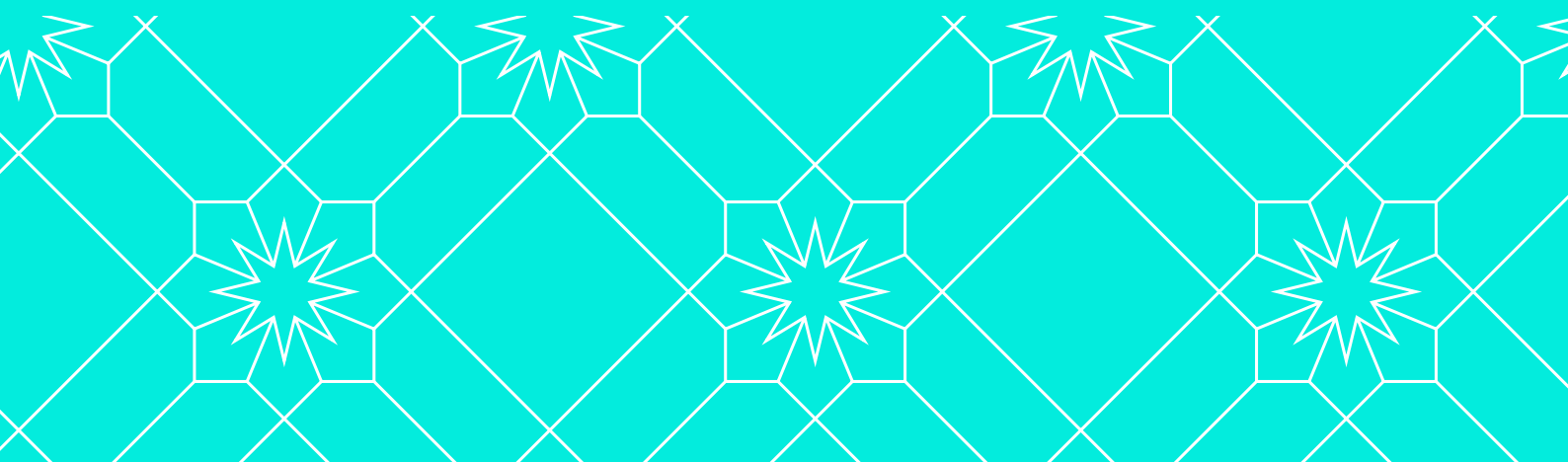


REGIONAL WEALTH GENERATION

Focusing on local wealth creation to level up the North

Jamie Driscoll | October 2021



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About the author

Jamie Driscoll is the Mayor of the North of Tyne Combined Authority (NTCA), which comprises Newcastle upon Tyne, North Tyneside and Northumberland – an area stretching from the River Tyne to the Scottish Borders. An engineer by profession, Jamie was elected Mayor in May 2019. This report is the Mayor's personal view, and is intended to contribute to the future of English devolution.



Foreword by Lord O'Neill

I have remained highly interested in the development of the North East economy, as well as policies to help enable it, as a result of my brief days as a Minister in the UK Treasury from 2015-16. I had responsibilities for negotiating the devolution deals under Cameron and Osborne, and the 'in principle' deal agreed with the, then, full newly formed, combined authority of the North East, was something I spent quite a bit of time trying to negotiate, and something I was proud of. I was greatly disappointed when the deal fell apart, and even more so, when the combined authority shrank to include purely those areas sitting North of the Tyne. Nonetheless, I really admired those that went ahead, and even though it was a number of years later, I was delighted when I read about the North of the Tyne deal including the elected mayor, as part of the agreement. Of course, the real question still was, what does this really mean for the area, and will it be followed by significant policy initiatives coming from the local area and with it, an agreed response, and even more importantly, would this be the opening to the beginnings of a reversal to the region's challenged modern economic affairs?

In this regard, and others, I am delighted to read Jamie's paper, as it includes many bold ideas, which no doubt will test the government and their true commitment to devolution. As is well known, but for those that are somehow unaware, it was not always the case, that the North East economy was so far lagging behind the average of the UK and London and South East especially. Jamie's paper highlights how it once was. Moreover, as opposed to so many that I have come across, who either think the region is a lost cause, and/or they are incapable of doing things differently, this paper shows that is not the case.

During the challenges of Covid-19, I became a public voice calling for regional equivalents of some so-called sovereign wealth funds, citing the example of Singapore's Temasek, as what might be considered around some areas of the UK, to try and provide more patient capital to help truly develop a new economy, with stronger productivity, higher incomes, higher shared wealth, and a better society, in the spirit of never letting a crisis go to waste. And I specifically called for the establishment of a Northern Powerhouse Growth Fund, that would have some of these characteristics. Given my belief in this, Jamie's proposal for a specific such fund for the North East is an idea that is easy for me to endorse, given the scale of the area's challenges, even within a Northern Powerhouse concept, and I hope it isn't dismissed out of hand, or even worse, ignored by Whitehall.

This centrepiece idea, along with some of his others, are exactly the kind of things that might be needed to get away from the discomfiting status quo of modern times, and I hope there is a constructive response. Of course, it is the case, that sovereign wealth funds typically exist for countries that run persistent balance of payments current account surpluses, and often, ones with high domestic savings, but there can be ways, such funds could be set up in the UK. It is also the case that it would truly make sense for the whole of the North East, and not just those areas north of the Tyne. And who knows, if this were the kind of idea that the government might consider, the others, south of the Tyne might return to the bold fold, so to speak. Anyhow, I wish Jamie and his team well with the paper and hope Whitehall is more open minded than it has often seemed in recent years.

Baron O'Neill of Gatley is a British Economist and former Conservative Minister. He is Chairman of Chatham House and an Honorary Professor of Economics at the University of Manchester.

Executive summary

The answers to the economic problems of the North East lie in generating more wealth here. This will result in a virtuous circle of reducing health and skills inequalities which, in turn, will lead to greater prosperity.

But wealth generation depends upon the freedom to innovate. This should not be limited to the private sector. Whole swathes of services and infrastructure are run or administered by local, regional, and national government. Too often, they don't coordinate well. Funding mechanisms and convoluted lines of accountability disincentivise both long-term strategic action, and agile innovation.

Competitive bidding, in particular, damages local accountability, strategic planning, and worst of all, local agency. It reinforces the belief that Westminster is both the cause of – and the solution to – regional inequality. You cannot level up the North from Whitehall. I repeat: you cannot level up the North from Whitehall.

Nor can regional economic inequality be addressed by raising taxes locally. The unevenness of the tax base would just exacerbate the inequality.

This report proposes fiscal innovations as supplements, or alternatives, to fiscal devolution.

Mayoral combined authorities would gain these fiscal mechanisms:

- A regional wealth fund to boost SME growth.
- Earnback from payroll taxes to incentivise job creation.
- Invest to save to front load investment, paid for by downstream savings.
- Land value uplift to accelerate transport infrastructure investment.
- The establishment of a levelling up board at the level of the mayoral combined authority, chaired by the mayor, with representatives from each domestic government department.

This is a win-win. It pays for itself. It creates incentives for stronger regional leadership. It grows the national income. It reduces pressure on public services. And it improves the lives of our citizens.

I urge the government to include these measures in the Levelling Up White Paper.

“The reason progressives often lose the argument is that they focus too much on wealth redistribution and not enough on wealth creation”.

Mariana Mazzucato

Introduction: what's the problem we're trying to fix?

The North East is a wonderful place to live. The people are friendly and hard working. The landscape is beautiful, our heritage impressive.¹ We have world-leading industries. But let's not sugarcoat the truth. Our productivity is too low,² and our healthy life expectancy is the worst in England.³ Widespread deprivation⁴ goes hand-in-hand with the lowest levels of asset ownership.⁵

Too often, our energetic and talented people reach a point in their careers where they have to leave our region. Too many others come from backgrounds lacking financial and social capital.⁶ Without a good start in life, their potential goes unfulfilled.

The reason is simple: long-term under-investment. Investment in businesses, investment in infrastructure, and investment in our people.

This is what devolution must fix. **Our region needs investment, and productive people.** People are only productive, in the sense of a modern economy, when they are happy, healthy, and have the skills to contribute. Everything else flows from this.

The solution is to make the North of Tyne a powerhouse of wealth generation.

I do not want to keep going to central government like Oliver Twist, forever saying, "please sir, I want some more". We need to move to a financially stable North of Tyne, with its own resilience hard-wired in. That means up-front funds to overcome the generations of under-investment in our region, in order to build ourselves up to a point where we can thrive. Even more important are the powers we need to reach that point of self-sustainability.

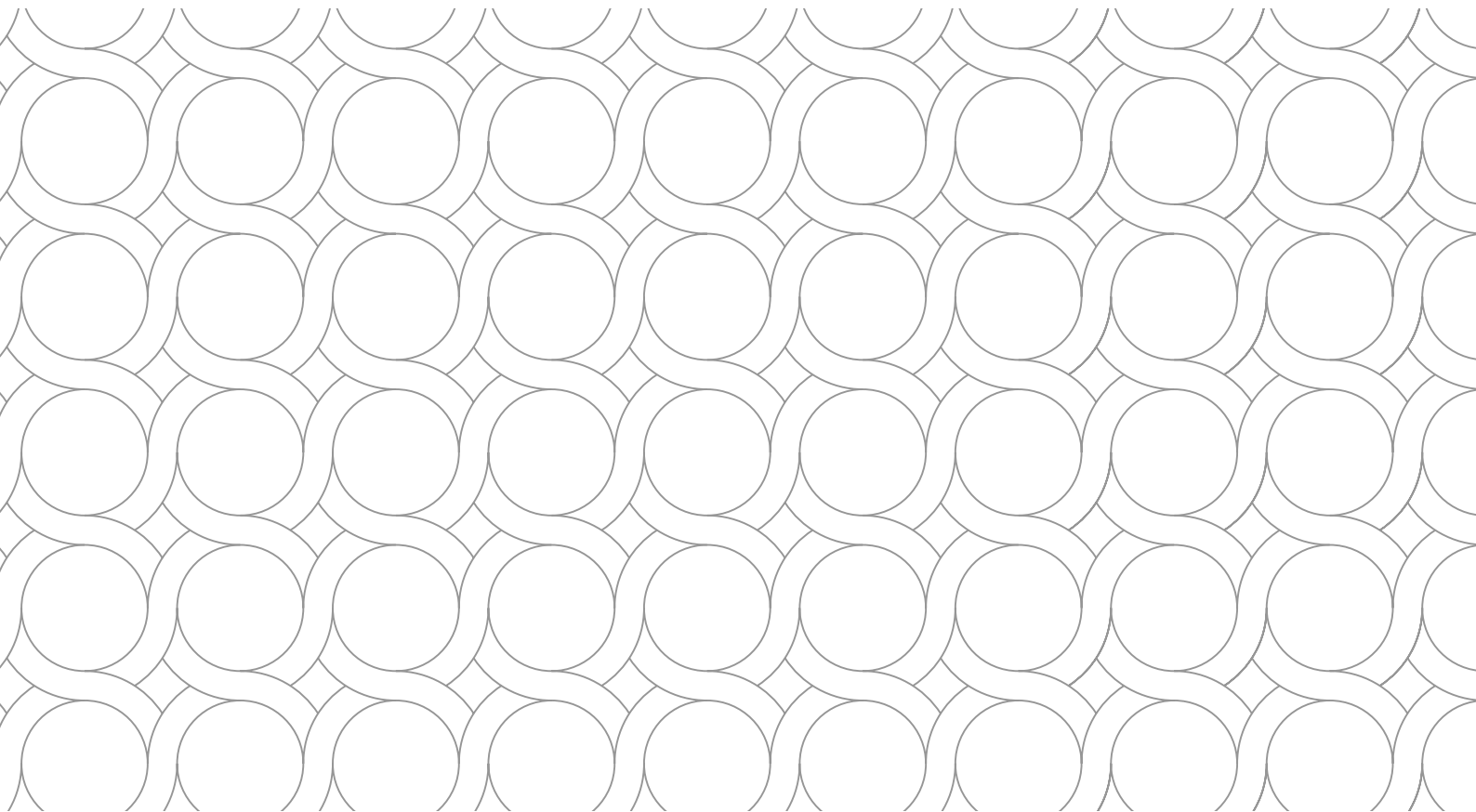
“Never stand begging for that which you have the power to earn”.

Miguel de Cervantes

- 1 The electric light bulb, passenger railways, and renewable energy were all invented in the North East.
- 2 Mackenzie S. (2021) Regional labour productivity, including industry by region, UK: 2019. Office for National Statistics. Available at: www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/regionallaregionallabourproductivityincludingindustry/2019 [Accessed 14 October 2021].
- 3 Corris, V, Dormer, E, Brown, A, Whitty, P, Collingwood, P, Bamba, C and Newton, JL. (2020) Article Navigation Health inequalities are worsening in the North East of England. British Medical Bulletin, [e-journal] 134(1) Available at: Oxford University Press website www.academic.oup.com/journals.
- 4 North East Child Poverty Commission (n.d.) Facts and Figures. [online] North East Child Poverty Commission. Available at: www.nechildpoverty.org.uk/facts/.
- 5 Kidd, C. (2019) Total wealth in Great Britain: April 2016 to March 2018. Office for National Statistics. Available at: www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018.
- 6 Pidd, H. (2021) Dire poverty in north-east England 'driving many more children into care'. Guardian.co.uk Society blog, [blog] 28 July. Available at: www.theguardian.com/society/2021/jul/28/shameful-levels-of-poverty-in-north-east-of-england-driving-rise-in-child-protection-cases [Accessed 14 October 2021].

There is not one of these problems that cannot be fixed with a combination of political will and investment. This report makes the case that the investment is already there to be found. The remaining ingredient is political will. I'm standing ready to make the North East an economic powerhouse. Our regional partners are on board.⁷ Business is on board.⁸ My Cabinet colleagues – from across political party lines – are on board. We want central government to join us.

This is about breaking the mindset that the North is inevitably poor. I'm not asking for fish. I'm asking for a fishing rod.



7 Our 2020 CSR submission has the backing of every regional business group, local authority, our universities and Local Enterprise Partnership.

8 Confederation of British Industry (n.d.) Boost regional growth and add £200bn to the economy [online] Available at: www.cbi.org.uk/our-campaigns/boost-regional-growth-and-add-200bn-to-the-economy/ [Accessed 14 October 2021].

The North was rich – and can be again

A narrative has developed that the North has always been poor, the South has always been rich, and that is a natural state. It's not true. Throughout the 19th and early 20th centuries, the North East had a higher GDP per person than the South East, South West, West Midlands, and Yorkshire and the Humber. It is only London that has been consistently wealthier, as the centre of a global empire, seat of national government, and nexus of public and corporate headquarters.

For more than a century, the North East was a dynamic contributor to the UK economy, and a major source of wealth generation, averaging above 90 percent of UK GDP per capita. Then, in the early 1980s, the disinvestment in the North East economy began. From 93 percent in 1981, our GDP per capita has plummeted to 73 percent by 2017. No other English region has suffered this decline.

Figure 1: GVA per capita in the North East of England, as percent-age of the UK average, 1871-2017

	1871	1911	1981	2001	2007	2017
North East	91.5	89.5	92.9	85.5	75.2	73.1

Sources: Pike, A et. Al. (April 2019). The North of Tyne Metro Mayor: an office without power? Table 3; ONS (2019). Regional activity by gross value added (balanced), 1998-2017). Available at: www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/latest

The reduction of industries such as coal mining can now be seen as inevitable, considering climate change. But the failure to invest in research and development (R&D) and industrial strategy, to create alternative jobs, was simple negligence. And while it is the people of the North East who suffer directly, the whole of the UK is missing out when one of its cylinders isn't firing.

In the same period (since 1981) there have been 51 government interventions to attempt to boost local growth.⁹ Not one has succeeded in reversing this decline.¹⁰ In parallel with relative economic decline, we have seen rising poverty, health and educational inequalities, and a decline in public transport. These negative social outcomes are both cause and effect. Worsening relative health and education lead to lower GDP per capita, and lower GDP per capita leads to worse health and education, and lower employment, because there is less money circulating in the region.

⁹ See page 18, Levelling up board.

¹⁰ For more information see: cstudies.org.uk/repository/why-dont-they-ask-us-role-communities-levelling

“Money does not buy you happiness, but lack of money certainly buys you misery”.

Daniel Khaneman

The North East as a high-wage economy

Brevity is the soul of wit. I shall not repeat the compelling arguments made by many eminent people, including Sir Michael Marmot,¹¹ and institutions, including the Joseph Rowntree Foundation,¹² the UK 2070 Commission,¹³ IPPR¹⁴ and so many others.

Suffice it to say, there is ironclad evidence that health, education, housing, transport, and secure well-paid work are all pieces of the same jigsaw, and improvements in one will cascade into improvements in the others. It's a circle, and we can leave it vicious, or make it virtuous.

The moral case to improve people's lives is undeniable. But so is the economic argument. Unfulfilled human potential costs us all.

We can describe it in economic terms: low labour productivity, low GDP per capita, low asset ownership. Or in human terms: x years of ill health, y number of children growing up in poverty, z numbers of people with no savings or assets.

Regardless of how we describe the problem, the solution is the same. We need the people in the North East to have a higher real income. And the only financially sustainable way to do that is to generate – and retain – more wealth in the region. We're talking about full employment in secure jobs, paying decent wages. This requires and supports a better transport system, higher levels of skills and education, healthier lifestyles, and affordable, secure homes.

It requires an economic model where there's a job for everyone who wants one, and where the wages are high enough to live a life of contentment. That includes sectors traditionally regarded as low-paid, including social care, hospitality, distribution and retail workers. We must focus on improving the foundational economy with just as much energy as on the high-productivity sectors of digital and manufacturing. This includes digital adoption in the foundational economy, providing more skills training and professionalisation, so the workforce becomes more valued and better paid, resulting in lower staff turnover and higher productivity.

And we are succeeding on both fronts, but not at the pace that is needed to close the gap any time soon. I was elected just two years ago, and already the North of Tyne has attracted global firms that practice what they preach,

"I don't pay high wages because I'm rich. I'm rich because I pay high wages".

Robert Bosch

11 Professor Sir Marmot, M, Allen, J, Boyce, T, Goldblatt, P, Morrison, J. (2020) Health equity in England: The Marmot review 10 years on. [online] Institute of Health Equity. Available at: www.health.org.uk/publications/reports/the-marmot-review-10-years-on [Accessed 14 October 2021].

12 The Joseph Rowntree Foundation (2020) UK Poverty 2020/21. [online] The Joseph Rowntree Foundation Available at: www.jrf.org.uk/report/uk-poverty-2020-21 [Accessed 14 October 2021].

13 UK2070 (2020) Make no little plans: Acting at scale for a fairer and stronger future. [online] UK2070. Available at: uk2070.org.uk/2020/02/26/uk2070-final-report-published/ [Accessed 14 October 2021].

14 Johns, M, Lockwood, R, Longlands, S, Qureshi, A, Round, A. (2020) State of the North 2020/21: Power up, level up, rise up. [online] Institute for Public Policy Research. Available at: www.ippr.org/research/publications/state-of-the-north-2020-21 [Accessed 14 October 2021].

and train and develop workers to have careers. We are creating jobs in key sectors of offshore renewables, clean energy technology, zero-carbon automotive, digital, and healthy ageing and life sciences. We have programmes supporting SMEs by the hundred, investing in innovation, digital adoption and job creation. We're supporting freelancers in the culture and creative sectors.

This new economic model for the North East must be built on a green economy. Wealthier people need not consume more of the Earth's resources or emit more greenhouse gasses. Our wealth can be spent on art, leisure, entertainment, PassivHaus homes and ultra low-emission transport. We can build a wellbeing economy.

Already we are gaining a reputation as a phoenix – our green economy born out of our high-carbon past. But sustaining it requires investment.

There is no road to prosperity that does not travel through Skillsville. Education and qualifications correlate with earnings and productivity. That's why we tell our children to work hard and stay in school. But the maintenance of a skilled workforce means dealing with skills leakage, from both staff turnover and geographic displacement.

A third of all teachers leave the profession within five years.¹⁵ Data is most easily defined in public sector jobs, but the pattern is repeated with chefs, welders, technicians and pretty much all skilled jobs,¹⁶ and is endemic in unskilled jobs.

Skills must absolutely mesh with industrial planning and investment strategy. Industry and commerce must be involved, but a holistic approach is needed, starting with formal education in school and university. This necessitates devolution to democratically accountable public bodies, which work on the level of the functional economic area – such as mayoral combined authorities.

We need a greater share of national R&D spent here. We need a greater share of transport spending here. We need to restore financial sustainability to our local authorities. We need funding for an education challenge to level up our schools.

We have a key role to play in Britain's success. We are the region that connects Scotland to England, and whatever the future may hold, that cannot change.

The prize is being a first mover for the future economy. Leading the way in a zero-carbon, digitally connected, high-wage, global Britain. Where our quality of life is so high, and our economy so successful, that young people want to move here, and stay here, to build their future.

These are not new arguments. What is new in this report is how to structure their delivery.

15 GOV.UK, 2021. Reporting Year 2020: School workforce in England. GOV.UK. [online] Available at: explore-education-statistics.service.gov.uk/find-statistics/school-workforce-in-england#releaseHeadlines-dataBlock-1 [Accessed 14 October 2021].

16 Office for National Statistics, 2019. Employee turnover levels and rates by industry section, UK, January 2017 to December 2018. Office for National Statistics. [online] Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/dhocs/10685employeeeturnoverlevelsandratesbyindustrysectionukjanuary2017todecember2018 [Accessed 14 October 2021].

The North of Tyne Combined Authority

The North of Tyne Combined Authority was established two years later than most of England's other mayoral combined authorities (MCAs). I took office in May 2019, and we have built a new organisation from scratch. It was January 2020 before my senior management team was in place. Three months later we were into the Covid-19 pandemic. Yet, despite this, we have excelled.

The NTCA has one primary target from government: create 10,000 jobs over 30 years. In two years, we should have 667 jobs in the pipeline. The actual number is 4,196¹⁷ in the pipeline so far. With a further 2,655 jobs safeguarded through the pandemic. Our Green New Deal is operational; we've brought global corporations here, we've boosted local micro-businesses and are directly tackling child poverty. We get £20m a year core budget, yet have already leveraged another £246m from the private sector and other partners.

We're fast, agile and collaborative. Our running costs are just 7 percent of budget – extraordinarily low overheads for any complex organisation. We received notice of our Brownfield Housing Fund in July 2020 – £24m of ring-fenced funding from Treasury – and had a pipeline of projects developed, and spades in the ground, before Christmas. I met with one regionally based global vice president in early 2020 just before the pandemic, to discuss the potential of an exciting new R&D project. She said her colleagues had told her, “don't waste your time talking to government, nothing will happen for years”. Within months of our discussion, the project was up and running, a research centre developing real world, climate-friendly products, employing locally based scientific and technical staff, procuring from local supply chains.

We're leading the way on the low-carbon economy through direct investment and strong cross-regional collaboration. Directly investing in offshore wind and renewables, with sites, portside infrastructure, and product development. Improving productivity by investing in digital skills and helping SMEs with digital adoption. Establishing a start-up and scale-up fund for life-sciences start-ups. Working with Britishvolt to build the UK's first 'gigafactory', which will decarbonise Britain's vehicle fleet, and be a huge exporter. We're finding the way to get to net zero without blowing up our economy along the way.

We're bringing people with us – our citizens' assembly on climate change is just one of the ways we are directly engaging citizens, businesses and civil society, and strengthening democratic decision-making.

Quick progress is enabled by the long-term, flexible nature of our funding. When funding comes in time-limited, competitive bidding rounds, strategic action is simply impossible. Competitive funding comes with so many rules and restrictions that localities can't use their common sense.

¹⁷ Figures accurate as of July 2021.

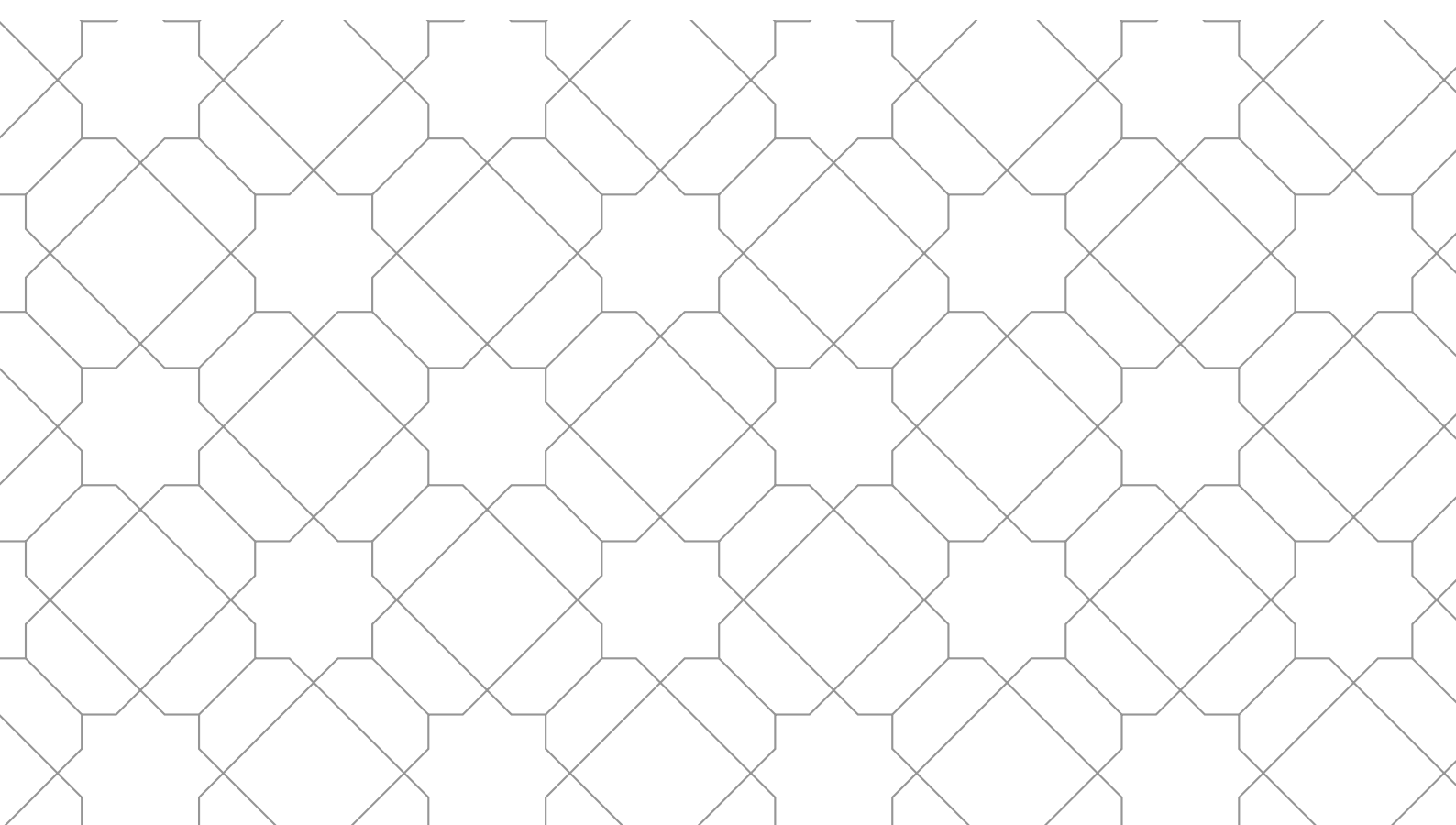
“We know devolution works in practice, but will it work in theory?”

Anonymous

For example, many people's biggest barrier to cycling is the lack of a shower at work. Yet we're often only allowed to invest in tarmac and street furniture.

If the North of Tyne was a branch of a global corporate with this track record, HQ would be pouring investment into us.

The public supports MCAs too. It is a myth that the public doesn't want English devolution, a view largely based on one single event – the 2004 North East referendum. What the public rejected then was a vague offer, presented as an extra layer of government, with an extra layer of politicians, based on party lists, with no clarity on the powers, or funding, available. Contrast this with a single mayor, directly elected, and personally accountable. In the run up to the 2021 May elections, 83 percent of people wanted their metro mayor to have additional powers.¹⁸ The electoral success of combined authority mayors in May 2021, able to point to their track record, has settled the argument: people want strong devolved leadership for their areas.



18 Centre for Cities, 2021. What do the public think about devolution and the metro mayors? Centre for Cities. [online] Available at: www.centreforcities.org/data/what-do-the-public-think-about-devolution-and-the-metro-mayors/ [Accessed 14 October 2021].

Where will the money come from?

The first ports of call for all policy solutions are the perennials: raising taxes and borrowing money. There is a case to be made for both at the right time. Maslow's adage is known as the 'law of the instrument'. It succinctly reminds us that our familiarity with previous solutions can make us blind to new ones.¹⁹ This bias is amplified if you are designing macro-solutions from a centralised authority.

Regional wealth generation looks at fiscal innovations around:

- Increased economic activity.
- Reducing the burden on public services.
- Re-allocating money currently spent inefficiently.

“If the only tool you have is a hammer, every problem looks like a nail”.

Abraham Maslow

Fiscal innovations vs fiscal devolution

Fiscal innovations seek to raise revenue without increasing taxes on local populations. The uneven nature of the UK economy makes this essential if we are to level up.

In theory, combined authority mayors have the power to add a precept to the Council Tax. In practice, this requires the approval of the local authorities in their areas, which has not always been given. As well as being an unreliable source of revenue – not to mention politically controversial – it is also a regressive tax. The tax bases are highly uneven across England. The business rate base in London is £940 per capita. In the North East it is £300 per capita.

Other taxes have been suggested: air passenger duty, hotel bedroom taxes, sugar sales taxes, and congestion charging, to name but four. There is merit in some versions of these taxes, in some circumstances, and they should be explored. If given the power to levy a hotel bedroom tax, for example, I would ring-fence it and expand our existing festivals programme. This boosts domestic tourism – more environmentally sustainable than flying abroad – creates year-round jobs, and deepens our region's cultural vibrancy.

But local taxes are not game changers, being either small in scale, highly uneven across England, or Pigovian.²⁰ Relying on local taxation will just widen the regional inequalities.

Let's look at some specific fiscal innovations that will work for a region like North of Tyne

¹⁹ I'm certainly not the first person to advocate fiscal innovations, but it is still a minority opinion. I'd urge you to be an innovator.

²⁰ Designed to tax undesirable behaviour, and therefore if successful, will raise less revenue as behaviour changes.

Regional wealth fund

Sovereign wealth funds, such as Norway's or Saudi Arabia's, are huge investors across the world.

I propose a parallel concept, intended to irrigate the North of Tyne economy. Capital markets in the North East are undeveloped compared to London, and start-ups and SMEs in particular often have access to nothing other than overdrafts.

Rather than reinvesting surplus savings around the world, as a sovereign wealth fund does, a regional wealth fund would directly invest in North of Tyne businesses. The aim would be to both grow the fund and stimulate local economic growth.

A fund of sufficient size will be able to shape market outcomes. With rules on sustainable investment – including employment standards in line with the North of Tyne Good Work Pledge, a regional wealth fund will improve social outcomes by means of job creation.

With the power to borrow at, or close to, base rate, a regional wealth fund of £500m could be established to create 14,000 jobs.²¹ Investing in SMEs, commercially viable CICs,²² and cooperatives based in the North East on a commercial basis, it would offer both debt and equity.

Run by professionals, with a remit to invest with sound commercial returns, the fund would be self-sustaining at a minimum. Previous EU funds were successful, despite their limited time horizons, which prevented them from taking advantage of the growth of companies, and the complexities around European funding in general.

If paired with mayoral development corporations (MDCs), bringing underused public land back into productive use, the fund would see considerable returns.

At present, MDCs are geographic zones, intended to regenerate specific, tightly bounded locations. MDCs have merit but would benefit from greater flexibility. It is not just huge, former industrial sites that need regeneration. It can be a row of three or four shops. It can be a few derelict houses. It can even be the upper floors along a high street.

A major advantage of a geographically flexible MDC, which could add individual properties with minimal administration, is that it stops displacement. While enterprise zones (EZs) have enjoyed some success, a third of the jobs 'created' were the result of displacement.²³ Indeed, it is city centre EZs that create most jobs. Rural areas and towns need the flexibility to operate on a small scale. A mayor should require nothing more than the approval of the local authority, in whose area the property lies, to add it to an MDC.

A regional wealth fund will, literally, empower people to help themselves.

21 Calculated by extrapolation of the current North East fund.

22 Community interest companies.

23 Swinney, P. (2019) In the zone? Have enterprise zones delivered the jobs they promised? [online] Centre for Cities. Available at: www.centreforcities.org/reader/27856-2/27865-2/ [Accessed 14 October 2021].

“If you want to get rich, remember that the way to do it is via equity, not salary”.

Sam Altman

Box 1: Ask from government

Government should:

Expand the powers of the mayoral development corporations to explicitly include the ownership of equity stakes in local businesses.

Allow mayoral development corporations the flexibility to add land and property to their scope, so small-scale regeneration does not fall through the gaps.

Allow borrowing at, or close to, base rate for regional wealth funds in areas where GDP per capita is low.

Earnback

Creating new jobs is the single most important function of MCAs. It's worth noting that these are not hypothetical figures, indirect jobs, or multipliers. The NTCA, like other MCAs, has a very strict mechanism in place. In order to count, a job has to be an actual full-time equivalent job, held for over a year by a real person,²⁴ and the project has to be shown to have needed our intervention to succeed. All this information is held, ready for a gateway review process with HM Treasury (HMT). So these are real figures, not political spin.

But whatever our level of success, we do not gain any additional funding. The median salary in the North East is £27,856.²⁵ This yields £3,055 in income tax, £2,195 in National Insurance (NI), and £2,624 in employers' NI, for a total payroll tax take of £7,874²⁶ per year, per job created. Multiply that by the 4,196 jobs we're creating, and that comes to £33,039,304 per year returned to Treasury.

The average lifespan of a job is hard to predict, but at a very conservative estimate of five years, each job returns £39,370 in direct taxes alone to HMT, not including benefit savings. On this basis, our job creation is returning £165,196,520 from a total investment fund commitment, across all projects, of £68,440,000.

The North of Tyne investment fund is £20m per year. It helps support existing businesses, creates indirect jobs, and has safeguarded 2,655 jobs in addition to those being created. Whatever methodology is used, the NTCA represents astonishingly good value for UK PLC.

I propose an earnback deal. In addition to core funding, give the North of Tyne the equivalent of the first year's payroll taxes and benefit savings for the jobs we create, and half of the second year's. HMT keeps everything thereafter, likely 70 percent of payroll taxes over the employment lifetime, plus all other direct and indirect taxes. It's a good deal for UK PLC, and a good deal for the North of Tyne.

²⁴ The personal data is, of course, anonymised.

²⁵ Statista, 2020. Median annual earnings for full-time employees in the United Kingdom in 2020, by region figures. Statista. [online] Available at: www.statista.com/statistics/416139/full-time-annual-salary-in-the-uk-by-region/ [Accessed 14 October 2021].

²⁶ NI figures accurate as of July 2021.

“It is better
to have a
permanent
income
than to be
fascinating”.

Oscar Wilde

The mechanisms of tax collection and benefit payments would remain unchanged, via HMRC and DWP. It would operate as a claim-back system, and so be very simple to administer. It would require no legislation. The claim-back would match the actual jobs created, at the actual wages paid, and so incentivise real world delivery. By including actual benefits saved, it incentivises and empowers the MCA to find jobs for unemployed people, and to lift those plagued with in-work poverty into higher paying jobs.

Of course, job creation has greater economic benefits than just increasing payroll taxes. Reducing unemployment simultaneously reduces pressure on public services, increases economic activity and indirect taxes such as VAT. There are many actors involved in creating jobs. But the earnback mechanism has some unique advantages.

It hardwires collaboration. The incentives to leverage investment are no longer simply political – the ability to tell a good story at the next election. MCAs are directly rewarded for leveraging private sector investment into job creation. The mechanism enables MCAs to invest with ambition, knowing there is an income stream to repay success.

This solves a political problem caused by devolution to the English regions – the feeling of loss of control from the centre. No one is getting a blank cheque. My MCA would get an income stream we can plan against, one that incentivises the one objective that every government has in common: economic prosperity.

Earnback should be piloted in the North of Tyne, and if successful, rolled out across other devolved English regions. The very worst that can happen is that government gives money to mayoral combined authorities that have successfully created jobs, and increased central tax revenues. The rate of earnback can be increased for areas with lower median wages and economic prosperity. It's a mechanism of levelling up with no downside.

Box 2: Ask from government

Government should agree an earnback deal with the North of Tyne Combined Authority as a pilot to incentivise job creation that targets high-wages and getting those on benefits into well-paid work.

Invest to save

The UK spends more each year on the treatment of obesity than it does on the police, fire service, and judicial system combined. By 2050, Public Health England estimates obesity will cost the UK £49.9bn per year.²⁷ Per capita, that's £1,650m for the North East transport area. Our total annual transport budget is £160m. Crime costs £750m a year in the same area.

The same pattern occurs with lower education attainment and low-paid parents. Insecure work causing health inequalities. Low investment in infrastructure strangling economic growth.

If you look at the UK as a whole, public expenditure and public benefit operate pretty much as a closed system without leakage. Put simply, if spending on education unintentionally improves health, years down the line, which then results in fewer hospital admissions, the country as a whole benefits – financially as well as socially.

On a departmental basis, though, the benefits are hard to measure. If the Department for Education is spending money on health education, it's the Department of Health that sees the savings years later. In the meantime, whoever is the education secretary will face political pressure to prioritise exam results or PISA rankings.²⁸

Most health and social outcomes are multi-factorial, and it is hard to prove a direct causal link between a specific policy and a specific outcome. Further, the benefits tend to accrue decades after the expenditure. When the Department for Transport improves health by investing in public transport, walking and cycling, the savings come from the Department of Health and Social Care. The savings from crime reduction caused by better educational attainment accrue not to the Department for Education, but to the Home Office.

We've had nine Prime Ministers over the last 50 years, an average of five and a half years each. The tenure of ministers is even shorter. Devising, approving and delivering national projects inside that timeframe is Sisyphean.²⁹ Hence, ministers are under pressure to prioritise the short-term over the long.

This concept is not news to policy makers. It is well understood that spending on education reduces crime, or spending on public transport improves health outcomes. The challenge has always been administrative, not conceptual. How can we devise a system of administration that both promotes, and rewards, long-term thinking?

Previously, social impact bonds (SIBs) have been tried. A commissioning body (typically public) offers a bond, which is only repaid if the outcomes are achieved. For example, a public body could offer to pay £2m if a £1.25m scheme to reduce reoffending is successful, and nothing if

“An ounce of prevention is worth a pound of cure”.

Benjamin Franklin

27 GOV.UK (2017) Health matters: obesity and the food environment. [online] Available at: www.gov.uk/government/publications/health-matters-obesity-and-the-food-environment/health-matters-obesity-and-the-food-environment--2 [Accessed 14 October 2021].

28 The Programme for International Student Assessment. A kind of education league table for countries.

29 Sisyphus was condemned to push a boulder up a hill for eternity, and every time he almost reached the top, it would roll back down and he had to start again.

the scheme fails. The investor takes the risk, and appoints the service providers. If the scheme succeeds, the commissioning body gets its desired outcomes, at a known cost. The body knows what they're signing up for, and have determined in advance it's fair value for money.

A clever idea in theory, it comes with an obvious conflict of interest: the delivery partner has an incentive to exaggerate success, and the commissioner has an incentive to underpay. In practice, this leads to a heavy overhead of measuring and monitoring, and legal costs. As such, government guidance states that SIBs are most appropriate where outcomes are directly measurable and attributable, and savings are cashable. Additionally, the transactional nature means that there is no long-term development of a motivated, skilled workforce of public service professionals.

Public service challenges with complex determinants, such as obesity, and a propensity to crime, rarely have a simple cause and effect relationship. Programmes that have beneficial effects often create most of their benefits through multiple positive externalities. In other words, if you want to fix complex problems, you need to allow flexibility at the coal face.

One solution would be to devolve all funding of all public services to the North of Tyne area (and its authorities), along with all tax revenues. There would be no need for a mechanism. We would automatically benefit from savings. If we spent money on transport to reduce the burden on the NHS down the line, it would be our budget, and we'd see the savings. However, that is independence by another name, and there is a less radical option available.

Note, this does not require the delivery of health, education or other services. It is a mechanism to incentivise positive externalities from one category of service to reduce costs to another. At present, the case for investment in better public transport rests on Green Book methods of proving economic growth. Invest to save makes the calculation and defrayal more accurate, by taking into account, for example, the externalities of health benefits from investment in healthier transport.

Targets and stretch targets

It may prove unfeasibly difficult to reconcile the benefits of policy programmes and attribute costs to different departments, but we don't need to.

We can calculate, with a reasonable margin of error, the benefits we would expect to see, by extrapolating from pilot projects and other research evidence. It's then a matter of negotiation between an MCA and central government, to develop a programme that has specific, measurable targets, and put a price on the benefits. An MCA should develop an office of data analytics to monitor the programmes.

For example, if we were to get 10,000 people to switch from car ownership to travelling by public transport, walking and cycling, we could compute the downstream savings to health, climate damage, and wellbeing. The MCA would then claim the calculated amount if – and only if – it delivers the results.

We would also set a stretch target. One that is not attainable by current methods. This would accrue a higher level of payment, and thus encourage innovation and investment. An MCA would thereby be incentivised to borrow to invest, knowing there was a revenue stream against which it could repay the capital.

In effect, we're buying outcomes. The outcomes are defined, everyone knows the parameters up-front, and they're only paid for when they are achieved. It opens up a level of entrepreneurship that is otherwise impossible. No one other than the state would, or could, intervene in this way. And frankly, it's the only way we're going to hit net zero in the timescales we have, without a large increase in direct taxation. Let's unleash the potential of our mayoral combined authorities to solve our collective problems in ways tailored to individual regions.

For example, invest to save would enable MCAs to develop a more complex and realistic funding model for public transport. By adding the invest to save income stream to fare box and other traditional economic uplifts, we can pay for the necessary investment to achieve a world class, affordable public transport system.

Rather than paying to treat ill health, we can use this mechanism to prevent it, and gain better transport into the bargain. Transport is just one example. Recidivism, early years education, and housing improvement all have parallel examples.

Invest to save has the advantage that it requires no legislation to implement.

I may be the first politician ever to publish this phrase, but it is the accountants who will save us.

“Money is like muck – not good unless it be spread”.

Francis Bacon

Box 3: Ask from government

Government should begin negotiations with the North of Tyne to develop targets and stretch targets for an invest to save pilot at scale.

Land value uplift

The 2013 London Finance Commission (LFC), under then Mayor Boris Johnson, recommended land value uplift as an ideal method of funding infrastructure improvements. The reprised Commission in 2017, under Mayor Sadiq Khan, reached the same conclusion.

Where the public builds new transport infrastructure, for example a metro extension and stations, the value of the surrounding land will increase markedly.

Homes within one kilometre of a station increase in value, proportionate to proximity. The uplift can be many tens of thousands of pounds per property.

Housing density is typically 40 homes per hectare, meaning that up to 20,000 homes could gain some uplift from a station. In practice, this would be lower, but the LFC's calculations show that transport schemes costing £36bn could produce land value uplifts of £91bn.

Although land values are higher in London, schemes are also more expensive than they are in the North of Tyne. The two factors cancel out somewhat. In the North of Tyne alone, there are many schemes that could become self-funding. Clearly, there is a net economic benefit for all parties – developers, transport authority, residents and Treasury – to bring such schemes forward.

In areas of established housing, charging would not apply to existing residents until they sold their homes. Since the residents are benefiting from the public investment, and are getting the extra cash from the sale, they are not out of pocket.

The charge would apply directly to new-builds at the point of sale. This is equitable, because the new buyer is making an informed decision based on fair market prices. Landowners such as farmers or developers would see the value of their land rise and, if they sell, would pay back only what they got for free. And if the land value doesn't rise, they pay nothing – it's a charge only on the uplift attributable to the public investment.

In practice, to keep public support, the charge would be a margin below the full uplift attributable, so the homeowner would keep, perhaps, 10 percent of the free increase in value.

In other words, no existing homeowner or landowner loses a thing. They get a free uplift in the price of their property, and when they come to sell, they pay back most of what they got for free. In the meantime, they enjoy the amenity.

The calculation and collection of the uplift is comparatively simple to administer, compared to most taxes. And it has an obvious connection to the benefits received, and so is considered a very fair tax. It would require legislation, and the establishment of a fair valuation system, but beyond that is easy to implement. It could be introduced as an annexe to any finance paper going through Parliament.

“As long as people and institutions are allowed to profit from land at the expense of other people, we’re enabling a system that incentivises the destruction of our own habitat”.

Martin Adams

Regional transport authorities, such as mayoral combined authorities, are the level at which these powers should sit. The transport schemes can be matched with local development and industrial plans. A strong mandate, and accountability, gives the plans credence, and the regional footprint is large enough for strategic planning.

Box 4: Ask to government

Government should draft legislation to implement land value uplift as described in the 2013 London Finance Commission report, when Boris Johnson was Mayor.

Levelling up board

National government has a mandate to set the objectives of national policy, but it will be delivered better in partnership with regional government and local government partners.

In a system as complex as a nation state, decisions need to be iterative, agile and made close to the location of delivery. Algorithms and national policy frameworks have their value, but local knowledge is essential for optimal outcomes.

Since 1981, there have been 51 programmes or interventions to boost local growth (see Figure 1). None has succeeded in arresting the growing regional economic inequality. Although many of these programmes had an internal coherence, they were unable to mesh with existing institutions, relationships and the way life works on the ground. With the 20/20 vision that hindsight brings, many people now see this as inevitable. Most of these interventions were short-term and dependent upon ministerial patronage.

This is why political devolution is a prerequisite for narrowing economic and social inequality. When funding is discretionary, when an organisation's very existence can be ended at the stroke of a ministerial pen, a chief executive of a quango will shy away from ruffling political feathers. Truth will not be spoken to power. Nor can any appointed official convene with the same authority as an elected mayor with a personal democratic mandate.

Advocacy is a foundational principle of both justice and democracy. Technocratic solutions have been tried, and many have failed. We need people who stand up for their region, and who are independent of central patronage. This is what mayors bring. In short, they fight for their region, not for the centre.

To accrue the full benefits of local and national investment, public and private, requires coordination. In the UK, and particularly England, the overwhelming majority of public investment is controlled by central government departments. They set policy frameworks, high-level objectives and, crucially, hold the purse strings. The business of delivery

“There are
three rules
for writing
a novel.
Unfortunately,
no one knows
what they are”.

W Somerset
Maugham

is sometimes delegated to national agencies and local government. But it is rarely devolved. The difference is that delegation transfers the administration of a policy, whereas devolution transfers the decision to choose the policy in the first place.

Historically, the means of coordinating the work of civil servants and officers across agencies, across local and national government at a regional level, has not existed. There has been no locus of weight. As Lord Heseltine says about his work on Merseyside in the 1980s, “within days of my first step along the streets of that great city, I knew what was wrong. There was no one in charge. The political and social divides had no bridge across which human dialogues could flow. Everyone knew who was responsible. It was always someone else”.³⁰

Figure 2: Regular changes in initiatives for local growth

Successive governments have implemented policies to stimulate growth, swinging between local and regional-level implementation



Source: National Audit Office analysis

30 Heseltine, M. (2019) Empowering English Cities. For more information see: www.wmca.org.uk/news/lord-heseltine-give-metro-mayors-greater-powers-to-deliver-housing-skills-and-jobs/

It's not an extra layer of government. Across the North of Tyne and North East combined authorities, for example, there are 526 councillors in top-tier local authorities, and 22 MPs.³¹ Adding in one combined authority mayor in the North of Tyne was not an extra layer of government. It is the glue that laminates the existing layers of government and makes them stronger. It makes them more than the sum of the parts.

At what level of government are these dialogues coordinated in England? In terms of policy development and budget setting, the only level of coordination is the UK Cabinet.³² It is hardly surprising that the deafening complaint that we hear in policy circles is that government works in silos. It's not a fault of the individuals. They are handcuffed by the system.

The most cursory examination of evidence shows us that a skilled workforce is needed to build homes and decarbonise buildings. But the demand for homes is significantly determined by the transport network. The uptake of public transport, with increased walking and cycling, affects health. Health inequality is a major factor in economic development. And economic development depends on a skilled workforce. No department is an island entire of itself.

I would like to see a Levelling Up Board established in the mayoral combined authority that I lead. It would be chaired by the mayor, and comprise a junior minister, and an official of at least director level, from each domestic government department,³³ and the national funding agencies. I would suggest it meet twice a year, with the remit to ensure effective coordination of central government policy and funding. Sub-meetings could be convened to support specific objectives. None of this requires legislation – just better joint working.

Take Kickstart as an example. A laudable objective: give 250,000 16-24-year-olds a paid six-month workplace training placement. The £2bn project is run by DWP. A year after its announcement, the number of young people who have been on the scheme is a fraction of what would have been expected. I do not raise this to criticise that department, its civil servants, or the DWP ministers. The fault lies in the counterintuitive fact that a centralised system is inevitably fragmented.

By making it a DWP programme, it got tied into the benefits system, and organisational gravity meant that only those on Universal Credit were eligible. Employers were encouraged to apply as providers, and funding was available to provide the trainees with skills training. But skills training and business engagement is a BEIS matter. It is clearly linked to education outcomes and careers, so should tie in with the Department for Education.

31 The North East Joint Transport Committee area (LA7) has 526 councillors in unitary authorities, 22 MPs, two Police and Crime Commissioners, and one local authority mayor. Adding the North of Tyne mayor took the total number of elected politicians from 551 to 552. This does not include parish or town councillors.

32 The Commission for Smarter Government has acknowledged this problem. For more information see: www.governsmarter.org/

33 Currently: Treasury, Home Office, Justice, Health and Social Care, BEIS, DWP, DfE, DEFRA, Department for Levelling Up, Housing and Communities, DfT and DCMS.

In short, it was expected that the market could quickly and robustly provide the entire wrap-around support needed, despite no prior planning, or relationship building, to develop this capacity.

An alternative approach would have been to discuss the programme with the appropriate members of the Levelling Up Board, at a North of Tyne level. Outline the acceptable policy outcomes. Then ask the mayor, local leaders and appropriate ministers if they think this is a candidate for co-design and co-production. Rather than be prescriptive, make the funding available for flexible deployment, which can build on existing delivery capacity – we already engage with employers on a host of issues, why re-invent the wheel? Instead, gain the benefit of coordinating with established programmes and projects. We would see faster delivery, better value for money, and the creation of better governance.

To achieve the same ends without a Levelling Up Board would require: the coordination of multiple diaries, setting up ad hoc project teams, overcoming the confusion of who was responsible for what, and how it was to be reported upon and monitored, and going right back to Treasury to get approval of the variance on how the money is held and spent. In short, without a Levelling Up Board, the organisational friction is so high that everyone knows a programme will end before such joint working even meaningfully starts, so no one even tries.

Devolved decision-making is mathematically stronger than centralised command. Modern armies know this. HQ sets the objectives, but they let field commanders choose the methods. No field marshal would issue platoon-level orders to soldiers in a combat theatre. No board of directors of a global corporation would micro-manage the production lines in a factory. And no single government department should try to prescribe the delivery of any complex policy objective in an English region. We've got decision-makers in Whitehall working hard, but it's like trying score a hole-in-one from the tee, instead of letting regional leaders tap in a putt from three feet.

Often, money that national agencies spend in an English region misses the opportunity to synergise with local funds. I propose that central government mandates national agencies to co-design spending programmes that are within the geography of an MCA.

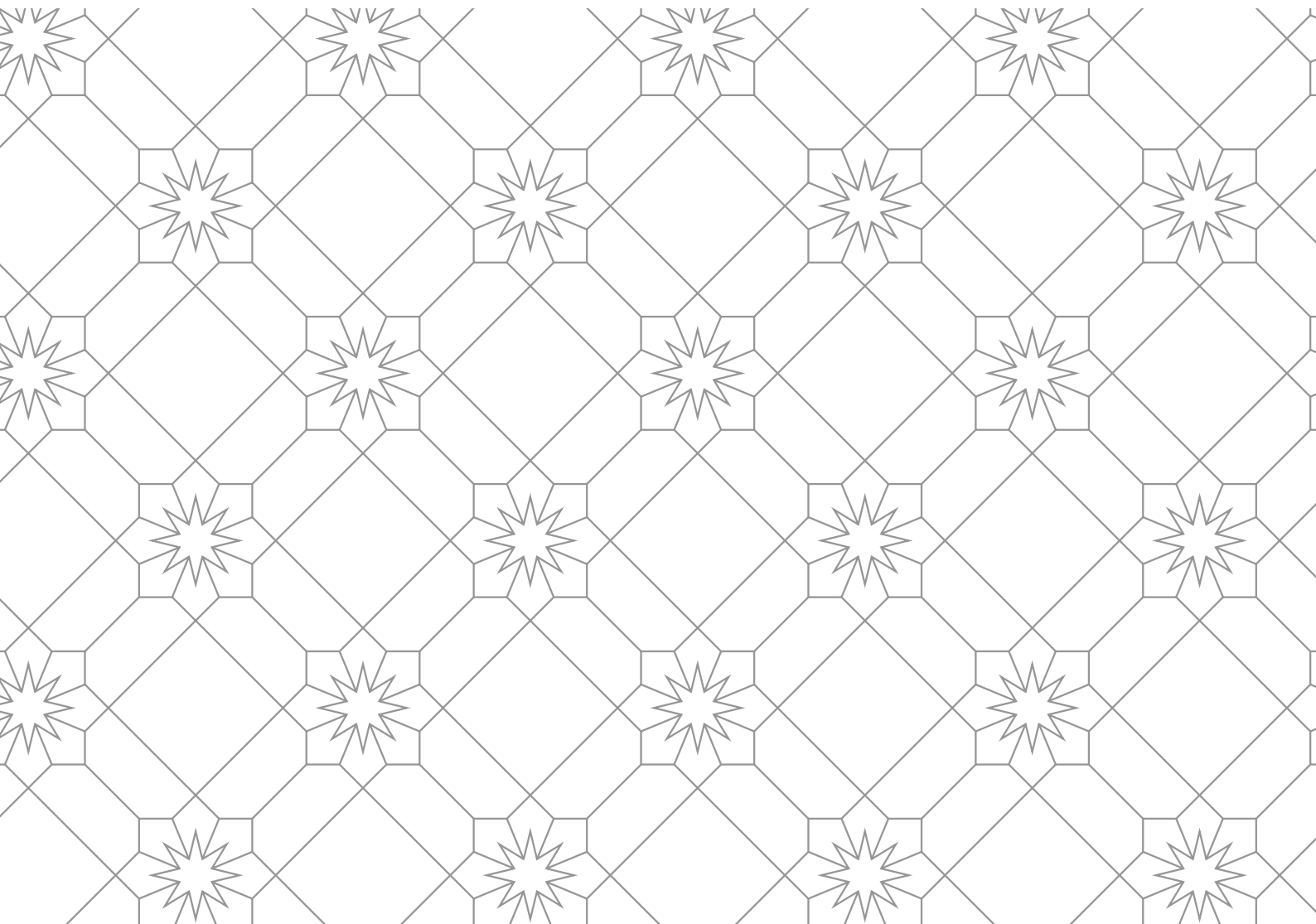
This moves beyond the principle of MCAs being just one of a range of stakeholders which should be consulted, but becomes a true partnership with MCAs, so that their programmes have more impact. New strategic road schemes, for example, can be strategically co-designed with new bus-enhanced partnerships. It also keeps MCAs more in the loop on national programmes. Mandatory cooperation would also better facilitate the sharing of information and best practice. Again, the result is faster delivery and better value for money.

Long term, we should aim to align the footprints of all key services and agencies to match, to facilitate better joined-up government.

Box 5: Ask from government

Government should:

- Work with the North of Tyne to establish a levelling up board.
- Ensure that national funding agencies, such as Homes England and National Highways, co-design projects with MCAs in devolved regions.



Conclusion

Government is not a science. It is not possible to implement a policy, stop the clock, and then run a control experiment in the same time and place. Political leaders have to act with partially complete, and approximate, information.

That's the gig, and anyone who can't accept that has no business calling themselves a leader.

We have faced the problems of wealth inequality, economic upheaval, ill health and crime before, and there is no perfect answer. But we do know what has never worked: central control.

There is no perfect system of government. There's a military adage that no plan survives contact with the enemy. Corporations know that if they wait too long to develop a product, the market will have moved on. They develop a minimum viable product, and gain real world evidence by putting it into practice. They iterate and improve.

The proposals in this paper all share the same underlying principles: investment that pays for itself and does social good along the way. This can only be done by the entrepreneurial state, and only at the level of the functional economic area. In England, that's the mayoral combined authority.

We have an opportunity to try fiscal innovations and a levelling up board as a pilot in one of England's mayoral combined authorities. We are agile, cost effective, and have a first-class delivery record. The costs are low on a national scale. If it doesn't work, the worst that can happen is we spend money creating jobs, and learn from the process. In all of these proposals, Treasury only pays by results.

It's a win-win. It increases the baseline wealth in a region, and returns more to UK PLC than it costs.

Success will require good judgement and good leadership. The Prime Minister is correct when he says we need accountable, strong local leadership.³⁴ Each of the centrally devised interventions over the past 40 years has failed to close regional inequality.

If we don't give elected mayors innovative fiscal tools, in twenty years' time we'll still be talking about centralised initiatives failing to arrest regional economic decline. And that will be compounded by missing our net zero targets.

Let's get cracking. Done is better than perfect.

“Dreaming of systems so perfect that no one will need to be good”.

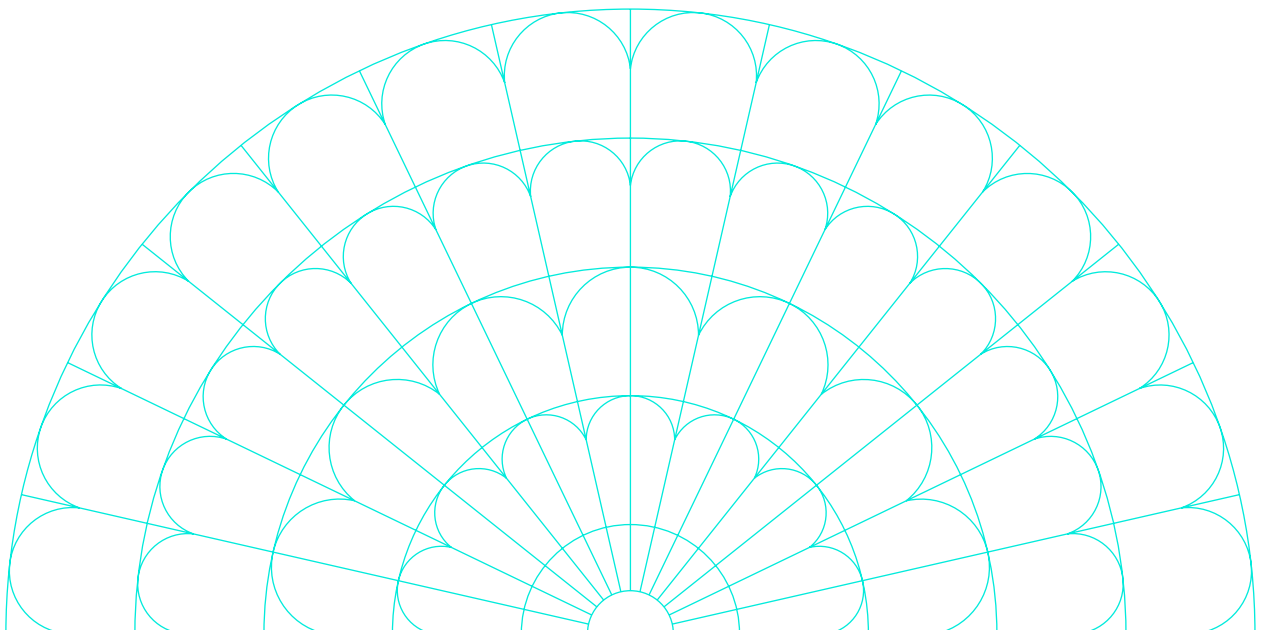
TS Eliot

34 GOV.UK (2021) The Prime Minister's Levelling Up speech: 15 July 2021. [online] Available at: www.gov.uk/government/speeches/the-prime-ministers-levelling-up-speech-15-july-2021 [Accessed 15 October 2021].

Box 6: Summary of asks from government

Government should:

- Expand the powers of the mayoral development corporations to explicitly include the ownership of equity stakes in local businesses.
- Allow mayoral development corporations the flexibility to add land and property to their scope, so small-scale regeneration does not fall through the gaps.
- Allow borrowing at, or close to, base rate for **regional wealth funds** in areas where GDP per capita is low.
- Agree an **earnback** deal with the North of Tyne Combined Authority as a pilot to incentivise job creation that targets high-wages and getting those on benefits into well-paid work.
- Begin negotiations with the North of Tyne to develop targets and stretch targets for an **invest to save** pilot at scale.
- Draft legislation to implement **land value uplift** as described in the 2013 London Finance commission report, when Boris Johnson was mayor.
- Work with the North of Tyne to establish a **levelling up board**.
- Ensure that national funding agencies, such as Homes England and National Highways, co-design projects with MCAs in devolved regions.



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