IMPACTFUL DEVOLUTION 03

A toolkit for regional growth and industrial strategy

By Alex Bevan

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Contents

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The Future Governance Forum (FGF) is a progressive, non-partisan think tank focused on reforming the state with the ultimate goal of renewing the nation. We make politically credible recommendations for reforms that can be delivered nationally and locally, build strong networks to test new ideas, and collaborate and use our relationships with public, private and social sector leaders to innovate.

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Executive summary

In search of more balanced growth

For almost two decades now, economic growth in the UK has been sluggish, and what growth there has been has wildly varied between different places. Confused and inconsistent policy has allowed a combination of centralism and stagnation to constrain the growth of quality jobs and investment in Britain's underperforming regions and nations.

Tackling this disparity has not been regarded as a core element of the country's economic strategy, and work at the margins has not solved this wicked problem.

Even former Prime Minister Boris Johnson's Levelling Up project - and its messy patchwork of competitive funding pots - was much bigger on rhetoric than on meaningful action. At the same time policy churn, a chaotic and overloaded centre and weakened local institutions have eroded the state's ability to do regional policy well. What is more, evaluation and evidence have not been prioritised, preventing the opportunity to learn from the past and embrace innovation.

This is bad news for the economy, for our national resilience and ultimately for our politics. Underperforming regions and nations constrain the potential for growth in the country as a whole, they leave us overly reliant on a handful of places, and they result in sharp imbalances in living standards that ultimately damage people's trust in government and wear away at the social fabric.

The Labour government elected last year seems determined to reverse this trend, with its belief in active government and its overriding mission to increase living standards in every region and nation of the country. If it is to deliver that mission - and learn from past attempts - the UK government will need to be more consistent and reliable in using the levers it has to truly break down the barriers that hold back regional growth.

This means intervening to spread the investment that creates jobs and growth more evenly and acting to hardwire regional growth into decisions across government. These are the next steps needed to get more of government facing in the same direction as positive new strategies and investments.

Much better cooperation with devolved and regional government is essential if this is to be done well. Government will also need to become more consistent in dealing with complexity that has too often been wished away.

That should involve stepping back from the operational more often and developing the best strategic support to drive visible change, felt in the places where people live.

If the status quo on public investment and decision making is untouched by new strategies and institutions designed to drive regional growth, the reward promised will not be felt.

The stakes are high: delivering on the regional aspects of the government's economic growth mission will play a major role in determining who feels better off and - in the government's words - more able to put down firm roots, closer to home.

One of the most significant interventions the government made in this space during its first year in office was the publication in June of its Modern Industrial Strategy.[1] This document saw the government argue that it was making 'positive choices' to intervene in support of eight sectors with the highest growth potential (the 'IS-8') so as to deliver on its broader mission. The Industrial Strategy also recognises that this new, 'more muscular' approach comes at a time of global instability and rapid economic change. Three of the IS-8 sectors in particular - energy, defence and tech - are driving transitions that will test the state's ability to deliver and shape how risk and reward are shared.

In the Industrial Strategy - and its allied sectoral plans - the UK government is signalling a more coherent, intentional approach to tackling the country's economic growth and regional disparity challenges. New institutions such as the National Wealth Fund - which is instructed to support regional growth - reinforce this opportunity.

What is less clear is how the state itself will change to rise to these enduring, complex challenges. Specifically, what will change to ensure the new direction set does not reinforce existing disparities?

Five tools to make it stick

In this report we aim to provide the UK government (and, where relevant, the devolved and regional governments of the UK) with a practical toolkit that connects the Industrial Strategy to the government's commitment to improving living standards in every part of the UK[2].

These tools - and the principles that underpin them - should serve as a thread to keep all levels of government focused on the complex job of translating new policy and external opportunities into better prospects for local economies. If the problem of regional disparity is treated as peripheral, government risks expending enormous resources and energy on a project that will not reach enough of its intended recipients.

Drawing on literature, international examples and interviews, this report argues for the adoption of five tools for growth that can contribute to **a more reliable, capable and purposeful** state that sustains focus on this wicked problem.

Reliable

Recommendation 1: Fund the fundamentals - The government should develop and publish a Renewal Investment Tracker.

As things stand, the most growth-friendly public investment in the UK is too concentrated in London and the South East. Per head spend on the 'essential mix' that supports growth, including infrastructure and innovation, is 19% higher in the Greater South East compared with the rest of England.[3] This preventable imbalance is longstanding and contradicts the logic of the new Industrial Strategy and the wider commitment to a 'decade of national renewal'. The levers to achieve that are not within the gift of the UK government alone and better collaboration across all levels of government are required to support investment that can deliver successful outcomes across the country.

The new Industrial Strategy Council should work together with the Council of Nations and Regions towards a shared objective of reducing Britain's growth-friendly investment gap, delivered through better coordination of new strategies and investments at national, devolved and regional levels.

This starts with a better shared understanding of the situation, how it is evolving and the extent to which it is constraining wider government objectives. The Industrial Strategy Council and should be tasked with creating a **Renewal Investment Tracker**, showing how growth-friendly public investment is being shared across the country, illustrating the scale of the disparity and how it is changing over time.

This tracker could be consolidated at UK government level and hosted on the gov.uk website, but the data to inform it would be drawn from all levels of government and so - while respecting mandates - it would involve taking a shared approach to achieve a collective picture. With that picture available, it would become easier to then direct action and resources towards addressing systemic disparity where it exists.

The object is not to set rigid targets under a false illusion that a shift in such a tracker will suddenly unlock exponential growth in places politicians care about. This simple input tracker will not deliver that - but it should help sustain a focus on the path of investment that forms the essential mix all places need to thrive.

The rationale for the tracker is fundamentally about making all parts of government face the same direction at once when it comes to spreading prosperity. A sustained focus on driving up investment in the fundamentals for regional growth would spell a positive break with the past from a more reliable government.

Capable

Recommendation 2: Build the evidence, learn the lessons: create an 'Evidence and Evaluation Service' for local growth.

A determination to rebalance growth-friendly investment must be attached to a new level of focus on understanding what is possible, where and how. Learning the lessons of the past and hardwiring evidence into decisions on regional policy (at all levels of government) could guard against poor value for money outcomes and policy chop and change.

1 Department for Business and Trade (DBT), 'The UK's Modern Industrial Strategy', 23 June 2025.

2 'Plan for Change: Kickstarting economic growth', accessed 18 September 2025.

3 JP Spencer, Nation Rebalanced: How do we create a country that works for all places?, Labour Together, April 2025. Where we use the term 'growth friendly public investment' in this report, this is the expenditure we are referring to.

Evaluations should be mandated across economic development programmes with an enhanced evidence base benefiting from cooperation between the nations and regions. This new service would send a signal that the UK Government is willing to step back from micro-managing and invest more in its strategic capabilities. More time spent building up and interpreting evidence that supports effective regional policy would mark a refreshing break with the mess and confusion of the past.

Recommendation 3: Ditch the pots, open up innovation - improve the quality of interventions more open government-industry collaboration on complex problems.

Where possible, the government should remove competitive processes that inhibit collaboration and innovation. Technology, defence and energy sectors share the frustration that competitive funding pots too often lead to the wrong solutions being pre-defined by government.

Open innovation processes allow government departments to work with industry across the UK on a problem to identify a broader range of solutions that could be more effective, better value for money and better geared for growth.

The new Strategic Defence Review[4] is advancing this approach, and wider economic development support should follow suit and embrace the opportunities offered by recent procurement legislation.

Purposeful

Recommendation 4: Close enough to get it, big enough to act - create regional business development banks in England.

The government should connect expanded access to finance with new regional institutions that have mandates with specific objectives around SMEs, start-ups and supply chains in line with the Modern Industrial Strategy. New 'gap funder' banks should explicitly seek to co-invest with venture capital to drive up investment in more regions. The aim should be to turn the UK's enormous financial strength into visible, proud local institutions that are close enough to read the region and big enough to act at scale for SMEs. With expert board and executive teams - and a dedicated regional purpose - development banks could also connect energy, defence and tech opportunities to underserved local economies.

Recommendation 5: Steer the case for place - adopt investment criteria to make place factors systemic and hard-wired across investment decisions in the Industrial Strategy's eight 'growth-driving sectors' (the so 'IS-8').

The London School of Economics' (LSE's) data-driven framework provides a model that connects comparative advantage and innovation strength with place and job prospects for investment decisions. Their model for clean energy industries and technologies should be applied to wider sectors.

4 Ministry of Defence (MoD), 'The Strategic Defence Review 2025 - Making Britain Safer: secure at home, strong abroad', 2 June 2025.

This tool can support a consistent steer allowing ministers to link new opportunities with a just transition and a defence industrial strategy that truly 'spreads prosperity'.

The tools outlined here draw from proven models, international examples and evidence of what works. They offer practical ways to break the cycle of policy churn and short-termism that has characterised previous attempts at regional policy.

A more reliable, capable and purposeful state is essential if the government is to succeed where others have failed in making regional growth a reality rather than a promise.

Part One: Setting a new course

Tilting the scales

The Prime Minister has regularly described his commitment to a 'decade of renewal' as a project designed to 'tilt the economy back to the interests of working people' and 'reward their efforts fairly'[5]. Both he and the Chancellor have connected this task with the challenge of addressing regional disparities in the UK, lamenting an overreliance on too few sectors in too few regions.

That rationale frames the government's decision to make its primary mission increased growth and higher living standards in all parts of the country (and thus enable sustainable funding for modern public services). In simple terms, the government is working to the question famously posed by Ronald Reagan in his successful bid to become US President in 1980: 'are you better off than you were four years ago?'

The Chancellor and Prime Minister have repeatedly pointed to the economic and political threats posed by regional disparity in the UK, and the way in which it undermines trust and productive capacity

> *'A new model of economic management is needed. Because a model based on the pursuit of narrow-based, narrowly-shared growth - with ever-diminishing returns - cannot produce adequate returns in growth and living standards.'*[6]
>
> **Rachel Reeves**

Moreover, the new Industrial Strategy is - in the government's own words - 'unashamedly place-based, recognising that stronger regional growth is critical for the competitiveness of the [eight priority sectors]'.[7]

However, a legacy of centralisation, policy instability and weakened local institutions compounds this challenge and requires a fundamental change in how the state serves regional economies. The Chancellor's 'new model of economic management' requires the state being more reliable, capable and purposeful if it is to tackle the complex task that forms the basis of the government's number one mission.

5 Leader of the Opposition, Sir Keir Starmer New Year Speech 4 January 2024

6 Shadow Chancellor, Rachel Reeves Mais Lecture 19 March 2024

7 Department of Business & Trade (DBT), The UK's Modern Industrial Strategy, 23 June 2025, pg 22

Risk and reward

The UK is at an inflection point, and not just because last year saw the first change of governing party in 14 years. The surging transformations taking place across energy, defence and technology all represent major tests for the government, and in particular how it wants places across the UK to share in the risks and rewards those transitions generate. The way in which the state rises to that test will in large part determine whether the government hits its central mission and ultimately how 'the Reagan question' is answered come the next election.

We will focus on these three sectors of defence, energy and technology because they are a critical point at which political, security and economic dilemmas converge: from the creation of new jobs, to the impact on household bills, to national resilience, to people's basic faith in government to support them through major industrial transitions.

These transformations are at once global and local. The sources of economic growth within these sectors - and the geopolitics that influence them - are disrupting economic geographies, emphasising a more immediate link between what happens internationally and what is felt in towns and cities across the UK.

In Scunthorpe, Port Talbot, Solihull and Aberdeen, a mixture of long-term government inaction, tariff shocks, war and volatile foreign ownership have recently demonstrated the practical need to consider the future of local places in their global context.

At the same time, old boundaries and certainties are dissolving. Siloes between industries continue to fall away as technological innovation redefines the operating model of businesses from the insurance sector to steel and creative industries.

The New Localism project championed by US academic Bruce Katz argues that a modern political economy should respond to this new era of major transformations, of the local converging with the global, and of increased uncertainty. It requires local and national leaders to intentionally drive a more agile and productive state.

> *'Cities and their partners must think anew about everything from the fine print of financial instruments to the vehicles for cross sectoral collaboration to the management and disposition of public assets.'*[8]
>
> **Bruce Katz**

8 Bruce Katz and Jeremy Nowak, *The New Localism: How Cities Can Thrive in the Age of Populism*, Bloomsbury, 2018

These challenges face all major advanced economies, but in the case of the UK a combination of centralism, stagnation and weakened local institutions has allowed entrenched regional inequality to endure and made the task much harder. As well as constraining investment, jobs and aggregate UK growth, this backdrop will hamper the state's ability to cope with major transitions in the more dynamic, less siloed economy that is emerging.

The UK Government has signaled that it understands the problem this scenario presents. When launching the Modern Industrial Strategy, Keir Starmer described 'a state that is both overbearing and feeble, poorly serving an economy that has become too reliant on a small number of places, too exposed to global volatility and too sluggish to take advantage of opportunities.'[9]

The Modern Industrial Strategy is part of a suite of similarly ambitious initiatives across science and technology, defence, clean power, devolution and infrastructure investment. The extent to which these various strategies will cohere and converge in a purposeful manner will determine whether the government will drive change that is felt in the places where people are less confident about their future.

Years of stumbling on

The UK economy struggled to move on and renew after the Global Financial Crisis (GFC) of 2008. As the economic historian Duncan Weldon has previously argued, Britain's core economic model - based around a heavy reliance on financial services - was badly damaged by the GFC.[10] Yet rather than acknowledging this and adapting its model, the UK merely 'stumbled on' before being buffeted by the shocks of Brexit, Covid and Russia's invasion of Ukraine.

The British economy has not been renewing and modernising at the scale needed to support decent incomes and realise the opportunities of the major transitions it is undergoing. Instead, stagnation came to define the period that followed 2008 along with a vicious cycle of low business investment and higher taxes for increasingly expensive and stretched public services. These were the results of a failure to take, and stick with, long term decisions about how the UK will earn its way in a changing world and confronting the trade-offs it presents.

Despite this backdrop, the UK boasts major strengths, including being home to the world's third largest technology sector. A mixture of discrete, targeted policy interventions has enabled the development of significant modern comparative advantages in areas such as TV and film, and advanced manufacturing.

However, at the macro level, these strengths have been too small in number and too narrow in scope to support competitive growth, to reduce inequality and to shrink regional divides. The Resolution Foundation's 'Stagnation Nation' report captured this picture neatly, arguing that 'while our current economic specialisation is consistent with future prosperity, our regional divides are not.'[11]

9 Sir Keir Starmer, The industrial strategy will provide certainty for business, The Financial Times, 23 June 2025

10 Duncan Weldon, Britain is once again the sick man of Europe, The New Statesman, 15 June 2022

11 Resolution Foundation & Centre for Economic Performance, LSE, Stagnation nation: Navigating a route to a fairer and more prosperous Britain, Resolution Foundation, July 2022

For years now the UK has lacked a consistent industrial policy or alternative project to which all parts of government (and crucially the Treasury) have been bought in. As a result, there has been no organising strategy against which government can assess threats and opportunities before prioritising interventions that stand a greater chance of surviving external events, internal political dynamics or electoral change.

The Levelling Up lesson

The Boris Johnson government did make the task of addressing regional disparity a major plank of its political programme: Levelling Up. However, that project serves as a salient example of an attempt - and ultimately a failure - to address this issue.

The Levelling Up agenda was firmly pitched as a unifying offer for a country divided by Brexit, based on a diagnosis that mostly aligns with that of the current government.

> *'It is the mission of this government to unite and level up across the whole UK - not just because that is morally right, but because if we fail then we are simply squandering vast reserves of human capital; we are failing to allow people to fulfil their potential and we are holding our country back.'* [12]
>
> Boris Johnson

However, it ultimately became clear that the project was not central to the government's core economic strategy and its implementation - in many cases - made matters worse.

While Levelling Up led to a measure of decentralisation and the creation of new Mayoral authorities, other decisions were centralised and funding was redirected to more affluent places to the cost of deprived communities.[13] This contradicted the diagnosis set out by the government and a Levelling Up White Paper that ought to have guided decision-making.

Far from providing the reliable, enabling and strategic partnership role advocated by the likes of Bruce Katz, the Johnson Government's approach proved unpredictable, constraining and increasingly focused on the operational rather than the strategic.

Not only did the Treasury under then Chancellor Rishi Sunak fail to buy into the concept, it even moved to block the then Levelling Up department from signing

12 Prime Minister, Boris Johnson Levelling Up Speech 15 July 2021

13 The New Statesman, Rishi Sunak boasted of taking money from "deprived urban areas" to help wealthy towns 5 August 2022

off on expenditure in 2023.[14] This compounded an already dire situation for local government finance, in which local authorities were grappling with the constraints of one year funding settlements and receiving contradictory advice on accessing grants which were frequently delayed.[15] In the worst cases, this confusion led to councils being encouraged to apply for funding they were not eligible for.

The governments of the devolved nations of Scotland, Wales and Northern Ireland faced a similar scenario. Under the Johnson administration, Whitehall forcibly centralised spending decisions in devolved areas, removing the ability of the Devolved National Governments to design and allocate funds on matters over which they held the democratic mandate.

Specifically, the UK Government used post-Brexit legislation (the UK Internal Market Act) to create a new tool to spend directly in devolved areas over the heads of devolved governments with no regard for waste, duplication, value for money or democratic considerations. During the Bill's passage into law, former Lord Chief Justice of England and Wales, Lord Thomas of Cwmgiedd, lamented that this move was 'in effect, giving legislative underpinning to the now discredited principle of "Westminster knows best"'.[16]

As well as denying the devolved legislatures the ability to scrutinise this spend, Whitehall was suddenly responsible for delivery in areas in which it had not been active for over 20 years.

Similar dynamics played out beyond the confines of government. Universities, colleges and the third sector were prevented from playing a role that they had developed expertise and capacity to carry out.

As a result of these short-termist political changes, cuts to employability and research programmes were the inevitable consequence. Contrary to the letter and spirit of the white paper and various speeches that surrounded it, here Levelling Up was actually responsible for undermining the budgets that are broadly recognised as part of the essential mix for regional growth.

On top of this, little attempt was made to place Levelling Up in a historical context or build on what had come before. In a 2022 report on Local Economic Growth, the National Audit Office delivered a damning reflection on the government's failure to monitor and evaluate previous policies.

14 Levelling Up, Housing and Communities Committee, Levelling Up Committee writes to Government on Treasury 'ban' on levelling-up capital spending 14 March 2023

15 Public Accounts Committee, Levelling up funding to local government, 15 March 2024

16 Hansard, United Kingdom Internal Market Bill - Hansard House of Lords Debate, 25 November 2020

> *'By failing to conduct robust evaluation or even write up lessons learned from previous policies, the Department has wasted opportunities to learn and apply lessons to subsequent policies... The Department is not unusual in this regard and, in December 2021, we highlighted that much government activity is either not evaluated robustly or not evaluated at all. This is in spite of government's commitment to evidence-based decision-making.'*[17]
>
> National Audit Office

As former government adviser Sam Freedman argued in his 2024 book *Failed State*, this short-termism stems from the UK Government too often making decisions in a quick, shallow and tactical manner - the result of Whitehall having become overloaded and too operational while at the same time local institutions have been hollowed out.[18] Freedman identifies the long term consequence of longstanding cultural aversion to allowing local and devolved government a role in shaping and directing policy.

> *'The level of disdain for local government in many central departments is often unjustified; based on a kind of elitist prejudice against the operational.'*[19]
>
> Sam Freedman

Freedman goes on to observe that these behaviours and assumptions have too often narrowed the options for delivery and overlooked the lessons of recent mistakes.

> *'Councils do make mistakes... but those weaknesses need to be compared to actual alternative mechanisms of delivery on offer, rather than some standard no one else can meet.'*[20]
>
> Sam Freedman

17 National Audit Office, Supporting Local Economic Growth, February 2022

18 Sam Freedman, *Failed State: Why Britain doesn't work and how we fix it*, Macmillan, 2024. Sam Freedman currently sits on the Future Governance Forum's Policy Advisory Group.

19 Ibid

20 Ibid

While there will of course be examples of local authorities using Levelling Up funding to good effect, the lack of partnership working and evaluation makes it difficult to salvage positive lessons and practice.

Rather than representing a genuine attempt at change that fell short, Levelling Up arguably made the starting point for the incoming Labour government in 2024 a good deal worse than it had been in 2019. Funding had been actively redirected away from need, power had become (in many cases) even more centralised, local authorities had been pitted against one other and forced to waste resources on bids for funding that were economically unrealistic but politically unavoidable, and anchor institutions like universities and colleges had been denied a say in the economic development of the regions in which they play a vital part. Unsurprisingly, but highly consequentially, public trust had also been damaged as the Johnson Government failed to deliver on its major economic promises.

In fact, while the regional economic agenda was perhaps not promoted as a core, defining message in the 2010s - or certainly not compared to the overarching message of fiscal consolidation - then Chancellor George Osborne's decision to drive Mayoral devolution and the 'Northern Powerhouse' was arguably much more consequential than the Boris Johnson experiment. The fact that that project was owned by HM Treasury serves as a reminder that any attempt at addressing regional disparity must enlist the active support of the finance ministry if it is to have a lasting impact.

The new direction

The new government's mission on growth and living standards - and Rachel Reeves' vision of 'securonomics' - points to a more coherent prescription than has hitherto been the case. In a 2023 speech in Washington DC, when she was still Shadow Chancellor, Reeves set out the assumptions that would steer Labour's economic approach throughout the rest of its time in opposition and into government:

> *'It begins by accepting that the world has changed and Britain must change with it. In our age of insecurity, we have discovered the weaknesses of our old economic model.*
>
> *'Too unambitious about the role an active state can play, too willing to believe that wealth will trickle down and too reliant on the contribution of a few places, a few industries and a few people.'*[21]
>
> Rachel Reeves

21 Shadow Chancellor Rachel Reeves, 'Securonomics' speech, Washington DC 24 May 2023

This time - more like Osborne and less like Sunak - it is the Treasury that is driving the regional economic agenda. As an overarching concept, the agenda is also shared across the highest levels of the government. The foreword to the Modern Industrial Strategy carries the signatures of the Prime Minister, the Chancellor and the then Business and Trade Secretary. This should place the policy agenda on a firmer platform compared with recent attempts to link place-based benefits with core economic outcomes.

Similarly, the Chancellor's change to her fiscal rules in the 2024 Autumn Budget unlocked an additional £100bn of capital over five years (supplemented by a further £13bn in the 2025 Spring Statement), for major investment right across the country in infrastructure, housing, transport, research and development (R&D) and more.

How effectively that money is spent - and how it contributes to the effective delivery of the Modern Industrial Strategy and the sweep of strategies and reforms announced over the last year - will rely to varying degrees on how well UK-level decisions connect with devolved and local leadership.

- **The Modern Industrial Strategy** commits government to seizing the greatest opportunities open to the UK and to do so by:
    - growing business investment;
    - winning a larger share of mobile international capital; and
    - helping domestic businesses to scale up and supporting SMEs in more resilient supply chains.

  Eight growth sectors – known as the IS-8 - have been chosen as priorities in a strategy that promises to 'track the key measures of improvement across the whole economy, the IS-8, and places: business investment, Gross Value Added (GVA), labour market outcomes such as employment and wages; productivity growth; and exports.'[22]

- **The 10 year Infrastructure Strategy** brings together economic and social infrastructure within a long term plan for the first time against a backdrop of increased capital budgets. The government has also created the new National Infrastructure and Service Transformation Authority (NISTA) to advise on project assurance, finance and supply chains.

- **The English Devolution and Community Empowerment Bill** decentralises more power, creating more mayors with greater budgetary flexibility for new statutory Local Growth Plans. Integrated budget settlements will be introduced from 2026, opening up a new tool for mayors to adopt measures that are more responsive and tailored to the opportunities and partnerships available to them.

- **Policy banks** will play a greater role in coordinating economic development, with the creation of the National Wealth Fund (NWF), significant funding growth for the British Business Bank (BBB) and

22 DBT The UK's Modern Industrial Strategy

a new Housing Bank. The NWF is specifically charged with two strategic objectives that should aid the development of stronger local investment opportunities, particularly for clean energy industries: 'supporting regional and economic growth' and 'tackling climate change'. The NWF has earmarked £5.8bn for green steel, hydrogen, gigafactories, carbon capture and ports, tying investment to towns in weaker-performing regions such as Port Talbot, Barrow, Grimsby and Aberdeenshire.

- **Pension reforms** - many of which were advocated in FGF's 2023 report *Rebuilding the Nation 02: Pension reform that delivers for savers and strengthens the economy*[23] - are driving the shift to a smaller number of 'mega funds' that invest more in UK infrastructure. To illustrate the imperative, Ministers have pointed to the fact that defined contribution pension funds in the UK allocate just 3% to infrastructure and 0.5% to private equity. By comparison, Canadian funds invest 11% in the former while Australian comparators allocate 5% for the latter.

Energy

The Clean Energy Industries Sector Plan aims to double investment levels in these frontier sectors to £30bn per year and support job creation across the country.

The wider Clean Energy Superpower Mission will require delivery at enormous scale and the development of more projects such as the UK's largest solar farm in Cleve Hill, which combines local government pension funds and private capital in a significant investment.

After the 2024 general election, onshore wind was immediately opened up once more in England and Ministers have hailed the permitting of new reservoirs and solar farms as down payments on the Planning and Infrastructure Bill that serves as a totem for the government's rhetoric on 'backing the builders over the blockers'.

23 Andrew Dyson and JP Spencer, Rebuilding the Nation 02: Pension reform that delivers for savers and strengthens the economy, The Future Governance Forum, November 2023

Defence

A landmark shift in UK defence strategy and funding has dramatically expanded the scale and scope of spending on security with a heavy focus on 'spreading prosperity', job creation and adopting the lessons from innovations in Ukraine.

The more recent commitment to ratchet national security spending up to 5% of GDP over the long term will demand a new level of ambition within a system that can be more directive given its dominant role as a customer with enormous bargaining power.

The Industrial Strategy states that the UK will become Europe's leading defence exporter at the same time as halving the venture capital investment gap with the US. Within that, geographically-dispersed capability has been identified as an essential element of a more resilient and secure defence operation, offering new opportunities for skilled, well paid work across the UK.

The new Strategic Defence Review, published in June, includes some of the most significant reforms since World War II and was followed by a new Defence Industrial Strategy in September. These came after a 'Statement of Intent' published in 2024 which included a commitment to 'prioritise UK businesses'.

Technology

The new Science and Technology Framework's economic objectives are supported by a £20 billion investment in R&D announced at the Autumn 2024 budget. The Framework cites five priority technologies for future prosperity: artificial intelligence, quantum technologies, engineering biology, semiconductors, and advanced connectivity technologies.

The Digital and Technologies Sector Plan aims to create the UK's first trillion dollar company by 2035 and the new AI Action Plan sets three core objectives which include the creation of AI Growth Zones. A new AI Energy Council[21] has also been established to focus on how to meet the energy demands of AI and what the technology can do to support the transition to net zero.

24 HM Government, Technology and Energy Secretaries chair first meeting of AI Energy Council - GOV.UK, 8 April 2025

Taken together, these various overarching and sectoral initiatives indicate a step change in the government's willingness and ability to set the direction for, and intervene in, the nation's industrial policy. Ensuring that all these initiatives cohere and add up to more than the sum of their parts is a significant and complex challenge. And while the ambition and the overall direction is clear, what is less so is how the state itself is expected to change in order to drive the new economic model envisaged by the Chancellor and address the regional disparities that both she and the Prime Minister have identified as being urgent.

As FGF has argued across our previous work, the UK government by itself does not, of course, have the capabilities required to deliver the full scope of its industrial policy or its national mission to drive up living standards across the UK. The government must be confident about what it can do and humble about what it cannot, acting as an orchestrator of a much broader effort: it must 'lead with purpose, and govern in partnership'.[25]

The principles and tools we recommend in Part Two of this report are therefore designed to encourage a more strategic state that brings a systemic focus to the challenge of regional economic disparity. The UK Government needs to establish a more reliable, capable and purposeful state if it is to make its new, long term direction stick. If our regional imbalance is treated as peripheral, then the government risks expending enormous resources and energy on a project that will reach too few of its intended recipients and fall short both politically and economically.

Embracing complexity

Addressing regional disparity means acknowledging and embracing the complexity of 'wicked' problems. As we have seen, efforts to meet this task that wish away the complexity or scale of the problem can become chaotic and short-lived. That is why when recommending new tools for government to adopt, we frame our recommendations within principles that seek to apply this lesson based on proven evidence and insight around urban leadership.

The Bloomberg Center for City Leadership at Harvard University, for instance, sets out the key capabilities required to challenge these kinds of wicked problems.[26]

These fall under three categories:

1. **Collaboration**: the ability to identify the right partners and work well with them;
2. **Data-analytic**: the ability to collect, process, generate and analyse the data needed to serve complex challenges; and
3. **Reflective / improvement**: the ability to genuinely reflect on a problem's complexity, generate a sound action plan and adapt based on what is working.

25 Mariana Mazzucato, Mission Critical 01: Statecraft for the 21st century, The Future Governance Forum, May 2024

26 Jorrit de Jong, Quinton Mayne, Fernando Fernandez-Monge Cortazar, Tackling Big, Thorny Problems: Building the Capabilities Your Organization Needs, Bloomberg Center for Cities, Harvard University, 22 January 2024

Regardless of the objective or the level of government, these questions can focus thinking and direction for teams dealing with complex challenges and demanding stakeholders. The tools set out in Part Two of this report seek to apply this discipline to the delivery of the government's regional economic objectives.

Applying these lessons also requires acknowledging that the complex factors impacting on any given place include the complexity of governance itself. This means accepting that the state operates much more as a messy and interconnected network rather than anything that resembles a neat set of formal layers.

We can look back in time and to international examples for ideas on how to address this. In 1959, US President Eisenhower's Commission on National Goals gave rise to the notion of governance as a 'marble cake': recognising that while government is often described as being made up of layers, in practice the functions of each level are constantly mixing and overlapping.[27]

Rather than expecting (non-existent) neat layers of government to create the change places need, Bruce Katz argues that 'network connectors' are essential to connecting the national to the regional with vision and leadership. His advice is to be clear about who does what: the centre should focus on being a reliable investor, and at the regional and devolved levels, leaders need a platform to 'read, understand and activate' for impact.

Many national institutions, which have a role to play in these networks, are either absent from these debates or unable to dedicate the time to translate UK policy into the regional context with success. For instance, R&D investment for innovation should be better connected to greater opportunities for adult learning in both higher and vocational settings, unlocking new, skilled employment opportunities at a larger scale.

Professor Richard Jones of Manchester University has written widely about the role of effective regional policy in innovation and argues that a strong mandate for regional growth is needed to overcome the existing barriers to opportunity. Specifically, Jones has called for Catapult Centres - created by government to turn research into practical application - to focus on regional growth to support deeper collaboration with colleges, universities and businesses acting on their local context.

> *'As well as basic research, we'll need to build up translational research, the diffusion of existing technologies into businesses, and skills development at all levels.'*[28]
>
> **Professor Richard Jones**

27 Bruce Katz, Taking the "Marble Cake" Challenge, The New Localism Newsletter, 1 May 2025

28 Professor Richard Jones, Mind the gap: levelling up through innovation The University of Manchester Magazine, April 2021

As we will see, this approach is informing recent decisions, with the National Wealth Fund having been set a clear instruction to support regional economic growth. However, if other bodies are not mandated to follow suit and add meaningful value to Local Growth Plans for instance, investors will understandably be less convinced about planning against them.

Decision-makers should, of course, guard against a fetishisation of place and be wary of solutions that use such a doctrine as a substitute for evidence and thoughtful analysis. However, that caution should not prevent decisive reforms that reshape how the UK Government organises its support for regional economic growth. The contributions from the UK and the US should inform how Ministers think about connecting strategy with the outcomes people will experience and the role their local context plays.

The right tools for the job

Our recommendations will fall to a mixture of actors including the UK Government, Devolved Nations and Mayors/Strategic Authorities or Local Authorities. In each case, these recommendations are based on the thesis that the state as a whole - and in its broadest conception - needs to become more **reliable, capable and purposeful** in pursuing regional growth.

To this end, we begin by recognising the inherited cultural and institutional norms that prevent better decision-making and propose in their place a more mature version of shared governance across the UK.

Rather than offering a sweeping, scrap-it-all-and-start-again programme of reform, the practical tools discussed below seek to learn from and scale best practice and approaches that have been proven to work, so as to allow impactful devolution to contribute to stronger growth across the UK's regions and nations.

For the UK Government we propose tools that could enable it to direct a greater share of growth-enhancing spend across a wider geography, accompanied by the development of a stronger evidence base that is dedicated to regional growth. This can then guide smarter investment and help prevent poor value for money decisions, allowing for a virtuous circle that supports more investable propositions.

For regional and devolved leaders we recommend the creation of new institutions and partnerships aimed at delivering the outcomes set out in the UK's Modern Industrial Strategy.

We will focus on outcomes related to energy, defence and technology but will also draw out where our recommendations could have broader application given the way in which industrial sectors are increasingly converging in a rapidly changing economy.

In producing our recommendations, we draw from research and interviews to consider UK experience and analysis as well as international examples to explore how new tools and proven models can help remove the governance barriers to innovation and local leadership.

As the government begins to pull levers and design new interventions in pursuit of its promised 'decade of national renewal' this report adopts a practical toolkit approach. In doing so, we hope to demonstrate the role vision and leadership at regional and devolved levels can and must play in creating stronger and more resilient local economies, raising living standards and in turn renewing hope and trust in the power of government to do good.

Part Two: Making it stick

'National economic growth will only come from increasing the productivity of places across the UK, many of which underperform relative to their international comparators. The IS-8 are active in every nation and region of the UK, but we cannot be place blind: we must identify and accelerate the highest-potential opportunities in each, while tackling their specific investment barriers.'

Modern Industrial Strategy, Executive Summary (our emphasis)

In Part One we have seen how the UK's regional economic disparity has taken hold and worsened over time, as a result of over-centralisation, the hollowing out of local institutions and a chaotic, piecemeal approach which mean that even when the right diagnosis was in place, government was unable to act on it.

The tangible experience resulting from this for people across the country is one of decline: of weak wage growth, the closure of local facilities and over-stretched services. This is personally shattering for those communities affected, and it is economically and politically lethal for the party in government that does not take action.

We have also seen how the Labour government elected last year seems determined to succeed where its predecessors have failed, and has set itself an overarching national mission of improving living standards in every part of the country. The ability to put down firm roots and feel confident in planning for the future is an expression of whether people feel that overall national economic renewal (when it comes) is serving them and their family. The extent to which more people in more places feel that that is the case come the next election will be a core element of answering the present day equivalent of the 'Reagan question' for this government.

It is in the spirit of helping progressive governments to answer that question in the affirmative that we set out below a toolkit with five recommendations rooted in the principles that we believe the state should adopt to increase regional prosperity and reduce economic disparity in the UK. Taken together, these tools are designed to encourage a state that is more **reliable, capable and purposeful** in the pursuit of growth that reaches all parts of the country.

Reliable

If the UK Government is to make its Modern Industrial Strategy stick - and apply the lessons of the past - it must become more reliable, both as an investor and a rule maker. That means ensuring that a greater share of public investment in the essential building blocks of local economic resilience reaches much more of the country - and being clear about how and why the investment decisions that support this spread have been reached. Given the significant planned

growth in capital spend (£113bn more over the next five years) this is not a zero sum exercise - all nations and regions of the UK will see increased investment - but it should mean a rigorous and transparent process of spending allocations, including more searching tests for decisions that do not direct growth investment towards underserved places.

The current picture is not good. In the Labour Together report 'Nation Rebalanced', JP Spencer helpfully identifies the types of public expenditure that form the 'essential mix' for growth. Using HM Treasury figures, he broadly delineates this as the spread of spend that captures transport, infrastructure, housing, education and skills, and R&D. While still broad in scope, this focused analysis is more useful than looking at wider spend-per-head statistics which include health and welfare expenditure.

Spencer's analysis finds that when you compare the Greater South East with the rest of England, the average per head gap in 'growth spend' in real terms stands at 14.5% over the 16-year period in which this data has been collected to date (2008-2024). This gap stood at 19% during the 2019-24 parliament, demonstrating the extent to which the Levelling Up project fell short of its stated aims.

Paradoxically, there is evidence of private sector investment being better dispersed across the regions and nations when compared with similar public spend. R&D spending is a particularly acute case in point with a long term trend that actively undermines the Modern Industrial Strategy.

R&D funding disparity

In a 2023 Harvard study into UK disparities, Anna Stansbury, Dan Turner and Ed Balls found that business R&D spend in the UK is more geographically balanced than comparative public expenditure. This stark research suggests that 'the UK may be making regional inequalities in R&D worse by prioritising regions with academic expertise over those with existing private sector R&D strengths.'[29]

If business R&D spend is more geographically spread than its public sector equivalent, and UK universities beyond the so-called 'Golden Triangle' of London, Oxford and Cambridge boast globally recognised strengths of their own, it is hard to see how to justify the over-concentration of public investment in the South East.

This important detail is less well understood than the picture presented by looking purely at overall public spend per head. Taking a more nuanced view reveals how the status quo is allowing public funding to compound, rather than break down, barriers to more equitable growth.

At best, this analysis suggests that our public research institutions are risk-averse and failing to read, and move with, local economic specialisation and the relationship with shifting global demand. At worst, it points to a culture of decision-making that is out of touch with businesses that are capable of innovation-backed growth outside of the Greater South East.

29 Anna Stansbury, Dan Turner, Ed Balls, Tackling the UK's regional economic inequality: Binding constraints and avenues for policy Harvard Kennedy School, March 2023

One interviewee for this report, with experience in the cyber and AI sectors in both Oxfordshire and Cardiff, explained that while working in Oxford 'you just feel the sense that government, industry and education is backing you all the way'. The scale of funding generated by the spending patterns described understandably makes the contrast with Cardiff a stark one.

Professor Richard Jones has highlighted this issue as it relates to the North West, arguing that relatively high levels of business R&D spend are not being supported by the basic and translational public R&D or skills investment that can support stronger business outcomes and jobs in the region.[30]

The UK also compares unfavourably to its OECD peers in this regard, such as Germany, where public R&D investment actively seeks to address regional imbalances. Yet the potential here is much higher: the UK Higher Education sector boasts more institutions that feature in global rankings for academic excellence than Germany, including many beyond the Golden Triangle.[31] Yet despite this, we are in the bizarre position of directing public funding away from the activity that could support growth in other regions and ultimately lift the strain on wider public budgets.

The perverse outcomes of this current model were well summarised by an interviewee for a previous FGF report, *Spurring Innovation*, who observed that: 'the UK government's R&D policies have effectively been acting as an anti-regional policy for some decades'.[32]

Without appreciating that situation, it can be tempting for the government to defend the status quo rather than disrupting inherited assumptions and judgements on the path of growth-enhancing spend. More work is required to understand the nature of this problem, but government should consider the factors that have constrained R&D investment and be prepared to be bolder in addressing them.

The scale of the R&D commitments in this Spending Review period makes the need to address this long term trend more urgent, but also presents a greater opportunity.

30 R Jones, Mind the gap: levelling up through innovation

31 Turner et al Tackling the UK's regional economic inequality

32 Hamida Ali, Shuab Gamote, Joseph Holland and Adam Terry, Rebuilding the Nation 05: Spurring Innovation The Future Governance Forum, March 2025

1. Fund the fundamentals

Recommendation 1	Description
Create a Renewal Investment Tracker	Focus on reducing the growth investment gap between London and the South East and the rest of the UK. Work with devolved and regional government to identify and develop the data, collaborations and opportunities needed to reinforce new regional growth policies.

The government should gather and share the data beneath this counterproductive situation, as a first step towards moving the dial on it. If the UK government is determined to stay the course on driving up regional growth, it should create a 'Renewal Investment Tracker' to bring focus to the path of growth-enhancing spend in concert with devolved nations and mayoralties.

The objective here is to intervene where the path of public investment is actively making matters worse and to turn a broad consensus on regional growth into a shared sense of mission. A tracker could help achieve this by revealing the scale of the regional investment gap, and spurring all levels of government to ensure that new strategies and investments narrow, rather than widen, this divide.

Devolved as well as UK politicians would need to prioritise this work in order to shift the current barriers to the investment that is best placed to support local growth. While respecting democratic mandates, this should involve a shared project to address a collective challenge.

As we will see, making this gap more visible - and agreeing on the need to address it - should lead to a project that is more searching about the contribution that can and should be made by government at all levels.

How this would work

Our proposed Renewal Investment Tracker - which could be commissioned by the government's newly created Council of Nations and Regions (CNR) - would collate and publicise the volume of growth-enhancing expenditure made across the regions and nations of the UK. The definition of 'growth-enhancing expenditure' for this purpose could draw on the figures set out in Labour Together's 'Nation Rebalanced' report, providing a basket of budget lines that can be tracked over time. This would likely require the collection and publication of more local data than is currently the case, in order to capture a more granular assessment of the existing landscape. Any tracker should be based on outturn expenditure - i.e. spend that actually got out of the door in the previous year - rather than being skewed by pledges that do not materialise.

The creation of such a tracker would require joint working across administrations and governments within the UK, given that control over the various budgets in question falls across different layers of government.

Negotiation would be required across governments and mayors based on the division of devolved responsibility and respect for the mandates each partner represents. The tool could be developed by the Office for National Statistics (ONS), which is already creating new methodological approaches to publish more data at the city region level. The Tracker would serve all levels of government and could be published by the CNR with input from Chief Statisticians, Chief Economists and respective Treasuries of the four nations.

Tailored work would be required with devolved nations to better understand where systemic disparities are evident. The Fiscal Frameworks that apply to each nation make this task more complex and care would be needed to agree upon the right model.

The CNR should publish Renewal Investment Tracker figures annually, with the first release capturing 2025/26.

This new tool could help government demonstrate that it is determined to act at scale while promoting major related interventions. For instance, the UK Government has rightly held up the example of a South Wales coal-fired power station that has recently been turned into a clean energy facility, supplying energy for the grid.[33] The project has supported 300 new jobs with investment flowing from the private sector and local government pension funds.[34] This is the kind of project that will deliver the local reward the Industrial Strategy is seeking, and the creation of new pension mega funds could unlock many more examples. Against this wider backdrop, a Renewal Investment Tracker would show investors and communities that the state is investing alongside them by funding the fundamentals for growth.

A first step towards driving up growth everywhere

In time, the Renewal Investment Tracker should become a kitemark for an accurate picture of regional investment in the UK, a visible sign of the government's commitment to tackling disparities, and a long term signal for investors that the UK is serious about driving up growth everywhere.

It should prompt the changes in investment spending profile that will deliver on that ambition. The prize of this broader project is enormous - as is the corresponding risk of not acting. Based on the analysis of spend in England only, 'Nation Rebalanced' found that if the spending pattern 'as of 2023-24 persists for another ten years, the rest of the country will miss out on almost £100 billion of growth spending compared to an equal per capita allocation.'

This tool could also make it more difficult for future governments to reserve largesse for the Greater South East at the expense of the rest of the UK. If investors observe that a political cost is associated with pulling back from regional investment, they may also regard central government as having more skin in the game in the locations they are considering for new investment. We do not recommend a specific target or any 'lock' on decisions. Instead, the

33 HM Government £25 billion powered Wales Pension Partnership pool to deliver growth and jobs for Wales - GOV.UK 9 May 2025

34 Quinbrook Infrastructure Partners, Quinbrook and E.ON to Construct Large-Scale Battery Storage Project at Uskmouth, South Wales 19 March 2024

tracker should hold up a mirror to the path of public investment so that it can be tested against new reforming policy.

> *'Our goal is to prove to investors that the United Kingdom is not just one of many countries seeking investment, but a country that you can believe in.'*[35]
>
> UK Infrastructure: A 10 Year Strategy

A Renewal Investment Tracker could hardwire the government's wider objectives into decisions so that they are less likely to dissipate than previous commitments aimed at rebalancing productive investment. This tool could also help provide the proof point to reinforce the government's claims in the Infrastructure Strategy that for investors the UK can once more be 'a country that you can believe in', and so help unlock more investable projects at the scale required to attract major inward investment. At a practical level, the Tracker would help draw a clear link between the pledged investment in the new Infrastructure Pipeline and the actual spend seen at the other end.

It would be important that this tool does not involve a reduction in the rigour attached to value for money assessments. Instead, it should lead to greater focus, and collaboration, on the development of investable opportunities. Being more interventionist and 'more muscular', as the Industrial Strategy suggests, ought to mean that the state will now play a more significant role in developing such opportunities. In short, the UK Government should feel in an active way that it has skin in the game and that it has a role to play in finding solutions.

New proposed changes to the Treasury's 'Green Book' (see **Box 1**) would also be relevant, including the development of 'place-based business cases', which should take on an important status given the role they could play in turning policy into action. The Tracker would also align with the recommendations of a recent PolicyWISE report into the role the CNR could play in improving collaboration across the UK.[36]

35 HM Treasury, UK Infrastructure: A 10 Year Strategy - GOV.UK June 2025

36 Alex Walker, Michael Kenny and Dewi Knight, A More Collaborative Way of Governing? Why the Council of Nations and Regions Matters PolicyWise, 2025

Box 1: Green Book reforms

The government is bringing forward fresh reforms to the Green Book - the guidance the UK Treasury uses to appraise spending decisions and assess a project's value for money - which include a welcome role for 'place-based business cases'.[37] It is right that the review which the Chancellor initiated earlier this year was seen as an opportunity to make sure HM Treasury and guidance better serve the new direction set by Ministers. That said, - as FGF has argued elsewhere - it is overly simplistic to regard the Green Book as being responsible for underinvestment outside London and the South East.

Instead, it is broader risk aversion and the failure to attach regional investment to a plan for national economic renewal that have been the major barriers to decisions that unlock regional investment at greater scale. In fact, if the Green Book appraisal model was crudely or unthinkingly dismantled, devolved leaders could see local projects become less, rather than more, viable. For instance, the role of land value uplift is often cited as an example of inbuilt bias for projects in the South East because this is where existing land values are highest. However, Professor Henry Overman - who advised on the government's review - has cautioned that dismissing land value growth in appraisals for integrated settlements would make it harder for devolved leaders to pursue significant local growth opportunities.[38]

There are examples of instances where Ministers have been able to take decisions that support regional growth *and* meet the needs of the Green Book. Any reforms to the letter of the Green Book therefore need to be tied to an accompanying shift in UK Treasury mindset, in the culture and behaviours across other departments and public bodies, and - most critically - in political will among Ministers, devolved, regional and local leaders. Responsibility for these judgements ultimately lies with them.

In focus: defence and skills

Across education, health, housing, land use, economic development, innovation, skills, higher education, procurement, local government and more, Ministers in Holyrood, Cardiff and Belfast exercise primary law-making powers and direct budgets worth billions of pounds each year.

In fact, over the course of this UK parliamentary term, the devolved nations will collectively spend in excess of £500bn across all devolved policy areas. This is an enormous figure, yet it is not well understood and nor is it reflected in the work of many Whitehall departments and industry bodies who should by now be better at engaging with governments that have existed for over a quarter of a century. The pandemic demonstrated the risks that come with failing to act on the reality of devolution, rather than (mis)perceptions of it.

The rapidly changing nature of defence policy offers an opportunity to address those problems.

The Strategic Defence Review (SDR) commits to a 'whole of society approach' which cannot be achieved without better cooperation across the nations of the UK. The CNR could therefore use the new Investment Tracker to think in particular about the defence sector, and how collaboration and investment here can unlock local growth and jobs.

While the CNR of course does not have the remit to drive defence policy, it could play a useful role in connecting the various levels of UK government, acting as an impactful forum to resolve longstanding historic blocks on cooperation. Geopolitics does not just affect the UK government; it also impacts on the decisions regional and devolved governments take and given current trends looks set to do so increasingly. In order to ensure the task becomes more actively shared across governments, CNR members should be regularly briefed on defence matters – the majority of which will not be sensitive.

An assessment of SDR priorities and mutually beneficial commitments would be a positive place to begin - for instance on skills. Firms within the defence sector - but also across the energy and technology sectors - will increasingly compete for similar skills as the Modern Industrial Strategy is implemented, and demand for workers with Science, Technology, Engineering and Mathematics (STEM) qualifications will remain high. Joint work at the CNR level could explore opportunities to resolve this shared challenge that cuts across devolved and non devolved areas.

The UK could look to one of its nearest neighbours in doing so. Ireland is recognised as a global leader on STEM skills and has regularly led EU league tables on STEM qualifications.[39] This progress includes trebling the number of girls and women choosing to pursue STEM qualifications at Higher Education level. The Harvard Study on UK disparity referenced above observes that the wage premium for STEM graduates has remained higher than the premium for graduates more broadly, reinforcing the case for intervening in this area.

The combination of i) a reliable demand for skills, ii) the security need to spread defence activity across the country and; iii) the economic evidence on stronger earnings outcomes, should keep this issue on the agenda for all decision-makers.

Making progress on this challenge, and anchoring more quality jobs in places that have less access to them, is one way the state can demonstrate that it is determined to create opportunities in all parts of the country.

If it has not already happened, officials should be working across governments with support from Ministers to engage on the content of the Defence Industrial

37 HM Treasury, Green Book Review 2025: Findings and actions - GOV.UK 11 June 2025

38 Henry Overman, A review of the Green Book review Centre for Cities (blog) 18 June 2025

39 Green Jobs and the Future of Work for Women and Men, IMF Staff Discussion Paper, September 2024

Strategy. The establishment of UK Defence Innovation is also an opportunity for another relevant institution to follow the NWF's lead in making regional economic growth a strategic objective.

Breaking the deadlock on decentralisation

Even where there is broad consensus around the barriers created by an overly centralised system, actual decisions can still get stuck or blocked by circular arguments about accountability and incentives. Some argue, for instance, that as things stand Mayors are not encouraged to prioritise growth in their local tax base because they would see too little of a direct revenue reward from doing so. Others argue that extending Mayoral powers further still would lead to poor accountability.

But these arguments suppose that the alternative to devolving power is retaining it within a well-performing centre that acts on the lessons that strong accountability offers. The Levelling Up example does not bear this out, nor does performance across projects and programmes as high profile and varied as High Speed 2, Test and Trace, Kick Start and the outsourcing of probation services. And as set out above, the sheer scale of disparity in the UK suggests the status quo is failing to prioritise the growth of regional economies.

The UK Government's distance from a local tax base means that the discipline of leveraging assets in a way that compounds benefits and crowds in investment is impossible to deliver in a top down way. What is more, institutions that do not allow for, or organise around, local leadership and vision stand little chance of mediating the trade-offs demanded in the transition to a UK that reaches net zero strengthens national security and deploys technology for the benefit of all.

It is encouraging that UK Ministers have sought to overcome the incentives versus accountability argument by asserting that Ministers, Mayors and local leaders share accountability in practice.

'We must end the top-down micromanaging of individual decisions and approaches by local leaders and replace it with a principle of constitutional autonomy and partnership. Everyone - from frontline councillors convening their communities, to regional Mayors leading strategic economy policy - needs the tools and trust to deliver change. There must be a genuine relationship of equals, mutual respect, and collective purpose built around the missions to transform the UK, with clear outcomes local people will see and feel.'[40]

English Devolution White Paper

40 Ministry of Housing, Communities & Local Government, English Devolution White Paper 16 December 2024

In that regard, the English Devolution White Paper marks a return to the principles of the the 'Total Place' model introduced by the previous Labour government, a return to which FGF advocated in the first report in this Impactful Devolution series, in partnership with Metro Dynamics.

'To enable economic growth, national growth and industrial strategy need to be connected to the same elements at local, regional and pan-regional level. This will ensure consistency and build national project investment pipelines from the many blooms of local endeavour.'[41]

Impactful Devolution 01: A new framework for inclusive local growth and national renewal

This reflects a welcome shift towards embracing complexity rather than using it as an excuse to hoard power. Where there is a good faith case for enhancing the arrangements for Mayoral accountability, particularly in the interests of supporting more effective councils, these should be considered as part of the development of the office. However, a perfectly neat model is unlikely to emerge and the question is second order to the case for providing the best possible combination of powers to support economic growth in poorer parts of the UK.

The creation of integrated funding settlements is also a positive step because it will allow local leaders to set public priorities that have greater consequences. Saying no to important, worthy and noisy funding bids will allow Mayors to explain why their option is the better course for their place. This likely to lead to greater pressure on the decisions made by Mayors who will still be working with pressured budgets. The justification for cutting a budget line in support of a strategic priority or pledge will likely be based on a shared sense of the circumstances that the region is dealing with. Current pledges made by Mayors range from new childcare grants and homelessness to airport support and free school meals, and each will require a different approach to achieve different impacts across England.

The East Midlands Inclusive Growth Commission established by Mayor Claire Ward (and chaired by former Bank of England Deputy Governor Andy Haldane) points to the opportunity to connect UK policy with tailored approaches to regional growth. The Commission's interim report sets out the case for a practical step-by-step approach to skills and career development under the banner of an 'Opportunity Escalator' that is shaped around the specific needs of the region. It will also explore the creation of a 'Regional Investment Fund for the East Midlands' using a blended finance model to bring together NWF capital, local government pension funds and private finance.[42]

41 Ben Lucas and Elizabeth Hopkins, Impactful Devolution 01: A new framework for inclusive growth and national renewal, Future Governance Forum and Metro Dynamics,, 2024

42 The Inclusive Growth Commission - Interim Report East Midlands Combined Authority, 17 March 2025

Box 2: Devolution and preventable risk

The Modern Industrial Strategy specifically commits the UK Government to a more muscular, interventionist approach and to renewing partnerships with devolved governments in Scotland, Northern Ireland and Wales. To deliver on that commitment, the UK Government will need to address the flaws inherent in the inherited status quo.

In his 2024 book *Fractured Union,* Michael Kenny presents a comprehensive analysis of governance across the UK. This includes a concern about the limited efforts made within the UK Government to understand the role devolution plays across most areas of policy. Specifically, Kenny identifies an 'unwillingness at the highest levels of British politics to engage and internalise the implications and logic of devolution.'[43] He goes on to highlight that devolution has been missing from the training undertaken by officials progressing through the Civil Service and warns of the risk that low levels of awareness about this issue can cause.

A 2018 inquiry into devolution and Brexit by the House of Commons Public Administration and Constitutional Affairs Committee identified the same issues and recommended training:

> *'We are concerned that so much work still needs to be done 20 years on from the establishment of devolution in 1998. It is clear from the evidence to this inquiry that Whitehall still operates extensively on the basis of a structure and culture which take little account of the realities of devolution in the UK.'*[44]

In the years since that report, other developments - such as confusion over COVID-19 regulations and the threat to use legal force to impose a freeport model encompassing devolved taxes on the devolved nations - have only served to further demonstrate the scale of the issue.

The 2014 Scottish Referendum, Brexit and the pandemic have all generated preventable risks to good governance and delivery. Whitehall increasingly legislates in devolved areas, at times unintentionally, pulling Ministers and officials into preventable conflict and away from strategic priorities.

It would be a significantly positive step, and contribute to the government's broader industrial policy aims, if more officials in more Whitehall departments were properly trained and empowered to engage confidently with matters of devolution, meaning in turn that fewer preventable conflicts reach Ministers in all four nations.

This is also not solely the responsibility of Whitehall. The devolved governments should also expand the training undertaken by officials in Scotland, Wales and Northern Ireland so that departments develop a stronger understanding of the risks posed to their work by intergovernmental arrangements.

43 Michael Kenny, *Fractured Union: Politics, Sovereignty and the Fight to Save the UK*, Hurst, 2024 pg 44

44 Public Administration and Constitutional Affairs Committee, Devolution and Exiting the EU: reconciling differences and building strong relationships 31 July 2018

Capable

Having established themselves as more reliable via the recommendations set out above, governments at the UK and devolved nations level can take steps to improve the system they oversee. This involves each of these governments asking itself if it has the capabilities needed to develop good collaboration, effective data collection and analysis and the ability to reflect and improve?

Our recommendations for a more capable state focus on allowing the UK government to step back from the operational and make better use of its strategic capabilities. It can do this by reducing the number of grant-based programmes related to the IS-8 sectors, replacing them where possible with innovative alternatives. It should also develop a new evidence and evaluation service for local growth. This would allow the UK government to step back from the operational and make better use of its strategic capabilities.

2. Build the evidence, learn the lessons

Recommendation 2	Description
Create an Evidence and Evaluation Service for local growth	Build the evidence base for and with nations and regions to support smart decision-making. Mandate and incentivise evaluation to support institutional learning.

A more capable state that makes progress on regional growth will be one that builds up - and acts on - a better evidence base. In order to bring specific focus to the regional element of the government's core economic growth mission, it should establish a new Evidence and Evaluation Service to help improve performance.

At present, central, devolved and local governments are not able to draw on enough quality data and evidence to aid the development of smart regional policy interventions. A 2023 Bennett Institute study by Diane Coyle and Adam Muhtar points to the absence of feedback channels to support learning on UK regional policy interventions.

'In comparison with other countries the lessons drawn for local outcomes are not institutionally linked back to national policy decisions, nor to local policy implementation through the fragmented and overlapping national and sub-national authorities concerned.'

Diane Coyle and Adam Muhtar

The Modern Industrial Strategy does provide a new monitoring and evaluation role for the Industrial Strategy Advisory Council which will include place level economic indicators, but this is a limited, top-down contribution. It does not provide a feedback mechanism that helps the state develop a better understanding of what is working or why.

A new service, instigated by the government's growth mission, could help all levels of government spend more time building up and interpreting evidence that supports more effective regional policy.

Understanding and resolving barriers to evaluation will be an important step towards improving institutional learning. Competitive bidding processes (see below) can also act as a barrier to the evaluation work that is needed to do this. Henry Overman has argued that this is because local and devolved leaders will be influenced by the impact findings may have on future bids.

'Ensuring that, when appropriate, all funding streams from central government for local economic development include clear, accessible, and financially well-supported evaluation components would be one way of reducing disincentives.'[45]

Professor Henry Overman

The government should act on the argument made by the What Works Centre for Local Economic Growth and make evaluation mandatory where possible. This would ensure that a new Evidence and Evaluation Service for Local Growth is being provided with the information needed to aggregate knowledge and share learning.

45 Henry Overman, The Government's Levelling Up plans need a reality check, London School of Economics, British Politics and Policy Blog, 23 May 2023

There is precedent for this elsewhere. The European Commission mandates evaluation within its projects and programmes while the UK only encourages this work in guidance, such as the Green Book. The EU does face its own problems in this area because it has proven difficult to turn evaluation into practice and evaluation uptake challenges are stubborn. However, they are able to work with a stronger evidence base and objectively have a better starting position as a result. Compared with the EU, the UK has fewer excuses for failing to collaborate on implementation meaning that it should be easier to translate learning that is more focussed on the specific needs of the UK.

Rather than being owned by one level of government, a new service could take the form of a shared resource across the nations and regions with a mandate to support regional growth. Multi-year programmes of work could be developed by expert teams drawn from central, devolved and local teams which would be signed off by the CNR.

Given the damage done to devolution in the name of Levelling Up, the devolved governments of Scotland, Wales and Northern Ireland will require formal protections to ensure that this process in no way undermines devolution. This would create a more stable framework for public servants to engage and cooperate on these complex issues without running into the preventable conflict described in Box 2. If used well, the structures that support Intergovernmental Relations could help overcome these barriers to cooperation. The project proposed here should only require a small contribution from these structures but that level of oversight matters in allowing both politicians and public servants to use the sort of service proposed with confidence. Statements of good will not be sufficient and would stifle collaboration in practice. Civil servants and local authority officers within the devolved nations have some of the most extensive experience of managing EU programmes with a sustained place focus and within a system that placed a greater emphasis on evaluation. A greater level of shared learning could benefit interventions across the UK and support shared projects including city and growth deals, industrial strategy zones and new place based defence deals.

The service could be given a remit to help improve the evidence made available for the development of the new 'place-based business cases' that arose from the Green Book Review and inform the NWF's strategic goal to support regional growth. This new function could also play a role in making more institutions accountable for the impact they have (and the data they hold) on local economic affairs.

While the current UK government's overriding economic growth mission could act as the impetus for the establishment of this service, its focus on regional growth should help build in permanence for the function. Progress has been made in recent years which offers the opportunity to scale up the good work undertaken within various regions to date. This includes academic partnerships such as CityReady in Birmingham, Manchester's Productivity Institute and Insights North East. These partnerships, along with the What Works Centre, can help form the building blocks of this service.

Almost all governments attempt to implement a vision for regional prosperity, but none has benefitted from the evidence base needed for effective implementation.

3. Ditch the pots, open up innovation

Recommendation 3	Description
Swap competitive funding pots for Open Innovation Challenges	Improve the quality of interventions with more open collaboration between government and industry on complex problems. Where possible, remove competitive processes that inhibit collaboration and innovation. Adopt innovation-led commissioning to enable joint working on a broader range of options. Follow defence reform lead on open innovation to solve problems and reduce the number of grant programmes.

A persistent criticism from the energy, technology and defence sectors is that government asks industry to work towards predefined solutions developed at distance, rather than collaborating to identify joint outcomes and better approaches to achieving them. This creates shared frustrations across our three focus sectors. Breaking with the status quo could open up greater collaborations with businesses across the UK with investment that better matches industry potential.

The current broken process: Officials are tasked with engaging with stakeholders on strategy or grant programmes, before publishing bidding processes based on options already chosen within government. While this approach aims to protect procurement integrity, it systematically excludes innovation and genuine partnership with business ecosystems. More damaging still, it pushes government towards consensus rather than effectiveness, stifling creativity and ruling out the strongest options for progress.

Defence sector frustrations: In the realm of defence, Paul Mason and William Freer's 2025 Council on Geostrategy report found that primes and mid-tier suppliers repeatedly called for government to 'specify the problem, not the solution.'[46] The Strategic Defence Review's stark assessment of the status quo shows the consequences of not taking this approach as the Defence Equipment Plan ran over budget, left outdated products in service too long, and treated export opportunities as afterthoughts.[47]

46 Paul Mason and William Freer, Securonomics: The contribution of a Defence Industrial Strategy, Council on Geostrategy, 2025

47 Ministry of Defence (MoD), Strategic Defence Review - Making Britain Safer: secure at home, strong abroad - 2025, 2 June 2025

Technology sector frustrations: Technology industry voices express almost identical concerns about being locked out of the policy design process, making the case for 'Open Innovation' reforms to accelerate deployment. Once more, the fundamental complaint is that government predetermines solutions and then limits engaging through the barriers needed to protect a competitive process. Within this process, businesses are also not incentivised to innovate at a level of intensity that can create new solutions as they prepare to compete.

Tramshed Tech CEO Louise Harris MBE told this report: 'A more strategic, innovation-led commissioning model would reflect the reality of working within the current system and our judgement that sector leaders - if empowered with a clear mandate - can generate impactful, scalable outcomes.'

Box 3: Gateshead AI and the Nissan Innovation Challenge

The experience of Sunderland Software City demonstrates how businesses are working with local innovators to solve problems with impact. The Gateshead AI company Wordnerds used an innovation challenge with Nissan to create valuable, real time customer insights software.

As well as creating a tool that was meaningful and useful for Nissan, Wordnerds were able to create a scalable product that can be adopted by any business and is now used by Marks & Spencer, Sainsbury's and the Department for Work and Pensions (DWP).[48]

We recommend that government replace grant programmes wherever possible within the IS-8 with 'Open Innovation Challenges' - a model that directly responds to the frustrations voiced across the technology and defence sectors. This process will not be appropriate in all settings and government should be mindful of instances where this reform would lead to unintended consequences such as increased capital costs for suppliers in a less certain market. However, this should be balanced against the costs of the status quo which also inhibits learning and evaluation (see above).

Under our proposed model, instead of government defining solutions, teams would present industry with strategic challenges requiring innovation - such as scaling UK technology businesses to meet export demand or capturing dual-use technology potential for defence capabilities. This directly addresses both sectors' core complaint about being excluded from solution design.

The process:

- **Challenge definition:** Government articulates strategic problems rather than prescribed solutions

48 Northstar Ventures, Northstar Ventures lead £1.6m funding round into AI-powered customer feedback analysis provider Wordnerds, 12 December 2024

- **Collaborative innovation:** Time-limited groups of proven sector leaders with strong start-up connections assess barriers and opportunities. Groups design projects to develop solutions through partnership rather than competitive bidding for predetermined outcomes
- **Implementation-ready outcomes:** Within set deadlines, groups produce actionable playbooks enabling immediate government decisions

This model transforms the relationship between government and industry from transactional procurement to collaborative problem-solving. Rather than competing for small funding pots vulnerable to policy churn, businesses would work together on systemic challenges. As Harris explains: 'This approach builds on existing strengths and allows solutions to emerge that are based on what's actually needed on the ground, something a top-down model can't deliver at scale.'

The approach directly tackles both sectors' shared frustrations. It empowers rather than sidelines industry expertise, focuses on outcomes rather than process compliance, and creates space for genuine innovation rather than predetermined specifications.

Learning from defence reform

The Strategic Defence Review is leading the way on embracing this sort of reform. The document includes a candid assessment of a procurement system that was 'broken' and unchanged 'since the Cold War' and criticises how 'risk reduction and consensus decision-making are prioritised over productivity and innovation.'

Acting National Armaments Director Andy Start has outlined a new approach that is faster, bottom-up and open to innovation. For the first time, service users will provide problem statements to strategic leaders responsible for equipment decisions. The Armaments Director Group will then work with industry to innovate around shared problems rather than procuring from predetermined shopping lists. Start illustrates the difference between 'asking for a faster tank' and creating something 'far more innovative, far more capable… [and] much better value for money.'

By following the Ministry of Defence's lead, government at all levels could save months of work for civil service and military teams. The central mandate for Open Innovation funding competitions should emphasise place-based approaches, ensuring high-quality innovation isn't excluded by cultures that privilege too few locations.

This recommendation would complement Cabinet Office Minister Georgia Gould's reforms enabling Whitehall to 'get alongside the frontline' to design better policy. As Gould notes: 'They know the problems, they know what doesn't work, and testing new approaches and then scaling them up… I think that is incredibly energising for civil servants to work in that way. They don't always feel like they have permission, they don't know how to start.'

For businesses in established and emerging clusters, an Open Innovation approach could enable unexpected solutions that are more efficient, less expensive and geographically distributed, whilst developing cross-government capability to collaborate effectively with partners and building on Strategic Defence Review reforms.

Case Study 1: Turnaround tech – Birmingham, Alabama

Birmingham, Alabama earned its nickname as the 'Magic City' when the explosion of its iron and steel industries led to the creation and rapid expansion of a prosperous new city. In the decades that followed the demise of heavy industry, the Magic City pivoted to become an automotive heartland, second only to Detroit. More recently, though, missed opportunities for wider investment saw the city population decline within one of the US's poorest states - a story of decline that is familiar to many parts of the UK.

However, Birmingham has bucked the trend in developing significant technological success. Over the last decade or so, the technology ecosystem in the city has grown rapidly, with major companies like Shipt and Fleetio established and headquartered there.

The economic output of Alabama's technology sector has increased by 50% since 2018 and is projected to reach 5.3% of the state's total GDP by 2030. In 2023 alone, there was $321 million in IT-related venture capital deals in Alabama, up from $74 million in 2022.[49]

The Tech Unicorn Fleetio began as a start-up in Birmingham's 'Innovation Depot' in 2012 and is now worth around $1.5bn. It recently acquired the Portsmouth (UK) business Auto Integrate for $450m[50] and now occupies one of Birmingham's large tower buildings and is committed to remaining headquartered in the city. In 2023 Birmingham won Tech Hub status from the Biden Administration, building on these strengths as well as developments in biotech.

In an interview for this report Tech Birmingham CEO, Deontée Gordon, framed the city's journey around a strong sense of history

49 Made in Alabama, Cyber Strong: Alabama's innovation ecosystem fuels economic growth 23 January 2025

50 Fleetio, Fleetio Raises over $450 Million Series D and Acquires Auto Integrate to Create Customer-Centric One-Stop-Shop for Fleet Maintenance 25 March 2025

which informs a hard headed 'gritty and scrappy' discipline to working with the grain of existing strengths and assets. Specifically, he identified opportunities for technology businesses that target historic local economic and research strengths, such as automotive and health.

Growing demand for logistics technology that enables the mobility and auto industry could allow the city to build on the success of Fleetio, which centralises data on vehicle fleets to help businesses save money. In the biotech field, Acclinate is a homegrown start-up that has developed new software models to help overcome the lack of Black representation in clinical trials and improve the accuracy of results. This has led to deeper partnerships with health organisations and patient voice groups designed to help build trust with minority communities in what was once the most segregated city in the USA.

The University of Alabama is a major medical research centre, which allows businesses like Acclinate to innovate close to researchers. The business has also been supported by the City's RISE initiative - Retention Incentives for Success and Expansion - introduced by Mayor Randall Woodfin. The priority attached to retaining local talent and value reflects the motivation to anchor success and growth in a local economy with poverty rates above the national average. The relationship with existing strengths and new businesses - that have expanded at scale - is also providing a discipline and focus that leaders such as Mayor Randall Woodfin are using to connect growth with inclusion.[51] Crucially this means there is an authentic story that is deeply relevant to - and respectful of - the city's formative history.

Deontée Gordon acknowledged the challenge in promoting the case for technology with audiences who have not seen the impact local action can achieve. Stakeholders - including politicians - without experience of the ecosystem are more likely to see the sector through the lens of Big Tech. These assumptions are not informed by the companies turning regional strengths into new opportunities or the risk of not supporting local start-ups such as Fleetio.

51 Mayor Randall Woodfin, Birmingham partnerships promote jobs, support entrepreneurs Medium, 18 June 2024

Purposeful

The emergence of new longer term policy is welcome but it should be buttressed by institutions and processes that are purposeful in the pursuit of regional growth. Until now, the regional dimension has too often been an afterthought and not a strategic priority for UK institutions which have been largely unaffected by regional development policy. It is welcome that regional growth is a key objective in the NWF's strategy, a change that should be reflected in the strategies of more public bodies. In order to connect strategy and decisions with the sustained focus required for regional growth, we recommend the creation of new regional banks in England and a new criteria for IS-8 decisions, connecting investment with place.

4. Close enough to get it, big enough to act

Recommendation 4	Description
Create new regional business banks in England	New regional institutions can connect national policy with local SME development in line with the Modern Industrial Strategy. Allow strategic focus on place and the ability to develop responsive products based on local evidence and intelligence. Prioritise energy, defence and technology needs in selecting the first locations. Turn the UK's financial strength into visible, proud local institutions serving communities.

The UK boasts one of the strongest financial sectors in the world but it lacks regional investment infrastructure dedicated to serving local economies. Helping British SMEs to scale up and building more resilient supply chains are core objectives within the new Industrial Strategy. Institutions that connect this national objective with local circumstances could open up more opportunities for SMEs in underperforming regions.

'The banking system has been professional and world class in this country for over one hundred years. There are people sat in cities across England who can become the Chief Risk Officer, the Finance Director and the CEO of new regional banks. Many of them would love it, it's a fantastic pitch.'

Gareth Bullock OBE, former Chair, Development Bank of Wales[52]

The RSA has argued that regional banks offer benefits that should be appealing in a more uncertain economy. These include the ability to offer: i) a 'cushioning effect' with tailored responses, ii) better quality decisions based on stronger intelligence and iii) a Head Office with the autonomy and range of functions needed to offer more career opportunities.[53]

These benefits reflect the experience in Wales in the decade that has followed the launch of the Development Bank of Wales (DBW). 'The Banc' has demonstrated the benefits of being close enough to read the local economy, large enough to act at scale and free enough to innovate.

Since its establishment, the size of funding overseen by DBW has increased from £440m to £2bn. Over £950m has been directly invested in Welsh businesses and £625m has been secured in private sector co-investment.

A mixture of loans and equity between £1,000 to £10m are offered across a range of funds. These include innovative funds that work alongside Welsh Government interventions such as:

- **Green Business Loans**: discount interest rates and patient capital to support SMEs to fund energy efficiency and lower their bills
- **Stalled Sites Fund**: problem site remediation to support housebuilding
- **Help to Stay**: Shared equity loans to help financially distressed families remain in their homes

'The Banc' also acts as the public sector shareholder representative across infrastructure projects financed by the Mutual Investment Model (MIM), allowing the Welsh Government to take equity in those ventures.

52 Interview

53 Asheem Singh, How banks must change to level-up Britain, The RSA, 22 June 2020

Box 4: Infrastructure Investment Partnerships

In 2024, FGF published the report Rebuilding the Nation 03: Infrastructure Investment Partnerships' exploring the case for a new model of public-private partnership (PPP) to help tackle Britain's enormous infrastructure backlog. That included a focus on the Welsh model which has allowed for a more ambitious schools and college building programme and the completion of one of the UK's largest road projects.[54]

The 10 year UK Infrastructure Strategy[55] cites the MIM example when confirming that the UK government will now consider the use of PPPs that learn the lessons of the Private Finance Initiative (PFI). New regional development banks in England could play a similar role to that of DBW, acting as a robust, expert public sector steward within the governance arrangements for overseeing any new PPPs models that are taken forward.

In 2023, the Green Business Loans offer allowed a wholesale gifts business based in Swansea to access £1.2m to install over 2,000 solar panels on its warehouse; reducing bills and allowing it sell energy back to the market[56].

For the hugely successful AI start up, Amplyfi[57], DBW and the wider ecosystem - including access to international offices promoting Wales – helped them choose Cardiff over Boston, USA as their base.

The existence of this new regional bank means an expert board and executive team have the space to focus on the context of the place within which it operates. They have the bandwidth to partner with government, the British Business Bank (BBB) and business to help generate tailored solutions to local challenges. The brand, autonomy and dedicated focus offered by a regional bank also creates exciting career paths for finance professionals looking to make a different impact.

Former DBW Chair Gareth Bullock - who has served on major boards in the UK and globally - told this report that the lack of political interference in the bank's operation has been decisive to its development. In recommending the adoption of a similar model in England, Bullock makes clear that while the remit letter instructing a bank could be owned by a Mayor or a combination of Ministers and Mayors, the Boards should be drawn from finance and business with no role for political influence.

54 The Welsh Government, One of UK's largest road projects officially opens | GOV.WALES 11 June 2025

55 HM Treasury, UK Infrastructure: A 10 Year Strategy - GOV.UK

56 Development Bank of Wales (DBW), Something Different Wholesale June 2023

57 Business Live, The two tech firm founders who hope to have created Wales' first $1bn business 6 July 2021

This observation is linked to the risks that come with establishing a new regional bank. Any new service that offers funding for business will cause frustration and disappointment. There will be businesses who should not receive funding and there will be limits to the size of funds available. Protecting regional banks from the local political pressure that arises from these realities is essential to their credibility and performance and a test of Mayoral leadership.

The What Works Centre for Local Growth advises caution on approaches to addressing the problem of access to finance for SMEs.[58] Providing more finance without understanding whether the challenges are based on demand or supply problems could make matters worse. A regional bank with the right expertise is essential to the work of discerning between good and bad projects and business plans. They will also be well-placed to judge how those plans relate to local economic conditions where that is relevant to a decision. A new institution of this kind should not mean a looser grip on value for money and any regional bank should be incentivised by evergreen funding arrangements whereby revenue funds future funding decisions.

It is striking that the National Wealth Fund's Chief Financial Officer, Annie Roper, has recently joined the DBW board, because it demonstrates national recognition of the important role a regional development bank can play. When taking on the position, Roper described DBW as 'a catalyst for local innovation, job creation, and regional economic balance', adding 'I saw the impact of this approach in Canada, and it's now core to what we do at the UK's National Wealth Fund.'[59]

Regional banks for England could be shaped by the new Industrial Strategy and play a further role in consistently connecting venture capital with regional economies. Rather than competing with existing banks, these institutions would be 'gap funders', aimed at SMEs who cannot obtain debt or equity from banks or other conventional lenders.

The BBB has been tasked with extending substantially more lending to SMEs and will become more active in more complex clusters. The addition of regional banks could allow a smaller BBB to connect its expertise to a network of boards and executive teams with the ability to meet more demand and create more innovative funds that add value to regional spend and policy.

The creation of regional banks would also send a signal to the public: that the government believes in the growth of the local economies and is willing to back that belief with a new, locally-owned institution visibly dedicated to that task.

58 Hélène Donnat, Understanding supply and demand, What Works Centre for Local Growth, 29 August 2023

59 DBW, Investment specialists join the Board of the Development Bank of Wales 28 July 2025

5. Steer the case for place

Recommendation 5	Description
Adopt investment criteria to make place factors systemic	Develop The London School of Economics' (LSE's) data-driven tool to connect the IS-8 sectors with regional economic impact. Steer defence imperative for dispersed capabilities and link clean energy with just transition.

The Modern Industrial Strategy prioritises eight sectors and commits to an 'unashamedly place based approach'. While campaigners, vested interests or commentators may dismiss either the emphasis on high growth sectors or place (depending on their perspective), any government has to find a way to do both in practice - and well-designed tools are essential to ensuring a consistent approach.'

The Green Industrial Policy Matrix (The Matrix), developed at LSE, is a strong candidate for this task.[60] It presents a data-driven approach to connecting clean energy investment with growth that is regionally balanced in a model that could be adapted across other sectors.

The model applies three considerations to put this into practice:

- **Opportunities for growth**: comparative advantage in trade and/or innovation,
- **Strategic importance**: Domestic demand under net zero targets, state of global supply chains and
- **Distributional aspects**: job creation, regional spread of opportunities[61]

This analytical tool draws on data covering trade, supply chains, patent activity, firm specialisation and a range of employment statistics, including sector requirements and the spread of jobs in related markets. Specifically this analysis helps us interpret where the UK's strongest clean energy opportunities exist at a national and subnational level as well as at a sub technology level.

In the cases of offshore wind and carbon capture the data confirms that the UK boasts a genuine comparative advantage in technologies that offer job creation opportunities on our coasts and in industrial communities.

60 Serin E, Andres P, Martin R, Read M, Shah A, Valero A The green industrial policy matrix: Informing an industrial strategy for clean energy technologies. London School of Economics and Political Science, November 2024.

61 Ibid

The analysis of tidal stream technology states that the UK can be a leader in global terms with job opportunities that should align with the skills of oil and gas workers in the Highlands. However, this includes the caution that the scale of the opportunity is limited by the size of a relatively small market.

In tracking patenting data, the Matrix also indicates whether investment is likely to deliver returns within a region or whether it will spill over into other parts of the country.

If adopted formally, this tool could help government make smarter decisions that actively contribute to regional policy as a matter of course. More specifically, the methodology could help regions and nations develop a more rigorous analysis of their own strengths and intervene in fewer areas with greater impact. This would, in a tangible way, demonstrate that government is now dealing with the complexity that has previously been wished away or overlooked.

Government should develop similar assessments for each IS-8 sector as part of its commitment to overcome a 'place blind' approach.

No analytical tool can eliminate risk or supplant judgement. Those calls are for Ministers, devolved and local leaders. Rather than being prescriptive, the adoption of this tool is recommended as a practical way to connect decisions throughout the IS-8 to the job of reducing regional disparity. A rigorous focus on the evidence, with an inbuilt emphasis on place, could help overcome the institutional barriers that have allowed regional policy to become disconnected from core economic strategy.

Where gaps are identified in this approach, government should consider whether action could be taken to improve the availability of the data required. However, the perfect should not be the enemy of the good and government always has to work with less evidence than it would like; hence Recommendation 2 above.

Steel

The position of the steel industry provides a useful example of how the application of this matrix could support the decision-making process.

Steel is regarded as a foundational industry for the IS-8 and the new strategy commits the government to 'identifying opportunities to stimulate domestic demand'. In April 2025, the government intervened in the face of a crisis to protect blast furnace steel production in Scunthorpe amid concerns that the business was being deliberately allowed to fail. In June, Network Rail signed a £500m contract that will see 80% of their steel products met by British Steel in a deal the government hopes will protect thousands of jobs.[62]

In the years ahead, the deployment of net zero products such as wind turbines and electric vehicle charging points will drive a significant increase in the demand for steel products.. At the same time, there is a stronger security case

62 Department for Transport (DfT) Transport Secretary secures major rail supply deal to protect thousands of British Steel jobs 17 June 2025

to protect and diversify domestic steel production as part of the UK's focus on strengthening national security. Maximising the variety of products we are able to produce will add greater resilience in a market that has been aggressively undermined by China and Russia in recent years.

A 2023 analysis by Green Alliance predicted a 50% increase in the demand for steel products by 2050. The industry body UK Steel believes the scale of defence investment offers a huge opportunity for the industry as government ramps up spend on munitions factories, nuclear warheads, barracks and housing among other opportunities.[63]

As the steel workers' union Community has stated, the government should update its own forecasts on steel demand to help the industry plan, especially in the context of additional infrastructure expenditure and the defence spend targets. The Department for Business and Trade has revived the Steel Council and a new Steel Strategy is due for publication this year which should set the direction for the role the sector will play in support of the Modern Industrial Strategy.

The Matrix shows where both broad and niche opportunities for steel exist across clean energy technology deployment, particularly in offshore wind, Carbon Capture, Usage and Storage (CCUS) and green hydrogen. With the NWF instructed to deliver on green steel and hydrogen projects in particular, the Matrix should help guide interventions that connect national policy with regional impact.

A more stable framework that supports these decisions could offer greater clarity to the industry and accelerate the adoption of the right technology to meet anticipated demand. Countries like the Netherlands have moved faster than the UK in embracing these opportunities which has helped to smooth their transition to a greener industry.

Case Study 2 details a further opportunity in the region that could unlock new jobs based on the application of the same tool and the new government's objectives.

63 UK Steel, Strategic Defence Review signals huge demand for UK-made steel, 2 June 2025

Case Study 2: Test, Save, Grow - The Global Centre of Rail Excellence (GCRE)

Before its unveiling in 2022, London's Elizabeth Line had been sat largely completed since 2017. The cutting edge service relies on complex integration systems which needed to be ready before the line could go live, contributing to delays and greater costs.

Among the other challenges faced by this ambitious project was the inability to test the new systems away from the London underground system. An evaluation undertaken by the Department for Transport (DfT) and the Infrastructure Projects Authority found that too little focus was given to the 'integration effort required to bring the railway into service.'[64]

The Global Centre of Rail Excellence (GCRE) is a railway innovation project established by DBT and the Welsh Government to meet the changing needs of the industry and the infrastructure that supports it. The project exists to reduce the sort of preventable cost and risk rail projects grapple with as well as enhancing the passenger experience.

The test and research facility, situated 15 miles from the Port Talbot steelworks, will be the UK's first net zero railway with the potential to create around 1,100 jobs in its first decade and add £300m of Gross Value Added (GVA) to the regional economy. The site is turning a former opencast mine into a more valuable asset designed to meet the challenges of a global industry that has to embrace electrification and new technology.

The project has established partnerships with Network Rail, Hitachi, Transport for Wales and train manufacturer CAF while more than 200 companies have pledged to become GCRE customers. The centre would be the sole rail infrastructure test site in Europe meeting the needs of UK, European and Middle East markets in particular. Universities involved in the UK Rail Innovation Network network such as Birmingham and Swansea Universities have also highlighted the strategic value of the project.

GCRE could demonstrate the 'step change' the National Wealth Fund promises. Within the Strategic Priorities set by HM Treasury,[65] the NWF is instructed to:

- support the Infrastructure Strategy (which includes major rail investment)
- ensure the benefits of investment are felt in all four UK nations
- support the deployment of low carbon technologies in the transport system and;
- invest in nascent and earlier technologies that support growth and clean energy

The Treasury also wants the NWF to invest billions of pounds each year and 'roughly double its investment activity relative to the 2024-25 financial year'.

With support from the NWF and/or via direct government funding, GCRE could be fully operational later this decade, reducing costs within the Infrastructure Strategy and creating well paid jobs in a local economy that is now home to a significantly smaller steelworks. The project has recently launched a rail engineering training programme for former steelworkers to help them access employment in the rail industry.

The overall project is regarded as 'high' value for money by PwC and would see the UK apply the lessons from recent projects - such as the Elizabeth Line - in a manner that de-risks future investments.

For UK Ministers, this project could also be supported by the application of the Green Industrial Policy Matrix by testing projects against the considerations on comparative / nascent technology and, crucially, their distributional impact.

If Ministers choose to develop this tool with criteria that match their objectives, they would be more able to directly link new projects to economic need; in this case linking the global demand for low carbon, hi tech rail to the loss of steel jobs in Port Talbot.

64 DfT and the Infrastructure & Projects Authority, Sponsoring a Major Project The Crossrail Experience 18 March 2024

65 HM Treasury, Statement of Strategic Priorities to the National Wealth Fund, 19 March 2025

Conclusion

Regional disparity in the UK is entrenched and enduring. This complex, thorny problem has been treated as peripheral and short-termism has undermined effective, evidence-based delivery.

The principles and tools outlined and advocated here encourage the systemic focus this challenge requires. They are by no means sufficient by themselves but they can aid the development of a bold project to disrupt the path that has led to economic divides which damage growth and trust.

Economic change, which can be destabilising for many, will only accelerate in the years ahead with energy, defence and technology bringing both risk and rewards. Without intervention that consciously breaks with the past, the benefits will too often concentrate in places that already perform well. The toolkit we set out here could help spread opportunities rather than deepen familiar divides.

This government has made regional growth a priority and put in place a more coherent direction than has been the case for many decades. Whether the state can become reliable, capable and purposeful enough to deliver remains to be seen.

FGF community For a better working world quinbrook