical context is crucial to grasp the evolution of policy coordination in the UK. Historically, Labour governments have focused on regional formation, while Conservative governments have prioritized the local level. This is evident in the establishment of the Greater London Authority and six metropolitan counties by the

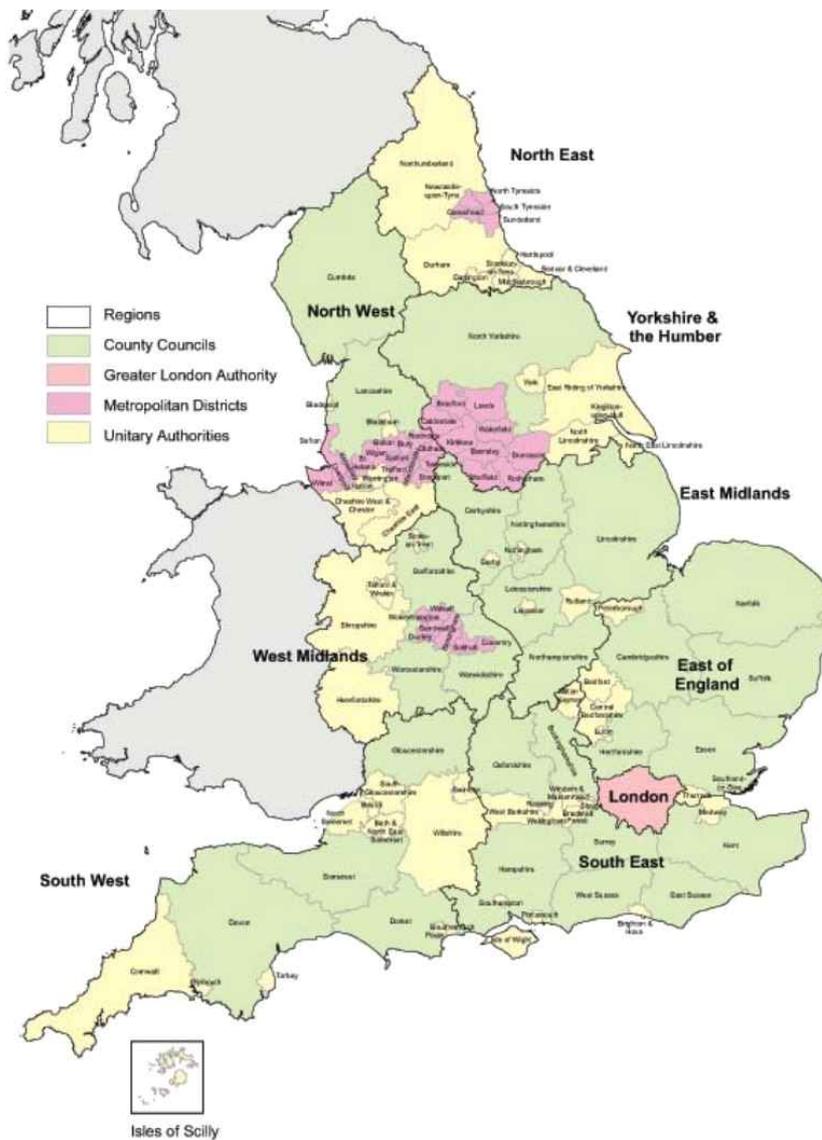
Labour government in 1974. However, during the Conservative rule from the 1980s to the 1990s, there was a shift towards centralization, with regional decentralization efforts being halted. This was exemplified by the abolition of the Greater London Council and the six metropolitan counties in 1986, with their functions being transferred to the central government or local authorities.

After Labour regained power in 1997, new regionalism policies were pursued at the metropolitan level. The Greater London Authority was re-established to create metropolitan-level local government. Although metropolitan local governments were not formed outside of London, there was progress in economic and informal intergovernmental cooperation. During this period, the focus shifted from the delivery of administrative services to enhancing regional economic competitiveness. Considerations for growth drivers and priority settings of the regional economy became important. A move towards metropolitanization for governance formation emerged through cooperation and networking among neighbouring local authorities.

### **3. Labour Government(1997–2010): Regionalism**

In 1999 and 2000, the Labour government established Regional Development Agencies (RDAs) in nine regions of England based on legislation. After the creation of the Greater London Authority in 2000, the government established the London Development Agency to oversee the Greater London area. These nine RDAs operated until their abolition in June 2010.

Figure 1. Nine Regional Economic Agencies in England



(Source: LEP network 2022)

The nine RDAs were established under the Regional Development Agencies Act 1998 with the purposes of:

1. Economic development and regeneration of the regions.
2. Improving business efficiency, investment, and competitiveness.
3. Promoting employment creation.
4. Developing and enhancing skills related to employment.

## 5. Achieving sustainable development.

Beyond these statutory functions, the RDAs were involved in urban regeneration, regional competitiveness, inward investment, governance with regional partners, and implementing plans to improve skills required by the labour market.

The RDAs, directly managed by regional assemblies, were a testament to the collaborative nature of regional development. These assemblies, consisting of various stakeholders including entrepreneurs, local governments, private institutions, and community groups, played a crucial role in reflecting central government's regional policies through coordination with the Government Office for Regions. They were responsible for drafting the Regional Economic Strategy, which outlined the economic development strategy for the region.

The Regional Development Agencies (RDAs) carried out regional economic development and local development projects based on the Regional Economic Strategy (RES). Key objectives included:

1. Physical urban regeneration projects in the regions.
2. Encouraging physical business developments in the areas.
3. Enhancing investment and competitiveness in the areas.
4. Creating employment opportunities in the areas.
5. Achieving sustainable development in the areas.

The RDAs had legal authority to conduct operations under the Regional Spatial and Economic Strategy. Until their abolition in 2010, RDAs operated under a Single Budget program, receiving funding

from various central government agencies, notably supported by the Department for Business, Innovation and Skills.

Assessments of the RDAs were a mix of positive and negative, reflecting the complexity of their operations. Notably, RDAs were commended for their role in the central and northern regions of England. Their regional approach was lauded for infrastructure development, expanding economic units, and addressing housing and environmental issues. However, there were also criticisms, highlighting areas for improvement and further evaluation.

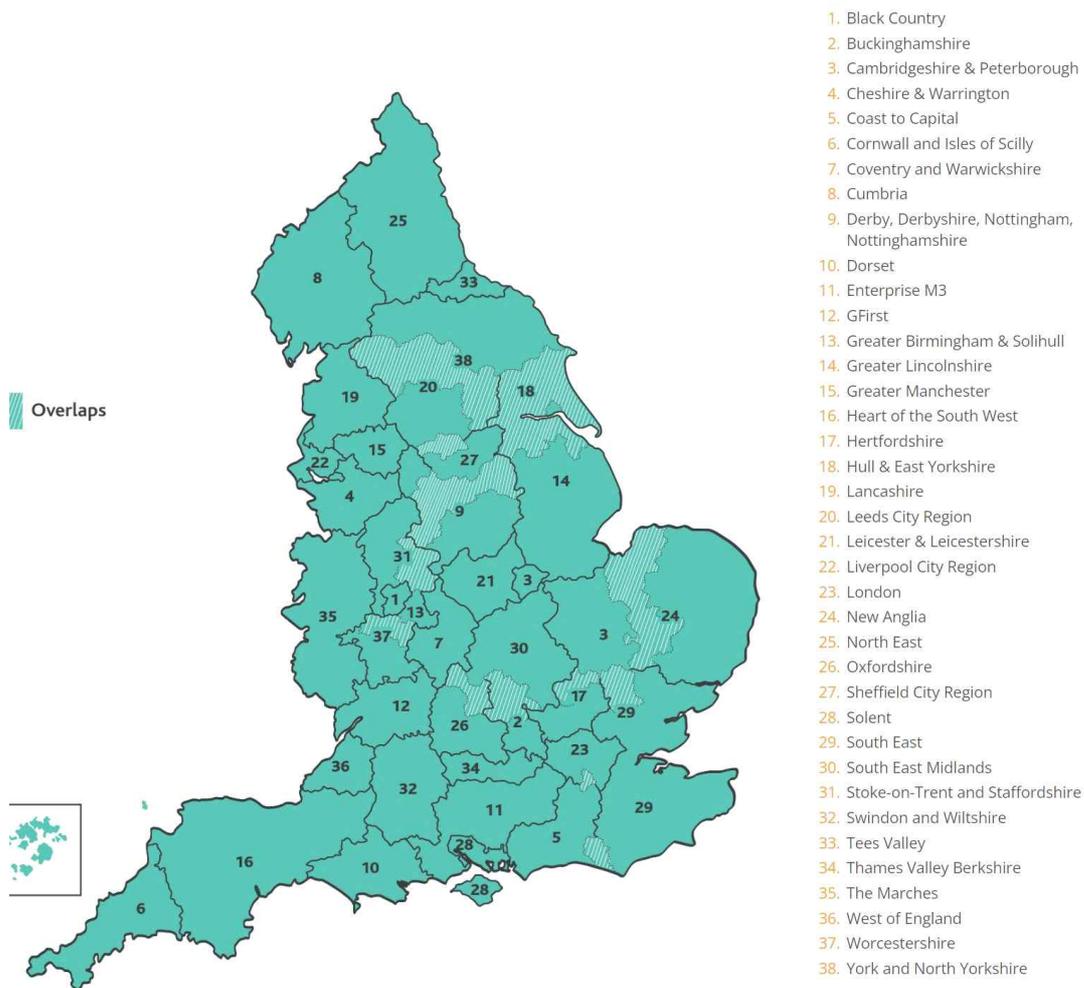
#### 4. Conservative Government (2010~): Localism

The Conservative-Liberal Democrat coalition government, which emerged in 2010, aimed to promote cooperation between local authorities and accommodate various public-private partnerships and flexible geographic spaces. However, it abolished the Regional Development Agencies (RDAs). The Conservative coalition emphasized localism, decentralization, autonomy of civil society, cooperatives, mutual aid, and activation of the social economy (Pugalis and Townsend 2012).

In other words, it aimed to reduce government financial deficits by transferring some governmental functions to the private and social economy sectors and to create employment in the private sector. The tasks performed by the RDAs were transferred to Local Enterprise

Partnerships (LEPs). The primary reason the Conservative coalition launched LEPs was to reduce government spending (Colomb and Tomaney 2016)..

Figure 2. 38 Local Enterprise Partnerships in England



(Source: LEP network 2022)

However, the transition was not without its challenges. The comprehensive funding known as the single pot was replaced by the Regional Growth Fund, albeit at a reduced scale. LEPs, now the primary recipients of these funds, do not enjoy stable funding guarantees from the central government. They are left to

self-finance their operations, often having to compete with private businesses and organizations for operating funds through the Regional Growth Fund, without any special treatment or priority.

LEPs, a creation of the central government, are distinct from RDAs in that they are designed to integrate with private sector investment. Unlike RDAs, LEPs are temporary bodies without guaranteed legal status. The central government approves LEPs by requiring county-level local authorities to form partnerships with the private sector and bid for approval, a unique process that sets them apart from RDAs (Pike et al. 2013).

The government outlined criteria for LEP approval, including: firstly, support from the business community; secondly, having economic functional areas; thirdly, receiving support from local authorities; fourthly, having added value and strategic vision. The government emphasized project-focused investment and support for businesses. Unlike RDAs, which operate regionally with stable funding through programmatic approaches, LEPs operate differently (Pugalis and Townsend 2012).

One of the Criticisms of RDAs was their inability to exhibit strategic leadership due to administrative compartmentalization based on geographical boundaries. LEPs, on the other hand, are designed to function within economically functional spatial boundaries, addressing this issue(O' Brien and Pike 2015). They are also designed to formulate long-term visions and strategies for regional policies based

on commuting patterns and economic activities of local residents, a unique approach that aims to overcome the limitations of RDAs.

Although LEPs aim to achieve substantial devolution of powers to the local level, some critics argue that this merely pays lip service to abandoning broad regional thinking in economic policies. While much of the RDA's responsibilities were transferred to LEPs, critical economic policy tasks such as investment attraction, innovation, and financial support reverted to the central government (Pugalis and Townsend 2012). In summary, while LEP functions were significantly reduced compared to RDAs, they facilitated more flexible spatial boundaries and encouraged greater proactive involvement from the private sector.

Legislation for Decentralisation and Devolution of Powers includes the following:

Firstly, the Local Democracy, Economic Development and Construction Act 2009 is a testament to the importance of collaboration. It supports the establishment of Combined Authorities, bringing together two or more local governments. This act not only provides legal grounds for geographic and administrative collaboration but also encourages joint working on transportation, economic development, and other matters affecting all local governments. It is a call for unity beyond individual administrative boundaries. Under this law, local governments are obligated to enhance understanding among local residents regarding the democratic composition, consensus, and functions of local governments, further emphasizing the importance of collaboration.

Secondly, the Localism Act 2011 empowers local governments to negotiate with the central government to submit strategic plans to promote regional economic growth and to obtain autonomous regional planning authority. Subsequently, the Cabinet Office defined the term “City Deals“ in “Unlocking Growth in Cities,“ highlighting that devolving powers to localities will enhance regional competitiveness.

Thirdly, the Cities and Local Government Devolution Act 2016 specifies that Combined Authorities can have locally elected mayors elected by regional residents. This law includes provisions for deviating functions from the central government to local governments in areas such as planning and transportation, underpinning the basis for ‘Devolution Deals.’

#### 4-1. The success or failure of localism projects in the UK

In February, the British government released “**The Levelling Up White Paper,**” which contains specific measures to improve underdeveloped areas and resolve growth imbalances between regions (HM 2022). This policy stance was also mentioned in the general election in December 2019. In particular, the House of Commons has declared that it will take advantage of the freedom gained through Brexit to achieve prosperity and raise the level of all parts of the UK (HC 2021). The British government has been experiencing a shift from **regionalism** to **localism** in development and regional economic

growth policies over the past 40 years.

However, it has only taken city-region combined authorities in choosing a true place-based approach (McCann et al. 2022). In particular, it seems to be returning to a large government due to the influence of Brexit and the COVID-19 Pandemic that occurred in the process of the central government's strong decentralization (Economist News 2020). Furthermore, it seems to be turning to bring back control over industrial policies and regional economic development policies at both the regional and metropolitan levels (McCann et al. 2022).

This is shown through the 2017 Industrial Strategy and its subsequent strategy, the 2021 plan for Growth (HM 2017, 2021). For local governments with weak economic bases, Brexit has put them in a more difficult situation, and the British government is taking follow-up measures such as forming a joint prosperity fund. This report is going to review the background of the British government's regional development policies over the past 40 years, analyze the success and failure factors of localism policies, and predict future localism.

Since the launch of the Conservative coalition government, the UK has abolished the Regional Development Agency (RDAs) and established 38 LEPs across England to adopt a new regional economic growth strategy for more than a decade (Newman and Gilbert 2022). In addition, the UK's industrial policy and regional economic development policy can be said to have a policy mix between regionalism and localism. In particular, the period can be divided into the Thatcher Government (1979-1997), the Blair Labour Party

Government (1997–2010) and the Conservative Coalition Government (2010–present).

First, the Thatcher government (1979–1997) adopted a fiscal austerity strategy during the two oil crises of the 1970s (Gherhes, Brooks and Vorley 2020), which reduced the role of the public sector in regional economic development and focused on private companies. In the 1990s, training and enterprise councils (TECs) were established in England and Wales, emphasizing qualitative growth rather than quantitative growth.

However, the Thatcher government's regional economic policy was criticized for its insufficient resources, lack of democratic responsibility, and lack of business strategies. Therefore, the Labour Party government, which appeared in 1997, abolished the Thatcher government's localism strategy and adopted regionalism. In other words, with the establishment of the Regional Development Administration (RDAs), regional economic development policies were promoted at a more regional level.

During this period, policies focused on the Small Business Service and the Local Enterprise Growth Initiative. However, the RDAs did not meet the economic development needs of each region as they acted as agents of the central government (Gherhes, Brooks and Vorley 2020).

Finally, the newly emerged conservative coalition government (2010)

abolished the existing government's regionalism in regional economic development policies and used new localism as its policy basis again. The characteristic of this government is to install 38 LEPs throughout England to play a central role in regional economic development. However, this new localism has been criticized for its insufficient transparency in policy enforcement and the lack of democratic accountability and democratic representation (Newman and Gilbert 2022).

One major factor in this localism approach can be found in the comparison of two cities (**Mid-Town** and **Coastal**) (Bach and Stroleny 2017). Local government is supervised by elected politicians, and, either of the two big parties, the Labour or the Conservative Party, controls the local government. Local electorates have low participation rates and they are voted in by which of the two parties to choose. Therefore, there is no tradition of directly selecting mayors. As a result of the election, the dominant party chooses the leader of the parliament, and the leader is called the council leader. In addition, there are chief executive officers who direct local government officials and take responsibility for operation and management and local trade unions as major local actors.

This union has exerted great influence on local councillors of the Labour Party. Since the 2008 global economic crisis, the demand for austerity has increased. **Mid-Town** responded to this **austerity** demand and formed a coalition between the chief executive and the council leader. The core content was to internalize local government functions without relying on outsourcing and to continue cooperative relations with labour unions. As a result, core functions were internalized and voluntary early retirement was induced, resulting in a

20% budget reduction over the 2008–2010 years (Bach and Stroleny 2017).

As a result, the quality of services provided by local governments was maintained, and profits were made by providing services to external local governments using the expertise of employees. Mid-Town was traditionally a region with strong Labour influence, and until 2008 it had received low scores in various government evaluations. Nevertheless, the success of fiscal austerity policies, such as early retirement, personnel cuts, and salary cuts, was based on trust among the executive, parliament and workers.

Many local council members, in particular, were former union members of local automobile companies, so workers did not lose faith that they worked for their rights and interests, which led to the voluntary retirement of many workers. Beyond the inevitable atmosphere of conflict brought by austerity finances, the crisis was used as an opportunity for reform.

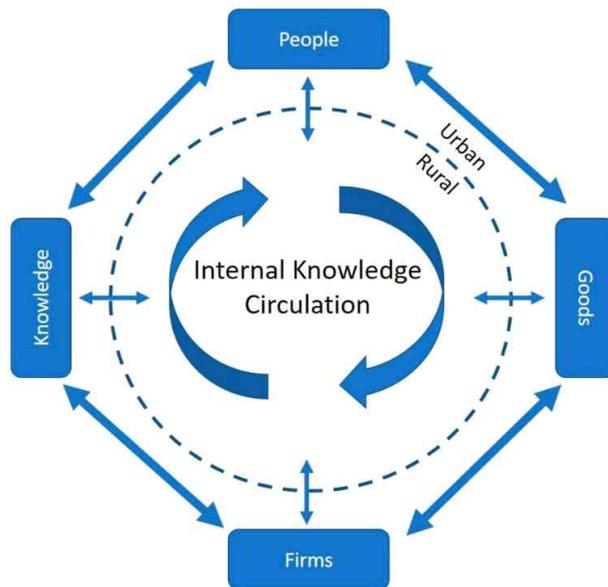
The relationship of **trust** between major actors in the region and the strategic alliance of major actors can be interpreted as a major success factor in localism. On the other hand, in Coastal, an area with a larger city size and a dominant Conservative Party, the austerity fiscal strategy rather became the starting point of a long conflict between local employers and employees. In 2008, the then-Conservative regional council decided to outsource a significant portion of local government services, setting up a budget-cutting

strategy of 25% over three years. When Congress signed a 10-year contract with a major private company, it outsourced much of customer service, information technology, asset management, and human resource management.

As a result, the quality of service deteriorated and even professionals who could play a role in improving relations between trade unions and employers disappeared within the region. The comparison between the two cities is an example of the success factor of localism in the difference in strategies to respond to the demands of tighter austerity immediately after the 2008 global economic crisis. In response to the strong demands of austerity, Mid-Town has achieved voluntary retirement, maintaining the quality of local services, and generating profits from external sales of services through trust between workers and employers and strategic alliances between the council leader and the chief executive.

On the other hand, Coastal chose to outsource local services during the same period, experiencing long-term labour-management conflicts, regional service degradation, and hollowing out local core services. When selecting a strategy suitable for the region, it can be said to be an example that suggests that trust relationships between major local actors and strategic alliances are more successful.

Figure 3. The structure of a regional knowledge economy



(Source: Salomaa, Charles and Bosworth 2022)

Another success factor in localism can be found in the **Greater Lincolnshire** Innovation Program (2017–2019) (Salomaa, Charles and Bosworth 2022). The program was sponsored by the European Regional Development Fund (ERDF) and helped Lincoln University innovate small businesses in Lincolnshire for three years. In a real context, local universities have various difficulties in cooperating with local companies, such as local enterprises with diverse economic bases, lack of skilled skills, geographical distance, and lack of cooperation experience.

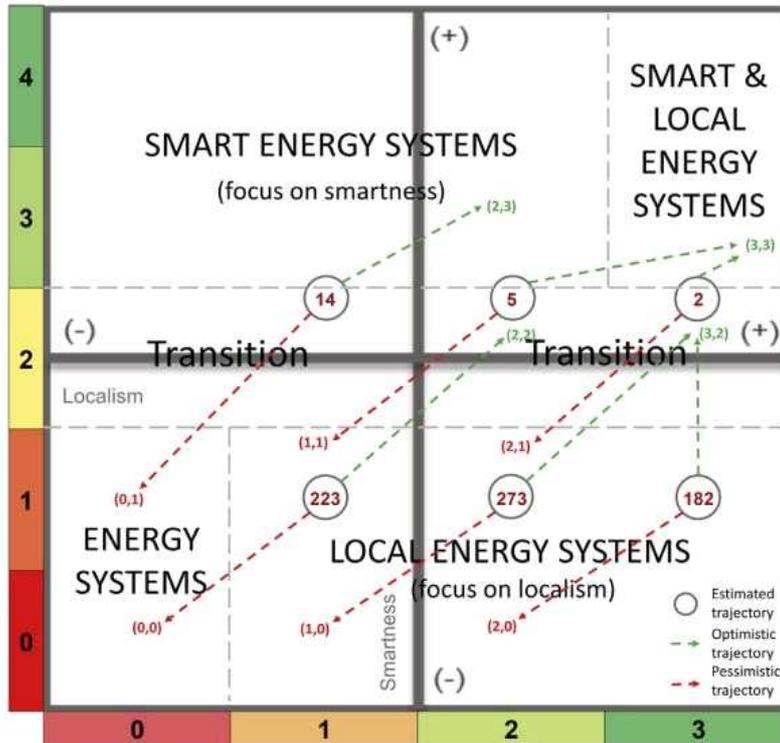
Since Lincoln University is a small university that develops mainly science and engineering, this university adopted the following strategies to help local small businesses innovate. It includes a one-to-one innovation support meeting with companies, direct

connection with university experts and companies, and the adoption of university experts who are familiar with local circumstances.

Through this strategy, the government effectively helped promote companies that lacked experience in industry-academic cooperation, directly connected companies with regional Growth Hubs, and helped companies innovate. In addition, the ‘agrifood’ part was selected as a regional specialized industry, which helped corporate innovation by interacting with the University’s National Food Manufacturing Center. While the existing localism approach has focused on supporting large companies by focusing on performance strategies, Lincolnshire can find the success factor of localism in that it directly discovered local-based small companies (SMEs) and conducted one-to-one programs with local universities.

The third factor for localism success can be found concerning response policies to the climate change crisis. The UK has a marked gap in productivity between London and the other regions (ONU 2018). This regional deep divide is also reflected in the productivity gap between the South and the North (ONU 2018). Therefore, the British government is striving to improve productivity by strengthening local cooperation to resolve regional gaps and respond to Brexit through “ the Levelling up agenda (2022).” In this context, the area where localism can be more efficiently working is associated with the local response strategies to climate change. A study analyzed 699 local energy companies in the UK and shows that the implementation of energy policies through SMEs can be more effective in responding to climate change (Gonzalez et al. 2020).

Figure 4. Smart Energy Systems: LEBs



(Source: Gherhes, Hoole and Vorley 2022)

This study created a matrix of 699 regional energy companies using two factors: localism and smartness. According to this study, localism is characterized by relationships with local stakeholders, participation in regional decision-making processes, and regional-based asset ownership. Smartness also features real-time use of information and communication technology, automation of corporate operation and system control, and the use of artificial intelligence in decision-making processes and participation. Small businesses (SMEs) with small capital and less workforce suggest that digitalization can work efficiently through more diverse customer acquisition, digital platform construction, peer-to-peer services, and off-grid services.

In addition, according to this study, local energy companies have the advantage of forming the intimacy and trust of residents through an internalization strategy that directly returns profits to the community. In particular, it explains that new actors based in the region, such as local farmers, local community groups, local governments and digital innovation companies, are more advantageous to participate.

In the meantime, the top-down central government-led decentralization policy has created inappropriate localism mode and undermined regional identity. Further in the process of localism residents' psychological resistance has been a factor that promotes localism failure (Gherhes, Hoole and Vorley 2022). Therefore, support for local energy businesses (LEBs) can be identified as another factor in the success of localism concerning climate change response, which can be effective in the local areas.

Lastly, it is going to examine the factors that contributed to the failure of localism. According to the literature review, criticism of localism is more overwhelming than success stories. A study analyzing the case of the Sheffield City Region (SCR) explained the limitations of localism due to a lack of financial resources, a lack of democratic responsibility, and insufficient support for SMEs (Gerhes, Brooks and Vorley 2020).

As a heavy-industry and manufacturing centre in the 1970s, SCR LEP has since experienced a long-term recession. Between 1998 and 2008, the SCR region experienced a net decline in private-sector

employment, similar to other northern regions. As of 2016, 32.9% of SCR's total employment was from public part employment, making it the most severely affected area by public sector reduction. In addition, SCR LEP was rated as the lowest fifth among all LEPs (SCR 2014). SCR LEP aimed to create 70,000 private sector jobs and establish 6,000 new companies in the 2015–2025 Strategic Economic Plan (SCR 2014).

Furthermore, SCR LEP showed the following limitations (Gerhes, Brooks and Vorley 2020). First, the austerity policy demanded by the central government resulted in LEP adopting a strategy that focused on large corporations (High Growth Potentials, HGPs) support policies. In other words, to achieve more effect with fewer financial resources, a strategy to support large corporations was mainly adopted. In the SCR region, the number of small companies employing at least 10 employees is higher than that of other regional governments, and in fact, small companies are in charge of the centre of the local economy. Nevertheless, support was concentrated on large-scale companies that made great results in support policies, and many SEMs were alienated without receiving support.

Second, there was excessive interference from the central government in the decision-making process of local governments and local communities. In other words, the SCR SEP (strategic economic plan), which was established to meet the central government's standards, established a supplier-centred priority strategy and did not reflect the regional situation well.

Third, the LEP did not properly reflect the claims of the local industry and the actual circumstances of the region in the decision-making process. In the absence of democratic accountability, it was difficult to induce efficient participation of local industries and local communities. Another study points out limitations such as lack of representation, weak transparency, and insufficient accountability (Newman and Gilbert 2022).

The LEP was originally to bring citizens and corporate leaders together to pursue private-led regional economic growth (Newman and Gilbert 2022). However, the LEP boards did not represent the industry properly. In addition, private experts who participated were related to private interests, so their experience did not promote the formation of a knowledge network (Newman and Gilbert 2022).

Finally, it is explained that localism shows limitations while not properly establishing a democratic responsibility structure that is responsible for the results of LEP. Additionally, local governments and private leaders' overlapping roles, serious lack of information, and lack of operational ability are also mentioned as failure factors (Philip et al. 2022). In the above study, the lack of a democratic responsibility structure, insufficient financial resources, and the lack of establishment of strategies suitable for local circumstances are commonly cited as causes of the failure of localism.

In the above, the background of British localism, and the success and failure factors of localism were examined. For the past 40 years, the UK has adopted a mixed policy of regionalism and localism. As shown in the cases of Mid-town and Lincolnshire, success factors included strategic alliances based on trust relationships among major actors in the region and strategic support for local small and medium enterprises(SMEs).

Furthermore, it also was reviewed that active support for local energy companies to cope with climate change could contribute to a favourable and profitable environment for developing localism. On the other hand, the failure factors included the lack of democratic accountability of LEPs, insufficient finances, excessive interference from the central government, and negligence of support for SMEs.

The UK is still pursuing a localism policy, and the UK is one of the countries that has put the most effort into it and must be the country that is leading localism (Martin et al. 2021). However, the competitiveness between the LEPs, which play a central role in localism, is concentrated in London and the southeast and the areas with excellent competitiveness are limited to some areas (Huggins 2021).

From the above discussion, the direction of the localism policy that the UK has pursued so far is not wrong, but how to improve the mismatch of specific strategies pursuing the policy seems to depend on the success or failure of localism in the future.

## 5. Big Society Strategy

The 13-year rule of the Labour Party, a significant era in UK politics, came to an end in 2010. This marked a pivotal moment, as it paved the way for a coalition government formed by the Conservative Party and the Liberal Democrats. The coalition, in line with conservative principles, championed free-market policies and a smaller government. It embarked on extensive reforms, aiming to reduce the overgrown centralized government of the Labour Party and restructure systems such as non-governmental organizations and regional development. The goal was to foster a society where community capacity and authority were strengthened, steering away from a big government approach (Sandford 2016).

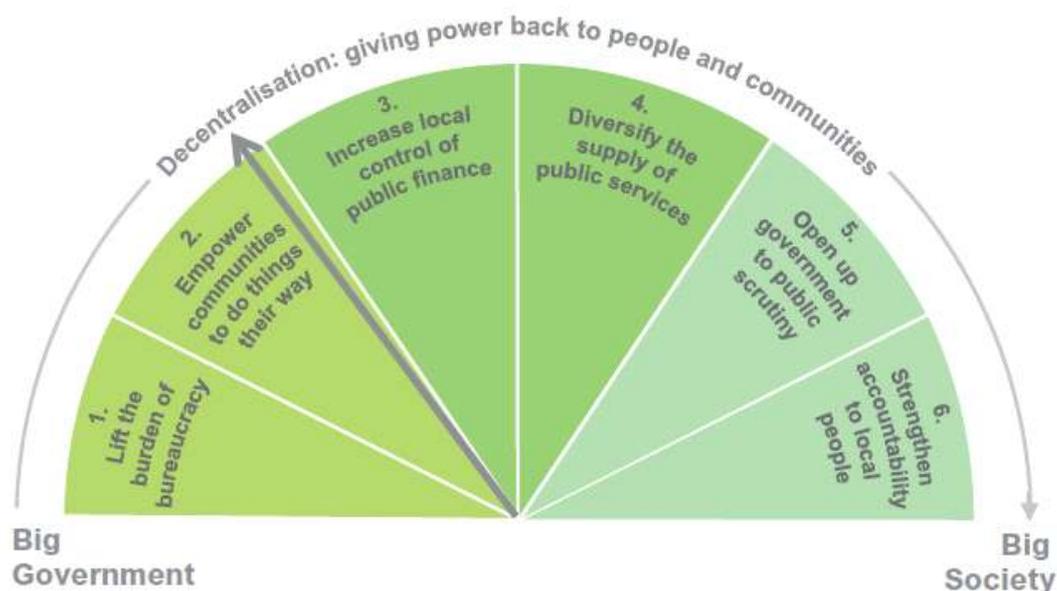
The new government, in a significant shift of power dynamics, bolstered decentralization by devolving power to localities. This move was not just a policy change, but a fundamental reorientation of governance. It made the execution of policies centered around local communities—the 'Big Society'—a cornerstone policy. This policy direction was articulated through the Control Shift-Returning to Local Communities Green Paper and the Localism Bill, both of which underscored the government's commitment to empowering local communities.

These documents criticized the Labour government's regionalism. Regionalism weakened communities' autonomous role by imposing top-down control and regulation between central, regional, and local

authorities. Therefore, regionalism had a negative impact on decision-making, where local issues should have been addressed by local residents. The government argued that to address these issues, substantial local democracy must be achieved to promote strong communities, social stability, citizen participation, and social inclusion.

Through the Localism Bill, the new government outlined five principles influencing local development projects: First, empowering local governments to take a central role in local growth and second, granting freedom to local governments from central control. Third, providing more authority for residents to participate in local government. Fourth, residents can determine priorities for using local government funds. Fifth, abolish the Labour Party's regional development agencies and establish local enterprise partnerships.

Figure 5. From Big Government to Big Society



(Source: DCLG, 2010)

After the 2008 global financial crisis, a coalition government formed by the Conservative Party and the Liberal Democrats embarked on a mission to reduce rapidly increasing national debt and cut government spending. This was not just about financial management, but about a fundamental shift in governance (Colomb and Tomaney 2016).

The government recognized the limitations of a policy approach dependent solely on national government and market external factors, necessitating the need for new policies. It was a call for change, for a stronger, more empowered society. Therefore, it pursued strong decentralization that empowered residents, local communities, and municipalities with more authority and responsibility, making them the driving force of change.

The coalition government's goal of decentralization aimed to establish a big society where local communities, cooperatively with local authorities, could autonomously address regional issues. In 2011, the key provisions of the Localism Act 2011 were as follows:

Firstly, they empowered local governments by devolving most of the authority from the central government to strengthen municipal autonomy. Local councils could intervene in all local issues not prohibited by law. Local councils had complete jurisdiction over the ownership and management of local assets within the framework of the law. Reforms to the neighbourhood planning system enabled local residents to plan the development of their local communities.

Secondly, the Localism Act 2011 aimed to liberate local communities from the shackles of bureaucratic regulations. It was a step towards a more democratic and participatory governance. The Act avoided top-down policy-making by the central government such as the 'local housing supply targets' and allowed local communities and councils to make policy decisions democratically. It was a clear message—your voice matters, your decisions count. Local councils established systems to regulate public ethics and conduct of elected officials, ensuring a transparent and accountable governance. It eliminated the comprehensive regional assessment system for local government deregulation and reduced matters requiring consultation with central departments, giving local communities the freedom to shape their own future.

Thirdly, it strengthened municipal finances. It abolished central government grants with conditions and removed the council tax system's upper limit. Local councils exercised veto power over increases in council tax beyond a certain level. They had the authority to grant exemptions to businesses in Business Rates and allocate a certain amount of the Community Infrastructure Levy to invest in their local community's development.

Fourthly, diversifying public service provision. Various organizations within local communities were given opportunities and authority (community right to challenge) to provide local public services. Introducing Local Enterprise Partnerships (LEPs) enabled local communities to deliver public services tailored to local demand. Various organizations in local communities were granted the right to

acquire local assets (Community Right to Buy).

Fifthly, the Localism Act 2011 was a beacon of transparency and accountability. It was a commitment to open governance, to a society where information flows freely and decisions are made with full knowledge. Detailed disclosure of local finances, including income and expenditure, to local residents was a testament to this commitment. The UK central government was required to disclose detailed information about expenditures related to central and local government through an integrated online information system. Apart from expenditure information, information on public sector contracts, compensation, and recruitment in local authorities was also disclosed to increase transparency. It was a promise of trust, of a government that is accountable to its people.

Lastly, it enhances residents' accountability and grants residents the right to propose a regional referendum on local issues. It enhances the democratic and accountable nature of local administration through the election of directly elected mayors.

## 6. City Deals

Since the emergence of the Conservative Party government in 2010, the system of local economic development has shifted from regional to local units (Colomb and Tamamey 2016). The Conservative government criticized the previous Labour government's spatial

planning at the regional level as top-down and bureaucratic (Baker and Wong 2015).

Upon abolishing the Regional Development Agencies (RDAs), the government established Local Enterprise Partnerships (LEPs) to support national economic recovery, urban development, and infrastructure implementation, aiming to build local governance and employing negotiations to this end (Pike et al 2013). City deals involve agreements where two or more local governments strive to achieve economic development goals, proposing strategic ideas to the central government.

The city deals policy includes proposals for urban and infrastructure development, alongside governance reforms. To achieve fiscal restraint and decentralization objectives, the central government focused on ensuring that relaxed fiscal regulations applied to certain city deals did not conflict. It promoted inter-city competition and favored individual negotiations with some city deals. Consequently, funding and discretion that some city deals could obtain from the central government were geographically unevenly distributed.

Upon returning to power in 2015, the Conservative government announced the introduction of “New Devolution Deals“ (O’ Brien 2015). This extended the decentralization policy of the previous Conservative coalition government, expanding and deepening deal-making. It aimed to introduce innovative proposals for urban areas to foster regional growth, targeting governance reforms

including the introduction of directly elected mayors for major cities.

These new decentralization measures were responsive to the Scottish independence referendum of September 2014, which highlighted economic development issues in northern England.

Consequently, Greater Manchester was selected as the initial target for the first city deals, with negotiations ongoing in the metropolitan area prior to the 2015 general election and formally announced in November 2014. Subsequent devolution deals were concluded in Sheffield in December 2014 and West Yorkshire in March 2015, with a total of 12 regions finalizing deals by March 2016 (Sandford 2016). As a result, England has formed a total of 10 combined authorities through city deals up to the present day.

The evaluation of the new urban policy is characterized by a mixture of positive and negative assessments (O'Brien 2015). Positive evaluations include the following: The city deals policy has established relatively open communication channels between central and local governments, presenting a controlled form of decentralization from a centrally governed state. Promoting cooperation between central and regional governments is a practical means to enable regional-centric approaches. Cooperation policies between central and local governments encourage innovation among local governments. The city deals policy serves as a means to facilitate governance reforms by the central government.

However, there are also negative assessments (O' Brien 2015). Negotiations (deal-making) between central and local governments represent a particular type of decentralization. Local governments must clearly understand this process's capabilities, objectives, and outcomes.

Questions are raised about existing institutions' accountability, effectiveness, and transparency during the negotiation process. Criticisms include concerns that some cities secured financial support through negotiation policies in a geographically discriminatory manner or fostered excessive competition between cities. The informal and individualized nature of city deal processes imposes constraints due to time limitations. Given the central government's priority on fiscal soundness, political dynamics between the central and local governments still play a decisive role in the negotiation process.

## 7. Combined Authorities(CA)

Combined Authorities (CAs) are a new form of local government established under 'The Local Democracy, Economic Development and Construction Act 2009' (Sandford 2019). CAs possess characteristics of special purpose local authorities and are empowered through devolution deals negotiated between central government and the CAs.

The council of a CA consists of local councillors appointed by the

constituent local authorities. Currently, among the 10 CAs, 9 have directly elected mayors (metro mayors) chosen by residents through voting, while the North East Combined Authority does not yet have an elected mayor.

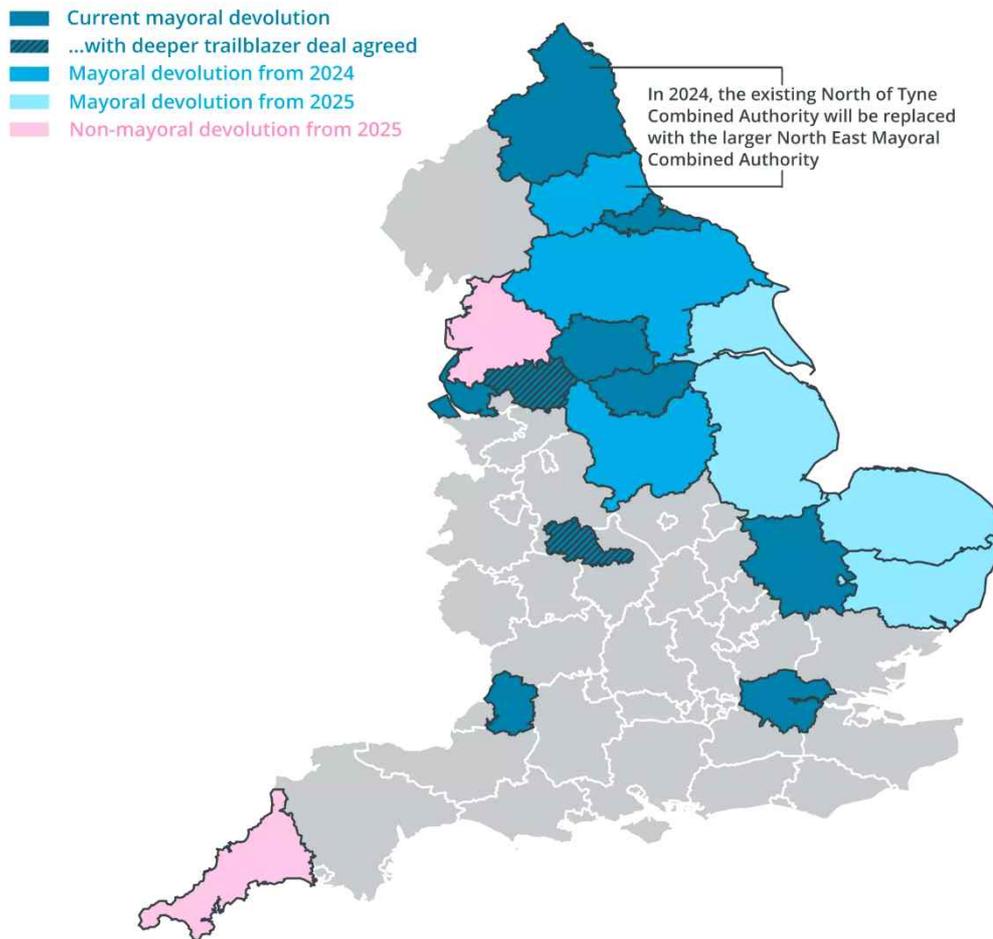
Table 1. Combined Authority as of June 2024

Combined Authority	Starting Date	Number of local authorities	Elected Mayor
		(Population)	
Greater Manchester	2011.04.01	9	Andy Burnham
		2,848,300	
Liverpool City Region	2014.04.01	6	Steve Rotheram
		1,564,000	
South Yorkshire	2014.04.01	4	Oliver Coppard
		1,415,100	
West Yorkshire	2014.04.01	5	Travy Brabin
		2,345,200	
North East	2014.04.15	5	-
		1,164,100	
Tees Valley	2016.04.01	5	Ben Houchen
		667,200	
West Midlands	2016.06.16	7	Andy Street
		2,939,900	
West of England	2017.02.09	3	Dan Norris
		950,000	
Cambridgeshire & Peterborough	2017.03.02	7	Nik Johnson
		859,800	
North of Tyne	2018.11.02	3	Jamie Driscoll
		839,500	

Local government combined authorities (CAs) gain unified and distinct responsibilities as metropolitan bodies composed of regional leaders and economic representatives within their jurisdictions. CAs must apply to the central government for devolution of powers to perform transportation, economic development, and urban regeneration on a metropolitan scale. The central government reviews the application

for devolution and determines the transfer of powers through negotiations with the CA. Each constituent local authority forming a CA retains its original elemental powers except for functions integrated across the jurisdiction for metropolitan functions.

Figure. 6. Existing and Proposed devolution in England, as of Dec 2023



(Source; Institute for Government 2023)

As of June 2024, there are a total of 10 CAs established across England (IfG 2024). The Greater London Authority, with its unique status, is excluded from the local government combined authorities (CAs). Since 1997, successive Labour governments devolved powers to Scotland, Wales, and Northern Ireland, while England initially included

only Greater London as a metropolitan area. In 2014, the government began negotiations for new combined authorities with metro mayors. Between 2015 and 2019, 9 negotiations were concluded, primarily in city regions, with a more limited non-mayor devolution deal agreed upon in Cornwall in 2015.

The government is expanding devolution negotiations to include other regions of England, including rural areas, accelerating powers transfer in areas with existing devolution deals such as Greater Manchester and West Midlands. The government legislated a new form known as Combined County Authorities (CCAs) for regions with two-tier local government, unlike Metropolitan Combined Authorities (MCAs), composed solely of district councils formed through agreements between upper-tier councils. Some devolution deals have also been agreed upon between individual county councils.

As of June 2024, 10 combined authorities with mayors are in England. Devolution negotiations are expanding in 2024 to three areas (York and North Yorkshire, East Midlands, North East) and are scheduled to expand further in 2025 to four additional areas (Suffolk, Norfolk, Greater Lincolnshire, Hull, and East Yorkshire). In 2025, new non-mayoral devolution deals are set to be implemented in Lancashire and Cornwall.

Currently, the areas undergoing devolution negotiations encompass 41% of England's population, 49% of economic output, and 14% of land area. If the planned nine new devolution deals proceed as

scheduled, they will cover 7% of England’s population, 60% of economic output, and 40% of land area. This outcome signifies that devolution arrangements will cover most of England’s population.

Figure 7. Proportion of England covered by devolution deals, 2014-2023 and Future deals



(Source: Institute for Government 2023)

The powers of Combined Authorities (CAs) vary depending on the specifics negotiated in decentralization agreements. The broadest powers are granted to the areas where directly elected mayors are installed. The content of decentralization negotiations is separately negotiated between ministers and local leaders, but the government has announced a 4-level delegation framework for each tier.

Level 1 grants a minimal strategic role in service provision. Level 1 negotiations have yet to conclude. Level 2 can be negotiated between county councils or joint authorities not led by directly elected mayors. Level 2 includes control over adult education budgets, LEP functions, and the UK Shared Prosperity Fund.

Level 3 negotiations provide additional powers beyond those granted in Level 2 negotiations, including control over transport, local roads, urban regeneration, and a 30-year investment fund. Most existing MCAs fall under Level 3. Metro mayors can establish development corporations with planning and development powers and levy regulations on local taxes to support specific projects. Where administrative boundaries align, metro mayors also serve as police and crime commissioners.

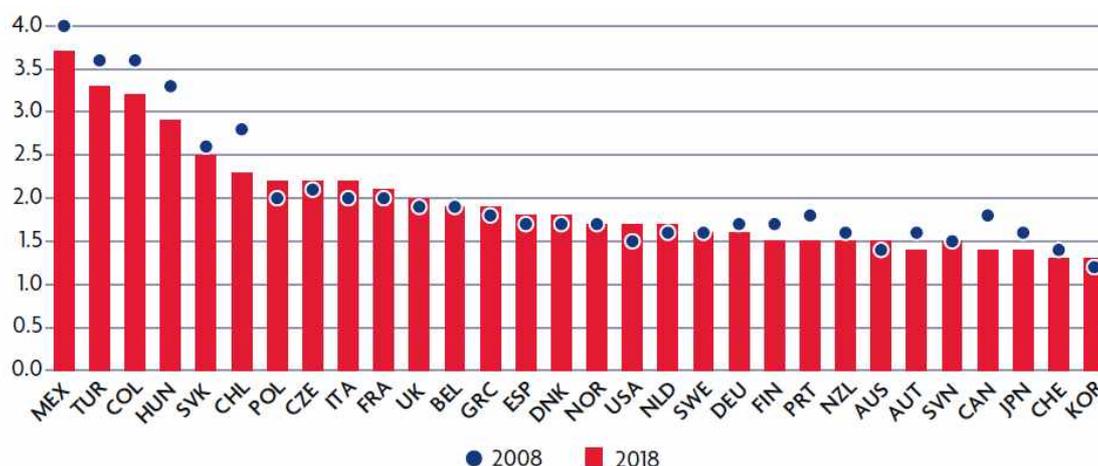
Level 4 negotiations grant additional powers based on the meeting capacity, governance, and institutional cultural standards of Combined Authorities (CAs). They mainly play a role in regional energy planning. Level 4 negotiations will provide a flexible 'consolidated pot' fund in local growth and place-based housing and regeneration. In March 2023, the government concluded "trailblazer" devolution deals with Greater Manchester and West Midlands. These negotiations will grant additional powers over transport, technology, energy retrofitting, and housing.

## 8. Regional disparity

Regional economic disparities in the UK have existed since the early 20th century. The country ranks among the highest in regional disparities according to comparisons among OECD nations, with significant gaps observed between the top 20% and bottom 20% regions based on indicators such as per capita income levels and

economic performance. The UK's regional economic disparities were found to be pronounced, following Turkey, Colombia, and Hungary (HM 2022).

Figure 8. Ratio of top 20% richest regions to 20% poorest regions, OECD countries, 2008 and 2018



(Source: OECD 2018)

The disparity between London's workers and 'Left-behind' areas within the 'Red Wall' is significant when examining hourly labour productivity and disposable income per capita metrics. For instance, Camden in London, the financial hub of the City of London, exhibits an hourly labour productivity of approximately £56.3. In contrast, Somerset, an agricultural region, shows productivity of £27.7, about half that of London. Regarding disposable income per capita, London stands at around £29,000, whereas the North East region of England is approximately £17,000, representing about 60% of London's level (HM 2022).

Regional disparities in the UK deepened following the neoliberal reforms and industrial restructuring initiated by Conservative Prime

Minister Margaret Thatcher, who came to power in 1979 after World War II. Thatcher privatised state-owned enterprises and shifted the industrial base from manufacturing to finance and services. Before 1973, the UK pursued policies under the Keynesian welfare state, focusing on post-war reconstruction, industry redistribution plans for the unemployed, and export promotion policies. This included economic policies aimed at full employment, managing economic demand, and various social welfare measures, resulting in an unemployment rate of about 3% and relatively small regional disparities.

However, Thatcher's Conservative government intervened selectively in industrial policies as part of neoliberal reforms. This included deregulation focused on financial reform, such as liberalising stock exchange commissions to foster London's financial industry growth rather than supporting traditional manufacturing sectors like steel and shipbuilding.

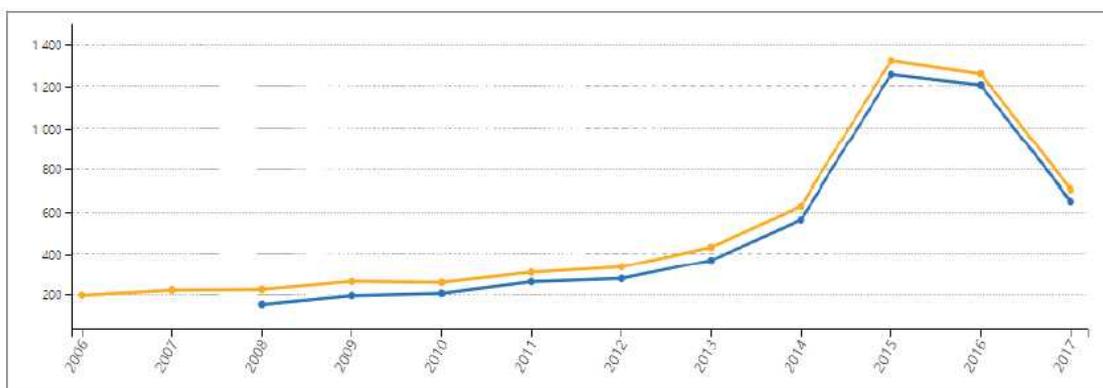
Specifically, the government privatised state-owned enterprises to address the 'British disease,' leading to coal mine closures and labour union reforms. This resulted in significant job losses for many residents in the Midlands and North manufacturing-dependent regions while shrinking social security systems related to unemployment. While Thatcher's reforms were seen as strategic choices for modernising the UK's industrial structure in the long term, the rapid industrial restructuring over ten years exacerbated unemployment on a large scale in traditional industrial areas of the Midlands and North. Additionally, the government's passive policy interventions further

deepened regional disparities.

## 9. Brexit and afterwards

Since the late 1970s, areas such as London in southeast England have experienced dazzling growth, leveraging the financial sector. However, once crucial players during the industrialisation era, former industrial hubs in the central and northern parts suffered economic downturns and job losses. From the late 1980s, the term “Britain’s North-South Divide” gained popularity, highlighting regional inequalities and social divisions between the north and south of the country(BBC 2021).

Figure 9. The number of asylum seekers in the 28 EU member states  
(Unit: Thousand)



(Source: Eurostat 2018). Note: Total number of asylum seekers(yellow line), number of first-time asylum seekers(blue line)

Residents of globalisation beneficiaries like London tend to have higher educational levels and work in professions such as finance,

leading to a more lenient stance on European integration and immigration. Conversely, residents in declining industrial areas, left behind by globalisation, expressed discontent as immigration increased, which they felt lowered their wages and made job hunting more difficult. Over time, dissatisfaction grew about immigrants benefiting from public services (such as healthcare and education) funded by taxpayers.

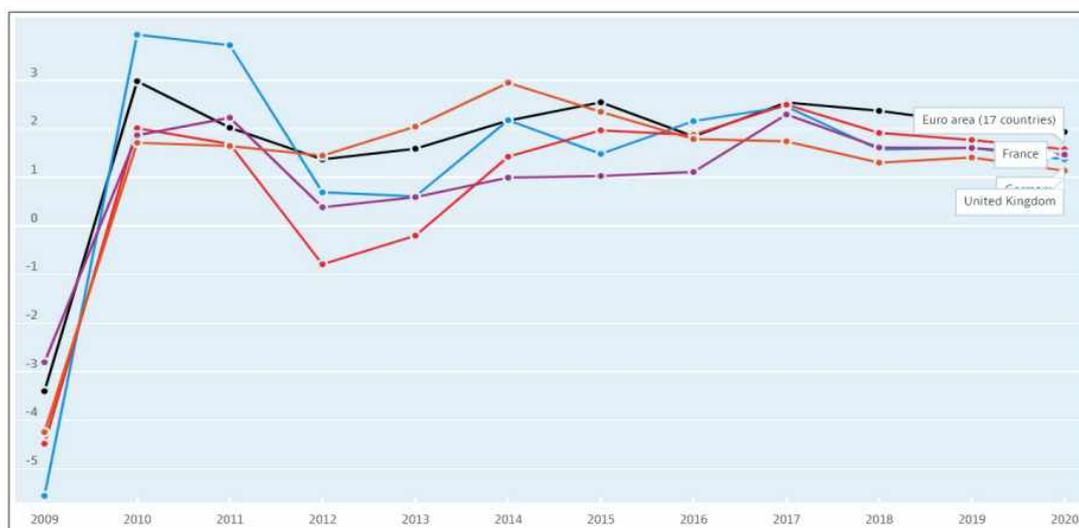
Moreover, as the principal victims of neoliberal reforms initiated by Conservative Prime Ministers, voters in the declining industrial areas of the central and northern regions, traditionally supporters of the Labour Party, were gradually becoming disillusioned.

In the mid-2010s, the surge of refugees entering the EU became a motivating factor for Brexit supporters. The accession of 12 Eastern European countries to the EU also heightened concerns about the increasing number of immigrants within Western Europe.

The number of refugees entering the EU rose throughout the 2010s, peaking in 2015. That year, approximately 1,322,800 asylum applications were submitted within the EU, a 52.6% increase from the previous year. According to Eurostat, Syrian asylum seekers made up the largest group at 27.78%. The preferred asylum destinations for refugees were Germany (31%), Italy (20%), France (14%), Greece (9%), and the United Kingdom (5%).

Externally, the economic crisis in Southern Europe was a significant factor contributing to Brexit. The impact of the financial crisis that began in late 2008 was relatively mild in the UK compared to Southern European countries. While the Eurozone's unemployment rate worsened from 9.49% in 2009 to 10.84% in 2015, the UK's unemployment rate improved from 7.54% to 5.30%. Similarly, the GDP growth rate in the UK was relatively better than that of other European countries leading up to Brexit.

Figure 10. The real GDP growth rate of Eurozone countries, Germany, France and the UK (Unit: %)

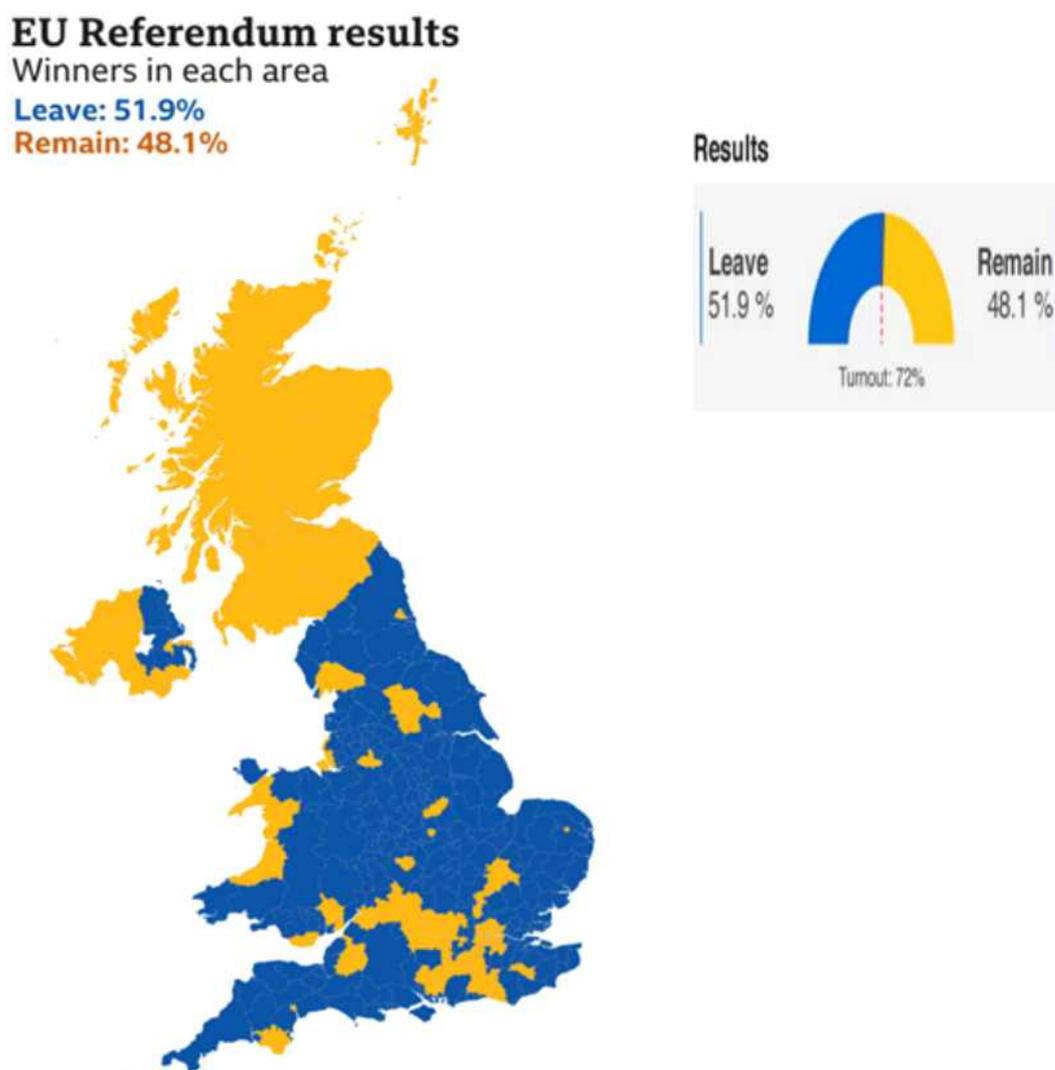


(Source: OECD stat 2020)

Article 50 of the Treaty of Lisbon, introduced in 2007, included a clause for EU withdrawal, allowing member states to declare their intention to leave unilaterally. Following the treaty's implementation, Prime Minister David Cameron faced political pressure to hold a referendum on EU membership. The financial crisis in Southern European countries and the economic stagnation in EU member states bolstered the arguments of EU sceptics, such as the UK Independence

Party (UKIP), for leaving the EU. In January 2013, Cameron announced that he would hold a referendum on EU membership if re-elected.

Figure 11. EU Referendum Results



(Source: BBC 2016)

In early 2016, Prime Minister Cameron negotiated with the EU to mitigate anti-EU sentiment. The negotiations resulted in agreements to exempt non-Eurozone countries from emergency bailouts, introduce a “red card” procedure to reduce EU powers, and partially restrict

the free movement of citizens within the EU. Despite these efforts, anti-EU sentiment in the UK continued to worsen.

On June 23, 2016, the referendum on Brexit resulted in 51.9% voting to leave the EU and 48.1% voting to remain. The voting patterns revealed a clear socio-economic divide, highlighting the severe social divisions within the UK. Those who supported leaving the EU generally had lower levels of education and income and lower social status. Leave supporters were predominantly older and less likely to have professional qualifications. The election results indicated that many leave supporters perceived that their jobs were being taken by immigrants and refugees, who were predominantly low-skilled workers.

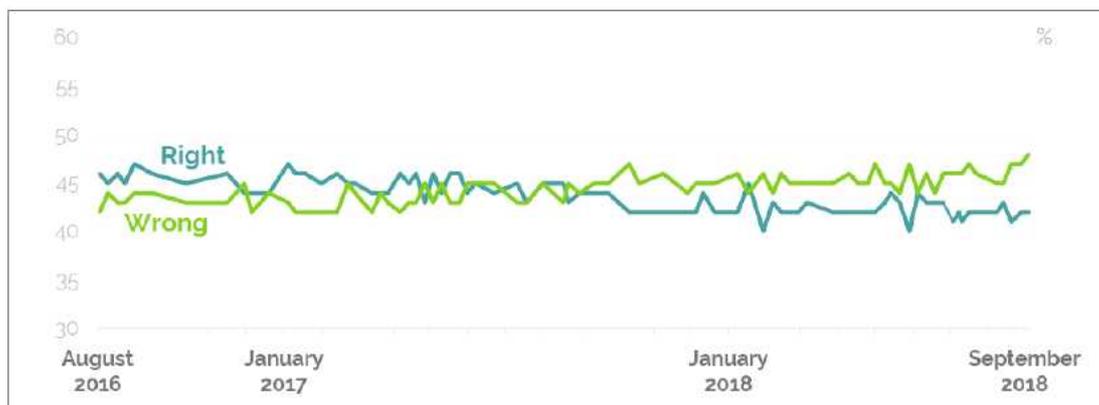
Both the UK and the EU were surprised by the UK's departure from the EU, leading to significant shock. The UK is heavily economically dependent on the EU, with 44% of its exports and 53% of its imports involving EU trade. In contrast, the EU's economic dependence on the UK is only about 8%. Consequently, the impact of Brexit was anticipated to be more severe for the UK than for the EU.

Nine months after the referendum, the UK began Brexit negotiations, needing to prepare for the departure. At the start of the talks, Prime Minister Theresa May held a snap general election on June 8, 2017, to gain momentum for the Brexit negotiations.

However, due to May's policies to reduce the National Health Service

(NHS) budget, support for the Conservative Party significantly declined. As a result, the Conservatives won 318 seats, 13 fewer than before, failing to secure a majority. As Brexit negotiations progressed, the political situation within the UK became increasingly complex, and public opinion also deteriorated. By 2018, there was more opposition to Brexit than support.

Figure 12. Trends in public opinion on the question ‘Do you think the outcome of the referendum for the UK to leave the EU was the right decision?’ , published in Sep 2018.



(Source: YouGov 2018)

During the 2019 UK general election, Conservative Party candidate Boris Johnson politically leveraged the disappointment and anger of voters in England’s central and northern regions towards the Labour Party. These voters had also played a pivotal role in the Brexit referendum. The Conservative Party’s 2019 election manifesto included the “Levelling Up“ initiative to improve underdeveloped areas and reduce regional disparities. As a result, many voters in the central and northern regions once again voted for the Conservative Party, contributing to its election victory.

## 10. Greater Manchester Combined Authority(GMCA)

Established in 2011, the Greater Manchester Combined Authority (GMCA) is the oldest of the ten combined authorities (CAs). After signing the first devolution deal with the central government in 2014, GMCA received devolved powers through five rounds of negotiations from February 2015 to May 2016. The extent of the central government's devolution of powers to GMCA in essential public service areas such as child services, police, and fire services remains limited. However, besides GMCA, almost all combined authorities retain essential public service powers with the central government.

Table 2. Revenues and Expenditures of Elected Mayor CA

Elected Mayor CA	Revenues (million)	Expenditures (million)
Greater Manchester	£ 1,931	£ 1,958
West Midlands	£ 456	£ 453
Liverpool City Region	£ 577	£ 593
Tees Valley	£ 238	£ 196
South Yorkshire	£ 225	£ 185
West of England	£ 104	£ 102
Cambridgeshire&Peterborough	£ 140	£ 156
North of Tyne	£ 171	£ 140
West Yorkshire	£ 523	£ 393

The Greater Manchester Combined Authority (GMCA) case provides insight into the main items and content of devolution negotiations between the central government and combined authorities (CAs). Once a devolution deal is reached, each municipal council forming the combined authority must approve the deal. Devolution agreements between the central government and combined authorities alone do not have a legal effect.

The GMCA was established in 2009 with the approval of the UK Parliament under the Local Democracy, Economic Development and Construction Act 2009. Like the GMCA, combined authorities with all transportation powers typically manage large budget expenditures. In the fiscal year 2020/2021, GMCA had a revenue budget of £1.931 billion and an expenditure budget of £1.958 billion. Generally, even when combined authorities receive powers over public services requiring substantial funding, there are significant concerns about financial shortfalls since expenditure budgets exceed revenue. The table below shows the revenue and expenditure budgets for combined authorities (CAs) for the fiscal year 2020/2021.

Elected mayors of combined authorities have varying levels of authority on different issues. The mayor can exercise a veto over decisions made by the combined authority (CA) council. The CA's expenditure plan requires the approval of at least two-thirds of the council members. The spatial strategy plan of a combined authority requires unanimity among council members, including the mayor. In contrast, Greater London has a different governance system than other CAs, including the Greater Manchester Combined Authority. The

Mayor of London can make decisions on most issues without the consent of the London Borough Councils.

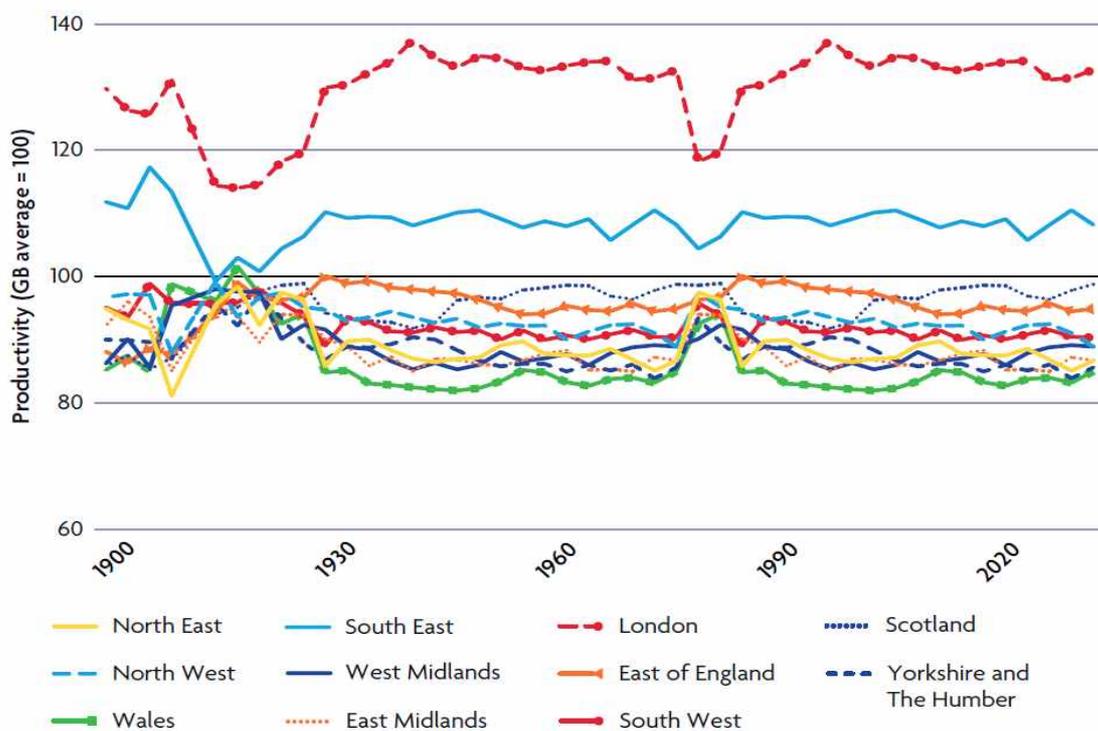
The London Borough Councils can only exercise a veto on a few critical safety issues. The Levelling Up White Paper announced the delegation of more powers and responsibilities to CAs with elected mayors, addressing the differences between London and Manchester. Specifically, through five rounds of devolution negotiations with the central government, GMCA agreed on the following:

- Receive multi-year budget support for transportation.
- Receive a £300 million housing investment fund over ten years.
- Obtain authority to establish a statutory spatial strategy.
- Introduce a Mayoral Development Corporation, allowing the elected CA mayor to acquire, develop, hold, and dispose of land.
- Obtain authority to establish a non-statutory Land Commission.
- Receive powers over police, law enforcement, fire services, and waste management.
- Receive a budget for business support.
- Obtain authority over establishing educational curricula in Greater Manchester.
- Receive management authority over the EU Structural Fund until March 2021.
- Obtain authority over managing grants for child protection and support for vulnerable children.
- Convert the business rates tax on non-residential properties, such as shops, offices, pubs, warehouses, and factories, entirely into local tax revenue.

- Receive £28 million to develop an unemployment benefits program from 2018 to 2024.
- Obtain authority over business regulations.
- Receive a £50 million land fund for regeneration projects and £10.25 million for the Collyhurst regeneration project in Manchester.

## 11. Levelling Up

Figures 13. Regional productivity, GB countries and regions, 1990-2019



(Source: ONS 2020)

In February 2022, the UK government unveiled the Levelling Up White Paper, detailing the concrete implementation strategies for Prime Minister Johnson's Levelling Up policy. Before this, in

September 2021, the UK government demonstrated a strong commitment to reducing regional disparities through the Levelling Up policy by changing the name of the relevant department from “The Ministry of Housing, Communities and Local Government” to “The Department for Levelling Up, Housing and Communities (DLUHC).

The table above shows the regional GDP disparities in the UK since 1901. Until the early 20th century, regional disparities within the UK had significantly decreased by half. However, the disparities have widened again since then, returning to the same level as 100 years ago.

Table 3. The Income-Equivalent Benefits of Levelling Up-an illustration

<b>What are the benefits of raising the bottom 25% of places to the UK average?</b>	
Additional Economic Output (GVA) per year (GVA per hour worked)	c.£50bn
Average increase in annual income per worker in those areas (Gross weekly earnings, total)	c.£2,300 per worker
Annual increase in life satisfaction (income-equivalent terms) (mean life satisfaction)	£57bn – £92bn
Annual increase in life expectancy (income-equivalent terms) (Male and Female life expectancy at birth)	c.£44bn
Total value of the increase in qualifications (additional earnings over lifetime and wider spillover benefits) (% of 16-64 year olds with level 3 equivalent level or higher education)	£46bn – £78bn

(Source: HM Levelling Up White Paper 2022)

“Levelling Up“ refers to a policy to reduce regional disparities by improving underdeveloped areas and achieving regional levelling-up. The goal is to raise productivity, public services, and quality of life in underdeveloped regions to the UK average, enabling all residents to enjoy a more prosperous life. On a national scale, if productivity in the central and northern areas improves, more public capital can be invested in transportation, housing, and welfare in London and the southeastern regions. Hence, regional levelling-up ultimately signifies the country’s overall co-development. It aims to improve the ‘living spaces’ where people conduct their daily lives, fostering pride in their communities and allowing them to live where they were born and raised without having to leave.

It is known that only about 40% of the UK population lives and works in the city where they were born and raised. Six out of ten graduates from top universities move to London to find employment. As young people leave for cities searching for jobs, communities in underdeveloped areas face the risk of collapse, and their unique local cultures are threatened. Regions in the UK with strong regional identities, such as Scotland and Wales, are particularly affected. The true meaning of Levelling Up is to ensure that young generations growing up in these areas have opportunities for employment and higher education within their region, feeling pride in their local communities without needing to leave.

Addressing regional disparities in the UK is estimated to require substantial social costs, comparable to the approximately €2 trillion spent on the reunification of East and West Germany (Guardian

2021). However, power and resources have been concentrated in London and the southeastern metropolitan area, causing major regional hubs like Manchester to suffer significant economic losses. Therefore, the proactive policy intervention through Levelling Up is expected to create potential growth opportunities for the nation.

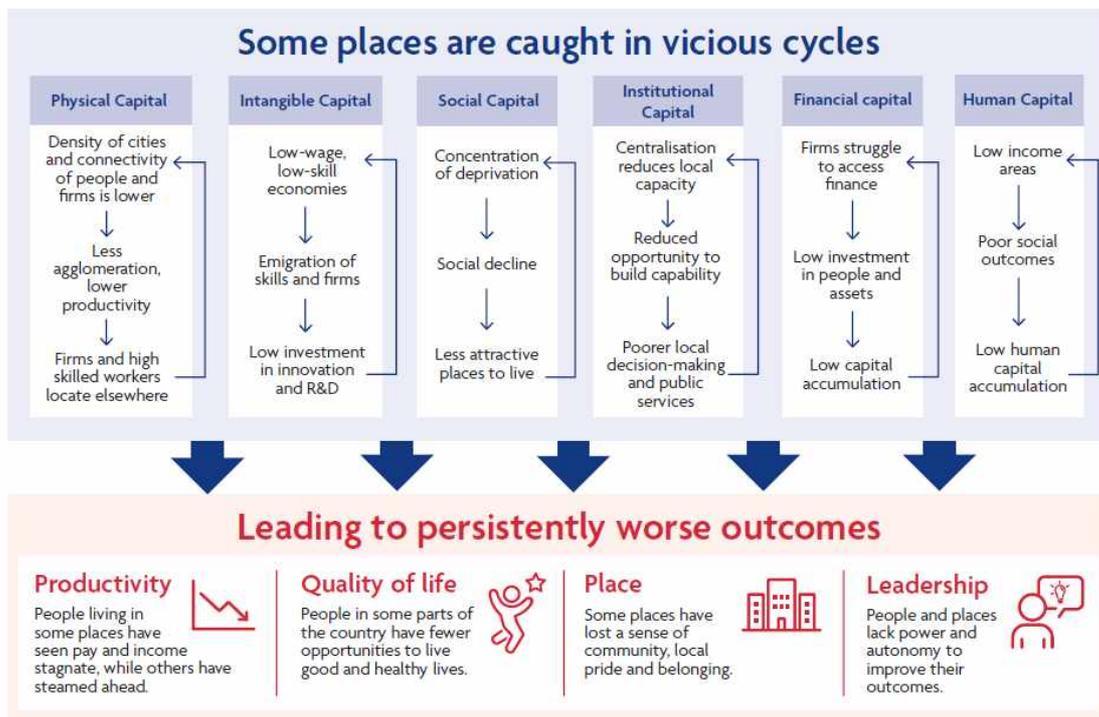
According to the Levelling Up White Paper, improving productivity in underdeveloped regions impacts the national economy in several ways. Workers in the bottom 25% of productivity regions would see an annual income increase of approximately £2,300. Around £50 billion in Gross Value Added (GVA) would also be generated annually. Converting life satisfaction into income terms results in an impact ranging from £57 billion to £92 billion.

PricewaterhouseCoopers (PwC) projected that the Levelling Up initiative could increase the UK's Gross Domestic Product (GDP) by around £83 billion (PwC 2019). The Confederation of British Industry estimated the economic impact could be about £200 billion, with the average household income increasing by around £6,000 (Curca 2021). The Centre for Cities predicted that if productivity in the central and northern regions rose to the level of the metropolitan area (London and the Southeast), the GDP would increase by £180 billion (Centre for Cities 2020).

## 11-1. Levelling Up 6 Capitals Framework

To advance the Levelling Up policy, six critical types of capital were analyzed, along with the vicious cycles that occur when these types of capital are lacking in a region. Physical capital refers to infrastructure, support institutions (organizations), and housing. When physical capital is insufficient, population density decreases, and business accessibility diminishes. As a result, jobs and highly skilled workers migrate to other regions. Intangible capital is related to innovation, ideas, and patents. When intangible capital is lacking, the regional economy centres around low-wage and low-skilled jobs. Consequently, businesses and technical talent relocate, leading to a need for more investment in innovation and research and development (R&D) within the region.

Figure 14. Levelling Up Capitals Framework



(Source: HM Levelling Up White Paper 2022)

Social capital pertains to community cohesion and trust. When social

capital is lacking, social alienation deepens, and local communities decline. As a result, the residential environment deteriorates where residents live.

Institutional capital relates to local leadership and capacity. When more than institutional capital is needed, centralization diminishes regional capacity, leading to low-level policy decision-making.

Financial capital is associated with assets supporting corporate financing. Difficulty in accessing corporate funding reduces investment in personnel and assets, leading to a decline in financial capital accumulation. Human capital involves skilled labourers or health professionals. Insufficient human capital formation in low-income areas results in poor social outcomes and a decline in human capital accumulation.

## 11-2. Five Principles from a successful cases

The UK government analyzes cases such as the redevelopment of East Germany, the Tennessee Valley Authority in the USA, the Docklands development in London, and the Ruhr industrial region in Germany to derive five policy lessons.

Firstly, it emphasizes policy longevity and sufficiency. Regional disparities tend to persist due to inertia. Addressing such situations

requires consistent long-term policy efforts and substantial capital investments. Successful regional development cases have pursued clear and consistent medium—to long-term objectives over decades. Therefore, it is necessary to establish consistent and transparent policies to achieve levelling-up objectives by 2030. The levelling-up strategy sets medium-term targets and missions with measurable and time-bound objectives.

Secondly, it stresses the organization of policy delivery coordination. Successful regional development necessitates strategic collaboration across various private and public policy sectors such as transport, technology, finance, education, and infrastructure. The central government should consider strategies for levelling up and local conditions when making policy decisions.

Thirdly, it focuses on local empowerment. More than devolving authority from the central government to local governments is required to solve all issues. However, analysis of past cases shows that locally crafted development policies driven by regional leaders, businesses, and public and private sector support yield better results. Thus, raising the autonomy of local decision-makers is crucial.

Fourthly, it underscores the need for evidence-based monitoring and evaluation. The effectiveness of capital investments and policy interventions varies across regions. Therefore, rigorous evaluation is essential to determine which policy intervention and capital investment forms are efficient for regional growth and disparity reduction.

Strengthening data management and evaluation systems within regions is necessary to achieve this goal.

Fifthly, it highlights transparency and accountability. To alleviate regional disparities successfully, both central and local government policymakers need clear accountability for policy outcomes. Establishing new institutions, such as mandating annual reports on levelling up projects by law and setting up a Levelling Up Advisory Council, is essential for overseeing the strategy.

This translation ensures the clarity and coherence of the original Korean text into English, maintaining the integrity of the policy lessons discussed.

### **11-3. Five pillars of a new policy regime**

To alleviate regional disparities within the UK, it is necessary to overhaul the decision-making system nationwide completely. To achieve this goal, five new policy frameworks are proposed.

#### **11-3-1. Mid-term mission**

Table 4. Levelling Up Missions

Focus Area	Mission
<i>Boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging</i>	
Living Standards	By 2030, pay, employment and productivity will have risen in every area of the UK, with each containing a globally competitive city, and the gap between the top performing and other areas closing.
Research & Development (R&D)	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. This additional government funding will seek to leverage at least twice as much private sector investment over the long term to stimulate innovation and productivity growth.
Transport Infrastructure	By 2030, local public transport connectivity across the country will be significantly closer to the standards of London, with improved services, simpler fares and integrated ticketing.
Digital Connectivity	By 2030, the UK will have nationwide gigabit-capable broadband and 4G coverage, with 5G coverage for the majority of the population.

(Source: HM Levelling Up White Paper 2022)

Firstly, it involves mid-term missions. Past policies lacked consistency and clarity regarding the objectives of spatial policy. Missions are targeted, measurable, and time-bound. The ' Social Mobility Pledge ' is a recent example of adopting this approach.

This initiative has mobilized social mobility by uniting 550 businesses and over 50 universities. Missions depart from past structures where the central government assumes responsibility. They are designed to foster change through cooperation across public, private, and

voluntary sectors. Twelve missions are set across four sectors.

Firstly, it prioritizes underdeveloped areas as focus regions, enhancing productivity, wages, employment, and living standards by fostering private sector growth. Secondly, it targets vulnerable public service areas to expand and improve public service opportunities. Thirdly, it designates community decline areas as focus regions to restore local communities, enhance localism, and boost regional pride. Fourthly, it centrally identifies areas lacking government agencies to empower local leaders and communities.

For these four sectors, twelve missions are proposed. In the first sector, missions include improving living standards, research and development (R&D), constructing transport infrastructure, and building broadband networks. Under living standards, the mission aims to enhance wages, employment, and productivity nationwide, easing disparities between top-performing and lower-performing regions. In R&D, public investment in research and development outside London and the Southeast is set to increase by at least 40%, expecting private sector investment to double with government R&D investments to enhance regional innovation and productivity.

For transport infrastructure, improvements aim to match London's public transport accessibility and fare systems regionally. Digital connectivity initiatives plan to establish nationwide 4G coverage and major cities with 5G coverage, creating nationwide gigabit-capable broadband services.

Secondly, focusing on expanding and improving public service opportunities, education aims to enhance educational services to improve literacy and numeracy skills among elementary students, boosting educational outcomes for a third of children in vulnerable areas above the UK average. Skills development initiatives aim to increase skilled workers through vocational training, potentially graduating approximately 200,000 new skilled workers annually in England.

In healthcare, the mission targets narrowing life expectancy gaps between regions by increasing life expectancy nationwide by five years by 2035. Well-being initiatives aim to reduce well-being disparities between areas, enhancing well-being nationwide.

Thirdly, it focuses on revitalizing local communities, enhancing localism, and fostering regional pride. Under Pride in Place, the mission is to strengthen localism and regional pride nationwide, reducing satisfaction disparities in local communities. In housing, the mission aims to increase first-time homebuyers nationwide, thereby enhancing tenant housing stability and reducing the number of renters in inadequate rental housing by 50%. In crime, measures will be implemented to reduce crime rates, including murder, violence, and crime in high-crime areas.

Table 5. Levelling Up Missions

Focus Area	Mission
<i>Spread opportunities and improve public services, especially in those places where they are weakest</i>	
Education	By 2030, the number of primary school children achieving the expected standard in reading, writing and maths will have significantly increased. In England, this will mean 90% of children will achieve the expected standard, and the percentage of children meeting the expected standard in the worst performing areas will have increased by over a third.
Skills	By 2030, the number of people successfully completing high-quality skills training will have significantly increased in every area of the UK. In England, this will lead to 200,000 more people successfully completing high-quality skills training annually, driven by 80,000 more people completing courses in the lowest skilled areas.
Health	By 2030, the gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest will have narrowed, and by 2035 HLE will rise by five years.
Well-being	By 2030, well-being will have improved in every area of the UK, with the gap between top performing and other areas closing.
<i>Restore a sense of community, local pride and belonging, especially in those places where they have been lost</i>	
Pride in Place	By 2030, pride in place, such as people's satisfaction with their town centre and engagement in local culture and community, will have risen in every area of the UK, with the gap between top performing and other areas closing.
Housing	By 2030, renters will have a secure path to ownership with the number of first-time buyers increasing in all areas; and the government's ambition is for the number of non-decent rented homes to have fallen by 50%, with the biggest improvements in the lowest performing areas. <sup>1</sup>
Crime	By 2030, homicide, serious violence and neighbourhood crime will have fallen, focused on the worst affected areas.
<i>Empower local leaders and communities, especially in those places lacking local agency</i>	
Local Leadership	By 2030, every part of England that wants one will have a devolution deal with powers at or approaching the highest level of devolution and a simplified, long-term funding settlement.

(Source: HM Levelling Up White Paper 2022)

Fourthly, it aims to strengthen local leadership and community authority. Under local leadership, it advocates for devolution deals for all English regions, seeking decentralization from central authority. To achieve this mission, long-term fund management will be streamlined.

### 11-3-2. Reshaping central government decision-making

Historically, policy initiatives have often needed more consideration for geography when designing and delivering policies. To address these issues, the central government must comprehensively overhaul decision-making across four dimensions.

Firstly, when the central government spends, it must ensure better transparency based on location. A significant portion of government spending is discretionary. Historically, UK government discretionary spending, particularly investment spending, has often been geographically biased. As a result, it has exacerbated spatial imbalances in productivity and living standards nationwide. For instance, research and development (R&D) funding through the UK Research and Innovation (UKRI) allocated 51% to regions outside London and the Southeast. This concentration is due to excellent research universities, skilled labour, and innovative businesses primarily concentrated in London, Oxford, and Cambridge.

Conversely, per capita transport funding has been significantly lower

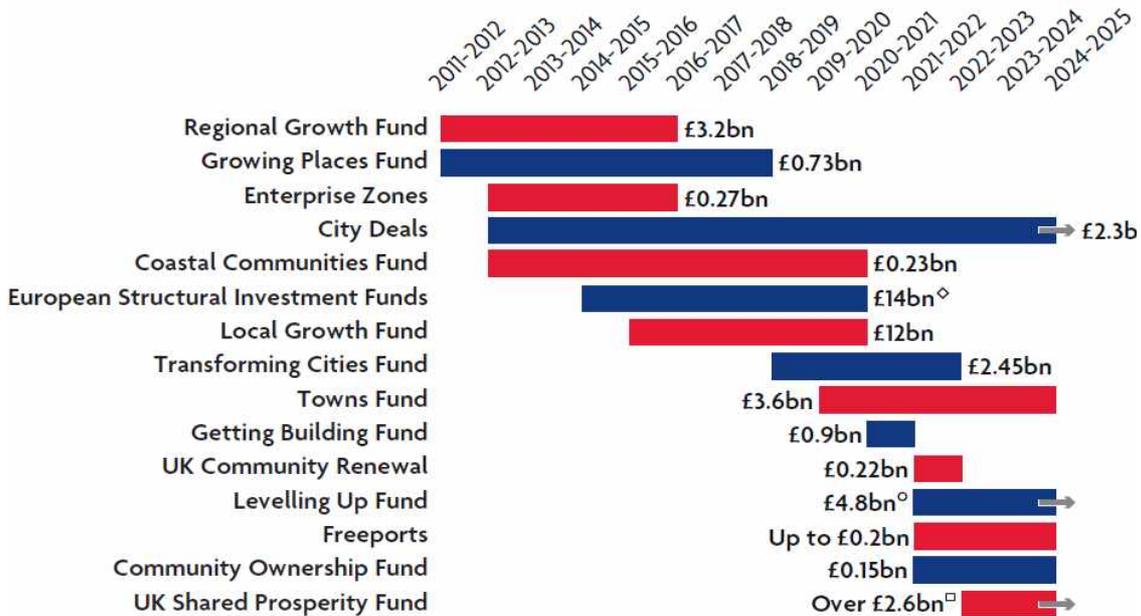
in the North, Midlands, and Southwest. Between 2016–2017 and 2020–2021, transport spending in London and the Southeast was 37% higher per capita compared to the rest of England. Cultural activities are also strongly biased towards London, with nearly 40% of arts funding allocated to the capital. Therefore, public spending decisions should move towards directions that help alleviate spatial imbalances.

To achieve this goal, the central government should utilize tools such as the Green Book review, Business case publication, and Reformed Planning and Performance Framework. According to the levelling-up strategy, central government departments must analyze spending and its benefits from a spatial perspective when initiating programs.

Secondly, when making decisions and evaluations, the central government must systematically include considerations for geography. The establishment of 'The Department for Levelling Up, Housing and Communities (DLUHC)' in September 2021 demonstrates a new approach by the central government towards place. It places regional potential at the heart of policy decisions.

In support of this objective, the recently established 'Levelling Up Cabinet Committee' will align government policies with the mission of levelling up. The committee will prioritize considerations for a place in government decision-making and further promote decentralization negotiations.

Figure 15. Local growth funding pots introduced in the UK since 2011-12



<sup>◇</sup> Using an exchange rate of £1 = €1.18. This exchange rate was used in the October 2021 Spending Review calculations used by HMT.

<sup>◊</sup> Of which £0.3bn comes from Towns Fund.

<sup>□</sup> Of which £1.5bn in 2024/25.

(Source: HM Levelling Up White Paper 2022)

Thirdly, there must be improved coordination of central government policies at the regional level. Over the past decade, various budgets within regional growth funds have been overlapping, operating in isolation and competitively. Local governments have long argued against the inefficiencies and complexities of these regional growth funds. Under the levelling-up strategy, funding delivery methods will be streamlined, and bidding processes will be simplified.

Fourthly, there needs to be a greater emphasis on places. The UK government is implementing the 'Places for Growth programme' to increase the presence of civil servants from diverse regions and narrow the gap between decision-makers at central and local

government levels. By 2030, the central government plans to relocate 22,000 civil servants to regional locations and move 50% of senior civil service roles outside London. This initiative aims to generate new jobs and investments nationwide and enable better-informed policy decisions after understanding regional needs. Fifteen central government departments have made specific announcements to relocate offices to regions outside London, including initiatives like the 'Darlington Economic Campus', 'Glasgow Cabinet Office', 'Stoke-on-Trent Home Office', and 'Wolverhampton DLUHC HQ'.

### 11-3-3. Empowering local decision-making

Local governance in England needs to be more cohesive among county councils, district councils, unitary authorities, and London borough councils, leading to complexity with overlapping functions in local economic development. Local Enterprise Partnerships (LEPs) and Pan-Regional Partnerships (PRPs) also partially share responsibilities in financial strategy. Among advanced nations, the UK is one of the most centralized countries.

Forty per cent of England's population resides in areas with directly elected mayors, with 63% of this population located in the North of England. Yet, nearly half of England's population needs to gain the benefits of decentralization negotiations and continue receiving public services directly decided by the central government. Moreover, limited powers have been granted even in regions undergoing decentralization negotiations.

Table 6. Empowering local decision-making

Function	Detail	L1	L2	L3
<b>Strategic role in delivering services</b>	Host for Government functions best delivered at a strategic level involving more than one local authority e.g. Local Nature Recovery Strategies	✓	✓	✓
	Opportunity to pool services at a strategic level	✓	✓	✓
	Opportunity to adopt innovative local proposals to deliver action on climate change and the UK's Net Zero targets	✓	✓	✓
<b>Supporting local businesses</b>	LEP functions including hosting strategic business voice		✓	✓
<b>Local control of sustainable transport</b>	Control of appropriate local transport functions e.g. local transport plans*		✓	✓
	Defined key route network*			✓
	Priority for new rail partnerships with Great British Railways – influencing local rail offer, e.g. services and stations			✓
	Ability to introduce bus franchising		✓	✓
	Consolidation of existing core local transport funding for local road maintenance and smaller upgrades into a multi-year integrated settlement			✓
<b>Investment spending</b>	UKSPF planning and delivery at a strategic level		✓	✓
	Long-term investment fund, with an agreed annual allocation			✓
<b>Giving adults the skills for the labour market</b>	Devolution of Adult Education functions and the core Adult Education Budget		✓	✓
	Providing input into Local Skills Improvement Plans		✓	✓
	Role in designing and delivering future contracted employment programmes			✓
<b>Local control of infrastructure decisions</b>	Ability to establish Mayoral Development Corporations (with consent of host local planning authority)			✓
	Devolution of locally-led brownfield funding			✓
	Strategic partnerships with Homes England across the Affordable Housing Programme and brownfield funding			✓
	Homes England compulsory purchase powers (held concurrently)		✓	✓
<b>Keeping the public safe and healthy</b>	Mayoral control of Police and Crime Commissioner (PCC) functions where boundaries align ^			✓
	Clear defined role in local resilience*		✓	✓
	Where desired offer MCAs a duty for improving the public's health (concurrently with local authorities)			✓
<b>Financing local initiatives for residents and business</b>	Ability to introduce mayoral precepting on council tax*			✓
	Ability to introduce supplement on business rates (increases subject to ballot)			✓

\* refers to functions which are only applicable to combined authorities

^ refers to functions which are currently only applicable to mayoral combined authorities

(Source: HM Levelling Up White Paper 2022)

Since 2017, Metro Mayors have demonstrated the potential for change in empowered regional leadership. Tees Valley transformed its airport into public ownership. At the same time, the West Midlands supported

Energy Capital with funding to deliver cheaper and more efficient energy through collaboration between businesses, public services, and universities. The UK government has outlined four principles to promote decentralization negotiations further.

Firstly, effective leadership is crucial. Local solid leadership enhances policy execution. Having directly elected leaders at the regional level enables highly effective policy implementation.

Secondly, thoughtful geographical boundaries are essential. Devolution negotiations must recognize geographical boundaries that are identifiable at the regional level in terms of identity, place, and community perspectives. These boundaries should include considerations of the economic functions where local residents live and work.

Thirdly, flexibility is critical. Devolution deals should empower regions with the authority they need and allow for additional functions as they become necessary over time.

Fourthly, accountability is paramount. As regions gain more authority through devolution deals, they must uphold transparency and accountability. The UK government is establishing independent institutions to collect data, ensure transparency, and gather evidence to achieve this goal.

The framework for devolution deals is as follows: Level 1 involves a single institution or county council with a directly elected mayor (DEM) across functional economic areas (FEAs) or entire county regions. Level 2 involves a single institution or county council across FEAs or areas without a directly elected mayor. Level 3 involves joint committees for local authority collaboration across FEAs or entire county regions.

Devolution deals provide opportunities for businesses and residents to collaborate. The Adult Education Budget (AEDB) is included in Levels 2 and 3 to provide adult education essential for regional economies. Devolution allows regions to achieve public transport systems comparable to London's in other areas. It also enables multiple regions to access affordable housing and urban regeneration projects. Market towns within Combined Authorities (CAs) can play a crucial role in ensuring the safety and health of residents.

Enhancing fire governance is also a significant component of the 'Reforming Our Fire Service' White Paper. Reorganizing local government can streamline the various organizations within local government.

Devolution deals foster innovation in the private sector, create jobs, and drive regional economic growth by supporting partnerships with the private sector.

#### 11-3-4. The role of data, monitoring and evaluation

Data, monitoring, and evaluation are essential elements to ensure that taxes paid by UK citizens benefit the public. Key stakeholders involved in these functions include the central government, local government, research community, and the general public. To address past information gaps, the government is adopting the following technologies:

They are leveraging the ‘Government Statistical Service’ s subnational data strategy’ to produce timely and harmonized information and, secondly, utilizing the new ‘ONS interactive subnational data explorer’ to make data accessible to the public. Thirdly, data visualization techniques should help decision-makers better understand and compare results. Fourthly, the Levelling Up policies and programs should promote active evaluation and monitoring.

#### 11-3-5. Transparency and accountability

To establish a trustworthy policy regime, defining policy goals and policies clearly is crucial. Decision-makers must be accountable transparently for their decisions. To achieve these objectives, statutory obligations should be imposed. Stakeholders from various fields need to participate collaboratively. Regular publication of progress should be ensured. Publishing the Economic and Fiscal

Outlook to disclose financial information and the National Infrastructure Strategy to enhance transparency and accountability are essential. The UK government is developing the Levelling Up Advisory Council under these aims.

#### 11-4. Local Growth Policy

The UK government plans to appropriately distribute regional growth policies and funds across England's nine regions and 12 regions, including Scotland, Wales, and Northern Ireland.

The Levelling Up Fund (LUF) will invest approximately £4.8 billion during the fiscal year 2024-2025, focusing primarily on urban and city centre regeneration, improving local transport connections, and investing in cultural assets.

The Towns Fund, amounting to around £3.6 billion, aims to economically regenerate towns and city centres. One hundred one areas participate in Town Deals and 72 in the Future Streets Fund.

The UK Shared Prosperity Fund (UKSPF), totalling about £2.6 billion, prioritizes local community-led projects that benefit various sectors, such as education, training, and support for local businesses. The Community Ownership Fund (COF) supports local communities in owning and enhancing their assets to strengthen capacity.

Freeport funding aims to establish free trade ports that can serve as national hubs for global trade and investment. The Brownfield Land Release Fund (BLRF) supports the development of underutilized sites for housing and other purposes. The Strength in Places Fund (SIPF) promotes regional growth by enhancing existing strengths in research and innovation sectors and fostering regional collaboration.

The Transforming Cities Fund (TCF), with approximately £2.45 billion, promotes productivity and prosperity through sustainable transport and public sector investments, targeting England's major city regions.

Education Investment Areas (EIAs) aim to establish education investment zones in 55 areas with low academic attainment, expand quality schools, attract high-quality teachers, and support improvements. Additionally, the fund aims to establish systems that support students from low-income backgrounds with high academic attainment in accessing higher education.

## 11-5. Key Funds for Levelling Up

The UK Treasury Department jointly operate the Levelling Up Fund (LUF) for Transport and the Ministry of Housing, Communities and Local Government. This fund aims to invest in regional infrastructure projects such as transportation, local regeneration, and preservation of cultural and historical assets. The objective of the Levelling Up Fund is to invest in infrastructure that can visibly impact residents and

communities and support economic recovery (Halliday 2021).

Table 7. Funds for Levelling Up

Funds		Amount (million)	Period	Investment area
Levelling Up Fund		£ 4,800	'21~25'	local infrastructure
Towns Fund	Town Deal	£ 3,600	'19~	urban regeneration
	Future High Streets Fund			
UK Community Renewal Fund		£ 220	'21~22'	local business
Uk Shared Prosperity Fund		£ 2,600	'22~25'	local community
Community Ownership Fund		£ 150	'21~25'	buying property

(Source: HM Levelling Up White Paper 2022)

Currently, the fund is progressing with projects selected through competitive bidding in its first and second rounds of funding allocations (HM 2021). The investments focus on projects enhancing public Transport, urban regeneration, cycling and walking infrastructure improvement, bus lanes, bridge maintenance, local road networks, and accessibility to regions. Additionally, investments include:

- Acquiring brownfield sites for commercial and residential redevelopment.
- Refurbishing ageing buildings.
- Improving public spaces such as significant leisure facilities and urban regeneration.

As of now, a total of 216 projects have been selected to receive £3.8 billion in financial support. The funding allocation is highest in the Northwest region of England, with 27 projects receiving £590 million (15.5%). The fund plans to invest a minimum of £4 billion in England

and £800 million in Wales and other regions.

Northern Ireland receives the most minor investment at £120 million (3.2%). The number of selected projects is highest in the Northwest region, with 27 projects, and lowest in the Northeast region, with 11 projects. Per capita funding is highest in Wales at £104 and lowest in London at £24, reflecting population density differences (HM 2022).

The Towns Fund, launched in 2019 with an initial £3.6 billion, aims to unlock the economic potential of cities and town centres through initiatives like Town Deals and the Future High Streets Fund.

The Town Deal invests £2.35 billion in 101 towns selected based on criteria such as income, skills, productivity, and Brexit impact. The Northwest England region has the most selections with 20 cities, notably granting Blackpool an exceptional cap of £25 million per town, resulting in a support of £39.5 million.

The Future High Streets Fund aims to renew and redevelop urban commercial zones to fit future needs. This fund invests £830 million in capital projects across 72 areas, enhancing public transport accessibility and transforming underutilized commercial areas into residential zones. Sunderland in the Northeast and Swindon City in the Southwest receive the highest support of £25 million each.

The UK Community Renewal Fund allocates £220 million from 2021 to 2022 to support a transitional program before the introduction of the UK Shared Prosperity Fund, which replaces the EU Structural Fund post-Brexit. The investment priorities include:

- Digital technology development.
- Fostering innovation potential in local businesses through knowledge sharing.
- Evaluating opportunities in green projects.

Wales records a per capita investment of £14.8, approximately five times the UK average, with a total investment share of 61.8% for England and 23.1% for Wales. England receives £1.26 billion for 225 projects, whereas Northern Ireland receives £120 million for 31 projects.

The UK Shared Prosperity Fund supports £2.6 billion from 2022 to 2025 to enhance regional pride and expand life opportunities, including health. The priority investment areas are local communities and places, support for local businesses, and investment in human capital and technology.

When financially supporting, considerations include environmental impacts for green growth. Investments in local communities should focus on activities that increase physical and social solidarity, promote resilient and safe environments, and strengthen social networks. Business investments should encourage networking opportunities and collaborations. The fund supports boosting exports for small and medium-sized enterprises and investing in human capital and

technology.

The UK Shared Prosperity Fund differs from the Levelling Up Fund and Towns Fund in that it does not operate through competitive bidding. Instead, it allocates investments based on formal criteria using demand-based data related to regional population size and productivity. The fund commenced its first investments in October 2022, with plans to incrementally increase investment amounts to £400 million from 2022 to 2023, £700 million from 2023 to 2024, and £1.5 billion from 2024 to 2025. Throughout the investment period, each region will receive a minimum investment of at least £1 million, with the Greater London Authority receiving the largest amount at £185 million.

The Community Ownership Fund supports the acquisition of assets under threat by local communities, enabling them to take ownership. From 2021 to 2025, it provides £150 million in support. The fund assists in acquiring stakes in local assets such as land and buildings, modernizing local assets, and relocating them to new places. It allows applications for up to £2 million for all types of assets considered crucial by local communities, including community centers, sports and leisure facilities.

A total of £49.3 million will be invested in 195 projects through financial support. England receives the largest share of £35 million (7%), followed by Scotland, Wales, and Northern Ireland in descending order of investment scale. The largest allocation of £1.05 million goes

to the Brickfields Sports and Community Hub project, submitted by the Agile Community Trust.

## 12. Outlook on Regional Employment Governance

### 12-1. Ongoing bankruptcy of the British local governments

In September 2023, Birmingham, the second-largest city in the UK, declared bankruptcy. Prime Minister Rishi Sunak's government appointed an administrator of the town of bankruptcy and announced emergency measures. The central government will take responsibility for all financial functions related to Birmingham. It stated that external experts would be brought in to find ways to increase revenue, reduce costs, and sell assets, aiming to return Birmingham's finances to a sustainable state (Guardian 2023).

To normalize its finances, Birmingham City Council proposed asset sales, staff reductions, government support, and increases in council tax. The council explained that it declared bankruptcy because of a £87 million shortfall in its £3.2 billion 2023 budget. Consequently, under the Local Government Finance Act, the council announced that all expenditures except those mandated by law, such as services protecting vulnerable people, waste collection, and social welfare, would be halted.

A direct cause of Birmingham City Council's financial deterioration

was the requirement to backpay up to £760 million due to losing a gender pay equality case. In 2012, the Supreme Court ruled that the council must pay equal bonuses to women in roles like teaching assistants and catering staff, similar to those given to men in waste collection and street cleaning.

The council attributed this Supreme Court ruling to budget cuts imposed by the Conservative government over the past decade. Currently, the Labour Party controls the Birmingham City Council. The council has claimed it is facing unprecedented financial challenges, including increased demand for social welfare, a decline in corporate tax revenue, and persistent inflation.

In June 2022, Birmingham announced that monthly liabilities related to the gender pay equality case ranged from £5 million to £14 million, potentially resulting in up to £760 million in liabilities. The council also reported that it lacked the resources to eliminate the deficit. However, analysts believe that even if the council had won the case, it would only have delayed the bankruptcy, not prevented it.

According to the Local Government Information Unit, a UK think tank, factors such as central government funding cuts, an ageing population, and increased child welfare costs are to blame. Recent inflation and interest rate hikes have further deteriorated local government finances across the UK. Birmingham's bankruptcy was exacerbated by former Prime Minister Liz Truss's £45 billion tax cut policy, which worsened local government debt and instability.

Including Birmingham, the following local governments have declared bankruptcy in the past eight years: Northamptonshire (2018), Hackney (2000), Slough (2021), Thurrock (2022), Croydon (2022), Northumbria (2022), and Woking (2023), totalling eight. The Local Government Association, composed of councils from 47 cities, stated that 26 councils might declare bankruptcy within two years. There are concerns that the bankruptcy of local governments could lead to the collapse of public service systems, including transportation, pensions, and healthcare.

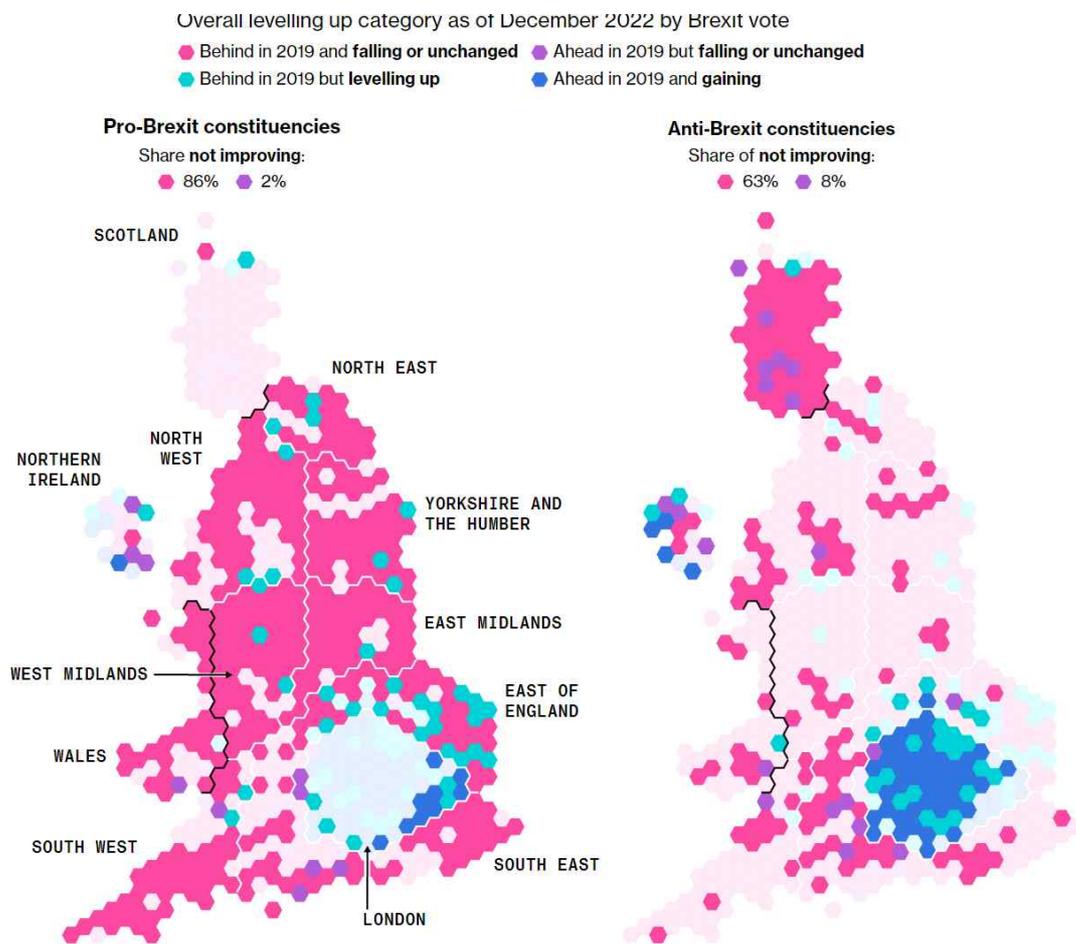
## 12-2. Still deepening regional disparity in England

Three years after the UK left the EU, most areas that strongly supported Brexit in 2016 have seen their living conditions worsen.

The vision of a more inclusive economy has vanished in these regions, which must catch up to their surrounding areas economically. Brexit still needs to deliver the promised economic benefits to these areas. Regions that voted for Brexit are notably behind the wealthy southern regions of the UK in terms of wages, productivity, crime rates, and overall public spending. However, in certain areas, such as foreign investment and transportation spending, the dominance of London and the southeast has slightly diminished (Wolf 2022).

Public opinion on Brexit is also changing. In June 2021, only 28% believed that the impact of Brexit would worsen, but by 2023, 45% held an opposing view. The UK is experiencing a severe economic crisis, including double-digit inflation, worker shortages, significant

Figure 16. Pro-Brexit areas more likely to be falling further behind London



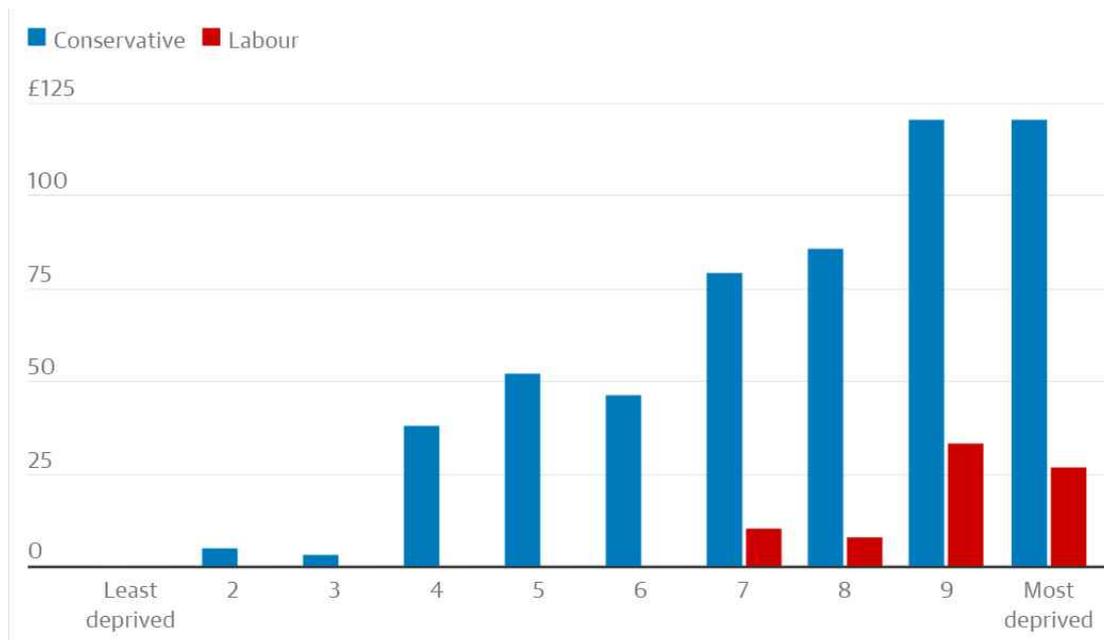
(Source: Bloomberg 2023)

deterioration in healthcare quality, and a decline in real wages. The Office for Budget Responsibility predicts that Brexit will lead to a 4% reduction in the UK's economic size in the long term (Milligan and Tartar 2023).

### 12-3. Arbitrary Allocation of Resources

Many local politicians need more support with the complex and cumbersome procedures as the funding rounds for levelling up progress. Local councils criticize the levelling up bidding process for wasting time and financial resources, and they argue that the outcomes are pretty arbitrary. The bidding process appears random on the surface, but it is criticized for actually favouring wealthy areas such as Cambridge, Buckinghamshire, and Canary Wharf.

Figure 17. Estimated per capita allocations for Tory and Labour seats, by deprivation decile



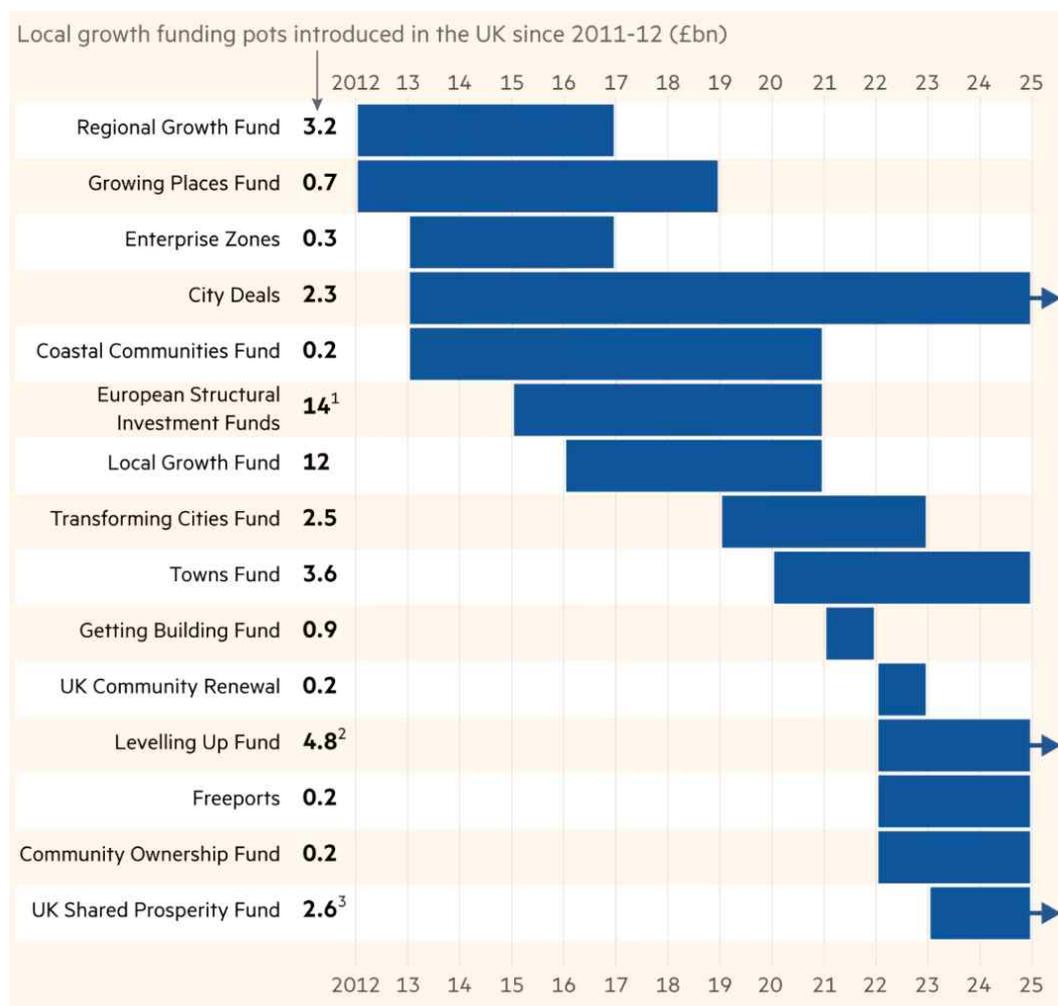
(Source: Guardian 2024)

Notably, the Town Deals funding has been criticized for its arbitrary allocation, as it has not been distributed to deprived areas but to council areas predominantly led by the Conservative Party. There is criticism that the levelling-up funds are influenced by political

considerations and prioritized for regions that support the Conservative Party. Ensuring fairness, transparency, and objectivity in the distribution of levelling-up funds is essential to minimize and restrain political considerations in the allocation process (Butler and Halliday 2024).

#### 12-4. The Need for Substantial Devolution of Power and Resources

Figure 18. Regional policy has consisted of a proliferation of small funds



(Source: ONS 2022, Financial Times 2022)

The advantage of the Levelling Up White Paper is that it includes thorough analysis, clear objectives, and sensitive policy measures. However, its disadvantage is that many goals are unattainable, and more resources are needed for the plans (Martin Wolf 2022). The Levelling Up White Paper aims to complete 12 missions by 2030. Nevertheless, the resources need to be expanded to achieve these goals. This report discusses the role of physical, human, intangible, and financial capital in driving growth. It shows that regional disparities in all these areas are significant and that these gaps are unlikely to be bridged by 2030 (Martin Wolf 2022).

Above all, substantial devolution of power is necessary to enhance local knowledge and accountability. Fiscal autonomy, in particular, is still in its early stages. Local governments should have the authority to set their taxes, including on commercial properties because the value of taxes reflects the quality of decisions. The central government or the Treasury still controls significant financial resources. A long-term and sustained devolution of powers is needed to reduce the persistent regional disparities in England.

The economic resources promised in the Levelling Up White Paper are small-scale funds with a complex array of funds. Local governments must be more efficient in an endless struggle to secure these complicated funds.

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